

**DISTRICT OF ALBERTA
DIVISION NO. 1 – EDMONTON**

**ESTATE NUMBER: 24-1440761
COURT NUMBER: 24-1440761**

**IN THE MATTER OF THE BANKRUPTCY OF
FEDERAL MORTGAGE CORPORATION LTD.**

TRUSTEE'S PRELIMINARY REPORT

**PricewaterhouseCoopers Inc.
Trustee in Bankruptcy**

Federal Mortgage Corporation Ltd. ("FMC" or the "Company") was in the business of providing loan portfolio services. The Company was located in Edmonton, Alberta.

On December 9, 2010, FMC assigned itself into bankruptcy and PricewaterhouseCoopers Inc. was appointed trustee ("Trustee") of the estate.

Attached as Exhibit 1 is the ownership chart for FMC and its related companies as provided by management and attached as Exhibit 2, a more specific chart for FMC only. Exhibit 3 illustrates the cash flow of FMC.

It is the Trustee's understanding that the causes of insolvency of FMC were a combination of factors including development of a property that was being built for a new venture which was unable to fund its operating costs, defaults in the mortgage portfolio due to bankruptcies and lack of payments of the borrowers, further borrowing against properties to fund the operations of start-up ventures and providing unsecured loans to related companies, which required more capital and a longer turnaround time than anticipated.

All of the financial information set out in this report has been provided to the Trustee by management of FMC or as a result of its review of the books and records.

SECTION A – ASSETS

Exhibit 3 also provides an analysis of the assets of FMC and the estimated realizations as provided by the management. We set out below a summary of the asset categories:

	Book Value
	\$
Intercompany Loans Receivable	8,901,111.95
Related Party Mortgages Receivable	13,247,266.51
Mortgages and Loans Receivable	13,520,403.62
	<u>35,668,782.08</u>

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Intercompany Loans Receivable - \$8,901,111.95

This balance represents cash transfers to Peers Foster Kristiensen Inc. ("PFK"), is a related company. The Trustee has noted that FMC registered security at the Personal Property Registry on December 1, 2010 supporting a pre-existing General Security Agreement granted by PFK to FMC. A proof of claim has been filed on behalf of FMC in the estate of PFK.

Related Party Mortgages Receivable - \$13,247,266.51

This balance represents mortgages on properties which are owned by related parties. There are other mortgages and encumbrances on many of these properties which may rank in priority to the mortgages of FMC. The properties include:

- Springbank warehouse (owned by PFK and occupied by Titanwall group of companies);
- duplexes in Calgary (owned by PFK);
- Crossfield condo Joint Venture project between PFK and C. Boekenfohr (under construction);
- H.M.E. Evans & Company, Limited owned properties; and,
- Parkdale property (owned by Jay Peers, but we are advised he holds the property in trust for PFK).

The Trustee is in the process of ascertaining the value of these properties, the validity of other encumbrances and the alternatives for realization and will provide its recommendation to the creditors or inspectors in the near future.

Mortgages and Loans Receivable - \$13,520,403.62

This balance represents numerous loans and mortgages to third parties. Management has estimated that of the \$13,520,403, approximately \$8,000,000 is recoverable. The majority of this recovery is based on the Canyon Ridge property being sold for \$7,500,000 of which it is estimated \$5,900,000 would be available to the estate. The Trustee is attempting to determine the value of this property, the validity of other encumbrances and the alternatives and will provide its recommendation to the creditors or inspectors in the near future.

The remaining loans in this portfolio are in various stages of review by the Trustee who will provide its recommendations to the creditors or inspectors in due course.

