

**TRUSTEE'S REPORT TO CREDITORS
ON PRELIMINARY ADMINISTRATION**

TABLE OF CONTENTS

	Page
A. Background and Causes of Financial Difficulty	1
B. Preliminary Evaluation of Assets and Details of Security Interest	3
C. Books and Records	5
D. Conservatory and Protective Measures	5
E. Provable Claims and Description of Creditors	6
F. Legal Proceedings, Reviewable Transactions and Preference Payments	6
G. Third Party Deposits	7
H. Trustee's Intention to Act for Secured Creditors	7
I. Projected Distribution and Asset Realization	7
Restrictions and Qualifications	8



TRUSTEE'S REPORT TO CREDITORS ON PRELIMINARY ADMINISTRATION

October 1, 2015

A. Background and Causes of Financial Difficulty

In May 2008, Mr. Larry McGuinness and his former business partner, Ms. Jackie Speth, created a company called Street Smart Investing Ltd. ("**SSI**" or the "**Company**"), a real estate-investment entity designed to create positive cash flow opportunities for clients and investors. Mr. McGuinness is the President of SSI. Ms. Speth discontinued her involvement with SSI and other activities related to joint business initiatives in the second half of 2014.

With a small group of interested investors, SSI set out to purchase investment real estate as well as revenue-generating holding properties. A number of opportunities were explored and, following a trip by Mr. McGuinness to the Maritimes, three commercial properties were purchased in May 2008 with closings scheduled for September and October 2008. The properties are located in Summerside, PEI. Two of the commercial projects were incorporated into two new PEI companies called 101205 PEI Inc. ("**101205 PEI**") and 101206 PEI Inc. ("**101206 PEI**") (together with SSI, the "**SSI Group**"). SSI has majority ownership interest in each of the PEI companies.

101205 PEI was successful in syndicating a 24-suite apartment building and subsequently subdividing the land and selling a one-acre parcel to another developer. 101206 PEI currently owns a large mixed-use commercial/multi-family building with an adjacent vacant lot. The Trustee has reviewed the financial statements, including assets and creditors, for 101205 PEI and 101206 PEI and has determined both entities are insolvent. These entities currently have insufficient assets to fund any formal insolvency process under the BIA, and the expected net realizable value of most of the commercial properties in each entity, after selling costs, would be less than the associated secured claims against those properties. Generally, real estate values in the Maritimes have decreased significantly since the global financial crash of 2008, including those purchased by the SSI Group. Values for the properties purchased in BC have not increased enough to cover the carrying costs and overhead associated with the real estate in the Maritimes.

SSI is a wholly-owned subsidiary of REIGUY Holdings Inc. ("**REIGUY**"), which held a corporate real estate license to allow for additional tax planning and splitting of income

with the former shareholders. Based on the Trustee's preliminary evaluation, REIGUY has no assets and has some creditors.

A copy of an organization chart, showing the various entities discussed above and their ownership, is attached hereto as **Appendix "A"**.

Mr. McGuinness and Ms. Speth had been involved in a number of syndicated multi-family buildings providing marketing and sales opportunities through SSI. SSI also purchased two other rental suites in two other projects. One of the suites is located in Riverview, New Brunswick and the other in Ladysmith, B.C. Mr. McGuinness has provided a number of personal guarantees on the corporate loans made to the SSI Group and on loans for other real estate investments. We understand Ms. Speth made a number of personal guarantees also.

Upon first reviewing SSI's financial situation with Mr. McGuinness in the fall of 2014, the Trustee determined that SSI was insolvent and could not meet its obligations generally as they became due. At that time, it became very clear to Mr. McGuinness that he could no longer meet his own obligations as they became due and that the amount of his liabilities far exceeded the value of his assets both personally and on all the business ventures in the SSI Group. The continued soft real estate market, especially in the Canadian Maritimes, left no hope for a recovery.

On January 29, 2015, Mr. McGuinness filed a Proposal to his creditors pursuant to Division I of the *Bankruptcy and Insolvency Act* ("**BIA**"). On February 19, 2015, at the First Meeting of Creditors for the Proposal, Mr. McGuinness' creditors accepted the terms of his Proposal. The Court has subsequently approved the Proposal. The Trustee for the bankrupt estate of SSI is also the Trustee for the Proposal of Mr. McGuinness.

