Coventree

Consolidated Financial Statements

Third Quarter
June 30, 2012

COVENTREE INC.
CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION

	As at June 30, 2012 *	As at March 31, 2012*
(Unaudited)	$	$
(in thousands of Canadian dollars except per share figures)		
ASSETS		
Cash and cash equivalents	20,245	65,279
Accounts receivable	19	255
Other investments *(note 5)*	—	3,673
Promissory notes *(note 6)*	—	1,562
Other assets	304	204
Income taxes receivable	13	165
	20,581	71,138
LIABILITIES		
Accounts payable and accrued liabilities *(notes 2(b) and 9)*	8,003	10,517
	8,003	10,517
NET ASSETS IN LIQUIDATION	12,578	60,621
NET ASSETS IN LIQUIDATION PER SHARE		
Basic and diluted	0.83	4.00

Contingencies (notes 4 and 11)

* Effective February 15, 2012, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation *(note 2).*

Duff & Phelps Canada Restructuring Inc.,
in its capacity as Liquidator of Coventree Inc.,
and not in its personal capacity.

Per: (signed) Robert Harlang

See accompanying notes to the consolidated financial statements

COVENTREE INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION

For the three months ended June 30, 2012 and the period from February 15 to June 30, 2012 *
(Unaudited)
(in thousands of Canadian dollars except per share figures)

	Three months ended June 30, 2012	**Period from February 15 to June 30, 2012**
	$	**$**
Net assets in liquidation, beginning of period	60,621	61,689
Other interest revenue	118	217
Interest revenue on promissory notes	10	28
Income taxes recovery (expense) *(note 11 (c))*	2	(2,168)
Realized gain on Xceed shares	1,815	1,815
Change in unrealized gain(loss) on Xceed shares	(1,522)	(537)
Net income (loss) for the period	**423**	**(645)**
Net assets in liquidation prior to payment of distributions	**61,044**	**61,044**
Cash distribution paid May 4, 2012 *(note 10)*	(44,500)	(44,500)
In kind distribution paid – Xceed shares – May 4, 2012 *(note 5 and 10)*	(3,966)	(3,966)
Net assets in liquidation as at June 30, 2012	**12,578**	**12,578**
Net income (loss) per share for the period *(note 7)*	**$0.03**	**($0.04)**

* Effective February 15, 2012, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation (note 2).

See accompanying notes to the consolidated financial statements

COVENTREE INC.
CONSOLIDATED BALANCE SHEET

(Unaudited) (in thousands of Canadian dollars)	As at September 30 2011* $
ASSETS	
Cash and cash equivalents	71,031
Accounts receivable	139
Other investments *(note 5)*	2,049
Promissory notes *(note 6)*	3,088
Other assets	237
Income taxes receivable	1,235
	77,779
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities	
Accounts payable and accrued liabilities	3,752
Limited recourse debentures *(note 6)*	3,086
	6,838
Shareholders' equity	
Share capital *(note 7)*	7,035
Contributed surplus	5,375
Accumulated other comprehensive (loss) income	(101)
Retained earnings	58,632
	70,941
	77,779

Contingencies (notes 4 and 11)

* Effective February 15, 2012, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation. The consolidated balance sheet as at September 30, 2011 was prepared on a going concern basis *(note 2)*.

See accompanying notes to the consolidated financial statements

COVENTREE INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands of Canadian dollars except per share figures)

	Three Months Ended June 30, 2011*	Period of October 1, 2011 - February 14, 2012*	Nine Months Ended June 30, 2011*
	$	$	$
REVENUE			
Other interest	232	314	718
Interest on promissory notes *(note 6)*	53	71	158
	285	385	876
EXPENSES			
Compensation and benefits	185	294	615
Other administration	272	2,399	725
Legal and consulting fees related to OSC	31	2,217	2,655
Interest on limited recourse debentures *(note 6)*	52	53	157
	540	4,963	4,152
Net loss for the period	(255)	(4,578)	(3,276)
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on available-for-sale assets	(399)	639	(693)
Comprehensive loss	(654)	(3,939)	(3,969)
Basic and diluted loss per share *(note 7)*	$ (0.02)	$ (0.30)	$ (0.22)

* Effective February 15, 2012, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation. The consolidated statements of operations and comprehensive income (loss) for the three and nine months ended June 30, 2011 were prepared on a going concern basis *(note 2)*.