SECTION B – SECURED CREDITORS

Set out below are the represented secured creditors of FMC:

	\$	Security Held
Canadian Western Bank	584,897.88	Mortgage of a mortgage on Canyon Ridge
HSBC Bank Canada	998,571.02	General Security Agreement (ALPAPP)
Faulkner, Douglas	320,000.00	Mortgage of a mortgage - Springbank warehouse

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Pelensky, Larry & Maureen	1,320,000.00	Mortgage of a mortgage - Springbank warehouse
Strickler, Karl & Priska	600,000.00	Mortgage of a mortgage - Springbank warehouse
Shandro, Victor	<u>97,875.03</u>	Mortgage of a mortgage - house
	<u>3,921,343.93</u>	

As discussed below, we have retained McLennan Ross LLP as independent counsel to review the validity and enforceability of this security.

SECTION C – CONSERVATORY AND PROTECTIVE MEASURES

On December 9, 2010, the Trustee took possession of the Company's books and records, secured the FMC premises located at 11207-103 Avenue and took the following additional steps:

- notified the insurance company of FMC's bankruptcy and requested that the Trustee be added as a loss payee on the insurance policy;
- made copies of all electronic records;
- blocked any remote access to the books and records of the Company;
- notified all financial institutions known to have been dealing with FMC and changed the bank accounts to the Trustee's name; and,
- established new bank accounts in the Trustee's name.

SECTION D – PROVABLE CLAIMS

Exhibit 3 describes how FMC has funded its operations. FMC has raised approximately \$42.8 million through the issuance of debentures and used the funds to provide loans to PFK and loans to third parties.

Since the date of the Notice of Bankruptcy and First Meeting of Creditors, December 16, 2010, we are not aware of any material changes in the nature or amount of liabilities of the Company. To date, the Trustee has received provable claims totalling \$23,029,164.90 from unsecured creditors.

SECTION E – LEGAL PROCEEDINGS

The Trustee has retained the law firm of McLennan Ross LLP to provide independent opinions as to the validity and enforceability of the secured claims against the estate.

SECTION F – REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

The Trustee is currently reviewing the Company's books and records and the details of payments made to creditors in the period immediately preceding the bankruptcy to identify any reviewable transactions or preference payments.

To date, a number of transactions have been identified for further review.



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SECTION G – ANTICIPATED REALIZATIONS AND PROJECTED DISTRIBUTION

The assets of the Company may be subject to the security interests noted above, however, there may be equity in the assets available to the estate over and above these charges.

The Company has estimated that there may be approximately \$11.5 million available in the estate after payment of the secured creditors' claims. The Trustee is reviewing the Company's estimates and where appropriate will seek approval to obtain independent market valuations.

SECTION H – OTHER MATTERS

PricewaterhouseCoopers Inc. is also acting as the trustee of the estate of PFK.

The Trustee was provided with a \$30,000 retainer by FMC as an indemnification for its reasonable professional fees and disbursements.

On June 11, 2010, PricewaterhouseCoopers Inc. was appointed pursuant to the Business Corporations Act as the Court Liquidator of H.M.E Evans & Company, Limited, a related company with the mandate of liquidating the assets (real estate) under the direction of the Court.

The Trustee proposes to act as Agent for HSBC Bank Canada and ATB Financial, if required, in the sale of their respective collateral. By acting as Agent, it is anticipated the costs incurred by the secured creditors will be reduced potentially increasing the recoveries to the estate.

The Trustee has been contacted by the Alberta Securities Commission ("ASC") which has requested certain information from the records of FMC.

The Trustee has established a website at www.pwc.com/car-pfkandfmc where it will post all available information including this report.

No bond has been requested to date by the Official Receiver.

DATED at Edmonton, Alberta this 11th day of January, 2011.

