



RECEIVER'S THIRD UPDATE TO INVESTORS, FEBRUARY 26, 2020

Prior Updates

This report follows several others that collectively provide a substantial amount of information about the Receivership Pools. The Receiver's First Update to Investors, issued August 1, 2019, provides a general introduction to the receivership and issues related to the Receivership Pools and Management Company. The Receiver's Second Update to Investors, issued September 18, 2019, provides an overview of the Pools' assets and the Receiver's potential litigation claims. On November 19, the Receiver updated investors on results of the real estate auction. The Receiver has also filed two formal reports on the financial condition and affairs of the Receivership Pools. The first report, filed October 31, 2019, covers the period from May 10, 2019, through June 30, 2019, and the quarter ending September 30, 2019; the second report, filed January 31, 2020, covers the quarter ending December 31, 2019. These reports include statements of sources and uses of cash as well as detailed listings of the Receivership Pools' assets. All of the reports mentioned here are posted in the Documents section of the www.AEMinvestors.com website.

Definitions and Capitalized Terms

| | |
|---------------------------|---|
| AEI | American Equities, Inc. |
| AEM | American Eagle Mortgage |
| AEMM | American Eagle Mortgage Management, LLC |
| Affiliated Parties | Business and/or investment vehicles operated by Ross Miles and/or Maureen Wile that are not part of the Receivership. This term may also refer to the people involved in managing or benefiting from Affiliated Party entities. |
| Management Company | AEI as Manager of the Pools, and later (in practice) AEMM |
| Pools | The Receivership Pools |
| Receivership Pools | The 15 entities that are part of this Receivership, also referred to as the Receivership estates |
| REO | Real estate owned by the Receivership Pools, typically due to foreclosure |

REAL ESTATE OWNED

Washington, Oregon, and California

The Receiver offered 35 REOs for sale in the RMNW fall auction. Sixteen properties received bids at or above the reserve price. Bids below the reserve price were accepted for another 12 properties. Sales have closed on 24 of these properties, and four more closings are pending. Three of the 35 properties received bids, but title problems or other issues discovered during the closing process caused the sales to fail. The Receiver does not anticipate being able to find a buyer for any of these three properties at any price. Four properties received no bids in the auction and are still available for sale. Table 1 summarizes the results of the auction. The net proceeds column represents the sales price less the sum of closing costs, a 6% real estate commission, and outstanding property taxes.

Table 1: Auction Properties

| | Count | Winning Bid | Net Proceeds |
|------------------|--------------|-----------------------|-----------------------|
| Closed Sales | 24 | \$ 1,841,950.00 | \$ 1,525,466.36 |
| Pending Sales | 4 | \$ 273,000.00 | \$ - |
| No Bids Received | 4 | \$ - | \$ - |
| Title Issues | 3 | \$ 120,100.00 | \$ - |
| Total | 35 | \$2,235,050.00 | \$1,525,466.36 |

Other States

The Receivership Pools own 28 other REOs in Alaska (1), Arizona (18), Colorado (1), Indiana (1), New Mexico (2), Nevada (4), and Texas (1). The Receiver has listed 25 of these properties for sale, and at the time of this Report four have sold. Three properties remain unlisted due to their remote locations or low value. Access to one of these properties has been limited due to snow conditions, and we have identified an agent willing to list the property in the spring. We have been unable to locate an agent willing to list the other two properties and are evaluating options, including abandonment. Table 2 summarizes the current status of this group of properties.

Table 2: Non-Auction Properties

| | Count | BPO value | Listing Price | Offer Amount | Net Proceeds |
|--------------|-----------|---------------------|----------------------|----------------------|---------------------|
| Sold | 4 | \$126,000.00 | \$ 139,000.00 | \$ 136,000.00 | \$ 120,238.69 |
| Pending | 2 | \$ 49,500.00 | \$ 38,500.00 | \$ 28,200.00 | \$ - |
| Listed | 19 | \$341,550.00 | \$ 379,099.00 | \$ - | \$ - |
| Not Listed | 3 | \$ 65,500.00 | \$ - | \$ - | \$ - |
| Total | 28 | \$582,550.00 | \$ 556,599.00 | \$ 164,200.00 | \$120,238.69 |

DOMESTIC REAL ESTATE CONTRACTS

Overview

When the Receiver was appointed in May 2019, the Receivership Pools' contract portfolio consisted of 141 domestic real estate contracts with third parties and 21 partial purchase agreements (sometimes referred to as "streams"). As of January 31, 2020, there were 125 contracts and 17 streams. Table 3 summarizes activity during the receivership period.