COVENTREE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period from October 1, 2011 - February 14, 2012 and the year ended September 30, 2011*
(Unaudited)
(in thousands of Canadian dollars)

	Retained Earnings $	Accumulated Other Comprehensive Income (Loss) $	Share Capital $	Contributed Surplus $	Total Shareholders' Equity $
Balance, October 1, 2010	64,379	539	7,035	5,375	77,328
Net loss	(5,744)	—	—	—	(5,744)
Unrealized loss on available-for-sale assets	—	(643)	—	—	(643)
Balance, September 30, 2011	**58,632**	**(101)**	**7,035**	**5,375**	**70,941**
Balance, October 1, 2011	58,632	(101)	7,035	5,375	70,941
Net loss	(4,578)	—	—	—	(4,578)
Unrealized gain on available-for-sale assets	—	639	—	—	639
Balance, February 14, 2012	**54,054**	**538**	**7,035**	**5,375**	**67,002**

* Effective February 15, 2012, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation. The consolidated statements of changes in equity for the period from October 1, 2011 to February 14, 2012 and the nine months ended June 30, 2011 were prepared on a going concern basis *(note 2)*.

See accompanying notes to the consolidated financial statements

COVENTREE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) **(in thousands of Canadian dollars)**	**Three Months Ended June 30***		**Nine Months Ended June 30***	
	2012 **$**	**2011** **$**	**2012** **$**	**2011** **$**
OPERATING ACTIVITIES				
Net income (loss) for the period	423	(255)	(5,223)	(3,276)
Changes in non-cash working capital balances related to operations				
Accounts receivable and other assets	136	(389)	53	(477)
Accounts payable and accrued liabilities	(2,514)	119	4,251	(1,230)
Income taxes receivable	152	21	1,222	19
Promissory notes *(note 6)*	1,562	(18)	3,088	(53)
Other investments *(note 5)*	—	17	—	52
Non-cash liquidation basis accrual	—	—	(5,313)	—
Realized gain(loss) on Xceed shares	(1,815)	—	(1,815)	—
Change in unrealized gain on Xceed shares	1,522	—	537	—
Cash used in operating activities	(534)	(505)	(3,200)	(4,965)
INVESTING ACTIVITIES				
Collection of restricted cash	—	—	—	500
Cash provided by investing activities	—	—	—	500
FINANCING ACTIVITIES				
Repayment of limited recourse debentures *(note 6)*	—	—	(3,086)	—
Distributions paid *(note 10)*	(44,500)	—	(44,500)	—
Cash used in financing activities	(44,500)	—	(47,586)	—
Net decrease in cash and cash equivalents during the period	(45,034)	(505)	(50,786)	(4,465)
Cash and cash equivalents, beginning of period	65,279	71,101	71,031	75,061
Cash and cash equivalents, end of period	20,245	70,596	20,245	70,596
Cash and cash equivalents are comprised of:				
Cash in bank	20,245	493	20,245	493
Short-term investments	—	70,103	—	70,103
	20,245	70,596	20,245	70,596
Supplemental cash flow information				
Interest paid	—	—	—	—

* Effective February 15, 2012, the Company changed the basis of presenting its consolidated financial statements from going concern to liquidation. The adoption of the liquidation basis of presentation did not affect the Company's cash flows.

See accompanying notes to the consolidated financial statements

1. NATURE OF BUSINESS

Coventree Inc. ("Coventree" or the "Company") is in the process of winding up. The winding up commenced and became effective on February 15, 2012 (the "Effective Date"). On that date, the board of directors of the Company was deemed to have resigned, and Duff & Phelps Canada Restructuring Inc. was appointed the liquidator of the Company (the "Liquidator") for the purpose of winding up its affairs. In addition, the Liquidator applied to the Superior Court of Justice (Ontario) - Commercial List (the "Court") to have the winding up supervised by the Court. On February 15, 2012, the Court issued both a winding-up order and a claims procedure order. Under the claims procedure order, any claimant wishing to assert a claim against Coventree, any of its present and former subsidiaries and/or their respective former directors and officers was required to deliver a notice of claim to the Liquidator on or before April 13, 2012. The Liquidator received claims in the amount of at least $10.1 million. The exact amount of the claims is not determinable at this time because a number of claims were filed as placeholders (to secure the claimant's position as a valid claimant) or with currently unknown values.

