
**Second Report to the
Shareholders of Coventree Inc. by
Duff & Phelps Canada
Restructuring Inc. as Liquidator of
Coventree Inc.**

January 17, 2014

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**IN THE MATTER OF THE WINDING-UP OF
COVENTREE INC.**

**SECOND REPORT TO THE SHAREHOLDERS OF COVENTREE INC.
BY DUFF & PHELPS CANADA RESTRUCTURING INC.
AS LIQUIDATOR OF COVENTREE INC.**

JANUARY 17, 2014

1.0 Executive Summary

The voluntary winding-up of Coventree Inc. ("Coventree" or the "Company") commenced on February 15, 2012 ("Effective Date"), at which time Duff & Phelps Canada Restructuring Inc. ("D&P") was appointed liquidator ("Liquidator") of Coventree.

On February 6, 2013, the Liquidator issued its first report to the shareholders of Coventree ("First Report"), with information up to January 15, 2013. This report ("Report") summarizes the activities of Coventree's wind-up from January 16, 2013 to November 30, 2013 ("Reporting Period").

1.1 Creditor Claims Process

A claims process was established for creditors to assert claims against Coventree by April 13, 2012. Pursuant to the claims process, various claims were submitted to the Liquidator. During the Reporting Period, one group of claims was resolved. As of the date of this Report, there are two groups of claims that remain unresolved.

1.2 Funds on Hand

As at November 30, 2013, the Company had approximately \$11.6 million in cash or cash equivalents. These funds are being reserved to cover resolved unpaid claims, unresolved claims and estimated future costs.

All amounts in this Report are stated in Canadian dollars.

1.3 Outstanding Matters

The matters that currently remain outstanding are:

- Discharging resolved unpaid claims;
- The unresolved claim in the amount of \$5 million; and
- Completion of final tax returns and resolution of the Company's tax refund claim.

2.0 Background

On June 30, 2010, Coventree's shareholders passed a special resolution approving, among other things: a) the voluntary winding-up of Coventree pursuant to Section 193 of the Ontario *Business Corporations Act* ("OBCA") at a time to be determined by the directors of Coventree; and b) a plan of liquidation and distribution substantially in the form attached to such special resolution.

On January 23, 2012, the Company's board of directors adopted a finalized plan of liquidation and distribution (the "Liquidation Plan") substantially in the form approved by the special resolution passed by the shareholders. D&P is the liquidator named in the Liquidation Plan.

By resolution of Coventree's board of directors, February 15, 2012 was determined to be the Effective Date of the Liquidation Plan.

Pursuant to Section 4.3(k) of the Liquidation Plan, the Liquidator made an application to the Court under Section 207 of the OBCA for orders:

- To have the winding-up of Coventree supervised by the Court (the "Winding-Up Order"); and
- Establishing a Claims Process (the "Claims Procedure Order").

On February 15, 2012, the Court made the Winding-Up Order and the Claims Procedure Order.

The Company's shares (the "Common Shares"), of which 15,157,138 are outstanding, had been listed on the NEX. On February 14, 2012, the Common Shares ceased trading as the NEX would not consent to their continued trading after the Effective Date.

This is the second report of the Liquidator pursuant to Section 201(2) of the OBCA.

During the first year of Coventree's winding up, the Liquidator made two distributions to shareholders, which, in total, amounted to \$3.78 per share, as follows:

Return of capital – cash	\$.46
Taxable dividend – cash	3.06
Taxable dividends – in-kind shares of Xceed Mortgage Corporation	<u>.26</u>
	<u>\$ 3.78</u>

More detailed background information on the Company, including its dealing with the Ontario Securities Commission ("OSC"), is contained in the Liquidator's reports to Court filed in the winding-up proceedings. Copies of the materials filed with the Court as well as the Company's press releases are posted on the Liquidator's website at <http://www.duffandphelps.com/intl/en-ca/Pages/RestructuringCases.aspx>.