Table 3: Summary of Contracts

| | May 2019 | Jan 2020 | Change | Accounting for difference | |
|-----------------------|----------------|-------------|------------|------------------------------|-----------|
| Type | # of contracts | | | | |
| Real Estate Contracts | 141 | 125 | -16 | Paid off | |
| Streams | 21 | 17 | -4 | Normal course | 7 |
| Total | 162 | 142 | -20 | Demand letter | 4 |
| | | | | Foreclosed | 1 |
| Performing | 130 | 117 | -13 | Streams Sold | 3 |
| Delinquent | 32 | 25 | -7 | Ownership Issues | 5 |
| Total | 162 | 142 | -20 | Total | 20 |

The Receiver identified five contracts listed on the balance sheets of the Pools where underlying assignments and deeds of trust contradict the Pools' ownership claims. These contracts were used as collateral for AEMM debt and were either never assigned to the Pools or were assigned from a Pool to AEMM to use for collateral. AEMM defaulted on these debts and the lenders took the collateral.

As of January 31, 2020, the face value of the 142 domestic real estate contracts and streams was \$5,676,549. Approximately \$600,000 of this amount comes from streams, which can be more difficult to sell than contracts.

Non-Performing Contracts

At the commencement of the receivership, 32 of the domestic real estate contracts were severely delinquent and considered non-performing. The Receiver began sending demand letters to the borrowers on these contracts in August 2019. To date, the Receiver has sent 24 letters and received 14 responses. Eight more demand letters are in process. Once these last eight demand letters are sent, the Receiver will have contacted all borrowers on non-performing contracts. The demand letters have led to a reduction in the number of delinquent and non-performing contracts, which now stands at 25, reflecting a total face value of \$1,567,019 or 27% of the total portfolio value at January 31, 2020.

Five non-performing contracts have paid off in full as a result of the Receiver's collection efforts, bringing in just over \$190,000 as of the first week of January 2020. In addition, we have reached agreements with two other borrowers and expect to receive another \$215,000 by the end of February. Four contract payors have brought delinquent accounts current, and three others have been following payment plans to cure delinquencies, yielding approximately \$33,000 since September 2019.

In total, the Receiver's collection efforts have brought in just shy of \$440,000 from otherwise non-paying contracts, as summarized in Table 4 below.

Table 4: Collection from Demand Letters

| Type | Amount |
|-------------------|----------------------|
| Payoffs | \$ 191,279.63 |
| Pending Payoffs | \$ 215,250.00 |
| Payments Received | \$ 32,949.23 |
| Total | \$ 439,478.86 |

Two contract payors have informed the Receiver that they would like to turn over their properties via deed-in-lieu of foreclosure transactions. We are ordering foreclosure title reports for these properties and evaluating the Receiver's options.

One pending foreclosure action is stayed because of a bankruptcy case filed by one of the contract payors. We do not know when the Receiver will take possession of the property subject to this contract, which is located in Troy, Montana, and has a BPO value of \$179,000. The bankruptcy case is pending in the United States Bankruptcy Court for the Western District of Virginia. The Receiver has engaged attorneys in both Virginia and Montana to enforce the contract.

For the remaining delinquent contracts, we are following up with the borrowers and will continue to evaluate future options, such as foreclosure proceedings, sale of the contract, or abandonment.

In addition to the non-performing loans discussed above, the Pools' books list 47 non-performing loans made to Affiliated Parties as real estate contract receivables. The Receiver intends to file lawsuits against these Affiliated Parties in the receivership in coming weeks.

Future Recovery

The Receiver has been conducting thorough due diligence on the contract portfolio and various approaches to recovery. Among other things, the Receiver has obtained Broker Price Opinions (BPOs) and Owner and Encumbrance reports on the contracts' underlying collateral and has been in contact with two brokers regarding potential sales of the contract portfolio. One strategy is to sell the entire portfolio in one offering via an online auction. Another strategy is to carve the portfolio into groups and offer to sell those packages to investors that have different risk profiles. Both strategies suggest a net recovery to the estate in the range of 55% to 65% of the total outstanding principal balances owing on the remaining contracts.

In December and January, the Receiver's office received multiple requests to consider forming a trust for the benefit of AEM investors for the purpose of holding and managing the non-

delinquent contracts long term. We are completing an analysis of this option and will issue a separate memo on the subject in the near future.

MEXICO ASSETS

The Receivership Pools originally included 16 loans made to Mexico borrowers. Only one of these loans was performing, and has since paid off, generating approximately \$560,000. The Receiver has taken or is in the process of taking action to collect amounts owing to the Pools on 14 of the other 15 loans, and has visited 11 of the properties that secure or support those 14 loans. The 15th loan, which was made in 2004 and matured in April 2009, is not enforceable under Mexico law and will not be pursued by the Receiver.

