



January 17, 2023

NOTICE OF EVENTS OF DEFAULT, EXECUTION OF FORBEARANCE AGREEMENT AND AMENDMENT THERETO, AND SUBORDINATION OF DEBT IN CONNECTION WITH FORBEARANCE AGREEMENT AND ADDITIONAL LINE OF CREDIT

**\$67,570,000 Public Finance Authority Hospital Revenue Bonds
(Trinity Regional Hospital Sachse)
\$57,615,000 Tax-Exempt Series 2020A-1
\$7,455,000 Taxable Series 2020A-2
\$2,500,000 Subordinate Taxable Series 2020B
(the "Bonds")**

**CUSIP Numbers:¹
74442CCA0 74442CCB8 74442CCC6 74442CCD4**

To All Bondholders and Beneficial Owners of the above-referenced Bonds (collectively, the "Holders"):²

UMB Bank, N.A., (the "Trustee") serves as trustee under the Trust Indenture, as amended, dated as of January 1, 2020 (the "Indenture"), between the Public Finance Authority (the "Issuer") and the Trustee. The proceeds of the Bonds were loaned to the Borrower pursuant to a Loan Agreement, as amended, dated as of January 1, 2020 (the "Loan Agreement"), between the Issuer and Trinity Regional Hospital Sachse LLC (the "Borrower", including Sunland Medical Foundation, Inc. as successor to Trinity Regional Hospital Sachse LLC). Capitalized terms used but not defined herein have the meanings given to them in the Indenture.

The obligations set forth in the Loan Agreement are secured by grants of collateral to the Trustee set forth in certain documents related to the Bonds, including but not limited to: (i) the Loan Agreement, and (ii) that certain Deed of Trust and Security Agreement (With Assignment of Rents and Leases) North Tract, between Borrower, as the Leasehold Mortgagor and BATSU Enterprises, LLC ("BATSU"), as the Fee Mortgagor. The proceeds of the Bonds were used primarily to: (i) finance the costs of design, construction, and equipping of a general acute care hospital with a capacity of 32 beds (the "Project") to be located in the City of Sachse, Texas, (ii) fund capitalized interest, (iii) fund certain funds and accounts, and (iv) finance the cost of issuing the Series 2020 Bonds.

Events of Default and Entry into Forbearance Agreement

As set forth in previously posted documents, certain defaults and Events of Default have occurred under the terms of the Loan Agreement, including: (i) the Borrower's inability to obtain

¹ No representation is made as to the correctness of the CUSIP number either as printed on the Certificates or Bonds referenced above or as contained in this Notice.

² If you are a nominee or a depository participant and not a Beneficial Owner, please forward copies of this Notice immediately to your participants or clients who are Beneficial Owners.

a line of credit agreement of up to \$10,000,000 with Texas Republic Bank, N.A. (the “Bank”) not later than thirty (30) days after the Project commenced operations (which occurred on November 10, 2021); (ii) the Borrower's failure to fund amounts beyond those held in the Construction Fund in order to complete the acquisition, construction, equipping, and installation of the Project and to pay all such Costs of the Project; and (iii) the Borrower’s admission in writing of its inability to pay its debts as they become due. As further set forth in previously posted documents, the Trustee served the Borrower and BATSU with a Notice of Default by letter dated June 10, 2022 (the “Notice of Default”) notifying Borrower and BATSU that Borrower was in default under the Loan Agreement.

As further set forth in previously posted documents, the aforementioned Events of Default resulted in the Trustee, at the direction of the Majority Bondholders, entering into that certain Forbearance Agreement with the Borrower dated January 25, 2022 (the “Forbearance Agreement”), pursuant to which the Trustee agreed to make available to the Borrower up to \$5,000,000 held by the Trustee in order to fund certain working capital needs of the Borrower (“Working Capital Advances”), on terms set forth more fully in the Forbearance Agreement. In addition, the Trustee agreed to forbear from exercising remedies or other rights related to those events of default specified in the Forbearance Agreement for a period of up to 90 days, subject to extension or termination per the terms of the Forbearance Agreement in exchange for certain agreements related to pledged collateral, reporting requirements, and cooperation on the part of the Borrower. A copy of the Forbearance Agreement is available upon request to the Trustee.

As further set forth in previously posted documents, at the direction of the Majority Bondholders, the Borrower and the Trustee amended the Forbearance Agreement effective as of April 25, 2022, pursuant to the First Amendment to Forbearance Agreement (the “First Amendment to Forbearance Agreement”). As a condition of entering into the First Amendment to Forbearance Agreement, the Borrower agreed to enter into a Loan and Security Agreement (the “Line of Credit Agreement”) with Avoue Marchand Investments, Inc. (“Avoue”), an affiliate of BATSU. Under the Line of Credit Agreement, the Borrower was permitted to borrow up to \$5,000,000 from Avoue (the “Avoue Loan”) to fund certain working capital and operating expenses of the Borrower. In connection with the Line of Credit Agreement, the Trustee and Avoue entered into an Intercreditor and Subordination Agreement dated July 26, 2022 (the “Intercreditor Agreement”), pursuant to which the Trustee subordinated (i) payment of the amounts owed to the Trustee to repayment of the Avoue Loan and (ii) the Trustee’s liens in certain Collateral (as defined in the Intercreditor Agreement) (the “Avoue Collateral”), including the Borrower’s accounts, accounts receivable, health care insurance receivables, and other collateral related thereto, to the liens granted to Avoue in such Avoue Collateral. A copy of the Intercreditor Agreement was posted on EMMA on August 11, 2022.