**PricewaterhouseCoopers Inc.
Trustee of the Estate of Federal Mortgage Corporation Ltd.**

Donald A. MacLean
Senior Vice President

Exhibit 1

Corporate Structure of PKF Group of Companies

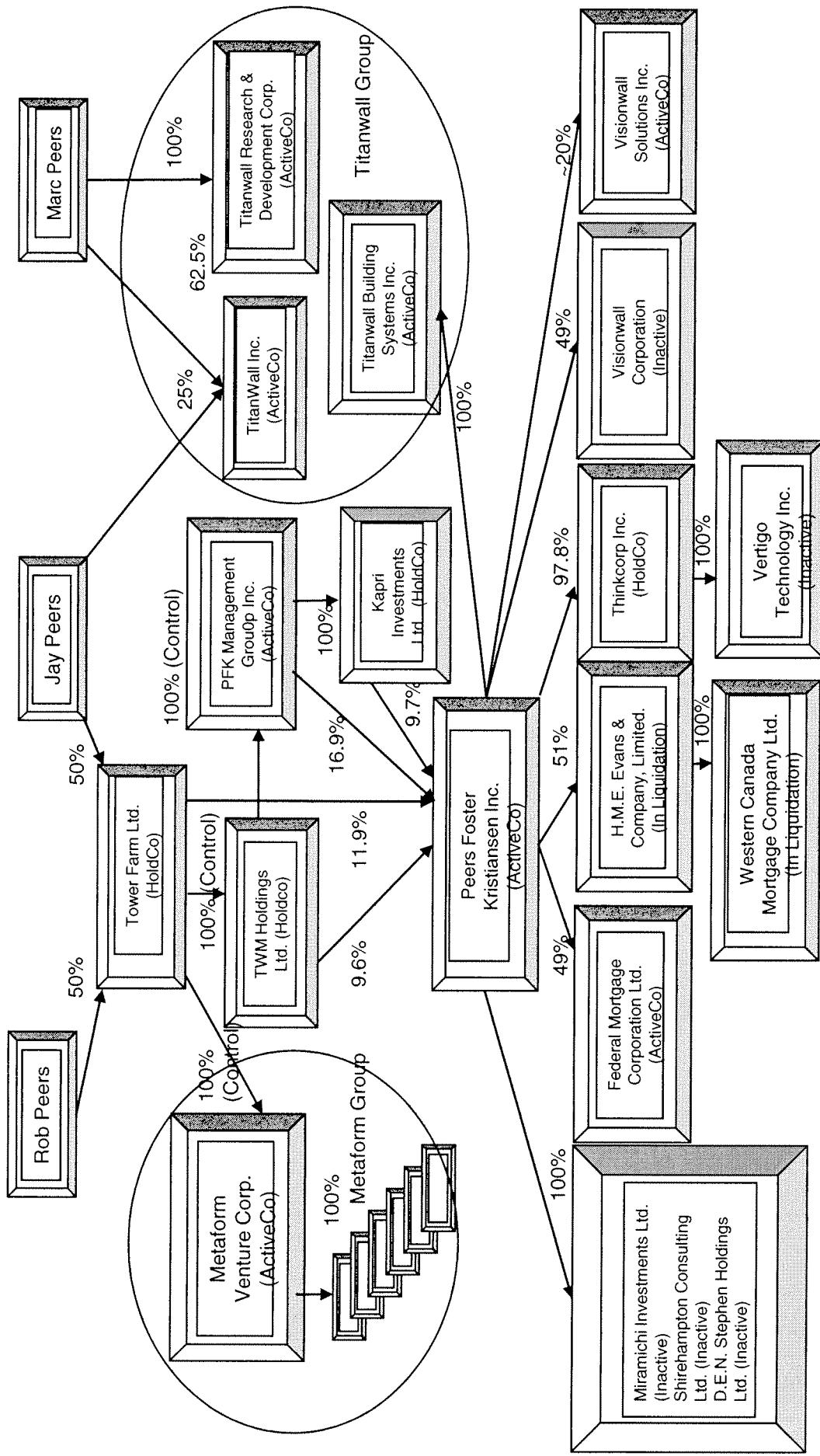


Exhibit 2

Ownership Structure of Federal Mortgage Corporation Ltd.

