

RSM Richter Inc.

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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-039687-104
ESTATE NO.: 41-1462198

SUPERIOR COURT
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE BANKRUPTCY OF:

4425537 Canada Inc.

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at :

5300 Côte Saint-Luc Blvd.
Montreal (Québec) H3X 0A3

Company/Bankrupt

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

I. INTRODUCTION

a) Receivership

On October 6, 2010, Royal Bank of Canada ("RBC"), the first ranking secured mortgage lender (the "Mortgage Lender"), filed a Motion for the Appointment of a Receiver to the assets of 4425537 Canada Inc. ("Company" or "Bankrupt") and on October 7, 2010, the Court granted an Order appointing RSM Richter Inc. ("Richter") as Receiver (the "Receiver Order") with the powers provided therein.

b) Bankruptcy

On February 11, 2011, as provided for in the Receiver Order, Richter, as Receiver, caused to have 4425537 Canada Inc. file an assignment in bankruptcy in accordance with Article 49 of the *Bankruptcy and Insolvency Act* and RSM Richter Inc. was appointed Trustee to the Bankruptcy (the "Trustee").

II. OVERVIEW

The Company, incorporated in May 2007, is owned 60% by 4425545 Canada Inc., a bankrupt company which was part of the Groupe Melior Inc. corporate structure (“Groupe Melior”), and 40% by 4433491 Canada Inc.

The Company’s principal assets comprise of a residential complex for seniors and its adjacent commercial center, referred to as Manoir St-Bruno, located at 1465 St-Jacques Street (Phase I), 1575 St-Jacques Street (Phase II), 1540 de Montarville (Phase III and commercial center) and 50 de la Rabastalière (commercial center) (collectively the “Property”). The construction of Phase III of the Property was completed in July 2008.

The Property was initially managed by Groupe Melior, under the direction of Mr. Jean Maynard, until April 1, 2010, when Cogir Management Corporation/Société de Gestion Cogir, s.e.n.c. (“Cogir” or “Property Manager”) was retained to manage the Property.

The Property consists of 3 interconnected buildings and adjacent commercial complexes, marketed as a residence for seniors, which offers varying levels of services, depending on the mobility and health of the tenant. The Property consists of 257 leasable spaces summarized as follows:

Manoir St- Bruno			Per Diem Convalescence / Vacant Units	Rented Units
	Address	# Units		
<u>Residential</u>				
Phase I - Residential	1465 St-Jacques Street	67	5	62
Phase II - Residential	1575 St-Jacques Street	47		47
Phase III - Residential	1540 de Montarville	118		118
		<u>232</u>	<u>5</u>	<u>227</u>
<u>Commercial</u>				
Phase III - Commercial	1540 de Montarville	10	2	8
Commercial	50 Rabastalière	15	3	12
		<u>25</u>	<u>5</u>	<u>20</u>
Total		<u>257</u>	<u>10</u>	<u>247</u>

These residences house independent or semi-independent residents and offer a variety of optional services to the tenants, including but not limited to phone, cable, cleaning, medical, meals and parking (in Phase III). Furthermore, the 2nd floor of Phase I is a convalescence floor which offers full time medical care. Five (5) units of the convalescence floor are rented on a per diem basis for short term convalescence stays and are not subject to long term lease agreements.

As at March 1, 2011, the Property has 227 residential units (excluding the 5 per diem convalescence units) available for rent which are all rented (100% occupancy) and 5 per diem convalescence units which are occupied. In addition, the Property has 25 commercial spaces available for rent, of which 20 are occupied, resulting in an occupancy rate of 80%.

Notwithstanding the above, the current rental revenues are insufficient to sustain the operating costs and financing charges.

III. CURRENT OPERATIONS

Pursuant to the appointment of Richter as Receiver, Cogir's mandate to manage the Property was confirmed. Cogir's responsibilities include overseeing the Property's "in-house" management teams and personnel, providing strategic assistance and guidance in the marketing of the residence. They are also responsible for maintaining the books and records of the Property.

The Receiver, as provided in the Receiver Order, is monitoring the affairs of the Property, its operations and financial results. Based on the information provided by Cogir, all invoices for current purchases and services provided are being paid as they come due, by the Receiver.

The Receiver has obtained confirmation from the Mortgage Lender that, if required, interim financing could be provided by them to support the current operations of the Property.

IV. FINANCIAL INFORMATION

The information contained in this Report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.

a) Historical Financial Results

The Company's operating results for the twelve (12) months ended December 31, 2010, based on its internal financial statements, are summarized as follows:

4425597 Canada Inc - Manoir St-Bruno		
Statement of Operations		
For the 12 months ended December 31, 2009 and 2010		
	12 months ended Dec. 31, 2010	12 months ended Dec. 31, 2009
Revenues		
Rental revenues	\$ 4,659,089	\$ 4,385,189
Other revenues	1,180,259	1,214,389
Total Revenues	5,839,348	5,599,578
Operating Expenses		
Salaries & Benefits	1,327,666	1,259,631
Management Fees	233,057	218,241
Food	214,686	203,329
Realty Taxes	448,835	369,501
Utilities	311,536	332,834
Insurance	20,457	18,387
Marketing & Commissions	45,996	58,307
Administration	105,401	84,320
Consultant & Professional Fees	383,583	176,030
Repairs, Maintenance & Supplies	169,758	197,767
Commercial Expenses	349,247	356,582
Total Operating Expenses	3,610,222	3,274,929
EBITDA	2,229,126	2,324,649
Interest	3,197,171	2,156,180
Depreciation	1,372,274	1,403,560
Net Income Before Taxes	(2,340,319)	(1,235,091)
Provision for Tax on Capital	86,082	65,243
Net Income	\$ (2,426,401)	\$ (1,300,334)

