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

February 6, 2013

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

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

FEBRUARY 6, 2013

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. The following summarizes the Liquidator's acts and dealings and the manner in which the winding-up has been conducted to date.

1.1 Distributions to Shareholders

To date, the Liquidator has made two distributions to shareholders, both approved by the Ontario Superior Court of Justice – Commercial List ("Court"), as follows:

1.1.1 First Interim Distribution

The first interim distribution was made on May 4, 2012, totalling approximately \$3.20 per share, consisting of:

| | |
|---|---------|
| Return of capital – cash | \$.46 |
| Taxable dividend – cash | 2.48 |
| Taxable dividend – in-kind shares of Xceed Mortgage Corporation | .26 |
| | \$ 3.20 |

1.1.2 Second Interim Distribution

The second interim distribution was a taxable cash dividend made on January 15, 2013, of \$0.58 per share.

1.2 Creditor Claims Process

A creditor claims process was established requiring a creditor to assert its claim by April 13, 2012. Pursuant to the claims process, various claims were submitted to the Liquidator. As of the date of this report, there are three groups of claims that remain unresolved.

1.3 Recoveries

Since February 15, 2012, the major recoveries have been collection of the loan receivable (approximately \$1.6 million) and of the claim against the Company's Directors' and Officers' insurer (\$5.3 million).

1.4 Funds on Hand

As at January 15, 2013, the Company had approximately \$13.7 million in cash or cash equivalents. These funds are being reserved to cover claims that have been asserted, potential tax liabilities and anticipated future costs.

1.5 Outstanding Matters

The matters that currently remain outstanding are:

- The unresolved claims in the amount of \$7.9 million; and
- Completion of tax returns and resolution of tax claims.

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 ("Liquidator").

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 first report of the Liquidator pursuant to Section 201(2) of the OBCA.

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 www.duffandphelps.com/restructuringcases.

2.1 Definitions

All capitalized terms used in this report (“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 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 positions and were replaced by Messrs. William Aziz and Joseph Wiley (together with Mr. Voorheis, the “Inspectors”) as provided for under Section 6.5 of the Liquidation Plan. None of the Inspectors are shareholders of the Company.

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 (“Claim Notice”) of such on or before April 13, 2012 (the “Claim Bar Date”).

In accordance with the Claims Procedure Order, the Liquidator reviewed all Claim Notices filed on or before the Claim Bar Date, to determine, with the approval of the Inspectors, whether to allow, partially allow, partially disallow or disallow each particular Claim and to deliver to each Claimant a written notice of such determination (“Notice of Determination of Claim”) setting out the reasons for the determination as soon as reasonably practicable.

The Liquidator responded to all Claim Notices and issued Notices of Determination of Claim wherever possible. A list of the Claim Notices and a summary of the status of such Claims, including their balances (estimated for certain Claims) or the applicable reserves established by the Liquidator (“Claim Listing”), is provided in Appendix “A”. No Claim Notices have been received subsequent to the Claim Bar Date. Certain Claims, or portions thereof, have been paid since the Claim Bar Date, with the approval of the Inspectors.

4.1 Unresolved Claims

As referenced in the Claim Listing, there are three categories of Claims to be resolved, as summarized below:

1. The claims of the OSC against Messrs. Cornish and Dean Tai, both former Chief Executive Officers and directors of the Company, and the corresponding indemnity claims of Messrs. Cornish and Tai against the Company. The claims arise out of the OSC’s decision released on September 28, 2011 and the OSC’s sanction order released on November 8, 2011, requiring, among other things, that each of Messrs. Cornish and Tai pay an administrative penalty of \$500,000 to the OSC (“OSC Penalty”). Messrs. Cornish and Tai appealed the OSC decision (“Appeal”). Pursuant to certain agreements, Messrs. Cornish and Tai are being indemnified by Coventree for their costs associated with the appeal, subject to certain conditions, and, to the extent the appeals are unsuccessful, for the penalties payable by them arising from the OSC’s decision.

The Appeal was heard by the Ontario Divisional Court on October 23 and 24, 2012; a decision is pending. More information with respect to these claims was provided in Section 2.3 of the Liquidator’s First Report to Court dated February 7, 2012 (“First Report”).

-
2. 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 First Report 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 Company is awaiting Mr. Tai's reply to the Company's statement of defence, which would close the pleadings stage of the litigation. The Company and Mr. Tai will then attend to discoveries.

3. 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. CRA filed six provisional claims of \$1 each, subject to amendment upon completion of one or more audits. CRA also filed a claim of approximately \$1.1 million against CCI ("CCI Claim") for expenses deducted by CCI in fiscal 2007 and disallowed by CRA.

