

CANADA
Province of Alberta

District of Alberta
Division of 02 - Calgary
Court No. 25-1890619
Estate No. 25-1890619

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF

TRIMOR MORTGAGE INVESTMENT CORPORATION

Formerly carrying on business in the City of Calgary in the Province of Alberta

Trustee: Deloitte Restructuring Inc.

Introduction

Trimor Mortgage Investment Corporation ("TMIC" or the "Company") was incorporated under the laws of the Province of Alberta on February 7, 2005. The common shareholders of the Company are Jim Irvine, Art Visser, Chris Beadle, Nathan Bernhardt and Barry Bernhardt, with each owning 20% of the outstanding common shares. The directors of the TMIC are Randy Smyth and Jim Irvine (the "Directors"). TMIC is a mortgage investment corporation which raised funds from investors, referred to as the "Preferred Shareholders", and invested these funds in various real estate properties and mortgages located in Alberta and Saskatchewan.

The Company experienced financial difficulty as a result of the non-performance of several mortgages and the decline in values of certain real estate properties. As a result of these difficulties, the Directors assigned the Company into bankruptcy pursuant to the *Bankruptcy and Insolvency Act* ("BIA") on July 15, 2014 (the "Date of Bankruptcy"), and Deloitte Restructuring Inc. was appointed as the Trustee (the "Trustee") of the bankrupt estate (the "Estate"). At the Date of Bankruptcy, TMIC had approximately \$15.5 million in debt owing to various unsecured creditors and the Preferred Shareholders. On July 15, 2014, Trimor Equity Corporation ("TEC"), a related company, was also assigned into bankruptcy by its Directors pursuant to the BIA. TMIC and TEC are referred to as the "Companies."

TMIC retained the Bernhardt Mortgage Group Inc. ("BMG") as the investment fund manager pursuant to National Instrument 31-103. In this role, BMG was paid a monthly asset management fee pursuant to a management agreement between BMG and the Company dated October 1, 2012, which was subsequently amended by agreement dated October 1, 2013 to include TEC and to revise the fee arrangement. Pursuant to this agreement, BMG was responsible for managing and operating the Companies and maintaining their books and records.

The Trustee has retained McLennan Ross LLP as its independent legal counsel with respect to the bankruptcies of the Companies (the "Trustee's Counsel"). This was done by the Trustee prior to the first meeting of creditors ("FMOC") for the Companies, and pursuant to section 19(1) of the BIA, in order to attempt to preserve both a pending asset sale and funds garnished and held in Court. The Trustee will seek approval of the retention of the Trustee's Counsel from any Estate inspectors that are appointed at the FMOC for the Companies.

Class I – Inventory

TMIC did not own any inventory at the Date of Bankruptcy.

Class II – Plant, Machinery and Equipment and Office Equipment

The Company did not own any plant, machinery, equipment or office furniture at the Date of Bankruptcy.

Class III – Building and Real Estate

At the Date of Bankruptcy, the Company and/or TEC owned the following two properties (the "Properties"):

- 1213 – 1st Street SW, Calgary (the "Calgary Property") – an older, 2-storey plus basement commercial building in downtown Calgary with a rentable area of approximately 9,800 square feet located on a site of approximately 5,000 square feet, which is currently vacant and not generating any revenue. The Calgary Property is subject to a pre-bankruptcy purchase and sale agreement that was supposed to close on July 15, 2014. The Trustee was not aware of the scheduled

closing date and has met with the purchaser and is negotiating an amended purchase and sale agreement with amended terms and conditions and a closing date in August 2014. The Trustee understands that the Calgary Property had a 2013 tax assessed value of approximately \$2.2 million. The Calgary Property has a mortgage for approximately \$752,000 that is held by Axxess Capital Partners ("Axxess") as well as outstanding tax arrears and a builder's lien of approximately \$330,000; and

- 261049 Glendale Road, Bearspaw (the "Bearspaw Property") – a 160 acre property containing a single family house on four acres. The remaining portion of the property is undeveloped land, however the entire 160 acre property is included on a single title. There is a tenant renting the Bearspaw Property at a rate of \$3,000 per month and the Trustee is still trying to locate a lease agreement. The Trustee understands that the Bearspaw Property had a 2013 tax assessed value of approximately \$968,000 and there is an outstanding vendor take-back mortgage of approximately \$1 million.

Although the title searches for the Properties indicate that they are owned by TEC, the Trustee understands that this ownership arrangement is the result of a mortgage investment corporation not being able to hold title to actual property. The Trustee is working with the Trustee's Counsel to determine whether the necessary novation agreements are in place between TMIC and TEC to clarify the ownership of the Properties.