After confirming that the Trustee would be sufficiently funded to perform the administration of a bankruptcy, SSI eventually made an assignment in bankruptcy pursuant to s.49 of the BIA on September 17, 2015. The First Meeting of Creditors ("**FMOC**") for the bankruptcy is scheduled for Wednesday, October 7, 2015.

Generally speaking, the Trustee's view is that the Company, Mr. McGuinness and related entities have been involved with well-intentioned commercial investment ventures that ultimately produced poor results. The real estate properties discussed above have no equity for the unsecured creditors or owners as their mortgages/secured debts exceed current market values in all cases. Mr. McGuinness had been attempting for years to keep his business ventures afloat in the midst of declining property values since recognizing that the situation was hopeless. He has tried to bring an orderly end to these companies through the use of legal processes under the BIA where possible.

The purpose of the Trustee's Report on the Preliminary Administration is to provide creditors with information on the Company's affairs, its creditors and assets, and the overall estimated prospect of a recovery for creditors. Creditors will have an opportunity to ask questions of the Trustee and/or of Mr. McGuinness at the FMOC.

B. Preliminary Evaluation of Assets and Details of Security Interest

SSI disclosed \$212,763 of Accounts Receivables, before provisions for bad and doubtful accounts, as well as \$350,000 in properties. SSI had no cash at the date of bankruptcy nor did it have any other assets. A further description of assets follows.

Accounts Receivable

The Company listed \$212,763 of accounts receivable, which were all estimated to be bad debts, resulting in a net estimated realizable value of nil for the receivables. The receivables amounts are taken from the accounting records of SSI and are comprised as follows:

- 101206 PEI Inc. - \$66,536 in intercompany advances provided by SSI. 101206 PEI Inc. is insolvent and appears to have no assets therefore this amount is expected to produce no recovery;
- Jackie Speth - \$82,310 in shareholder loans advanced to Ms. Speth from SSI. Ms. Speth's financial position is unclear; however, she has given a number of personal guarantees relating to various assets in the SSI Group. She also may have a counter-claim against SSI as she was listed as a contingent creditor; and
- REIGUY - \$63,917.42 in intercompany advances provided by SSI. REIGUY may be insolvent and likely has no assets therefore this amount is estimated to be unrecoverable.

The above information is obtained from our preliminary examination of these items. The Trustee will perform additional investigation to confirm whether these sums have any possible realizable value for the estate.

Real Property (Real Estate Holdings)

SSI owns three real estate investment properties described as follows:

Address	Description	Estimated market value range (before selling costs)	Total secured claims (estimated)	Net expected shortfall range (before selling costs)
#206 – 218 Bayview Ave, Ladysmith, B.C.	Rental apartment unit	\$75,000 to \$80,000	\$94,284 Consisting of: John Laxton (“Laxton”) first mortgage, property tax arrears, two judgments	\$(15,284) to \$(20,284)
Unit 7 – 24 Suffolk St.,	Rental apartment unit	\$35,000 to \$40,000	\$75,759	\$(35,759) to \$(40,759)

Address	Description	Estimated market value range (before selling costs)	Total secured claims (estimated)	Net expected shortfall range (before selling costs)
Riverview, N.B.			Consisting of: TD Canada Trust (“TD”) first mortgage, property taxes and strata fees arrears	
243 Water Street, Summerside, P.E.I.	4-plex consisting of 2 commercial units and 2 residential units for rent	\$240,000 to \$260,000	\$304,120 Consisting of: Consolidated Credit Union (“CCU”) first mortgage, Front Porch Productions second mortgage, property tax arrears	\$(44,120) to (\$64,120)

We understand the respective first mortgagees on these properties have taken the following actions with respect to enforcing their security/rights under the mortgages:

- Ladysmith, B.C. property: Laxton has taken an assignment of rents and is currently collecting the monthly net rents directly (after payment of strata and property management fees). Laxton has not yet commenced a formal foreclosure action;
- Riverview, N.B. property: TD has commenced a foreclosure action on this property and has already attempted to sell it at a tax sale. No offers were received at the tax sale; and
- Summerside, P.E.I. property: We believe CCU has commenced a foreclosure action and a tax sale was scheduled for September 28, 2015. Also, the province of P.E.I. has put SSI on notice that they intend to take action pursuant to Section 16 of the Real Property Tax Act to list and sell the property through a Notice of Tax Sale.

