

July 4, 2019

Important Update on Proposed Transaction

Pursuant to the Order of the Honourable Mr. Justice Hailey of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) dated March 21, 2019 (the “**Order**”) Miller Thomson LLP (“**Representative Counsel**”) was appointed to represent all individuals and/or entities (“**Investors**”) that hold an interest in a syndicated mortgage, administered by Hi-Rise Capital Ltd. (“**Hi-Rise**”), in respect of the property municipally known as 263 Adelaide Street West, Toronto, Ontario (the “**Property**”) owned by Adelaide Street Lofts Inc. (“**Adelaide**”) and the proposed development known as the “Adelaide Street Lofts” (the “**Project**”), in connection with the negotiation and implementation of a settlement with respect to such investments. A copy of the Order can be found on the ‘Documents’ section of Representative Counsel’s website (the “**Website**”), available at <https://www.millerthomson.com/en/hirise/>.

Pursuant to the Order, Representative Counsel represents the interest of all Investors, except Investors who do not wish to be represented by Representative Counsel and have completed and delivered an Opt-Out Notice.

In accordance with the Order, Representative Counsel established an Official Committee of Investors (the “**Official Committee**”), with which Representative Counsel consults regularly and from which it takes instruction in respect of this matter.

Representative Counsel writes this update further to our communication dated June 20, 2019 entitled “Update on Status of Proceeding” (the “**Last Update**”), a copy of which is posted on the ‘Communications’ section of the Website, and to provide Investors with the following status update on this proceeding.

Proposed Transaction and Joint Venture Agreement

As you may now know, Hi-Rise has received an offer in respect of a proposed transaction related to the Property (the “**Transaction**”). The due diligence period has now been completed and the Transaction is now firm, subject to Investor and Court approval. As such, the details of the Transaction can now be disclosed.

The main holding company and owner of Adelaide, 263 Holdings Inc. (“**Holdco**”) and Lanterra Developments Limited (in Trust) or its designee (“**Lanterra**”) have entered into a Joint Venture Agreement (the “**JV Agreement**”) to complete development of the Property. The JV Agreement is subject to Investor and Court approval.

On June 27, 2019, Representative Counsel and members of the Official Committee were permitted to review the JV Agreement. The key details of the JV Agreement are as follows:

1. Lanterra and Holdco intend to proceed with a joint venture in the form of a single purpose limited partnership (“**LP**”). Lanterra will hold a 75% interest in the LP, and Holdco will hold the remaining 25% interest in the LP.
2. On closing of the Transaction, Holdco will transfer its interest in the Property to the LP.
3. Following the transfer of the Property to the LP, the LP shall grant a new first mortgage (the “**Senior Mortgage**”) to a commercial lender in the amount of \$36,575,000. On

closing of the Transaction, the proceeds of the Senior Mortgage will be applied as follows:

- (a) An amount of approximately \$16.7 million will be used to retire the mortgage held by Meridian Credit Union; and
 - (b) The balance (net of professional fees, commissions, taxes and certain other disbursements) will be distributed to Investors.
4. On closing of the Transaction, Holdco will be granted a vendor takeback mortgage (the “**VTB Mortgage**”) in the amount of \$18,287,500. The VTB Mortgage expires on the earlier of (a) completion of certain development milestones at the Property, or (b) three years following the closing date.
 5. The VTB Mortgage will rank as a second mortgage on the Property behind the Senior Mortgage, and will be in favour of securing the interests of the Investors (and not the Vendor).
 6. Interest on the VTB Mortgage will be 5% per annum for the first two years and 8% thereafter, to be paid to Investors quarterly.
 7. Proceeds of repayment of the VTB Mortgage will be distributed to Investors upon maturity.
 8. Lanterra’s main holding company will guarantee the repayment of the VTB Mortgage.

Next Steps

Hi-Rise is preparing a disclosure document (the “**Disclosure Document**”) intended to provide full details of the JV Agreement and its anticipated impact on Investors and their investment in the Project. We expect that the Disclosure Document will be distributed to Investors in the next 10 days. We will be posting a copy of the Disclosure Document on the Website as soon as it is available.

Representative Counsel, in consultation with the Official Committee, is negotiating with Hi-Rise and its affiliates toward a form of settlement agreement (the “**Settlement Agreement**”) that will set out, among other things, the amounts to be paid to Investors. The Settlement Agreement will be distributed along with the Disclosure Document for consideration by the Investors, and a copy will also be posted on the Website.

Investors will have the opportunity to vote for or against acceptance of the JV Agreement and Settlement Agreement. At this time, we expect this vote to take place in late July 2019. The Disclosure Document will provide full details on this voting process.

Please continue to check the ‘Communications’ section of the Website regularly for further updates as they become available.

Yours Truly,

Miller Thomson LLP,
solely in its capacity as
Representative Counsel