In addition, the Company holds investments in various mortgages, as listed below:

- First mortgage of approximately \$3.2 million on serviced home/resort sites near Lake Newell in Brooks, Alberta. BMG commenced a foreclosure action against this borrower in March 2014, but the Trustee understands that the mortgage has been in default since August 2012. The Trustee has recently met with the borrower and expects to receive a settlement offer in the near future;
- Second mortgage on a house and third position on secondary lands, both of which are located in Calgary, as security on a loan amount of approximately

\$101,000. The Trustee understands that the holder of the first mortgage has started foreclosure proceedings and the Trustee is trying to obtain further information;

- Mortgage of approximately \$322,000, as part of a syndicated construction loan for a total of \$1,945,000, on a 12-unit commercial condominium warehouse project in Calgary. The Trustee has been informed by Axxess, the loan administrator, that several of the units have been recently sold and funds are expected to be received by TMIC when the final deficiencies are completed for the sold units in August 2014; and
- Mortgage of approximately \$67,000, as part of a syndicated loan for a total of \$4.3 million, on a resort / lake land development in Saskatchewan. The Trustee has been informed that another investor in the syndicate is considering making an offer on TMIC's position in this loan.

The Trustee is trying to assemble as much information as possible on the Properties and mortgages in order to review and assess the various realization options available. The total estimated net realizations from these assets are not known at this time and the Trustee will be seeking instructions from any Estate inspectors that are appointed at the FMOC for the Companies.

Class IV – Books and Records

The Trustee has taken possession of the physical books and records of TMIC that have been provided and made available to the Trustee by BMG, including electronic records that were provided to the Trustee on July 29, 2014.

The Trustee has requested access to the records of GK Mah, the accountant who prepared the Company's most recent financial statements as at December 31, 2013.

Class V – Other Assets

The Trustee has collected cash totalling \$336 from the Company's only bank account.

The Trustee is aware of ongoing litigation where an investor by the name of Robert Fox (the "Fox Litigation") filed a claim against the Company and obtained a default judgment against the Company after the claim was unopposed by BMG. The judgement was obtained in May 2014 for \$271,000 and funds of \$226,000 were then garnished from TMIC's bank account on June 4, 2014 and paid into Court. The Trustee understands that approximately \$200,000 of funds remain in Court (the "Remaining Garnished Funds"). The Trustee's Counsel attended Court on July 31, 2014 and obtained an order directing that the Remaining Garnished Funds be paid to the Trustee; however the funds cannot be used without further direction from the Court as it is understood that Mr. Fox is going to apply to Court to annul the bankruptcy of TMIC.

While the Trustee has conducted a preliminary review of the Estate assets and the Company's books and records provided by BMG, the Trustee is currently unable to assess whether the Company is due a Goods and Service Tax refund or whether GST is owed to the Canada Revenue Agency ("CRA") at the Date of Bankruptcy. The Trustee will correspond with CRA and clarify this issue.

Property Placed Under the Guardianship of Debtor or Third Party

Apart from the Properties noted earlier in this report, the Trustee is not aware of any property placed under the guardianship of the Company or a third party.

Section B – Current State of Operations

1. Conservatory and Protective Measures

The Trustee took possession of the Calgary Property and attended at the Bears paw Property after the Date of Bankruptcy and has arranged for the Company's insurance coverage to remain in place on the Properties and other assets.

2. Carrying on Business

The Company's operations ceased on the Date of Bankruptcy and have not been re-started.

Section C – Legal Proceedings

As previously reported, the Trustee is aware of the Fox Litigation and is taking steps to try and secure the release of the Remaining Garnished Funds from Court for the benefit of the Estate.

Section D – Provable Claims

The Trustee is aware that the Preferred Shareholders may have submitted redemption requests to BMG prior to the Date of Bankruptcy. Furthermore, these Preferred Shareholders may have claims as unsecured creditors and several such claims have been received to date. The Trustee's Counsel is reviewing the issue on whether or not the Preferred Shareholders would be considered unsecured creditors based on the various agreements in place.

Section E – Secured Creditors

The Trustee performed a Personal Property Registry Search on the Company and there appear to be no secured creditors who hold general security agreements against the Company's assets. As previously reported, there are mortgage debts owing on the Properties.

The Trustee understands that the Company had no employees and, accordingly, there should be no deemed trust claim against the Estate for any unremitted payroll source deductions and no priority claims pursuant to the Wage Earner Protection Program Act.

Section F – Realization and Projected Distribution

The Trustee is moving to realize on the assets of the Company and is in current negotiations with the existing purchaser of the Calgary Property. The Trustee is also looking at realization options with respect to the Bearspaw Property and the remaining mortgages and will seek instructions from any inspectors appointed at the FMOC for the Companies.

Any distributions to the creditors and Preferred Shareholders will be dependent on the success of the realization process and the amounts available after the Trustee's fees and costs and any priority claims.

Section G – Reviewable Transactions and Preference Payments

The Trustee will be undertaking a review of the Company's books and records for the twelve months prior to bankruptcy.

Section H – Other Matters

Fees for the Trustee and its administrators and counsel will be based on standard hourly rates.

Dated at Calgary, this 6th day of August, 2014.

DELOITTE RESTRUCTURING INC.

In its capacity as Trustee in Bankruptcy
of Trimor Mortgage Investment Corporation
and not in its personal capacity.



Jeff Keeble, CA, CBV, CIRP
Trustee