Coventree's common shares were delisted from NEX once the winding up commenced. As a result, February 14, 2012 was the final day for trading in Coventree's common shares on NEX. On and after February 15, 2012, all transfers in Coventree's common shares are void unless made with the explicit prior sanction of the Liquidator. The Liquidator will not sanction any share transfers unless, in the opinion of the Liquidator, material extenuating circumstances exist. Notwithstanding the foregoing, the Liquidator maintains and reserves the right not to sanction any share transfer regardless of the circumstances.

The Company was incorporated under the laws of the Province of Ontario and was a specialized financial intermediary that, prior to the disruption in the Canadian asset-backed commercial paper ("ABCP") market that occurred commencing August 13, 2007, provided structuring and funding solutions for clients using special purpose trusts established by the Company and funded by ABCP. However, as a result of that disruption in the Canadian ABCP market, the Company discontinued operations.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Change in basis of presentation

In accordance with IAS 1, *Presentation of Financial Statements*, the Company changed the basis of preparing its consolidated financial statements from going concern to liquidation, effective February 15, 2012. As a result, these interim consolidated financial statements have been prepared using the liquidation basis of accounting. This basis of presentation differs from the presentation adopted in the Company's December 31, 2011 interim consolidated financial statements prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") on a going concern basis, and previous consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going concern basis. The impacts of the change in basis of preparation on the Company's consolidated financial statements are described in the following sections.

These interim consolidated financial statements are in accordance with IAS 34 on a liquidation basis and were authorized for issuance by the Liquidator on August 28, 2012.

(b) Liquidation basis of accounting

Under the liquidation basis of accounting, the Company's financial position is presented in the consolidated statement of net assets in liquidation and the results of the Company's operations are presented in the consolidated statement of changes in net assets in liquidation. All assets and liabilities are measured at their net realizable values. Costs expected to be incurred during the winding up, including administrative costs and professional fees expected to be incurred in future periods until the winding up of the Company is completed, have been accrued in the consolidated statement of net assets in liquidation. Provisions for contingent liabilities are accrued when the probability of loss is more likely than not. Contingent assets are not accrued unless receipt is virtually certain.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Use of estimates

The preparation of financial statements under the liquidation basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Different assumptions could significantly affect these estimates. Accordingly, the estimated net realizable values of the assets and liabilities may differ from the actual values received or settled in the winding up, and the estimates of future costs expected to be incurred may differ from those actually incurred during the winding up. The primary areas of measurement uncertainty include accruals for the costs expected to be incurred during the winding up *(note 9)* and contingencies *(note 11).*

(d) Comparative periods

The comparative period as at September 30, 2011 and for the three and nine months ended June 30, 2011 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards ("IFRS") going concern accounting policies disclosed in the December 31, 2011 interim consolidated financial statements.

3. TRANSITION TO IFRS

The Company has adopted IFRS effective October 1, 2011 with a transition date of October 1, 2010. Prior to the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has impacted the Company's consolidated financial statements is set out in the following notes. All periods presented prior to February 15, 2012 were prepared on a going concern basis.

3. TRANSITION TO IFRS (continued)

a. Reconciliation of equity as reported under Canadian GAAP to IFRS

The following table provides a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at June 30, 2011:

(in thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Contributed Surplus	Total Shareholders' Equity
As reported under Canadian GAAP, June 30, 2011	60,949	—	7,035	5,375	73,359
Adjustments:					
Other investments available-for-sale (i)	154	(154)	—	—	—
As reported under IFRS, June 30, 2011	61,103	(154)	7,035	5,375	73,359

(i) Under IFRS, other investments are classified as available-for-sale with accumulated unrealized gains and losses, other than impairment losses, recorded in accumulated other comprehensive income (loss). Under Canadian GAAP, other investments were classified as held-for-trading under the fair value option with accumulated unrealized gains and losses recorded in retained earnings.

b. Reconciliation of comprehensive income (loss) as reported under Canadian GAAP to IFRS

The following table provides a reconciliation of the Company's comprehensive loss reported in accordance with Canadian GAAP to its total comprehensive loss in accordance with IFRS for the three months and nine months ended June 30, 2011:

