

In re:           **The Companies Law, 5759-1999**  
                  **The Companies Ordinance [New Version], 5743-1983**

**the Companies Law**

and in re:       **Urbancorp Inc., Canadian Company No. 2471774**

**The Company**

and in re:       **Adv. Guy Gissin - temporary official of the Company**

by his attorneys, Advs. Yael HersHKovitz and/or Gilad Bergstein  
and/or Sandra Schneider

of Gissin & Co., Law Firm, 38B Ha'Barzel Street, Tel Aviv 69710,  
Tel. 03-7467777, Fax. 03-7467700

**The Official**

and in re:       **The Official Receiver**

of 2 Ha'ShlosHa Street, Tel Aviv, Tel. 03-6899695, Fax. 02-6462502

**The Official Receiver**

**Application by the Company to Extend the Official's Appointment and for the  
Grant of an Order to Convene Creditors' Meetings for the purpose of  
Approving an Arrangement in accordance with Section 350 of the Companies  
Law, 5759-1999**

The Honorable Court is moved by Adv. Guy Gissin, the Official of Urbancorp Inc. (hereinafter - the "**Official**" and the "**Company**"), to extend the Official's appointment for another 90 days, and to exercise its power by virtue of section 350 of the Companies Law, 5759-1999 (hereinafter - the "**Law**") to order the convening of meetings of the Company's creditors (hereinafter - the "**bonds**"), for the purpose of approving a debt arrangement in the Company.

**The main reason for convening the meetings and approving the debt arrangement as aforesaid is to enable distribution of the Company's anticipated receipts from realization of the Canadian subsidiaries' assets during the first half of 2017, as detailed below, and to regulate the Company's continued conduct for the purpose of performing its obligations.**

**Because of the need to conduct proceedings in both Israel and Canada, and to obtain both courts' approval for the arrangement proceedings as detailed in the application, it is necessary to prepare in good time for the receipts' distribution as aforesaid.**

In light of the fact that, as a reminder, we are dealing with a Canadian company, in respect of which, pursuant to its resolutions and the prospectus published in December 2015 for the purpose of raising bonds in Israel, the law of insolvency and the distribution arrangements are governed by the provisions of the Canadian law, while with regard to the law of securities and anything relating to the trust deed (as defined below) and the bonds, the Israeli law applies in general and provisions of the Securities Law, 5828-1968 and its regulations in particular, the Honorable Court is moved to approve special procedures that will enable the Canadian creditors of the Company to take part in the debt arrangement proceedings in Canada and in English.

The Official intends, after and subject to the application's approval by the Honorable Court, to apply to the court in Canada for its recognition as well of the proposed process and convening of the meetings.

The appendices annexed to this application constitute an integral part thereof.

**A. Introduction - general background, objects and summary of the arrangement**

1. The Company was founded and incorporated on June 19, 2015, pursuant to the laws of the District of Ontario, Canada, for the purpose of raising capital for investment in real estate in Canada, by issuing bonds on the Tel Aviv Stock Exchange ("TASE").
2. The Company issued approx. NIS 180,000,000 nv. series "A" bonds of the Company (hereinafter - the "**bonds**"), which were listed for trade on TASE on January 9, 2016 in accordance with the prospectus of November 30, 2016, and its amendment of December 7, 2015 (hereinafter - the "**issue**" and the "**issue prospectus**").
3. In the issue prospectus Mr. Alan Saskin (hereinafter - the "**controlling shareholder**") and his family, undertook, *inter alia*, that before the listing for trade and subject to the issue's success, they would transfer to the Company's subsidiaries their rights in the real estate assets and geothermal assets detailed in the issue prospectus, and that they would assign in favor of the Company rights to receipts in a sum of approx. CAD 8 million, which is due to any of them from various corporations, against an issue of shares in the Company to a company under the control of the controlling shareholder. In addition, the controlling shareholder undertook, subject to the issue's

success, to provide an owner's contribution to the Company's capital of approx. CAD 12 million.

