

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION No.: 01-Montreal
COURT No.: 500-11-045545-130
ESTATE No.: 41-1802887

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF THE
BANKRUPTCY OF:**

INVERNESS ESTATES DEVELOPMENT LTD.,
a legal person, duly constituted under *Business Corporations Act* (Alberta), having its head office at Unit 127, 6227 - 2nd Street S.E., Calgary, Alberta, T2H 1J5 and having a chief place of business at Suite 970, 3500 de Maisonneuve Blvd. West, Montreal, Quebec, H3Z 3C1

Bankrupt

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
(Jean-Christophe Hamel, CPA, CA, CIRP, designated responsible person) having its place of business at 1 Place Ville Marie, Suite 3000, Montreal, Quebec, H3B 4T9

Trustee

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

The *Bankruptcy and Insolvency Act*, a federal act in Canada (the “**Act**”), provides for a first meeting of creditors to discuss the creditors’ collective interest in the administration of the Bankrupt’s estate.

A) Background

Inverness Estates Development Ltd. (“**Inverness**”) is a legal person, duly constituted under the *Business Corporations Act* (Alberta), having its head office at Unit 127, 6227 - 2nd Street S.E., Calgary, Alberta, T2H 1J5, and having a chief place of business at Suite 970, 3500 de Maisonneuve Blvd. West, Montreal, Quebec, H3Z 3C1. Inverness was established for the sole purpose of operating a real estate asset, namely a condominium project. The sole shareholder of Inverness is Homburg Invest Inc. (“**HII**”).

Inverness's only real estate asset was a condominium project consisting of three four-storey buildings comprised of 249 condominium units located in Grand Prairie, Alberta. Sales of the condominium units began in 2006 with the first closing taking place in December 2006.

Restructuring of HII and of certain related entities (including Inverness)

On September 9, 2011, HII and certain related entities, including Inverness, initiated a restructuring process by filing for and obtaining protection from its creditors under the *Companies' Creditors Arrangement Act* ("CCAA") pursuant to an order (as amended and extended from time to time, the "**Initial Order**") rendered by the Superior Court of Quebec (the "**CCAA Court**").

HII, through a number of entities (collectively with HII, the "**HII Group**"), owns a diversified portfolio of real estate assets in Europe (the Netherlands, Germany and the Baltic States), Canada and the United States. As part of its restructuring, the HII Group ultimately determined that all of its North American properties constitute non-core properties that will not form part of the HII Group's restructured portfolio.

As mentioned above, at the time of the Initial Order, Inverness's only real estate asset was located in Grande Prairie, Alberta. Grande Prairie is a small market in which it is difficult to generate condominium sales without external motivation and in which condominium sales compete with sales of single family homes (which can be purchased at prices which are highly competitive to prices of condominium units). At the time of the Initial Order, the remaining unsold units of the Inverness project had somewhat less desirable characteristics for potential purchasers, which rendered the sale of the remaining units even more challenging.

On April 11, 2012, as part of the HII Group's – and, more specifically, Inverness's – restructuring under the CCAA, the CCAA Court approved the bulk sale of all of the remaining unsold 23 condominium units and 29 parking units of the Inverness project (the "**Inverness Transaction**"). The Monitor's Ninth Report to the CCAA Court contains detailed information on the Inverness Transaction and the events leading up to the Inverness Transaction.

The closing of the Inverness Transaction, which was completed in June 2012, allowed for the full reimbursement of the outstanding balance owed to Inverness's secured creditor, Romspen Investment Corporation ("**Romspen**"). Romspen's mortgage over the Inverness property secured the amounts owed by both Inverness and Churchill Estates Development Ltd. ("**Churchill**"), another entity of the HII Group which initiated a restructuring under the CCAA on September 9, 2011. Inverness was liable for all amounts owed to Romspen, whether by itself or by Churchill. In total, after Inverness had fully repaid its loan to Romspen, it further reimbursed an amount of approximately \$4.5M in connection with Churchill's loan, namely through the sale of two condominium units in the usual course of business and with the net sale proceeds of the Inverness Transaction.

On September 30, 2013, the stay of proceedings in favor of Inverness provided by the Initial Order expired and, in accordance with a decision of the HII Group (as part of HII Group's restructuring initiatives), was not extended. On October 2, 2013, prior to Inverness's assignment into bankruptcy, Churchill reimbursed the amount of \$4.5M paid by Inverness in reimbursement of the Churchill loan.

Causes of insolvency

As of October 25, 2013, following the Inverness Transaction and the collection of the \$4.5M refund from Churchill, Inverness's only asset was a cash balance of \$4.6M. As per Inverness's books and records, Inverness's unsecured liabilities as of October 25, 2013 totaled \$15.9M, of which \$15.7M are due to an affiliated company, namely HII.