	Three months ended June 30, 2011			Nine months ended June 30, 2011		
(in thousands of Canadian dollars)	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue	285	—	285	876	—	876
Expenses	540	—	540	4,152	—	4,152
Unrealized gain (loss) from financial instruments (ii)	(399)	399	—	(693)	693	—
Net income (loss)	**(654)**	**399**	**(255)**	**(3,969)**	**693**	**(3,276)**
Other comprehensive income (loss) (ii)	—	(399)	(399)	-	(693)	(693)
Comprehensive loss	**(654)**	—	**(654)**	**(3,969)**	—	**(3,969)**

(ii) Under IFRS, unrealized losses (other than impairment losses) on other investments, which are classified as available-for-sale, are recorded in other comprehensive income (loss). Under Canadian GAAP, unrealized losses on other investments, which were classified as held-for-trading under the fair value option, were recorded in net loss for the period.

4. ONTARIO SECURITIES COMMISSION PROCEEDING

On December 7, 2009, Ontario Securities Commission ("OSC") staff commenced a proceeding against the Company and one current and one former officer. In the notice of hearing and statement of allegations (the "Notice of Hearing"), OSC staff alleged that Coventree and one current and one former officer breached Ontario securities laws and acted in a manner that is contrary to the public interest by (a) failing to make full, true and plain disclosure in its IPO prospectus by not disclosing that Dominion Bond Rating Service Limited ("DBRS") had adopted more restrictive credit rating criteria for ABCP in November 2006; (b) failing to meet its continuous disclosure obligations by not disclosing that DBRS' decision (the "DBRS January Release") in January 2007 to change its credit rating methodology resulted in a material change to Coventree's business or operations; (c) making misleading statements in April 2007 by failing to provide investors with a breakdown of the total U.S. subprime exposure in Coventree-sponsored ABCP conduits by conduit and ABCP note series; and (d) failing to meet its continuous disclosure obligations by not disclosing liquidity and liquidity-related events and the risk of a market disruption in the days leading up to the market disruption on August 13, 2007. The hearing into the merits of the matters set out in the Notice of Hearing commenced on May 12, 2010 and ended on December 9, 2010, and the OSC released its decision on September 28, 2011. The OSC dismissed the first and third allegations set out above. With respect to the second allegation, the OSC concluded that the Company contravened section 75 of the *Securities Act* (Ontario) (the "Act") by failing to issue a news release and file a material change report disclosing the material change that occurred as a result of the DBRS January Release. With respect to the fourth allegation, the OSC concluded that the Company contravened section 75 of the Act by failing to issue a news release and file a material change report disclosing various material changes that occurred by August 1, 2007. The OSC further found that each of the individuals involved authorized, permitted or acquiesced in the Company's non-compliance referred to above and therefore were deemed also to have not complied with Ontario securities law. Finally, the OSC found that the conduct of each of the Company and the two individuals was contrary to the public interest. The hearing to determine what, if any, sanctions ought to be issued against the Company and the two individuals was held on October 26 and 27, 2011. On November 8, 2011, the OSC issued a sanctions order in connection with the matter. Among other things, the OSC ordered the Company to pay an administrative penalty of $1 million and to pay $250,000 of the costs incurred by OSC staff in connection with the hearing. The Company paid these amounts to the OSC in January 2012. The OSC also ordered that each of the two individuals pay an administrative penalty of $500,000 and did not restrict the ability of the individuals to seek indemnification by the Company for these payments. Although the Company has decided not appeal the OSC's decision, the two individuals have appealed.

Prior to adopting the liquidation basis of accounting on February 15, 2012, expenses relating to the OSC staff's investigation and to the defence of the proceeding commenced by the Notice of Hearing were expensed as incurred. In the quarter ended September 30, 2011, the Company recorded a provision in respect of OSC sanctions in the amount of $2.25 million, being the sum of the administrative penalties payable by the Company and the two individuals plus the costs payable by the Company, in each case, pursuant to the sanctions order referred to above. For the three and nine months ended June 30, 2012, the Company expensed nil and $2.2 million, respectively, (2011 – Nil and $2.6 million) in legal and consulting fees related to the OSC proceeding. These expenses include nil and $1.1 million, respectively, (2011 – nil and $0.3 million) in fees to the members of the Special Committee established to oversee the Company's response to the OSC proceeding *(note 11(a))*.

