



**Fifth Report to the Shareholders
of Coventree Inc. by KSV Kofman Inc.
as Liquidator of Coventree Inc.**

January 30, 2017

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

**FIFTH REPORT TO THE SHAREHOLDERS OF COVENTREE INC.
BY KSV KOFMAN INC.
AS LIQUIDATOR OF COVENTREE INC.**

JANUARY 30, 2017

1.0 Executive Summary

The voluntary winding-up of Coventree Inc. (the “Company”) commenced on February 15, 2012 (“Effective Date”). KSV Kofman Inc.¹ (“KSV”, formerly Duff & Phelps Canada Restructuring Inc. or (“D&P”)) is the liquidator (“Liquidator”).

The Liquidator has issued four prior reports to the Company’s shareholders. The reports provide information on, among other things, the Company’s activities since its winding-up commenced and calculations supporting the two distributions that have been made to the shareholders.

This report (“Report”) summarizes the Company’s activities from January 1, 2016 to December 31, 2016 (“Reporting Period”) and the status of claims against the Company.

All amounts in this Report are stated in Canadian dollars.

1.1 Litigation

The litigation stemming from the Company’s cancellation of 736,522 common shares issued to Mr. Dean Tai (“Litigation”) pursuant to the Company’s Share Allocation Plan (“SAP Shares”) continued during the Reporting Period.

A hearing was held in May, 2016 relating to certain issues that arose during examinations for discovery that were completed in August, 2015. The Ontario Superior Court of Justice (“Court”) advised the parties which questions, which they had previously refused, required responses. In September, 2016, Mr. Tai’s counsel completed a re-examination of Mr. Geoffrey Cornish, the Company’s Chief Executive Officer, on behalf of the Company. The Company provided responses to the undertakings given at that re-examination in the fall of 2016.

¹ On June 30, 2015, D&P was acquired by KSV. Pursuant to an Order of the Court made on July 10, 2015, the name of the firm handling D&P’s mandates was changed from D&P to KSV, including acting as Liquidator in these proceedings. The restructuring professionals overseeing this mandate prior to June 30, 2015 remain unchanged.

The parties are ready to proceed to trial. The trial has been scheduled for November 27 to December 8, 2017, the earliest available dates.

1.2 Claims

There has been no change in the claims against the Company. Currently there are three resolved, unpaid claims totaling \$1,160,000 and two unresolved claims, the quantum of which is to be determined.

1.3 Funds on Hand

As at December 31, 2016, the Company had approximately \$10.7 million in cash or cash equivalents. These funds are being reserved to cover resolved unpaid claims, unresolved claims and estimated future costs.

1.4 Outstanding Matters

The matters that currently remain outstanding are:

- Discharging the resolved, unpaid claims;
- Completing the Litigation; and
- Completing final tax returns and obtaining tax clearance certificates from Canada Revenue Agency ("CRA").

2.0 Background

On June 30, 2010, the Company's shareholders ("Shareholders") passed a special resolution approving, among other things: a) the Company's voluntary winding-up pursuant to Section 193 of the Ontario *Business Corporations Act* ("OBCA") at a time to be determined by the Company's directors; 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 the Company'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 Company's winding-up 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.ksvadvisory.com>.

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 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 Liquidator's First Report to Shareholders dated February 6, 2013 summarized the claims procedure and 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. Tai and Cornish and Ms. Ani Hotoyan-Joly are to receive termination payments upon the completion of the Company's winding up. The total owing in respect of these termination payments is \$1,160,000.

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 the Company and the Company'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 the Company's 2005 Share Allocation Plan. More information with respect to this claim was provided in the Liquidator's previous reports.

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.

A hearing was held in May, 2016 relating to certain issues that arose during examinations for discovery that were completed in August, 2015. The Court advised the parties which questions, which they had previously refused, required responses. In September, 2016, Mr. Tai's counsel completed a re-examination of Mr. Cornish on behalf of the Company. The Company provided responses to the undertakings given at that re-examination in the fall of 2016.

The trial has been scheduled for November 27 to December 8, 2017, the earliest available dates.

- (b) CRA filed nominal placeholder claims of \$1 in respect of the Company'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 Services Tax ("GST") and Harmonized Sales Tax ("HST") accounts – the Company 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 – the Company has two employees. As a result, its payroll deductions account remains active. Upon the completion of the Litigation, determination of the unresolved claims and payment of the claims, clearance certificates will be sought from CRA.

5.0 Statement of Receipts and Disbursements

The Company's Statement of Receipts and Disbursements ("R&D") for the period from January 1, 2016 to December 31, 2016 is provided in Appendix "A". The disbursements principally relate to the Litigation (legal fees) and the Company's ongoing operating costs.

As at December 31, 2016, the Company had cash and cash equivalents of approximately \$10.7 million.

6.0 Remaining Assets and Liabilities

The following summarizes the Company's reserves:

	(\$millions)
Cash on hand	10.7
Less:	
Resolved and Unresolved Claims ²	6.2
Provision for professional fees and expenses	.7
Provision for operating and other costs	.4
Contingency	3.4
	10.7
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.

² 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 continues to be 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 dark ink that reads "KSV Kofman Inc". The signature is written in a cursive, flowing style.

**KSV KOFMAN 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 1, 2016 to December 31, 2016

(\$; unaudited)

Receipts:

Interest	97,550
Foreign exchange and sundry	11,399
Total Receipts	<u>108,948</u>

Disbursements:

Legal fees - litigation	198,519
Wages and benefits	99,525
Office and general	47,317
Liquidator's fees	31,106
Rent	26,819
Insurance	18,652
Inspectors' fees	11,232
Total Disbursements	<u>433,170</u>

Excess (deficiency) of receipts over disbursements	<u>(324,222)</u>
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Balance - January 1, 2016	<u>11,057,946</u>
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Balance - December 31, 2016	<u>10,733,724</u>
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