Absent a significant change in real estate market conditions in these locations, each of these properties is expected to sell for a shortfall resulting in losses for the secured creditors. It is almost certain there will be no recovery for the bankrupt estate from these properties.

Life Insurance Policy

SSI had carried a policy for life insurance and critical illness for Mr. McGuinness with SSI as the beneficiary of the policy. Currently, Mr. McGuinness has an agreement with SSI to fund the monthly policy premiums (approximately \$500 per month) until the Trustee for the estate of SSI decides whether to maintain the policy. The Trustee of SSI wishes to confirm the funding requirements of the policy with the SSI creditors.

The Trustee does not recommend continued funding of this policy by the estate of SSI for the following reasons:

- There is no cash surrender value for SSI; and
- The Trustee currently has no source of funding/assets to pay the policy premiums.

If the Trustee or creditors decide to continue to fund the policy, Mr. McGuinness will be refunded any premiums he has paid out on behalf of SSI totaling approximately \$14,200. In the event that the policy is not funded by the estate of SSI any further, the policy would then become an asset of Mr. McGuinness, and the monthly premiums would continue to be funded by him, for the possible benefit of his creditors, until such time when his Proposal is completed.

C. Books and Records

The Company's books and records are stored at a shared office facility, located at Suite #200-1847 Marine Drive, West Vancouver, B.C., used by Mr. McGuinness for his other current business ventures. The Trustee has inspected the books and records and is in the process of taking an inventory of them. Also, the Trustee has taken an electronic copy of the Company's accounting files.

In this case, the Trustee is unable to utilize a "Notice of Redirection of Mail" with Canada Post for SSI's mail. The reason is that Mr. McGuinness has shared office space that receives mail for several companies. Canada Post is only able to redirect mail by address, and not by company. Accordingly, the Trustee and Mr. McGuinness have agreed that Mr. McGuinness will set aside SSI's mail for regular pick up by the Trustee. Mr. McGuinness is aware of his duties to co-operate and provide information pursuant to the BIA.

D. Conservatory and Protective Measures

No unusual conservatory or protective measures have been required to date due to the nature of the remaining assets of the estate. There was no perishable property required to be sold, nor was there an active business to continue upon the Trustee's appointment. The Company's main business operations had been wound down well before the date of bankruptcy.

E. Provable Claims and Description of Creditors

The Statement of Affairs of SSI (“SoA”) disclosed a total of \$600,882 in unsecured creditors, plus an estimated \$124,162 in shortfalls from secured claims for a total of \$725,044 in unsecured debts. The SoA listed \$474,162 of secured debts relating to the properties discussed above in Section B. Also, five contingent creditors have been listed for potential claims of which the nature or amount are not yet known.

The unsecured debts of the Company generally fall into the following four categories:

- Debts relating to loans received from business contacts and friends of Mr. McGuinness;
- Debts due to related parties, including 101205 PEI Inc. Mrs. McGuinness, Larry McGuinness Personal Real Estate Corporation, and Verico SSI, for various funds advanced to keep SSI funded during its time of active business;
- Shortfalls from secured claims relating to real estate investments/properties; and
- Debts for other vendors/suppliers of SSI.

To date, the Trustee has received a total of 3 claims for total amounts of \$209,704, including a secured claim from Laxton, relating to the Ladysmith, B.C. property, for \$86,169. Two of the three claims received are not yet complete and the Trustee has had to request additional information from the claimants. We expect to receive several more claims before the FMO is held on October 7, 2015.