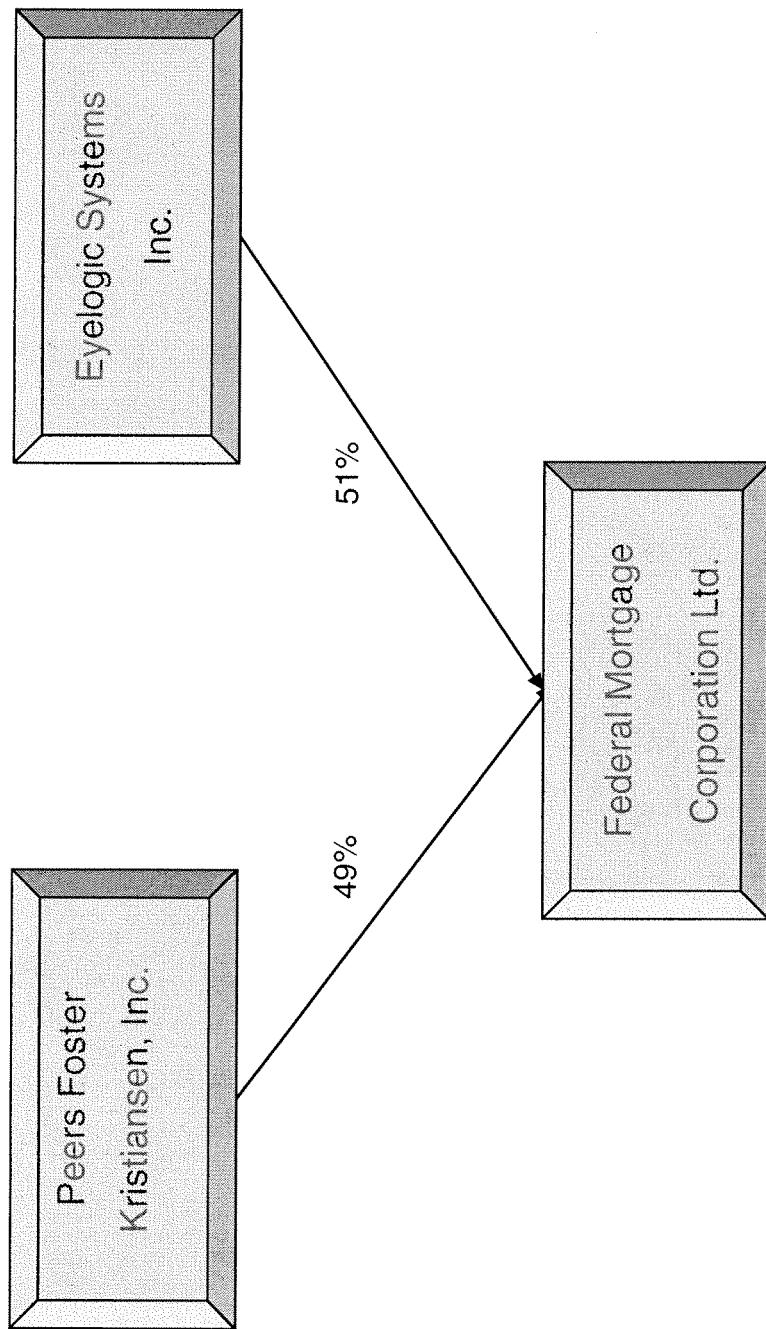
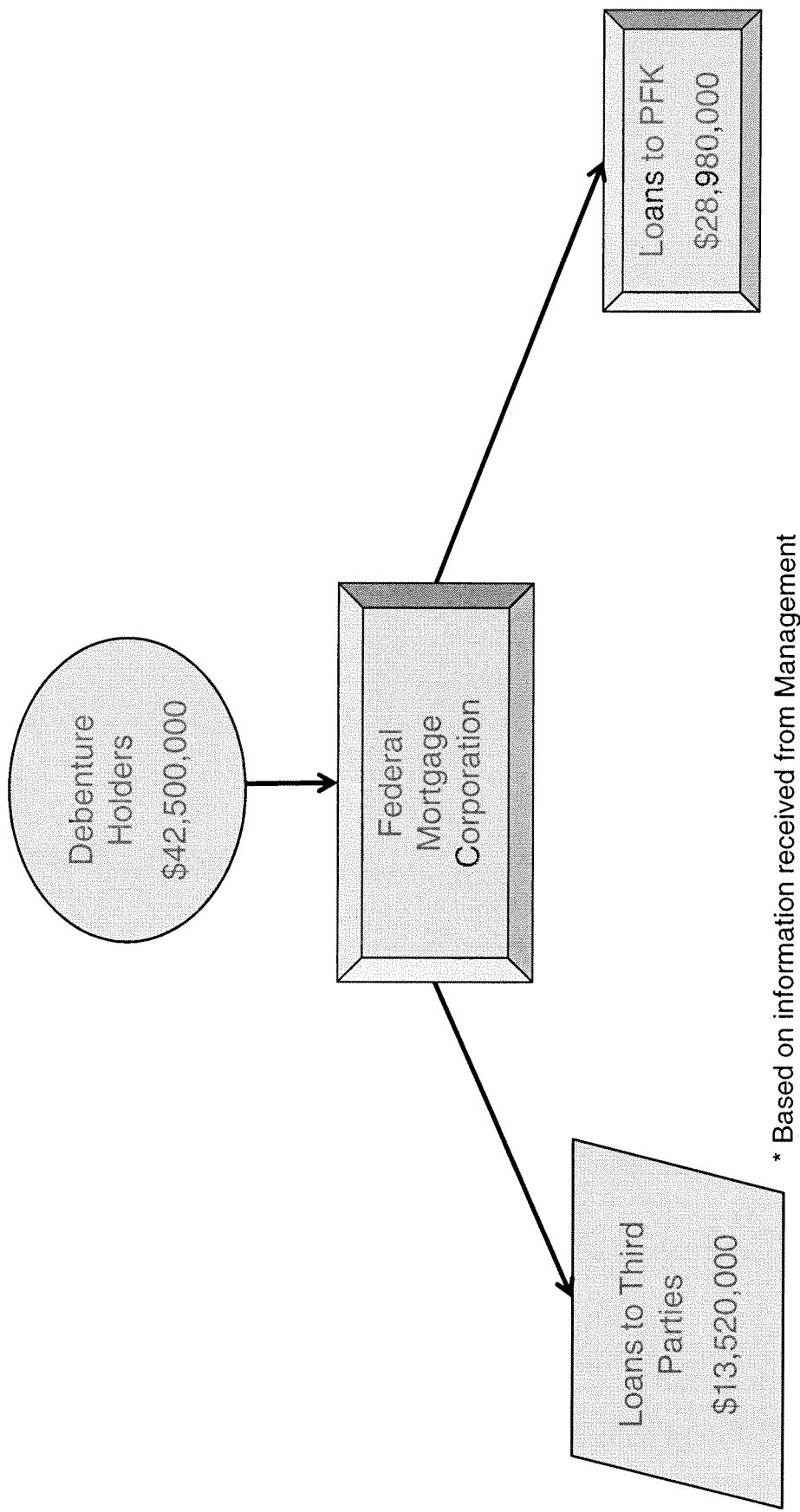


Exhibit 3

Federal Mortgage Corporation Ltd. Cashflow Diagram



* Based on information received from Management

Loans to Related Companies

Loan Type	Amount \$	Borrowers
Residential Mortgages	751,536	8
Equipment Leases	498,679	7
Loans with General Security Agreements	216,503	3
Unsecured Loans	5,133,728	14
Canyon Ridge Property – Commercial Mortgage	6,919,958	1
	\$13,520,403	<u>33</u>

* Based on information received from Management

The collectability of these loans is unknown at this time.

Summary of Cash Inflows and Outflows as at date of Bankruptcy

Inflows	\$
Debentures Purchased by Investors	42,500,000

Outflows	\$
Loans to PFK	28,980,000
Loans to Third Parties	13,520,000
	<u>\$42,500,000</u>

* Based on information received from Management