Inverness meets the definition of an "insolvent person" under the Act because, *inter alia*, the aggregate value of its assets is not, at fair valuation, sufficient to enable payment of its obligations, due and accruing due.

Bankruptcy

As (i) the value of Inverness's assets is lower than the value of its liabilities, and (ii) Inverness no longer has a purpose as all of the units of the condominium projects were sold and Inverness is not a core entity that will form part of the HII Group's restructured portfolio, the decision was made for Inverness to file an assignment in bankruptcy. On October 25, 2013, Inverness filed an assignment in bankruptcy and Samson Bélair/Deloitte & Touche Inc. was appointed as trustee.

B) Trustee's preliminary evaluation of assets and details of security interest

Below is a summary of the Statement of Affairs as of October 23, 2013, which includes the estimated net realization value of the assets of Inverness as well as the estimated deficit following the distribution of estimated proceeds from the liquidation of the assets to creditors:

Inverness Estates Development Ltd.	
Statutory Balance Sheet (\$)	Net realization
As of October 23, 2013 (unaudited)	value
Assets	
Cash (<i>Note 1</i>)	4,618,986
	4,618,986
Liabilities	
Unsecured creditor - Intercompany	15,713,839
Unsecured creditors (<i>Note 2</i>)	145,718
	15,859,557
Deficit (before costs of administration)	(11,240,571)

Note 1:

Cash balances are based on the October 10, 2013 bank account balances.

Note 2:

Creditors will have the onus to prove their claims and only those claims that are proven will constitute valid claims and will receive a distribution if funds are available. One should note that the total amount of claims received from the unsecured creditors in Inverness CCAA procedures was \$14,496,517.

C) Conservatory and protective measures

The Trustee implemented the following conservatory and protective measures:

- Closing of all of Inverness's bank accounts and requesting the funds to be transferred to the Trustee.

Information relating to provable claims

As of the time of the preparation of this report, the total amount of claims received from the unsecured creditors is \$15,853,276.

Legal proceedings, transfer at undervalue, and preference payments

The Trustee has not initiated any legal proceedings and has not identified any transfer at undervalue or preference payments to date.

Conflict of interest and details of fee guarantees

Conflict of interest

As stated above, on September 9, 2011, HII and certain related entities, including Inverness, filed and obtained protection from their creditors under the CCAA pursuant to the Initial Order. Pursuant to said order, Samson Bélair/Deloitte & Touche Inc. was appointed monitor of HII, Inverness and of certain related entities under the CCAA. As of the time of this report, HII along with some of the related entities included in the Initial Order, now excluding Inverness, are still under the protection of the CCAA.

As mentioned in the previous sections of this report, HII is the sole shareholder of Inverness. The Trustee, however, does not believe that Samson Bélair/Deloitte & Touche Inc.'s role as court-appointed monitor in the CCAA proceedings of HII puts it in a position of conflict of interest to act as Trustee in bankruptcy of Inverness. As court-appointed monitor under HII's CCAA proceedings, Samson Bélair/Deloitte & Touche Inc. is an officer of the CCAA Court, appointed to monitor the business and financial affairs of HII. As Trustee of Inverness, Samson Bélair/Deloitte & Touche Inc. is an officer of the Superior Court of Quebec, appointed to administer the Bankrupt's estate in accordance with the Act.

Details of fee guarantees

In an order dated October 10, 2012, the CCAA Court extended the definition of the "Administration Charge" granted in the Initial Order, such that it secures the professional fees and disbursements of Samson Bélair/Deloitte & Touche Inc., in its capacity as Trustee in bankruptcy of Inverness.

Projected distribution and Trustee's comments on anticipated asset realization

The Trustee estimates that the proceeds that will be realized from the liquidation of Inverness's assets (totaling \$4.6M as per the Statement of Affairs) could result in a dividend of approximately

29 cents on the dollar to the unsecured creditors (who have claims totaling \$15.9M as per the Statement of Affairs). The amount of the final dividend to the unsecured creditors will depend on the total amount of claims that will be proven by creditors before dividend distribution and on the costs of administration of the estate.

Trustee's remuneration

The Trustee will seek approval of the estate inspector(s) appointed in the course of the administration of Inverness's bankruptcy, if any, to settle the Trustee's professional fees and disbursements from the assets of the estate.

Further, as noted above, in an order dated October 10, 2012, the CCAA Court extended the definition of the "Administration Charge" granted in the Initial Order, such that said charge secures the professional fees and disbursements of Samson Bélair/Deloitte & Touche Inc., in its capacity as Trustee in the bankruptcy of Inverness.

Other matters

None.

DATED AT MONTREAL, Quebec, this 14th day of November, 2013.

**SAMSON BÉLAIR/DELOITTE & TOUCHE
INC.**

In its capacity as Trustee of the Estate of
Inverness Estates Development Ltd.
and not in its personal capacity

Per:



Jean-Christophe Hamel, CPA, CA, CIRP
Vice-President