4. The subsidiaries to which the said rights were assigned (hereinafter - the "**subsidiaries**") engage, themselves or through corporations owned by them, in the development, purchase, rental and sale of commercial areas and residential buildings as well as geothermal assets (integrated systems that provide heating and cooling for the buildings in which they are installed) in Ontario, Canada.
5. The Company is accordingly a holding company, the financial activity of which is limited to holding the rights in the subsidiaries, as distinct from the management of independent financial activity.
6. In March 2016, only about three months after the Company's issue, and after the assets were transferred to the Company in accordance with the prospectus, difficulties began to arise in the Company's activity, which found expression, *inter alia*, in the resignation of the legal counsel, directors and internal auditor of the Company, failure to publish the financial statements for 2015 on time, partial publications regarding material negative findings in the Company's financial position (on the basis of unaudited information), concern of the Company's suspension of the Company's registration in Tarion Warranty Corporation, the Canadian homebuilding insurance organization, cessation of the rating of the Company's bonds and more.
7. All the aforesaid ultimately led to a decision by TASE to cease trade in the Company's bonds on April 21, 2016. TASE's reason for its decision to cease trade was "**uncertainty regarding the Company's affairs, as emerges from its reports ...**".
8. On April 21, 2016 five subsidiaries of the Company, which held key assets of the group, and the cash flow surpluses of which should have served the debt to the Company's bondholders (hereinafter - "**backing assets**"), instituted independent insolvency proceedings in Canada, in applications for a suspension of proceedings and arrangement of debts pursuant to the Companies' Creditors Arrangement Act (hereinafter - "**CCAA**").
9. On April 24, 2016, following these events, the trustee for the bonds, Reznik Paz Nevo Trusts Ltd (hereinafter - the "**trustee**") applied to the Honorable Court for the appointment of an official for the Company, for the purpose of reviewing the assets and acts done in the Company and the possibilities facing the Company's creditors (foremost the bondholders - the only financial creditors of the Company), to obtain information and to protect their rights.

10. After a provisional injunction was given prohibiting dispositions, the Court fixed a hearing in the presence of the parties for April 25, 2016, at the end of which it ordered the appointment of Adv. Guy Gissin as the Official for the Company (hereinafter - the "**appointment order**"). In the scope of this order, the Official was authorized, *inter alia*, to obtain all the information about the activity and assets of the Company and the subsidiaries, to communicate with the Canadian trustee who was appointed for the subsidiaries, to apply to the Canadian court as the Company's representative and to investigate the Company's acts before and after the prospectus. The Official was also authorized to formulate a preliminary outline for a creditors' arrangement.
11. On May 18, 2016 the Canadian court adopted the decision of this Court, and approved the proceedings in Israel as foreign main proceedings in relation to the Company, and the appointment and powers of the Official as foreign representative of the Company, in accordance with section 45 of the CCAA.
12. Accordingly, from the date of the appointment order, the Official and his office staff, with the assistance of attorneys and financial advisors in Canada, acted in Israel and in Canada in order to obtain all the information and data relevant to clarifying the proceedings and the acts connected with the Company's collapse, including meetings, investigations and questioning of entities who were involved in the Company's activity (both officers of the Company and third parties).
13. The Official is also working in collaboration with the Canadian officials who were appointed for the subsidiaries for the purpose of realizing the assets of the group's subsidiaries and conducting legal proceedings in Canada insofar as necessary for such purpose. These acts were done in accordance with the minutes signed between the Official and the Canadian officials and approved by the courts in Israel and Canada as detailed in paragraphs 31-33 below.
14. **All the Company's liabilities, in accordance with the debt claims filed in Israel and Canada, total approx. NIS 195 million (not including conditional claims relating to class actions that were filed). Despite significant realization of some of the assets of the subsidiaries in Canada (see below), at this stage there is no sign of available sources that will enable the Company to perform all its obligations to all its creditors, in the foreseeable future.** Accordingly, simultaneously with dealing with the realization of assets and investigation of the circumstances of the Company's collapse, the Official acted to formulate an arrangement proposal between the Company and its creditors, which would enable efficient and swift distribution of the proceeds from the realization of the Company's assets and regulate the Company's activity henceforth (hereinafter - the "**creditors'**

**arrangement**)). The main points of the creditors' arrangement are detailed below in this application.

15. **It should be noted already now that the Official believes that in the circumstances of the case, the creditors' arrangement proposal is the best arrangement for all the Company's creditors, and is expected to enable, already in the first stage - during the first half of 2017, a distribution of the anticipated proceeds from realization of the Company's assets and rights in the subsidiaries in Canada, in a significant estimated amount of at least approx. 50%. The arrangement proposal will also enable the continued orderly progression of the Company and the Official for the realization of additional assets and rights, and the making of future distributions in favor of the creditors. Hence, and for other reasons detailed below, the Official believes that the creditors' arrangement proposal is a fitting alternative that is preferable to the liquidation alternative, having regard to looking out for the interests of all the Company's stakeholders, and foremost the creditors.**
16. As will be detailed at length below, involved is an arrangement that is based for the most part **on the making of a first distribution that is currently estimated at approx. 50% of the Company's debts during the first half of 2017**; the taking of action for the purpose of realizing additional assets and rights of the Company during 2017; and the realization of rights of claim of the Company against third parties.

