

June 16, 2021

Re: Case Status Update: *In re Northridge Holdings, et. al*, Case No. 19-5957

Dear Northridge Investor/Creditor:

As you may know from our previous reports, in late 2019 and throughout 2020 we liquidated nearly all the receivership's real property and have successfully pursued certain claims resulting in a current cash balance of between \$39 and \$40 million. We currently anticipate investor and creditor claims to be between \$41 and \$43 million. As a result, we are anticipating a significant recovery to investors and creditors.

Many of you have asked when the receivership will make an initial distribution to investors and creditors in the Northridge receivership case. In this communication, we answer the following most common questions we have received to date and issues we believe are most important to investors and creditors:

- When will a distribution plan be filed with the Court and what needs to occur before investors and creditors can be paid?
- What is the status of K-1's?
- What is an Investor's tax liability with respect to any distributions from the Receivership?

Status of Distribution Plan & Distribution to Investors and Creditors

We have prepared a motion for filing with the court on a distribution plan ("the Distribution Plan"). The Distribution Plan, as currently drafted, proposes an initial distribution and then a subsequent distribution at the end of the case. Our goal is to distribute as much money as possible in the initial distribution after appropriate reserves for taxes and other liabilities have been established.

Outstanding tax issues must be resolved by the Receiver before the Distribution Plan can be filed with the Court and distributions made, because taxing authorities such as the IRS have priority as to the funds in the receivership (to the extent such taxing authorities have claims). As a result, obtaining certainty with taxing authorities is critical. To that end, the Receiver is taking a two-pronged approach:

First, the Receiver and his professionals are reviewing all relevant filed returns and returns that must be filed. The goal here is to confirm all relevant filed returns were accurately prepared, prepare accurate tax returns, determine the tax liability relating to those returns, and reserve funds on a conservative basis to satisfy any potential tax liabilities.

Second, the Receiver and his team have begun the process of conferring with the Internal Revenue Service (IRS) and the State of Illinois Department of Revenue (IDOR) – the primary two taxing authorities with jurisdiction over the receivership entities – in an effort to determine the final amount of income tax liabilities that may be owed to those two taxing authorities. The Receiver will seek to enter into an

agreement with the taxing authorities that would fix the amount of income tax liability on an expedited basis and would be presented to the court for approval (the “Tax Stipulation”). We do not at this time know whether or when the IRS and IDOR will agree to enter into a Tax Stipulation, but we are moving as quickly as possible to provide the taxing authorities with all the information they need. So far, we have received strong cooperation from the IRS and they appear to appreciate the receivership’s need for a final determination of tax liability as soon as practicable in order to facilitate distributions to investors and creditors of the receivership.

If the proposed Distribution Plan is approved, and if the Receiver succeeds in obtaining a Tax Stipulation, the Receiver would establish whatever reserves are needed and would proceed to make an interim distribution (and eventually final distributions of the net cash ultimately remaining) to the investors and creditors.

To be clear, the Receiver and his professionals are working to preserve as much money as possible for payment to investors and creditors (including working to minimize any tax liabilities), anticipate that substantial amounts will be distributed to investors and creditors, and are seeking to minimize the risk that an investor or creditor could be subject to an action for claw back from any taxing authority. In short, when investors and creditors are paid, we want them to have peace of mind that we have taken all reasonable actions to minimize future issues with respect to the payment.

With respect to timing, our goal is to file a Distribution Plan with the Court as soon as possible, after obtaining further clarity and certainty from the IRS and IDOR as to whether, when and to what extent a Tax Stipulation is feasible. We cannot provide any additional information on timing of distributions at this time, but we will continue to keep investors and creditors updated.

What is the Status of K1’s?

The Receiver is currently in discussions with the IRS and reviewing alternative approaches to the required tax filings for 2020, making distributions to investors, and closing the receivership. The outcome of these discussions can potentially impact the 2020 investor K-1 forms. We apologize for the inconvenience and we will use best efforts to have the K-1 forms available before the September 15, 2021 deadline.

You should refer to the IRS website “Help for Victims of Ponzi Investment Schemes”, and otherwise consult with a tax professional, for additional information on treatment of any potential loss on your investment.

We strongly suggest that you consult with your personal tax advisor regarding the treatment of any income /loss reported on the 2019 and/or 2020 K-1’s and any potential loss on your investment. The Receiver is not offering any tax advice to any investor and nothing herein shall be construed as such. Furthermore, no information on any K-1 shall be deemed any determination by the Receiver as to the amount of any claim of any investor for distribution purposes in this receivership, which amounts will be determined solely by receivership law and court order.

We appreciate your ongoing patience in this process. Rest assured that we are doing everything within our power to obtain approval of a Distribution Plan from the court with consent from the taxing authorities, as soon as practicable.

What is an Investor's tax liability with respect to any distributions from the Receivership?

The Receiver's draft Distribution Plan currently contemplates the following distributions:

- If the investor invested outside of an IRA account: Via check sent to the investor's address on file.
- If the investor invested through an IRA account: Via deposit with the investor's IRA services for the benefit of the account of the investor.
- If the investor invested outside of an IRA account and through an IRA account: We are proposing an allocation between the two above distribution methods.
- If an investor seeks a different method of distribution and/or allocation of distribution, the draft Distribution Plan provides for a way for an investor to direct the Receiver to distribute in a manner that comports with the investor's wishes.

The Receiver cannot provide any tax advice or opinion as to any investor's tax liability (if any). We highly recommend speaking with a tax professional regarding your investment with Northridge and any distributions you receive from the Receivership.

Very best regards,

/s/ N. Neville Reid

N. Neville Reid, as Receiver for the Estate of Northridge Holdings, Ltd. et al.