With respect to the CCI Claim, the Company paid \$1.1 million to CRA in order to avoid further interest accruing on it. Coventree reviewed the nature of the deductions and, reflecting what it believes to be the appropriate period to take the deductions, subsequently amended and re-filed CCI's income tax return for fiscal 2009 with such deductions ("CCI Return"). The Company is awaiting CRA's response to the CCI Return.

With respect to CHI, CRA has not accepted certain deductions in CHI's 2007 and 2008 tax returns. CRA issued reassessment notices to CHI dated December 12, 2012. The reassessments seek payment from CHI of approximately \$564,000 in taxes and interest. In order to stop interest from accruing, and prior to receipt of the reassessment notices, the Company paid \$250,000 to CRA in August, 2012 and approximately \$67,000 to CRA in December, 2012. Following receipt of the reassessment notices, the Company paid the balance (\$247,000) in late January, 2013. The Company is considering with its legal and tax advisors whether to appeal the reassessments.

On September 27, 2012, the Company also received a reassessment from CRA regarding the Company's GST and HST accounts for the period March 1, 2010 to December 31, 2011 in the amount of \$1.6 million. The basis for the reassessment was that Coventree did not conduct commercial activities and therefore was not entitled to claim input tax credits in that period. Following a review with its legal and tax advisors, the Company paid the reassessment.

5.0 Interim Distributions

Pursuant to a Court order made on April 30, 2012, the Liquidator was authorized to make an interim distribution to Coventree's shareholders comprised of a return of capital and a taxable dividend. On May 4, 2012, the Liquidator distributed \$44.5 million in cash and 2,661,449 shares of Xceed Mortgage Corporation in-kind on a pro rata basis to the Company's shareholders, resulting in a total distribution of approximately \$3.20 per share.

Pursuant to a Court order made on December 17, 2012, the Liquidator was authorized to make a second interim distribution to Coventree's shareholders as a taxable dividend. On January 15, 2013, the Liquidator distributed approximately \$8.8 million in cash on a pro rata basis to the Company's shareholders, resulting in a total distribution of \$0.58 per share ("Second Distribution").

Withholding taxes were applied to the taxable dividend to non-residents pursuant to the provisions of the *Income Tax Act*.

Coventree will be issuing tax forms to its shareholders in connection with the distributions.

6.0 Statement of Receipts and Disbursements

Upon the Effective Date, Coventree had cash and cash equivalents totalling approximately \$65.6 million. A schedule summarizing the Company's receipts and disbursements from the Effective Date to January 15, 2013 ("R&D"), the date of the Second Distribution, is provided in Appendix "B". The R&D reflects, among other things, the following:

- A receipt of \$5.3 million, inclusive of interest and costs, from Navigators Pro, on behalf of Lloyds Syndicate 1221 (Millenium Syndicate) (collectively, "Navigators"), the Company's former directors' and officers' insurer. The payment was in respect of the Company's claim under its directors' and officers' insurance policy with Navigators, which was subject to litigation;
- A receipt of \$1.6 million representing the repayment of the balance of a loan made in December, 2004, to a holding company owned by Mr. Cornish (described further in Section 5.3 of the Second Report);

- Interest of approximately \$480,000;
- Cash distributions of \$53.3 million to the Company's shareholders;
- Payment of operating costs totaling approximately \$412,000; and
- Payment of professional and Inspector fees totaling approximately \$2.45 million.

7.0 Remaining Assets and Liabilities

As at January 15, 2013, the Company had cash and cash equivalents on hand totaling approximately \$13.7 million. In addition, there is a possibility of additional recoveries of up to \$2.7 million in the aggregate from the Company's re-filing of the CCI Return and deductions CHI is pursuing related to fiscal 2007 and 2008.

The following summarizes the reserves applicable to that balance:

| | (\$million) |
|---|-------------|
| Cash on hand | 13.7 |
| Less: | |
| Total Claims | 7.9 |
| Provision for professional fees, expenses and cost awards | 1.6 |
| Provision for operating and other costs | .7 |
| Contingency | 3.5 |
| | 13.7 |
| Net amount currently available for distribution | - |

Depending on the resolution of the Unresolved Claims, the Liquidator and the Inspectors will consider making further interim distributions.

8.0 Other Matters

The Company and the Liquidator have taken steps to reduce future costs, as set out below.

8.1 Reporting Exemption

Coventree applied to the OSC, as principal regulator on behalf of the securities regulatory authorities in each of the provinces in Canada, to cease being a reporting issuer ("Application"). The purpose of seeking an exemption from reporting requirements of a public company was to, among other things, reduce costs as the

Company winds up its affairs. On October 10, 2012, Coventree also made an application to the OSC to cease being an “offering corporation” under the OBCA.

On November 13, 2012, the Application was granted pursuant to an order made by the OSC on its own behalf and on behalf of other provincial securities regulators. In addition, also on November 13, 2012, the OSC issued an order deeming Coventree to have ceased being an “offering corporation” under the OBCA (together, the “Exemptions”).