Borrower’s Entry Into Loan Agreement, and Trustee’s Entry Into Intercreditor and Subordination Agreement, with Sandton Capital Solutions Master Fund V, LP

Notwithstanding the Borrower’s entry into the Line of Credit Agreement with Avoue, it needed additional capital for operating purposes, including to pay accruing employee expenses. To fund such amounts, at the direction of the Majority Bondholders, the Trustee borrowed \$500,000 (the “Avoue Advanced Funds”) from Avoue pursuant to that certain Bridge Funding Agreement. The Avoue Advanced Funds were combined with an additional \$500,000 in funds held by the

Trustee, and advanced to the Borrower as a protective advance under the Indenture, which was documented by a Promissory Note dated November 22, 2022 in the amount of \$1,000,000 (the “\$1,000,000 Trustee Advance”). The documents related to the \$1,000,000 Trustee Advance specified that the Borrower anticipated closing a subsequent loan in the amount of \$7,000,000 within the next thirty (30) days, some of the proceeds of which would be used to immediately repay the \$1,000,000 Trustee Advance.

On December 13, 2022, the Borrower entered into a Loan Agreement (“Sandton Loan Agreement”) with Sandton Capital Solutions Master Fund V, L.P (“Sandton”), pursuant to which Sandton agreed to advance up to \$7,000,000 to the Borrower. Five hundred thousand dollars (\$500,000) of this amount was advanced to the Borrower on December [21], 2022 to cover immediate needs. The remaining \$6,500,000 was advanced by Sandton on December 20, 2022. A portion of these proceeds were paid directly to the Trustee and to Avoue at closing to repay the \$1,000,000 Trustee Advance.

Under the Sandton Loan Agreement, Sandton is entitled to the repayment of principal, interest at the rate of 20%, and certain fees including a Facility Fee (as defined in the Sandton Loan Agreement) in the amount of 3% of the amount advanced by Sandton, a Prepayment Fee (as defined in the Sandton Loan Agreement) due in the event of prepayment, and a Guaranteed Yield Fee (as defined in the Sandton Loan Agreement) in the amount of \$2,800,000, minus the Facility Fee, the Prepayment Fee (if any), and interest actually paid by the Borrower during the term of the loan or at maturity. The obligations evidenced by the Loan Agreement are secured by a Security Agreement dated December 13, 2022 (the “Security Agreement”) and a Deed of Trust and Security Agreement (With Assignment of Rents and Leases) dated December 22, 2022 (the “Deed of Trust”), pursuant to which Sandton was granted a first position lien and security interest on substantially all of the Borrower’s property other than the Avoue Collateral and certain equipment leases (in each case Sandton was granted a second priority lien and security interest).

In order to provide Sandton with the lien priorities required as a condition to the Sandton Loan Agreement, at a direction of the Majority Holders, the Trustee entered into that certain Subordination and Intercreditor Agreement dated as of December 13, 2022 (the “Sandton Intercreditor Agreement”). Under the terms of the Sandton Intercreditor Agreement, the Trustee agreed to subordinate payment of the amounts owed on the Bonds to those amounts owed to Sandton pursuant to the Loan Agreement, and also agreed to subordinate its liens to those granted to Sandton pursuant to the Deed of Trust and the Security Agreement. The Trustee also agreed not to consent to certain actions of Sandton in any insolvency case involving the Borrower and to subordinate to Sandton’s exercise of certain remedies.

The funds advanced by Sandton pursuant to the Loan Agreement will allow the Borrower to continue to operate as a going-concern and to provide the Borrower with time to conduct a process to attract a strategic partner, sell its assets, or enter into a restructuring transaction. As part of this process, Sandton and the Trustee agreed in the Sandton Intercreditor Agreement to use reasonable commercial efforts to cooperate with each other and with the Borrower with respect to this process, including the selection of an investment banker and establishing further milestones traditional and customary for a sale transaction. On or around January 4, 2023, the

Borrower hired SC&H Group as its investment banker/broker to lead this process. A copy of the Sandton Intercreditor Agreement is available upon request to the Trustee.

Any holder of the Bonds may contact the Trustee as follows:

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Holders of Bonds should not rely on the Trustee as their sole source of information. The Bond Trustee makes no recommendations and gives no investment advice herein or as to the Bonds generally. The Bond Trustee may conclude that a specific response to particular inquiries from individual Holders is not consistent with equal and full dissemination of significant information to all Holders.

UMB BANK, N.A., as Trustee