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PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION No.: 01- Montreal
COURT. No.: 500-11-052457-179
ESTATE No.: 41-2243471

S U P E R I O R C O U R T
Commercial Division

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

HOMCO REALTY FUND (88) LIMITED

PARTNERSHIP, a limited partnership formed under the laws of Nova Scotia, having its mailing address at P.O. Box 28059 Tacoma, Dartmouth, Nova Scotia, B2W 6E2, Canada, and having its chief place of business at 1000 De La Gauchetière Street West, Suite 2100, Montreal, Quebec, H3B 4W5, Canada

Bankrupt

– and –

DELOITTE RESTRUCTURING INC.

(Jean-Christophe Hamel, CPA, CA, CIRP, LIT, designated responsible person) having its place of business at 1190 avenue des Canadiens-de-Montréal, Suite 500, Montreal, Quebec, H3B 0M7, Canada

Trustee

TRUSTEE'S REPORT TO THE CREDITORS ON PRELIMINARY ADMINISTRATION

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

Homco Realty Fund (88) Limited Partnership ("**Homco 88**") is a limited partnership constituted under the laws of Nova Scotia, having its mailing address at P.O. Box 28059 Tacoma, Dartmouth, Nova Scotia, B2W 6E2, Canada, and having its chief place of business at 1000 De La Gauchetière Street West, Suite 2100, Montreal, Quebec, H3B 4W5, Canada. Homco 88 was established for the sole purpose of owning and developing the Kai Property. At the time of the CCAA filing, a six-storey parkade had been constructed on the Kai Property. The construction work ceased shortly after the CCAA filing. Homco 88's only real estate asset was the Kai Property, located in Calgary, Alberta.

1810040 Alberta Ltd. (formerly known as Homburg Invest Inc. and Homburg Shareco Inc.) ("**HII**") is the sole limited partner of Homco 88. The general partners of Homco 88 are Homburg L.P. Management Inc. (as "holding" general partner) and HII (88) GP Inc. Pursuant

to the limited partnership agreement, the "managing" general partner, HII (88) GP Inc., has full power and authority to manage the business and assets of Homco 88.

At the time of the bankruptcy, Homco 88's real estate property had been disposed of and the related proceeds have been distributed to the secured creditors (HSBC and the holders of the Series 7 Bonds), the whole pursuant to orders rendered by the CCAA Court.

Restructuring of HII

On September 9, 2011, HII and certain related entities (the "**HII CCAA Parties**") initiated a restructuring process under the *Companies' Creditors Arrangement Act* (the "**CCAA**") by obtaining an initial order (as amended and extended from time to time, the "**Initial Order**") from the Superior Court of Québec (the "**CCAA Court**").

All entities held directly or indirectly by HII (collectively with HII, the "**HII Group**") owned 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 certain properties, including that of Homco 88, constitute non-core properties that would not form part of the HII Group's restructured portfolio.

HII filed a plan of arrangement under the CCAA (as amended and restated, the "**Plan**"), and same has been sanctioned by the CCAA Court pursuant to an order rendered on June 5, 2013 (the "**Sanction Order**"). The implementation of the Plan took place from March 24 to 27, 2014. Since the implementation of the Plan, the Liquidation Advisory Committee ("**LAC**") has been formed and is being consulted in respect of the sale of the non-core assets of the HII Group entities and the wind-down of the HII Group entities, including in respect to the bankruptcies. The LAC has approved the sale of Homco 88's real estate property and the ensuing bankruptcy of Homco 88.

The holders of the Series 7 Bonds issued by HII are the beneficiaries of a guarantee from Homco 88 and security against the Kai Property in order to secure their claim against HII. The amount of the claim of the holders of the Series 7 Bonds which was accepted by the Monitor as part of the CCAA proceedings is \$43,154,891.

On November 18, 2013, at the request of Homco 88, the CCAA Court issued an *Authorization of Sale and Vesting Order (Kai Towers)* authorizing the sale of the Kai Property for \$30M, and the closing of such sale occurred on December 19, 2013. The terms and context of the sale of the Kai Property are further elaborated in the Monitor's Twenty-Eighth Report filed as part of the CCAA proceedings.