5. OTHER INVESTMENTS

As at June 30, 2012, other investments have a value of nil (September 30, 2011- $2.0 million). Prior to May 4, 2012, other investments included Xceed shares; however, all of the Xceed shares (2,661,449 shares) owned by the Company were distributed to shareholders on May 4, 2012 *(note 10)*.

Additional other investments with a cost of $0.3 million (September 30, 2011 - $0.3 million) are impaired and valued at nil (September 30, 2011 - nil).

6. PROMISSORY NOTES AND LIMITED RECOURSE DEBENTURES

In 2004, the Company borrowed $7.0 million from VentureLink Financial Services Innovation Fund Inc. and VentureLink Diversified Income Fund Inc. (together, “VentureLink”). These borrowings were evidenced by limited recourse debentures that bore interest at a rate of 9% per annum, with 6% payable annually and 3% deferred until maturity, and that matured on December 31, 2011. The Company loaned the $7.0 million to companies owned by certain shareholders, Geoffrey Cornish and Dean Tai, and were evidenced by promissory notes that also matured on December 31, 2011. The interest rate payable on the promissory notes was 9.01% per annum, with 6% payable annually and recorded in accounts receivable, and 3.01% deferred until maturity and recorded in promissory notes. One million common shares in the aggregate, owned by the respective companies of the shareholders, were pledged as security for the promissory notes. The Company granted its rights to these pledged shares as security to the lenders of the limited recourse debentures. On January 9, 2007, the shareholders’ companies repaid a total of $4.7 million in respect of the amounts owing under the promissory notes, and the Company repaid the same amount in respect of the amounts owing under the limited recourse debentures. After such payment, the outstanding balance of such debentures was $2.3 million.

On December 31, 2011, the Company repaid the remaining balance of the limited recourse debentures to VentureLink and extended the maturity date of the promissory note receivable from Mr. Cornish’s company to March 31, 2012. However, no such extension was granted in respect of the promissory notes owed by Mr. Tai’s companies and the loans evidenced by such notes went into default. The amount of these loans was $1.62 million as at December 31, 2011. In order to recover the amounts owing, the board of directors of Coventree authorized the sale in the market of the 500,000 shares of Coventree pledged by Mr. Tai’s companies as security for those loans. On February 2, 2012, approximately 456,000 shares were sold at an average price of $3.89 per share and, as a result, the Company has recovered the amounts owing in respect of the defaulted loans. The remaining 44,000 shares pledged to Coventree were returned to the pledgors.

On March 29, 2012, the Company agreed to extend the maturity date of the promissory note receivable from Mr. Cornish’s company to the earlier of June 30, 2012 and the date on which any distribution is made on Coventree’s common shares. On May 4, 2012, Mr. Cornish’s company repaid in full the promissory note receivable out of the portion of the initial distribution paid by Coventree on that date and received by it *(note 1)*.

7. SHARE CAPITAL

Authorized
Common shares – an unlimited number of shares

	September 30 2011 $
Issued and Outstanding	
15,157,138 common shares ($ in thousands)	7,035

On May 4th, the Company distributed $0.46/share as a return of capital totalling $6.9 million *(note 1).*

Earnings (loss) per share	Three months ended June 30, 2012	Period from February 15 to June 30, 2012	Three months ended June 30, 2011	Nine months ended June 30, 2011
Basic and diluted				
Net income (loss) for the period (in thousands)	$ 423	$ (645)	$ (255)	$ (3,276)
Weighted average number of common shares (units)	15,157,138	15,157,138	15,157,138	15,157,138
Basic and diluted loss per share	$ 0.03	$ (0.04)	$ (0.02)	$ (0.20)

8. RELATED PARTY TRANSACTIONS

Related party transactions consist of the following:

	As at June 30	As at September 30	Three months ended June 30	
	2012	2011	2012	2011
(in thousands)	$	$	$	$
Promissory notes receivable *(note 6)*	—	2,333		
Interest on promissory notes *(note 6)*	—	755	10	52

All related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The compensation for key management personnel for the three and nine months ended June 30, 2012 was $0.1 million and $0.4 million, respectively compared to $0.2 million and $0.5 million for the same period in previous year.

On May 4, 2012, the promissory note receivable that was outstanding as at March 31, 2012 was repaid in full (*note 6*).