The foreclosure process in Mexico is lengthy and can take several years to complete. In January, the Receiver traveled to San Jose del Cabo to work towards settlements with two of AEM's Mexican borrowers and to tour two large parcels of raw land owned by one borrower. As a result of these discussions, the estate anticipates taking possession of eight properties owned by the borrowers in the next six to eight months. Notice of any proposed settlement will be given to investors in accordance with the procedures set forth in the Court's November 22, 2019, order.

The Receiver does not yet have possession of any real property in Mexico, but has received offers on three of the expected properties and is negotiating with the potential buyers. If an acceptable sales price can be reached, notice of the proposed sale will be given to investors in accordance with the procedures set forth in the Court's August 8, 2019, order.

Table 5 lists and provides basic information about the properties that secure or support the 14 Mexico-based loans that the Receiver is taking action to enforce.

Table 5: Mexican Assets

| | Common Name | Type | BPO |
|----------------------------------|-------------------------|-------------------------|------------|
| Settlements In Process | | | |
| 1-3 | Tamar Condos | 3 Condos | Pending |
| 4 | Villas de Oro - Lirio | Condo | \$415,000 |
| 5 | Villas de Oro - Rosa | Condo | \$415,000 |
| 6 | Hacienda Los Cabos - E2 | Condo | \$85,000 |
| 7 | East Cape | Land | unknown |
| 8 | Todos Santos | Land | unknown |
| Demand Letters Served | | | |
| 9 | Cabo Belo | Duplex | Pending |
| 10 | Cabo Real | Single Family Residence | Pending |
| Demand Letters in Process | | | |
| 11 | La Paz | Unknow | Unknown |
| 12 | Casa Napita | Single Family Residence | Pending |
| 13 | Rancho Paraiso | Single Family Residence | Unknown |
| Litigation Pending | | | |
| 14 | Villa Montana | Single Family Residence | Pending |

On February 14, the Receiver filed a foreclosure proceeding related to Villa Montana, a single-family home located in the Pedrigal subdivision of Cabo San Lucas. With regard to the remaining five loans, demand letters have been served on two borrowers and demand letters to the borrowers on the other three loans are in process.

CONSOLIDATION OF RECEIVERSHIP ESTATES

The Court entered on November 22, 2019, an order granting the Receiver's motion to consolidate the assets and liabilities of all Pools into a single receivership estate for the purposes of administering and distributing all assets that are the subject of the receivership proceeding, effective retroactively to May 10, 2019. The entry of that order means, among

other things, that the all investor claims against all Pools will be treated as claims against the consolidated receivership estate.

FILING OF COMPLAINT AGAINST PRIOR FUND MANAGERS

On February 19, the Receiver filed a complaint in the Superior Court of Washington for Clark County against AEI, AEMM, Ross and Beverly Miles, and Maureen and Robert Wile for breach of contract, breach of fiduciary duty, and aiding and abetting breach of fiduciary duty. The complaint alleges, among other things:

- These insiders used Pool funds for undisclosed and unauthorized purposes, including investment in a Mexican marina enterprise and payments to an investor who knowingly invested in the Mexican enterprise. These investments and payments violated the terms of the Offering Materials.
- The Pools are insolvent and have been insolvent since at least 2011.
- The insiders' breaches of contract and of their fiduciary duties after 2011 increased the losses to AEM investors.
- Self-dealing on the part of these insiders contributed to the Pools' growing insolvency. Self-dealing took various forms, typically that of causing the Pools to lend money to Related Parties, including Ross Miles and Maureen Wile and their family members, with no apparent intention to repay. In addition, they carried out sales of contracts or portions of contracts without any business purpose other than to collect fees on these transactions from the Pools.
- The Pools were operated by these insiders as part of a Ponzi scheme.
- The insiders' management activities were wrongful, and the Receiver believes Miles and Wile knew they were wrongful. Just prior to placing the Pools in receivership, Miles and Wile attempted to "clean house" by zeroing out the loan balances between the Pools—a hopeless task that was not successful.

The full complaint and other related documents can be found in the Documents section at www.AEMinvestors.com/documents.

The Receiver is unable to determine at this time the collectability of any judgment that might be obtained in this adjunct litigation. The Receiver's information regarding the extent and value of the insiders' assets and regarding their other liabilities is incomplete.

PROFESSIONAL FEES AND RECEIVERSHIP COSTS

The cost of the receivership through January 2020 has been \$2.1 million. Some investors have voiced frustration over this cost. The Receiver and its team of professionals—comprising general counsel, forensic accountants, special counsel in Mexico, Montana, and Virginia, and a communications firm—have had to do a tremendous amount of work to sort out the Pools’ affairs, review their books and records, liquidate assets, and perform a forensic accounting investigation to support substantive consolidation and litigation claims against the Pools’ managers and insider control group, as well as potential claims against other parties. The high cost of this receivership is a consequence of the Management Company’s business practices and recordkeeping. The Receiver and its professionals are doing their best to manage or solve the problems that the Pools’ managers and insider control group created.

