



October 21, 2019

Important Update on the Court Report of the Information Officer

Representative Counsel provides this summary at the request of Investors that attended in person at the Meeting of Investors at the offices of Miller Thomson LLP on Sunday October 20, 2019.

This summary sets out certain clarification points regarding the proposed settlement offered to Investors by Hi-Rise Capital Ltd. (the “**Proposed Settlement**”) in respect of the 263 Adelaide Street West (the “**Property**”). This summary also sets out the Official Committee’s recommendation on should vote on October 23, 2019 on the Proposed Settlement.

For the reasons set out below, the Official Committee recommends voting against the Proposed Settlement on October 23, 2019.

This summary provides a simple overview and summary only, and is not intended to be read in isolation. For full information and details, this summary should be read in conjunction with the following documents:

1. Third Report of Representative Counsel dated October 18, 2019 (the “**Third Report**”), which is posted under the ‘Documents’ section of Representative Counsel’s website; and
2. The Report of the Information Officer dated October 7, 2019, which is posted under the ‘Documents’ section of Representative Counsel’s website.

Mortgages on the Property and Priority:

1. There is a first mortgage registered on title to the Property in favour of Meridian Credit Union (the “**First Mortgage**”).
2. There is a second mortgage registered on title to the Property in favour of both Hi-Rise Capital Ltd. and Community Trust Company (originally Canadian Western Trust) (the “**Second Mortgage**”).
3. Community Trust Company’s interest in the Second Mortgage ranks ahead of Hi-Rise Capital Ltd.’s interest.
4. Investors participate through this Second Mortgage in two different ways:
 - a. Registered Investors – these are Investors that participate in the Second Mortgage through Community Trust Company and hold their investments through a registered retirement savings plan; or
 - b. Non-Registered Investors – these are Investors that participate in the in the Second Mortgage through Hi-Rise Capital Ltd.
5. The priorities in terms of any repayment are as follows:
 - a. First, Meridian Credit Union under the First Mortgage;

- b. Second, Registered Investors under Community Trust Company's interest in the Second Mortgage; and
 - c. Third, Non-Registered Investors under Hi-Rise Capital Ltd.'s interest in the Second Mortgage.
6. Please check the first page of your Loan Participation Agreement with Hi-Rise Capital Ltd. to determine whether you are a Registered Investor or Non-Registered Investor

Summary of the Lanterra Transaction

7. The Company and Lanterra Developments Limited (in Trust) or its designee ("**Lanterra**") are looking to move forward with a joint venture transaction (the "**Lanterra Transaction**") in accordance with a term sheet executed April 10, 2019 (the "**JV Agreement**").
8. The purpose of the Lanterra Transaction is to complete the development of the Property (the "**Lanterra Project**")
9. The Company and Lanterra will form a limited partnership ("**LP**") to hold their interest in the Property and the Lanterra Project, as follows:
- a. Lanterra will acquire a 75% indirect interest in the Property and Lanterra Project; and
 - b. The Company will retain a 25% equity interest in the Property and Lanterra Project.
10. The transaction value of the Lanterra Project is \$73.15 million, as follows:
- a. The LP will grant a first mortgage on the Property in the amount of \$36.8 million;
 - b. The Company will be granted a vendor take back mortgage of approximately \$18.29 million; and
 - c. The Company will contribute equity-in-kind of approximately \$18.29 million in exchange for its 25% interest
11. The development of the Property is estimated to take up to 6 years and projects a total profit of \$66 million upon completion.
12. The Company's projected return at the completion of the Lanterra Project is \$34.8 million, comprised of the following:
- a. A return of capital of approximately \$18.3 million; and
 - b. The Company's share of the potential profit of the Lanterra Project of approximately \$16.5 million (being 25% of \$66 million).
13. In addition, the Company is projected to earn approximately \$3 million over the term of the Project (up to 6 years) in connection with the development and property management fees.

Terms of the Proposed Settlement

You are being asked to vote on a Proposed Settlement regarding your investment on October 23, 2019. The Proposed Settlement arises from the above-noted Lanterra Transaction.

Non-Registered Investors and Registered Investors are to vote in the same voting class. Approval of the Proposed Settlement will require Investors representing two-third in value (i.e. value of your investment) and a majority in number to vote in favour.

If approved by the Investors and then by the Court, the Proposed Settlement will allow the Company to move forward with the Lanterra Transaction and will result in the distributions to Investors.

The terms of the Proposed Settlement and distributions are as follows:

1. Repayment to Investors of approximately \$17,036,000 on closing;
2. Investors to have the benefit of the vendor take back mortgage in the amount of \$18,270,000;
3. The Company is proposing to provide a \$15 million debenture to Investors, unsecured and non-interest bearing payable 6 years from the closing date; and
4. Jim Neilas will personally guarantee \$2 million of the \$15 million debenture.

What does this mean for Investors and the Company:

1. What does this mean if you are a Registered Investor?
 - You **will** receive payment of your principal and interest in full;
 - You will receive a majority of the repayment on closing of the Lanterra Transaction; and
 - You will receive the balance in December 2021 or 2022, depending on when the vendor take back mortgage is repaid.
2. What does this mean if you are a Non-Registered Investor?
 - You **will not** receive repayment of your principal and interest in full. The return to Investors, excluding interest, is expected to be 60% of your investment;
 - You will not receive any payment on closing of the Lanterra Transaction;
 - You will not receive any payments until December 2021 or 2022, depending on when the vendor take back mortgage is repaid; and
 - You will receive the remaining repayment if and when the Lanterra Project is complete, which is expected to be in 6 years from now.
3. What does this mean for the Company?

- The Company has a continuing interest in the Lanterra Project and the Property; and
- If the Lanterra Project is successful (after 6 years), the Company’s potential profit and fees are projected to be \$22.8 million (after accounting for repayment of the \$15 million debenture).

Official Committee & Representative Counsel’s Recommendation:

The Official Committee does not recommend voting in favour of the Proposed Settlement for the following reasons:

1. The sale and solicitation process for interest in the Property was designed to maximize transaction value for the Property, and **not** to maximize Investor recoveries;
2. Significant components of repayment to the Non-Registered Investors are contingent as they depend on the success of the Lanterra Project. Non-Registered Investors are not repaid in full and they do not receive any money on closing. They may start receiving payments in December 2021 or 2022, and will not receive the balance until completion of the Lanterra Project (expected to be December 2025);
3. There is a high degree of risk to Investors with respect to full repayment of \$15 million debenture should the Lanterra Project not be successful. Only 25% of it is personally guaranteed by Jim Neilas;
4. If the Lanterra Project is successful, the Company receives a potential net profit of \$22.8 million. This continued interest and amount of profit is unfair to Investors who receive a significant shortfall; and
5. As noted above, Non-Registered Investors and Registered Investors are to vote in the same voting class. Given that their investment returns and timing of those returns are different due to certain priorities (noted above), the Proposed Settlement has vastly different outcomes for each group. Accordingly, it is inappropriate and unfair to Non-Registered Investors to be included in the same voting class as Registered Investors for the purposes of voting on the Proposed Settlement.

Yours Truly,

Miller Thomson LLP,
solely in its capacity as
Representative Counsel