**B. Business description of the Company and the circumstances that led to its collapse**

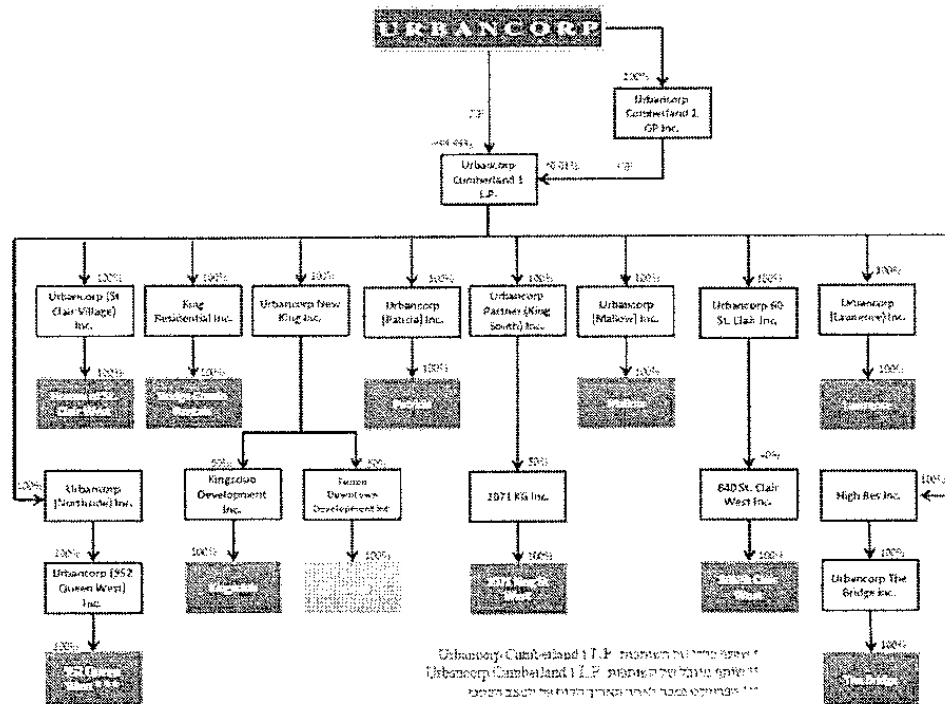
**B.1 General**

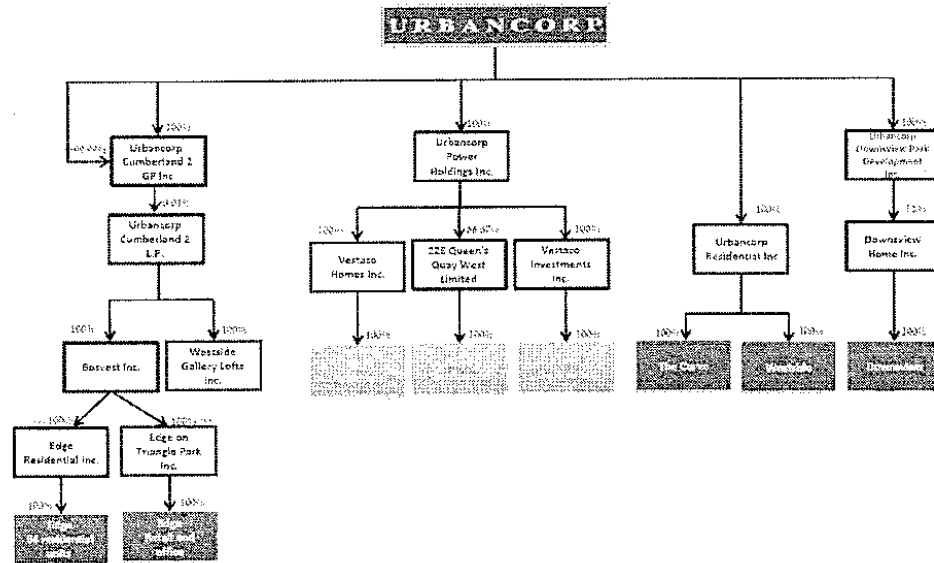
17. As detailed above, the Company was incorporated in Canada, in June 2015, and in January 2016 it issued approx. NIS 180,000,000 n.v. bonds on TASE.
18. In accordance with the issue prospectus, the controlling shareholder, through a company under his full control, holds all the issued and paid up share capital of the Company and of the voting rights therein. Mr. Saskin also served as chairman of the Company's board of directors, CEO and president of the Company until the Official's appointment.
19. As at the date of filing this application, the Company's securities are as follows:
  - (a) series "A" bonds of the Company totaling NIS 180,583,000 n.v. (number of security on TASE - 1137041);