CLASS ACTION LAWSUIT

Portland attorneys Chris Kayser and Bridget Donegan (<https://lvklaw.com/>) and Mike Esler (<http://www.eslerstephens.com/>) talked with a number of investors last fall in relation to a potential lawsuit against third parties that might be liable for participating or materially aiding the sales of the AEM securities. On February 25, two lawsuits were filed on behalf of AEM investors. One lawsuit, in which class action certification will be sought, concerns investors who currently live in Oregon and whose investments are covered by the Oregon Securities Law because they were offered the security or agreed to purchase the security while in Oregon. The other lawsuit concerns investors who do not currently live in Oregon. Investors who believe they may qualify and would like to participate in these lawsuits, and any investors who were offered or agreed to purchase their security while in Oregon, should contact Christine Ortez or Gary Hardiman at Esler Stephens by calling 503-223-1510.

DISTRIBUTION PLAN PROCESS

Distributions to investors in this receivership must be approved by the Court. The Receiver will submit a proposed distribution plan to the Court with a motion requesting that the Court approve the plan. The Receiver anticipates filing this motion with the Court later this year.

SUBPOENAS

In January, the Receiver issued subpoenas to Riverview Bank and to Pacific Premier Bank (formerly Regents) seeking records in relation to the AEI and AEMM loans where Pool assets were used as collateral or to pay off debt, among other matters. Information supplied in response to the subpoenas will be evaluated for further action.

TAX MATTERS

The Receiver is not issuing Form 1099s to investors for 2019. All payments to investors from 2019 have been reclassified as return of principal, rather than interest income. The Receiver is informed that Pensco has issued 1099s to some AEM investors. Pensco representatives have asked the Receiver to inform those investors who receive 1099s to contact their client service team to determine the source of the interest income.

If you have not discussed amending your prior year tax returns with your tax advisors, we recommend doing so. To support possible conversations with an advisor, your IRA manager, or any other relevant party, the Receiver sent to investors last month, in anticipation of tax season, a letter advising investors that the estimated value of their AEM investments is in the range of 5% to 15% of their face values. This letter is included in this report as Exhibit A. It is also available on the Receiver's website at www.aeminvestors.com/documents.

Pensco

Pensco has asked the Receiver to let investors know they should contact Pensco directly to discuss their accounts. Investors may call their client service team at 800-962-4238 and request that their AEM assets be reviewed in light of the receivership. The Pensco team will create a service request for review and make decisions on an account by account basis. In some instances, Pensco has requested a personalized letter from the Receiver's office confirming the reduced account. If you need such a letter, or other personalized information, please contact our office at AEMreceiver@hamstreet.net or 971-279-5546.

IRA Services

IRA Services issued Form 5498s for 2020 to AEM investors showing an investment balance equal to 30% of face value. IRA Services has informed the Receiver that it will revised these 5498s to reflect a balance equal to 10% of face value. Investors who have required minimum distributions should contact IRA Services directly by emailing Compliance@iraservices.com or by calling 800-248-8447 to request a revised form 5498.

Exhibit A



January 17, 2019

Re: Important Tax Information Concerning Your American Eagle Mortgage Investment

Dear Investor,

On May 10, 2019, the following entities (collectively, the “AEM Pools”) were put into receivership under the supervision of the Superior Court of Washington for Clark County in Case No. 19-2-01458-06 (the “Receivership Proceeding”): American Eagle Mortgage 100, LLC; American Eagle Mortgage 200, LLC; American Eagle Mortgage 300, LLC; American Eagle Mortgage 400, LLC; American Eagle Mortgage 500, LLC; American Eagle Mortgage 600, LLC; American Eagle Mortgage Mexico 100, LLC; American Eagle Mortgage Mexico 200, LLC; American Eagle Mortgage Mexico 300, LLC; American Eagle Mortgage Mexico 400, LLC; American Eagle Mortgage Mexico 500, LLC; American Eagle Mortgage Mexico 600, LLC; American Eagle Mortgage I, LLC; American Eagle Mortgage II, LLC; American Eagle Mortgage Short Term, LLC. By order entered in the Receivership Proceeding on November 22, 2019, all of the AEM Pools were consolidated into a single receivership estate for the purposes of administering and distributing their assets. A copy of this order is available at www.aeminvestors.com/documents.

At this time, the value of your investments in the AEM Pools cannot be precisely determined. The value of the investments in the AEM Pools, however, presently is estimated to be in the range of 5% to 15% of the face value of each such investment.

We urge you to provide a copy of this letter to your tax advisor and to retain this letter with your tax records for your 2019 tax reporting period.

Sincerely,



Clyde Hamstreet
Hamstreet & Associates, General Receiver
American Eagle Mortgage Receiverships