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

January 20, 2015

| Contents | Page |
|---|-------------|
| 1.0 Executive Summary..... | 1 |
| 1.1 Activities during the Reporting Period..... | 1 |
| 2.0 Background | 3 |
| 2.1 Definitions | 4 |
| 2.2 Restrictions | 4 |
| 3.0 Inspectors..... | 4 |
| 4.0 Claims Process..... | 4 |
| 4.1 Resolved Unpaid Claims | 4 |
| 4.2 Unresolved Claims | 5 |
| 5.0 Statement of Receipts and Disbursements | 6 |
| 6.0 Remaining Assets and Liabilities | 6 |
| 7.0 Next Steps..... | 7 |

| | |
|---|------------|
| Appendices | Tab |
| Statement of Receipts and Disbursements | A |

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

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

JANUARY 20, 2015

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”).

On February 6, 2013, the Liquidator issued its first report to the shareholders of Coventree (“First Report”), with information up to January 15, 2013. On January 17, 2014, the Liquidator issued its second report to the shareholders of Coventree (“Second Report”), with information up to November 30, 2013.

This report (“Report”) summarizes the activities of Coventree’s wind-up from December 1, 2013 to December 31, 2014 (“Reporting Period”) and the status of claims against Coventree.

All amounts in this Report are stated in Canadian dollars.

1.1 Activities during the Reporting Period

1.1.1 Litigation

The litigation stemming from the Company’s cancellation of 736,522 common shares issued to Mr. Dean Tai (“Litigation”) pursuant to Coventree’s Share Allocation Plan (“SAP Shares”) completed the documentary discovery stage during the Reporting Period. Issues in connection with examinations for discoveries have arisen and are ongoing. Mediation to address the Litigation is scheduled for March 17, 2015.

The trial of the Litigation has not been scheduled and is unlikely to occur in 2015.

1.1.2 Income Tax Refund Claim

Prior to the Reporting Period, Coventree Capital Inc. ("CCI"), a wholly-owned subsidiary of the Company, amended and restated its fiscal 2009 income tax return ("Amended Return") and claimed a refund of \$2.2 million. On April 2, 2014, Canada Revenue Agency ("CRA") denied the deductions claimed in the Amended Return. Coventree reviewed CRA's denial with its tax advisors and decided not to appeal CRA's decision.

1.1.3 Claims

There has been no change in the claims against Coventree. Currently there are three resolved, unpaid claims totalling \$1,175,000 and two unresolved claims, the quantum of which is to be determined.

1.1.4 Funds on Hand

As at December 31, 2014, the Company had approximately \$11.4 million in cash or cash equivalents. These funds are being reserved to cover resolved unpaid claims, unresolved claims and estimated future costs.

1.1.5 Outstanding Matters

The matters that currently remain outstanding are:

- Discharging the resolved, unpaid claims.
- Completing the Litigation.
- Completing final tax returns and obtaining tax clearance certificates from CRA.

2.0 Background

On June 30, 2010, Coventree's shareholders ("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.

Since the Effective Date, the Liquidator has 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 | .26 |
| | <u>\$ 3.78</u> |

More detailed background information on the Company, including its dealing with the Ontario Securities Commission, 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

Messrs. Wesley Voorheis, William Aziz and Joseph Wiley are the inspectors (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 described in Sections 1.1.1 and 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:

- (a) A Claim 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 pursuant to a Notice of Action dated April 14, 2011. The claim relates to the Company's decision in April, 2009, to cancel "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 completed the documentary discovery stage during the Reporting Period. Issues in connection with examinations for discoveries have arisen and are ongoing. Mediation to address the Litigation is scheduled for March 17, 2015.

- (b) CRA filed nominal placeholder claims of \$1 in respect of Coventree's various tax accounts. The Company has paid all taxes owing since the Effective Date and no further tax claims are expected to be assessed. However, until final tax returns have been filed and assessed, there can be no certainty that CRA will not seek to establish a claim.

Set out below is a status of the Company's various tax accounts:

- Income tax accounts - Upon completion of the Litigation and determination of the unresolved claim of Mr. Tai, final income tax returns will be filed and clearance certificates will be sought from CRA.

- Goods and Service Tax (“GST”) and Harmonized Sales Tax (“HST”) accounts – Coventree ceased carrying on commercial activities prior to the Effective Date. As a result, it has neither been generating any revenues on which GST/HST has been exigible, nor been claiming input tax credits. The Liquidator sought and received clearance certificates from CRA in respect of the GST and HST accounts.
- Payroll deduction accounts – Coventree has two employees, and as a result, its payroll deductions account remains active. Upon the completion of the Litigation, determination of the unresolved claim and payment of the unsolved claims, clearance certificates will be sought from CRA.

5.0 Statement of Receipts and Disbursements

As set out in the Second Report, Coventree had approximately \$11.6 million in cash or cash equivalents as at November 30, 2013. Set out as Appendix “A” is a statement of receipts and disbursements (“R&D”) for the period from December 1, 2013 to December 31, 2014. As at December 31, 2014, the Company had cash and cash equivalents of approximately \$11.4 million.

6.0 Remaining Assets and Liabilities

The following summarizes the Company’s reserves:

| | (\$millions) |
|---|--------------|
| Cash on hand | 11.4 |
| Less: | |
| Resolved and Unresolved Claims ¹ | 6.2 |
| Provision for professional fees, expenses and cost awards | 1.5 |
| Provision for operating and other costs | .6 |
| Contingency | 3.1 |
| | 11.4 |
| 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.

¹ Includes a reserve of \$5 million with respect to the Litigation.

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,

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”

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

For the Period December 1, 2013 to December 31, 2014

(\$; unaudited)

Receipts:

| | |
|-----------------------------|----------------|
| Investment recoveries | 275,599 |
| Interest | 153,167 |
| Foreign exchange and sundry | 44,920 |
| Total Receipts | <u>473,686</u> |

Disbursements:

| | |
|------------------------------|----------------|
| Legal fees - litigation | 233,161 |
| Insurance | 88,749 |
| Rent | 77,430 |
| Inspectors' fees | 69,227 |
| Wages and benefits | 66,661 |
| Consulting fees - litigation | 54,240 |
| Office and general | 56,872 |
| Liquidator's fees | 38,816 |
| Legal fees - corporate | 14,279 |
| Consulting fees - tax | 9,306 |
| Total Disbursements | <u>708,741</u> |

Excess (deficiency) of receipts over disbursements (235,055)

Balance - December 1, 2013 11,642,302Balance - December 31, 2014 11,407,247