F. Legal Proceedings, Reviewable Transactions and Preference Payments

The Trustee has found the principal of SSI, Mr. McGuinness, to be very forthcoming about the affairs of the Company, as well as the affairs of related companies and his own personal affairs. He has provided the Trustee with answers to all its questions and supporting information and documents both throughout his own Proposal as well as relating to SSI’s bankruptcy. It is the Trustee's opinion that the Company made an honest, well-intentioned effort in real estate investing however it was caught in some poor investments during the major recession that occurred in Canada in 2008 and in the subsequent soft market that followed.

The Trustee has not noted any offences made by the Company, or its principal, under the BIA since we first met Mr. Guinness.

To date, through all documentation inspected and through inquiries of Mr. McGuinness, the Trustee has seen no evidence of any preferential payment, settlement or reviewable transaction that the Company may have been a party to. The Trustee estimates that the Company had been insolvent for a period of at least a year prior to the bankruptcy. To our knowledge the Company has not settled any liabilities outside the normal course or paid any creditors a significant sum in relation to other creditors. The Trustee is in process of reviewing the Company’s bank statements for the year prior to the bankruptcy and will report to creditors if anything significant is found.

Generally speaking, the affairs of Mr. McGuinness are somewhat complicated with the number of companies that were created to hold real estate investments and the cross-guarantees that he provided personally. It is Mr. McGuinness' overall goal to wind up all affairs of the SSI Group and liquidate all the properties to maximize the return for the creditors. Mr. McGuinness wants to focus on his mortgage brokering business in the future and sell real estate to the extent opportunities arise.

The Trustee is aware of one potential legal proceeding against SSI; Granite 117 Holdings Inc. ("**Granite**"), an unsecured creditor, had hired legal counsel and had served a subpoena on Mr. McGuinness early this year to attempt to obtain further information on the assets of SSI. When Mr. McGuinness filed his Proposal in late January 2015, Granite's counsel learned that SSI was also insolvent and hoped to make a filing under the BIA at such time the Trustee had sufficient funding to proceed. Granite agreed at that time to defer any action pending the bankruptcy of SSI. After the SSI bankruptcy, we have attempted to contact Granite's counsel to inquire whether its client wishes to file a claim, but we have not received a response as of this time.

G. Third Party Deposits

In order to fund the costs of the bankruptcy administration the Trustee has received a pre-filing deposit in the amount of \$13,000 ("**Deposit**") from REIGUY. This Deposit was disclosed on the Estate Information Summary at the time of the initial filing. To the extent the costs of administration are less than the Deposit, and cannot be funded by recoveries of SSI assets if any, any remaining Deposit will be returned to REIGUY at the conclusion of administration.

H. Trustee's Intention to Act for Secured Creditors

The Trustee has no intention of acting for any of the secured creditors in this estate. As discussed in Section B above, all of SSI's properties are fully encumbered with mortgages and other claims and there is no estimated recovery for the estate from these properties. Several of the secured creditors are expected to suffer significant shortfalls and have residual unsecured claims in the bankruptcy.

I. Projected Distribution and Asset Realization

Unfortunately, as described in Section B above, there does not appear to be any realizable value from the estate assets that could produce a recovery for the creditors. Declining real estate values have eliminated all equity in SSI's properties' values and will likely result in significant losses for the secured creditors. The Trustee is funded by way of a fee deposit however if the Trustee's costs exceed \$13,000 they are likely to be unrecoverable absent any further deposit or an unexpected asset recovery in the estate.

RESTRICTIONS AND QUALIFICATIONS

This Report to Creditors on Preliminary Administration summarizes the Trustee's findings and conclusions from its review of the Company's records and other information received, and from its investigations up to the date of this report. It is subject to change based on subsequent findings or receipt of additional information. Often in an insolvency proceeding, new or changing information surfaces that supersedes previous information that was thought to be correct. Readers are cautioned accordingly.

In conducting our research and preparing our report, we obtained certain information and representations from the Director, creditors and other third parties. Information, data and documentation furnished by others was presumed to be reliable and, except as expressly noted in our report, was not verified. Accordingly, the Trustee or G. Powroznik Group Inc. assumes no responsibility for the accuracy of third party information provided.

G. Powroznik Group Inc.

In its capacity as Trustee for the bankrupt estate of Street Smart Investing Ltd.
and not in its personal capacity



Per: Gary Powroznik
Managing Director

Appendix "A"