As a result of the Exemptions, Coventree has discontinued its website; however, the Liquidator will post all reports, press releases and notices on its website. One of the consequences of the Exemptions is that, for the purpose of Canadian securities legislation, the Company no longer has any continuous disclosure obligations to its shareholders, which includes the requirement to provide quarterly and annual financial statements.

Section 4.2(k) of the Liquidation Plan requires the Liquidator to maintain the continuous disclosure requirements applicable to Coventree under all applicable securities laws. In this regard, financial statements and management discussions & analyses for the quarters ended December 31, 2011, March 31, 2012 and June 30, 2012, were filed, with the Liquidator approving and signing same given that Coventree had no directors as of February 15, 2012. Such filings have now been discontinued.

8.2 OBCA Exemption

Absent exemptions, the OBCA requires the directors of a corporation subject to the OBCA to, among other things, call meetings of its shareholders and provide copies of its financial statements, including an auditor's report thereon, at such meetings. Part XII of the OBCA requires the shareholders of a corporation to, among other things, appoint an auditor to report on a corporation's financial statements.

On December 14, 2012, the Liquidator applied to the Court for an Order confirming that neither the Company nor the Liquidator is required to comply, or otherwise effect compliance, with Sections 94 and 154 of the OBCA and Part XII of the OBCA. The Liquidator's rationale for the requested relief was described in Section 7.1 of its Third Report to Court dated December 3, 2012 and included, among other things, eliminating the cost to engage the Company's auditor to review Coventree's financial statements and issue a report thereon.

The Court granted the relief sought by the Liquidator.

9.0 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 Unresolved Claims;
- The filing of all tax returns;
- Receipt of clearance certificates regarding the Company's tax accounts; and
- Court approval of a final distribution, the Liquidator's discharge and the ultimate dissolution of the Company.

* * *

All of which is respectfully submitted,

A handwritten signature in blue ink that reads "Duff & Phelps Canada Restructuring Inc." The signature is written in a cursive, flowing style.

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

Appendix “A”

Duff & Phelps Canada Restructuring Inc.

Liquidator of Coventree Inc.

Status of Filed Claims

As at February 1, 2013

| Creditor | Debtor | Claim | Nature of Claim | Letter | Notice of Determination | Status ⁽¹⁾ | Remaining Claim or Reserve by Liquidator ⁽²⁾ |
|--------------------------------|-------------------------|---|---|--------|-------------------------|---|---|
| Ani Hotoyan-Joly | Coventree Inc. | \$175,000 plus other benefits and indemnity | Balances pursuant to employment agreement | | ✓ | Allowed - to be paid on termination | \$175,000 |
| Canada Revenue Agency | Coventree Capital Inc. | \$1,098,054 | Income tax - 2008 | ✓ | | Unable to determine - paid without prejudice ⁽³⁾ | \$0 |
| Canada Revenue Agency | Coventree Capital Inc. | \$1 | Provisional claim for GST/HST - subject to audit | ✓ | | Unable to determine ⁽⁴⁾ | \$0 |
| Canada Revenue Agency | Coventree Holdings Inc. | \$1 | Provisional claim for GST/HST - subject to audit | ✓ | | Unable to determine ⁽⁴⁾ | \$0 |
| Canada Revenue Agency | Coventree Holdings Inc. | \$1 | Provisional claim for income tax - subject to audit | ✓ | | Unable to determine | \$240,000 |
| Canada Revenue Agency | Coventree Inc. | \$1 | Provisional claim for source deductions - subject to audit | ✓ | | Unable to determine ⁽⁴⁾ | \$0 |
| Canada Revenue Agency | Coventree Inc. | \$1 | Provisional claim for GST/HST - subject to audit | ✓ | | Unable to determine ⁽⁴⁾ | \$0 |
| Canada Revenue Agency | Coventree Inc. | \$1 | Provisional claim for income tax - subject to audit | ✓ | | Unable to determine ⁽⁴⁾ | \$0 |
| CNW Group Ltd. | Coventree Inc. | \$127 | Filing materials on SEDAR | | ✓ | Allowed - paid | \$0 |
| Dean Tai | Coventree Inc. | \$500,000 | Balance pursuant to employment agreement | | ✓ | Allowed - to be paid on completion of winding-up | \$500,000 |
| Dean Tai | Coventree Inc. | \$500,000 ⁽⁵⁾ | Indemnification in connection with OSC penalty award - subject to appeal | | ✓ | Allowed - to be paid if appeal dismissed | \$500,000 |
| Dean Tai | Coventree Inc. | \$890,180 | Estimate of legal fees in connection with OSC appeal | | ✓ | Allowed | \$226,000 |
| Dean Tai | Coventree Inc. | Indemnity | Indemnification in connection with Notice of Action by Coventree | | ✓ | Disallowed - claim by Coventree withdrawn | \$0 |
| Dean Tai | Coventree Inc. | \$5,000,000 | Statement of Claim against Coventree | ✓ | | Being defended by Coventree in proceedings commenced by Mr. Tai | \$5,000,000 |
| Dean Tai | Coventree Inc. | \$110,556 plus interest and costs | Costs in connection with Coventree's sale of security pledged under promissory note | | ✓ | Disallowed | \$0 |
| Equity Financial Trust Company | Coventree Inc. | Indemnity | Indemnification by Coventree in connection with litigation commenced by Mr. Tai | | ✓ | Allowed - being paid in ordinary course | \$0 |