As illustrated above, the Property's operating results are not sufficient to cover the financing costs.

b) Statement of Affairs

The Statement of Affairs as at February 11, 2011 (Bankruptcy date), based on the books and records of the Company and information provided by the Property Manager, is summarized as follows:

4425537 Canada Inc - Manoir St-Bruno	
Statement of Affairs	
As of February 11, 2011	
Liabilities	
Secured creditors	\$ 39,721,436
Preferred creditors	
Unsecured creditors	407,756
	<u>40,129,192</u>
Assets	
Current assets	-
Long-term assets ⁽¹⁾	37,800,000
	<u>37,800,000</u>
Deficit	<u>\$ (2,329,192)</u>

Note ⁽¹⁾: It is important to note that the Company's accounting records are not necessarily up-to-date or complete and accordingly the values as reflected in the books of the Company may not be accurate.

i) Assets

All the assets are pledged in favor of the Mortgage Lender.

a) Current Assets

The Receiver, pursuant to the Receiver Order has been controlling the Company's receipts and disbursements, through the Receiver Trust bank account as well as an operating account managed by Cogir, on behalf of the Receiver. Accordingly, the bankrupt Company had no cash receivables as at the date of the bankruptcy.

b) Fixed Assets (\$37,800,000)

The long term assets consist of the land and building, machinery and equipment, furniture and fixtures (i.e. the Property). The Trustee will be obtaining an evaluation of the Property.

ii) Liabilities

a) Secured creditors (\$39,721,436)

The amounts owing to the secured creditors are detailed as follows:

- Royal Bank of Canada (1st ranking mortgage financing of \$30,600,000);
- Royal Bank of Canada (capital leases \$45,134);
- HSBC Capital (Canada) Inc. (2nd ranking mortgage financing of \$8,764,339);
- Ministère du Revenu du Québec (assessed amount of \$311,963).

A legal opinion on the validity of the security held by the 1st ranking and 2nd ranking mortgage lenders has been requested from the Trustee's legal counsel. Upon receipt of the legal opinion, the Trustee will submit it to the Inspectors of the Estate.

Subject to the validity of their security and their ranking, the secured creditors will receive the proceeds from the ultimate realization of the Property up to the amount of their claim.

It is too early to evaluate if the secured creditors will be repaid in full.

b) Preferred creditors

The books and records of the Company do not indicate any preferred creditors.

c) Ordinary creditors (\$407,756)

According to the Statement of Affairs, the amount due to the unsecured creditors totals \$407,756.

As at the date of the preparation of this Report, the Trustee has not received sufficient proofs of claim to validate the amount of ordinary claims.

V. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE TRUSTEE

a) Books and Records

As at the Bankruptcy date, the books and records of the Company were not necessarily complete and up-to-date. The Trustee has requested that Cogir bring them to date.

The physical and electronic books and records of the Company, since January 2009, are in the possession of Cogir and will be maintained by them on behalf of the Trustee. As of the date of this Report, the Trustee has been unable to locate the financial information and records concerning the period prior to January 2009.

b) Protective Measures

Since February 11, 2011, the Trustee has undertaken various security and protective measures such as:

- Opening of a trust bank account;
- Assign the responsibility of safeguarding the physical and electronic books and records, on behalf of the Trustee to Cogir, the Property Manager;
- Adding the Trustee's name to the insurance policies in force covering the assets of the Company;
- Making arrangements with utilities companies and certain suppliers of goods and services to continue servicing the Property.

c) Realization Process

The Receiver has accepted an offer to purchase the Property, subject to Court approval. A Motion Seeking the Authorization to Sell the Property of the Debtor and the Issuance of a Vesting Order will be presented to Court on March 7, 2011 and the sale transaction is anticipated to close within two days after the issuance of the Vesting Order.

d) Property of Others

To date, the Trustee has not received any property claims.

e) Reviewable Transactions and Preferential Payments

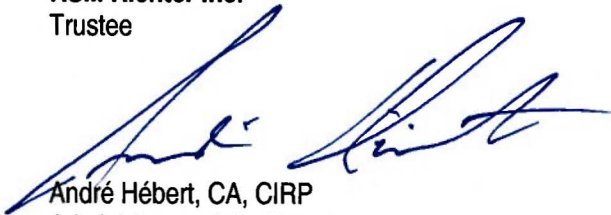
The Trustee will perform a review of the Company's books and records to determine any potential preferential payments or any reviewable transactions and will submit a report to the Inspectors of the Estate.

VI. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

It is too early to estimate the anticipated realization results and the possible distribution, if any, to the unsecured creditors.

Dated at Montréal, this 1st day of March 2011.

RSM Richter Inc.
Trustee

A handwritten signature in blue ink, appearing to read 'André Hébert', is written over the printed name and title.

André Hébert, CA, CIRP
Administrator of the Estate