2.1 Definitions

All capitalized terms used in this Report that are not otherwise defined shall have the meanings ascribed to such terms in the Liquidation Plan.

2.2 Restrictions

In preparing this Report, the Liquidator has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records and discussions with the Company's representatives and legal counsel. The Liquidator has not performed an audit of such information. The Liquidator expresses no opinion or other form of assurance with respect to the accuracy of any financial information relied upon by the Liquidator.

3.0 Inspectors

Pursuant to the Liquidation Plan, the Company's directors were deemed to have resigned on the Effective Date and each of Messrs. Brendan Calder, Geoffrey Cornish and Wesley Voorheis were appointed inspectors of the Company's liquidation pursuant to Section 194 of the OBCA. Messrs. Calder and Cornish subsequently resigned their position and were replaced by Messrs. William Aziz and Joseph Wiley. Accordingly, the inspectors currently consist of Messrs. Voorheis, Aziz and Wiley (the "Inspectors") as provided for under Section 6.5 of the Liquidation Plan. The main function of the Inspectors is to manage and administer the claim and litigation in connection with the SAP Shares (as defined in Section 4.2).

4.0 Claims Process

Pursuant to the Claims Procedure Order, creditors ("Claimants") wishing to assert a claim ("Claim") were required to deliver a written notice of such on or before April 13, 2012.

The First Report outlined the claims procedure and summarized the three categories of unresolved claims that then existed. No additional claims have been filed. Set out below is a summary of the remaining unpaid and unresolved claims.

4.1 Resolved Unpaid Claims

Pursuant to employment agreements with the Company, Messrs. Dean Tai and Geoffrey Cornish and Ms. Ani Hotoyan-Joly are to receive termination payments upon the completion of Coventree's winding up. The total owing in respect of these termination payments is \$1,175,000.

4.2 Unresolved Claims

There are two Claims to be resolved, as summarized below:

1. A Claim in the amount of \$5 million by Mr. Tai and certain corporations affiliated with him related to Court proceedings against Coventree and Coventree's transfer agent, Equity Financial Trust Company, commenced on October 14, 2011. The claim relates to the Company's decision in April, 2009, to cancel 736,522 Common Shares ("SAP Shares") that were issued to Mr. Tai under Coventree's 2005 Share Allocation Plan. More information with respect to this claim was provided in Section 6.1 of the Liquidator's First Report to Court dated February 7, 2012 and Section 6.1 of the Liquidator's Second Report to Court dated April 20, 2012 ("Second Report").

Pursuant to Section 4.3(a) of the Liquidation Plan, the Inspectors resolved to oversee and manage the administration of Mr. Tai's claim in connection with the SAP Shares and all related litigation. On February 27, 2012, the Inspectors also resolved to have Mr. Tai's claim in connection with the SAP Shares determined in the context of the proceedings already commenced by Mr. Tai against the Company, as permitted by the Claims Procedure Order.

The litigation is in the documentary discovery stage. A trial date has yet to be scheduled, and is not likely to occur prior to mid-2014.

2. Claims of Canada Revenue Agency ("CRA") against the Company and two of its subsidiaries, being Coventree Capital Inc. ("CCI") and Coventree Holdings Inc. ("CHI"), related to sales, payroll and income taxes. Since the Effective Date, the Company has paid assessed sales and income taxes and interest thereon, totalling approximately \$3.25 million in respect of Coventree, CHI and CCI.

With respect to CCI, the Company paid \$1.1 million to CRA in order to avoid further interest accruing on such claimed amount. Coventree reviewed the nature of the deductions and, reflecting what it believes to be the appropriate period to take the deductions, subsequently amended and refiled CCI's income tax return for fiscal 2009 with such deductions ("CCI Return") and is claiming a refund of approximately \$2.2 million.