The order authorized the payment of HSBC's claim, in an amount of approximately \$7M, secured by a first ranking security against the Kai Property. The Kai Property's remaining proceeds ("**Kai Remaining Proceeds**") were then of approximately \$23M, and they were insufficient to reimburse the claim of the holders of the Series 7 Bonds in full.

The holders of the Series 7 Bonds have a second rank security over the Kai Property for an amount of \$43.1M ("**Bond 7 Claim Holders**"). As further explained in the Monitor's Thirty-sixth report, some liens were also registered against the Kai Property which were subject to a dispute over the Kai Remaining Proceeds.

On June 20, 2014, at the request of Stichting Homburg Bonds in its capacity as trustee of the Series 7 Bonds, the CCAA Court issued an *Order Authorizing the Interim Distribution of the Net Proceeds of the Sale of Assets of Homco 88 (Kai Towers)*, authorizing and directing the Monitor to distribute to the holders of the Series 7 Bonds a portion of the remaining net proceeds resulting from the sale of the Kai Property (the "**Bond 7 Interim Distribution**").

On or about July 10, 2014, in accordance with this order, the Monitor proceeded with the Bond 7 Interim Distribution, in a net amount of approximately \$16.8M in partial reimbursement of their claim.

The Bond 7 Interim Distribution pertained to only a portion of the remaining net proceeds as there was a priority ranking dispute between the holders of the Series 7 Bonds and certain creditors who had registered builders' liens against the Kai Property under Alberta law. On September 9, 2015, following a trial on the priority ranking dispute, the CCAA Court rendered a *Judgment on Ranking of Homco 88 Mortgage on Kai Towers* declaring that the security on the Kai Property in favour of the holders of the Series 7 Bonds is valid and ranks in priority to the builders' liens, and authorizing and directing the Monitor to distribute to the holders of the Series 7 Bonds the balance of the remaining net proceeds resulting from the sale of the Kai Property (the "**Bond 7 Final Distribution**"). On December 4, 2015, the Court of Appeal dismissed a motion for leave to appeal the Judgment on Ranking of Homco 88 Mortgage on Kai Towers.

On or about December 21, 2015, in accordance with the Judgment on Ranking of Homco 88 Mortgage on Kai Towers, the Monitor proceeded with the Bond 7 Final Distribution, in a net amount of approximately \$5.1M in partial reimbursement of their claim.

Following the Bond 7 Interim Distribution and the Bond 7 Final Distribution, Homco 88 has no assets remaining.

Causes of insolvency

As of April 24, 2017, Homco 88 has no longer any assets. As per Homco 88's books and records, Homco 88's potential unsecured liabilities as of April 24, 2017 totaled \$98,674,133 due mainly to an affiliated company, namely HII, and unsecured creditors, including the deficiency claim of the Bond 7 Claim Holders, and finally other various creditors.

Homco 88 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 Homco 88's assets is lower than the value of its liabilities, (ii) Homco 88 no longer has a purpose as its asset was sold, and (iii) Homco 88 was not a core entity that was retained to form part of the HII Group's restructured portfolio, the decision was made for Homco 88 to file an assignment in bankruptcy. On April 24, 2017, Homco 88 filed an assignment in bankruptcy and Deloitte Restructuring Inc. ("**Deloitte**") was appointed as trustee.

B) Trustee's preliminary evaluation of assets

The Kai Property used to be the sole material asset of Homco 88. As previously explained, the

secured lenders, namely HSBC and the Bond 7 Claim Holders, had security over the Kai Property. Consequently, no equity for Homco 88's unsecured creditors was expected to be realized out of the sale of the Kai Property.

The sale of the Kai Property and the distributions of the net proceeds were approved by the CCAA Court, as indicated above. At the time of the bankruptcy, the Kai Property was sold and Homco 88 had no asset.