9. ACCRUAL OF ESTIMATED LIQUIDATION AND ADMINISTRATIVE COSTS

Included in accounts payable and accrued liabilities as at June 30, 2012 is $3.2 million of accrued costs expected to be incurred during the winding up, including liquidator fees, legal fees, management compensation, administrative costs, and provisions related to contingent liabilities that are more likely than not to occur. This accrual represents management's current best estimate as of June 30, 2012 of the total future costs expected to be incurred during the winding up from the date on which the winding up commenced of the Company. Management has estimated the costs of the winding up based on an expected timeframe of two years. Actual costs of the winding up may differ from the current estimate.

(in thousands)	Three months ended June 30, 2012 $
(Recovered)/Expensed in period	
Administration expenses	—
Compensation expenses	—
Legal fees	—
Liquidator and inspector fees	—
	—
Paid in period	
Administration expenses	(102)
Compensation expenses	(130)
Legal fees	(364)
Liquidator and inspectors fees	(265)
	(861)
Liquidation and Administrative Costs Accrual	
Balance, March 31, 2012	4,065
Balance, June 30, 2012	**3,204**

10. INTERIM DISTRIBUTION

On April 30, 2012, the Court issued an order pursuant to an application made by the Liquidator approving an interim pro rata distribution to Coventree shareholders comprised of $44.5 million in cash and all of the 2,661,449 shares of Xceed Mortgage Corporation ("Xceed") that were owned by Coventree. That distribution took place on May 4, 2012. The cash component of the distribution was approximately $2.94 per share and included a return of capital in the amount of $0.46 per share. The Xceed shares were valued at $1.49 per share for purposes of the distribution, and Coventree shareholders received approximately 0.175 shares of Xceed (with a value of about $0.26) for each share of Coventree held. As a result, the total value of the interim distribution to Coventree shareholders was approximately $3.20 per share.

11. CONTINGENCIES

(a) Under the sanctions order dated November 8, 2011 issued by the OSC in connection with the proceeding against the Company described in note 4, the OSC ordered the Company to pay an administrative penalty of $1 million and to pay $250,000 of the costs incurred by OSC staff in connection with the hearing. The OSC also ordered that each of the two individuals that were also parties to the OSC proceeding pay an administrative penalty of $500,000 and did not restrict the ability of the individuals to seek indemnification by the Company for these payments. The Company decided not appeal the OSC's decision and, accordingly, paid the $1.0 million administrative penalty and $250,000 costs award imposed against it by the OSC in January 2012. Both of the individuals that were also parties to the OSC proceeding have appealed the OSC's decision. The Company has entered into an agreement with one of such individuals, Geoffrey Cornish, to limit the amount of legal fees and other costs related to such appeal for which the Company is responsible

11. CONTINGENCIES (continued)

under its indemnity agreement with him and to otherwise ensure that the interests of Coventree are not prejudiced by such appeal. Mr. Cornish has agreed that the Company's liability to indemnify him for legal expenses and other costs or awards arising from the appeal will be limited to $725,000 plus applicable taxes. There is no similar agreement with the other individual, Dean Tai. In accordance with its obligations under indemnity agreements made between the Company and Messrs. Cornish and Tai, the Company is required to indemnify them against the administrative penalty to be paid by them if their appeal is unsuccessful.

Expenses relating to the OSC staff's investigation and to the defence of the proceeding commenced by the Notice of Hearing have been expensed as incurred. In the quarter ended September 30, 2011, the Company recorded a provision in respect of OSC sanctions in the amount of $2.25 million, being the sum of the administrative penalties payable by the Company and the two individuals plus the costs payable by the Company, in each case, pursuant to the sanctions order referred to above.

(b) On October 14, 2011, the Company announced that Dean Tai ("Tai") and certain corporations affiliated with him had commenced proceedings against Coventree and Coventree's transfer agent, Equity Financial Trust Company, in the Superior Court of Justice (Ontario) (the "Court"). Tai is a former CEO and director of Coventree and currently owns or controls, directly or indirectly, approximately 22% of the outstanding common shares of Coventree. The claim relates to the cancellation in April 2009 of 736,522 common shares of Coventree that were issued to him under Coventree's 2005 Share Allocation Plan (the "Tai SAP Shares"). Following the termination of Tai's employment with Coventree in February 2009, the independent directors of Coventree conducted a review of the circumstances surrounding the issuance of those shares. As a result of that review, the independent directors determined that the shares were not validly issued and Coventree cancelled those shares. In his statement of claim, Tai asserts that, in cancelling the Tai SAP Shares, Coventree acted in a way that was oppressive. Tai seeks damages equal to the value of 736,522 common shares of Coventree, to be valued at the greater of (a) their highest share price between April 15, 2009 and the date of trial and (b) the amount Tai would have received in distributions if the shares had been held through the winding up, plus prejudgement interest and costs. Coventree believes that the claim has no merit.