On December 30, 2013, CRA advised that it would be denying the Company's deductions claim as refiled, but would allow the deductions as a capital loss; this has the effect of CCI not being entitled to the refund. The Company is considering whether it will continue to pursue its claim for this refund.

The Liquidator has received clearance certificates in respect of the Company's GST and HST accounts. The Liquidator does not anticipate there will be any further amounts owing to CRA with respect to either income taxes or payroll taxes; however, there can be no certainty that there will be no further payroll or income tax amounts owing until CRA issues clearance certificates. Clearance certificates for the Company's income tax accounts and payroll deductions accounts will be sought upon the resolution of the SAP Shares claim.

5.0 Statement of Receipts and Disbursements

As set out in the First Report, Coventree had approximately \$13.7 million in cash or cash equivalents as at January 15, 2013. Set out as Appendix "A" is a statement of receipts and disbursements ("R&D") for the period from January 16, 2013 to November 30, 2013. As at November 30, 2013, the Company had cash and cash equivalents of approximately \$11.6 million.

The R&D reflects, among other things, the following:

- Receipts of \$232,000 including interest income of \$120,000;
- Payment of the \$1 million penalty assessed against Messrs. Cornish and Tai by the OSC. In the First Report, this was one of the unresolved claims. All legal proceedings with respect to the penalties imposed by the OSC have been completed;
- Payment of professional fees in respect of litigation totalling approximately \$367,000; and
- Payment of professional and Inspector fees totalling approximately \$266,000.

6.0 Remaining Assets and Liabilities

In addition to the \$11.6 million of cash on hand, there is a possibility of recoveries of up to \$2.2 million in the aggregate from the Company's refiling of the CCI Return.

The following summarizes the Company's reserves:

	(\$million)
Cash on hand	11.6
Less:	
Resolved and Unresolved Claims	6.2
Provision for professional fees, expenses and cost awards	1.5
Provision for operating and other costs	.8
Contingency	3.1
	11.6
Net amount currently available for distribution	-

Until the SAP Shares litigation is resolved, the Inspectors and the Liquidator do not anticipate making any further distributions to shareholders.

7.0 Next Steps

Completion of the Company's winding-up and the making of a final distribution to shareholders is subject to the following:

- A final determination or resolution of the SAP Shares claim;
- The filing of all final tax returns;
- Receipt of clearance certificates regarding the Company's tax accounts (other than its sales tax accounts which have been cleared by CRA); and
- Court approval of a final distribution, the Liquidator's discharge and the ultimate dissolution of the Company.

* * *

All of which is respectfully submitted,

Duff & Phelps Canada Restructuring Inc.

**DUFF & PHELPS CANADA RESTRUCTURING INC.
IN ITS CAPACITY AS LIQUIDATOR OF COVENTREE INC.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

Coventree Inc.**Statement of Receipts & Disbursements**

For the Period January 16, 2013 to November 30, 2013

(\$; unaudited)

Opening Bank Balance - January 16, 2013	13,735,608
Receipts:	
Interest income	147,514
Note repayment	86,714
Total Receipts	234,228
Disbursements:	
Indemnification of officers for OSC penalties, including interest	1,033,538
Legal fees ⁽¹⁾	474,305
Operating expenses	290,616
Income taxes	247,842
Compensation expenses	107,907
Liquidator fees	95,798
Inspector fees	62,958
Consulting expenses	13,690
Total Disbursements	2,326,654
Bank Balance - November 30, 2013	11,643,182

(1) Legal fees includes:

Bennett Jones LLP (litigation)	6,703
Davies Ward Phillips & Vineberg LLP (counsel to Coventree and Liquidator)	107,014
Adair Morse LLP (litigation)	5,073
Thornton Grout LLP (litigation)	41,348
Goodmans LLP/Lenczner Slaght LLP (OSC appeal)	98,466
Stockwoods LLP (Litigation/OSC appeal)	214,581
Other (litigation)	1,120
	474,305