Below is a summary of the Statement of Affairs as of April 24, 2017:

Homco Realty Fund (88) Limited Partnership	
Statement of Affairs (CAD)	
As of April 24, 2017 (unaudited)	
	Estimated Net Realization Value
Assets	-
Liabilities (Note 1)	
Unsecured creditors - Intercompany (HII)	82,219,858
Unsecured creditors - Series 7 Bonds (Note 2)	11,133,391
Unsecured creditors - Others	5,320,884
	<u>98,674,133</u>
Surplus (deficit) before professional fees	<u>(98,674,133)</u>

Note 1: Creditors will have the onus to prove their claims and only claims that are proved will constitute valid claims and receive a distribution if funds are available.

Note 2: In reality, the claim of the holders of the Series 7 Bonds is for an amount of \$19,991,629 less the amounts of the distributions received from time to time pursuant to the Plan.

C) Conservatory and protective measures

The Trustee implemented the following conservatory and protective measure:

- Publication of a notice to creditors in *The Globe and Mail* newspaper.

Please note that given the fact that the creditors of the estate of Homco 88 are already informed about the insolvency proceedings of the limited partnership and of the fact that the estate of Homco 88 contains no assets and are not expected to result in any further distributions to the creditors (and given the significant costs that would have been associated to sending notices to each holder of a Series 7 Bonds), an order was rendered by the Superior Court of Québec on November 28, 2016, pursuant to subsection 187(12) of the Act, dispensing the Trustee from the requirement to send any notices to the holders of the Series 7 Bonds, including a notice in the prescribed form of the bankruptcy and of the first meeting of creditors.

D) Information relating to provable claims

As of the time of the preparation of this report, considering the limited numbers of proofs of claim received to date, the Trustee is not able to determine if there will be a significant difference

between the amount of claims declared by the Bankrupt and the amount of claims proven by the various creditors.

E) Legal proceedings, transfer at undervalue, and preference payments

For the sale of the Kai Property, the transaction occurred with a non-related party and was approved by the CCAA Court on November 18, 2013, and the distributions of the net proceeds were approved by the CCAA Court, respectively on November 18, 2013, June 20, 2014 and September 9, 2015 (leave to appeal dismissed on December 4, 2015).

F) 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 Deloitte Restructuring Inc. (formerly Samson Bélair/Deloitte & Touche Inc.), in its capacity as Trustee in bankruptcy of Homco 88. The Plan and the Sanction Order further provide (i) for the creation of an "Administrative Reserve" for the purpose of paying the "Administrative Reserve Costs", which include, *inter alia*, the "Bankruptcy Trustee Fees" (being "the fees and disbursements (including legal fees and disbursements) of Deloitte Restructuring Inc. acting as Trustee in Bankruptcy of any Non-Core Business Entity incorporated or formed under Canadian federal or provincial law [which includes Homco 88]"), and (ii) that the "Administrative Charge" shall charge the "Cash Pool", the "Asset Realization Cash Pool", the "Cash Reserves", and the "Non-Core Business Assets" as such terms are defined under the Plan.

G) Conflict of interest

In addition to his role as Trustee in the bankruptcy of Homco 88, Deloitte is also currently acting as Monitor or Bankruptcy Trustee of a number of entities related to the Bankrupt and to the HII Group. Deloitte however does not believe that its role as Trustee in the bankruptcy of Homco 88 or as Monitor or Bankruptcy Trustee of entities related to the Bankrupt puts it in a position of conflict of interest.

H) Projected distribution and Trustee's comments on anticipated asset realization

The Trustee estimates that there will not be any proceeds available for distribution to unsecured creditors as there is no asset in the Bankrupt's estate (as described above).

I) Trustee's remuneration

As explained above, the professional fees and disbursements of Deloitte, in its capacity as Trustee in the bankruptcy of Homco 88, are guaranteed by the "Administration Charge" and the "Administrative Reserve" approved by the CCAA Court.

J) Other matters

None.

DATED AT MONTREAL, this 15th day of May, 2017.

DELOITTE RESTRUCTURING INC.

In its capacity as Trustee of the estate of
Homco Realty Fund (88) Limited Partnership
and not in its personal capacity



Per:

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