(c) In July 2010, Canada Revenue Agency ("CRA") advised the Company that, following a review of tax filings previously made by one of its subsidiaries in respect of 2007, it proposed to disallow certain deductions taken by that subsidiary. Management provided CRA with additional support for the subsidiary's filing position; however, in March, 2012 CRA advised that it still did not agree with the subsidiary's filing position and in April 2012 issued a notice of reassessment stating that the subsidiary had a net balance owing of approximately $1.1 million, comprised of net additional tax of approximately $0.8 million plus interest of approximately $0.3 million. In order to prevent interest from continuing to accrue on the unpaid balance, the Company paid the full amount of the balance owing in April 2012. Management continues to believe that the subsidiary is entitled to the deductions previously taken by it but in respect of 2009, not 2007, and accordingly is considering refiling the subsidiary's 2009 tax filings to reflect such deductions. If the Company is able to establish that its subsidiary was entitled to those deductions in 2009, the Company would recover approximately $2.2 million in taxes plus approximately $0.3 million in interest previously paid to CRA. However, since CRA has no obligation to accept any refiling by the subsidiary in respect of 2009, there can be no assurance that the Company's subsidiary will be able to recover the tax and interest amounts described above. In the interim, the Company recorded a total of $2.2 million in income tax expense in the period from February 15 to March 31, 2012, of which $1.1 million was recorded as a write-off of income taxes receivable and $1.1 million was recorded as accrued income taxes payable.

In August 2012, CRA informally advised the Company that it may not have been entitled to certain input tax credits ("ITCs") previously claimed by the Company in its GST/HST filings. Under the applicable legislation, a taxpayer cannot claim ITCs if it has ceased to carry on commercial activity. CRA has not yet advised the Company when it believes the Company ceased to carry on commercial activity for GST/HST purposes. Although the Company does yet know how much, if any, ITCs will be assessed by CRA, the Company believes that such amount plus interest will be less than the $2.0 million provision recorded by the Company during the period from January 1 to February 14, 2012 included in other administration expenses.

11. CONTINGENCIES (continued)

(d) The Company may be able to recover certain costs and expenses incurred in connection with matters relating to the Notice of Hearing. A directors' and officers' liability insurance policy held by the Company provides coverage to a limit of $10 million with a retention of $500,000 for securities claims and $250,000 for any other claim. The Company believes the coverage limit for acts prior to October 17, 2007, the relevant time period with respect to matters contained in the Notice of Hearing, is $5 million. The Company notified Navigators Pro (the "insurer") of a claim under its policy for coverage for Coventree and the individuals named in the Notice of Hearing. The insurer took the position that it had no obligation under the policy to provide coverage in the circumstances of the Notice of Hearing. In October 2010, the Company commenced proceedings in the Superior Court of Justice (Ontario) (the "Court") against the insurer in respect of its claim under the policy, and the Court ruled on September 13, 2011 that the policy was operative and must respond to the claim made by Coventree for coverage under that policy. The insurer appealed that decision to the Ontario Court of Appeal. On May 24, 2012, the Ontario Court of Appeal released its decision in which it affirmed the decision of the Court below. On or about June 15, 2012, Navigators Pro filed an application seeking leave to appeal the Ontario Court of Appeal's decision to the Supreme Court of Canada. Further, the insurer has taken the position that, even if the policy does apply, the Company may not be entitled to judgment for the full $5 million in coverage available under the policy. Until both the appeal and the issue relating to the amount of coverage available to the Company under the policy have been finally resolved, there can be no assurance regarding when the insurer will pay nor as to whether Navigators Pro will be liable to provide coverage at all. As a result, the outcome of this claim is not determinable at this time and no amount has been recorded in the financial statements.