Duff & Phelps Canada Restructuring Inc.

Liquidator of Coventree Inc.

Status of Filed Claims

As at February 1, 2013

| Creditor | Debtor | Claim | Nature of Claim | Letter | Notice of Determination | Status ⁽¹⁾ | Remaining Claim or Reserve by Liquidator ⁽²⁾ |
|-------------------------------|----------------------------|--|---|--------|-------------------------|--|---|
| Geoff Cornish | Coventree Inc. | \$500,000 plus benefits and indemnity | Balances pursuant to employment agreement | | ✓ | Allowed - to be paid on completion of winding-up | \$500,000 |
| Geoff Cornish | Coventree Inc. | \$725,000 | Estimate of legal fees in connection with OSC appeal | | ✓ | Allowed - being paid in ordinary course | \$226,000 |
| Geoff Cornish | Coventree Inc. | \$500,000 ⁽⁵⁾ | Indemnification in connection with OSC penalty award - subject to appeal | | ✓ | Allowed - to be paid if appeal dismissed | \$500,000 |
| Navigators Management Company | Coventree Inc. | \$100,000 | Estimated cost award if successful in litigation with Coventree | | ✓ | Disallowed | \$0 |
| Ontario Securities Commission | Dean Tai and Geoff Cornish | \$500,000 plus interest and costs, if applicable, against each of them | Penalty against Cornish and Tai pursuant to OSC order - subject to appeal | ✓ | | Unable to determine | \$0 |
| Ontario Securities Commission | Coventree Inc. | \$500,000 plus interest and costs, if applicable | Penalty against Coventree pursuant to OSC order - subject to appeal | | ✓ | Disallowed | \$0 |
| Stockwoods LLP | Coventree Inc. | Up to \$50,000 | Estimated cost award if successful in litigation with Coventree | | ✓ | Partially allowed \$13,000 - paid | \$0 |
| | | | | | | | <u><u>\$7,867,000</u></u> |

Notes:

1. Refer to applicable letter or notice for complete details.

2. Estimated for certain claims.

3. Coventree Inc. paid this claim in full - refer to Section 4.1 of the Report for more details.

4. Coventree Inc. is not aware of any balances owing with respect to these accounts. Consequently, there is no basis to establish a reserve. A reserve of \$3.5 million for contingencies is in place.

5. These are duplicates of the claim made by the OSC against Messrs. Cornish and Tai.

Appendix “B”

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

For the Period February 15, 2012 to January 15, 2013

(\$; unaudited)

| | |
|---|------------|
| Opening Bank Balance - February 15, 2012 | 65,592,182 |
| Receipts: | |
| D&O insurance recovery - Navigators (inclusive of interest and costs) | 5,322,846 |
| Promissory note repayment by Geoff Cornish's holding company (including interest) | 1,589,023 |
| Interest income | 483,649 |
| HST refunds | 299,986 |
| Income tax recovery | 165,225 |
| Miscellaneous receipts | 12,658 |
| Total Receipts | 7,873,388 |
| Disbursements: | |
| Shareholder distributions and return of capital | 53,291,260 |
| Income taxes and HST payments | 3,001,630 |
| Legal fees ⁽¹⁾ | 1,703,698 |
| Operating expenses | 412,783 |
| Inspector fees | 381,966 |
| Liquidator fees | 368,378 |
| Compensation expenses | 336,918 |
| Consulting expenses | 233,328 |
| Total Disbursements | 59,729,962 |
| Bank Balance - January 15, 2013 | 13,735,608 |

(1) Legal fees includes:

| | |
|---|-----------|
| Bennett Jones LLP (Tai litigation) | 263,460 |
| Davies Ward Phillips & Vineberg LLP (counsel to Coventree and Liquidator) | 364,908 |
| Adair Morse LLP (insurance litigation) | 102,977 |
| Thornton Grout LLP (Tai litigation) | 75,857 |
| Goodmans LLP/Lenczner Slaght LLP (Cornish OSC appeal) | 601,060 |
| Stockwoods LLP (Tai OSC appeal) | 236,906 |
| Other legal fees | 58,530 |
| | 1,703,698 |