(b) 100 ordinary shares of the Company, without a nominal value, which are held by a corporation under the control of the controlling shareholder.

20. As mentioned in the introduction, the Company is a private Canadian company which is considered a "reporting corporation" in light of the raising of bonds that were listed for trade on TASE. The Company engaged, through corporations owned by it, in the development, purchase, rental and sale of commercial areas and residential buildings, as well as geothermal assets, in Ontario, Canada.

**A diagram of the Company's main holdings structure pursuant to the Issue Prospectus**





## **B.2 The use of the issue proceeds**

21. In accordance with the issue prospectus, most of the issue proceeds, totaling approx. CAD 46 million (from an overall sum of approx. CAD 64 million that were raised), were intended for the provision of shareholders' loans to the backing asset companies, for the purpose of providing equity for projects owned by them and repaying these companies' loans, including those secured by a personal guarantee of the controlling shareholder.
22. In fact, in addition to the use that was predefined and reported in the prospectus, from the issue monies additional loans were paid to a key creditor of the Company in an aggregate amount of CAD 6 million at the end of December.
23. The controlling shareholder, through companies owned by him, maintained a ramified relationship with the Company and the subsidiaries, and some of its components, such as payment of management fees to the controlling shareholder and assignment of his rights in various companies to the Company, are disclosed in the issue prospectus; other aspects of this relationship, in accordance with information that reached the Official, included mixing assets and transferring monies intended for the Company, to companies owned by the controlling shareholder, which are not part of the Company's group, and did not find expression in the Company's reports and/or the issue prospectus.

## **B.3 The obligations of the controlling shareholder and his family to make an owner's contribution and assignment of rights**

24. Pursuant to the issue prospectus, the controlling shareholder undertook, subject to the issue's success, to provide the Company with an owner's contribution in a sum of CAD 12 million (hereinafter - the "**owner's contribution**"), which would contribute towards the Company's pro forma equity. The controlling shareholder and his family also undertook to assign to the Company their right to receive loans from corporations held by him, in a sum of CAD 8 million (hereinafter - the "**assignment of rights**").
25. However, in fact, contrary to the prospectus obligations and also contrary to reports to the public made by the Company and Mr. Saskin, the "owner's contribution" was never made as a capital injection. Even after the matter was clarified and the Company reported that the monies had been provided as necessary, it transpires that the owner's contribution was never transferred to the Company's bank accounts, but was transferred directly for the purpose of making VAT payments on dwelling units in a subsidiary from the Edge companies group (as defined below), in relation to which the controlling shareholder might have incurred personal liability as a director of such companies.
26. In order to obtain financing for most of the owner's contribution that the controlling shareholder undertook to provide in accordance with the prospectus, the controlling shareholder charged his rights in companies privately owned by him in favor of the lending entity. At the very least, these companies are, in part, precisely those companies the cash flow from which formed the basis for the obligations the subject of the assignment of rights as aforesaid. The discovery of this fact led to classification of the value of the assignment of rights obligation in a report of the Company of April 20, 2016, as quoted: "**as significantly lower than USD 8 million, and possibly even negligible**".

#### **B.4 Possible concerns of concealment of assets or preference of creditors**

27. The Official, himself and with the help of his advisors in Canada, carries out investigations and examinations of acts done by the Company and the companies in its control after the issue's completion. A detailed report of these investigations and the recommendations for action in relation thereto will be submitted after the investigations are completed. Nonetheless, already now one can point to several transactions and moves that *ex facie* give rise to suspicion of concealment of assets or preference of creditors and that are under examination and investigation by the Official, *inter alia* as follows:
  - (a) From the investigations it emerges that the proceeds from a sale of an asset of a subsidiary of the Company in October 2015 (before the issue date), totaling approx. CAD 3 million, which should have increased the Company's equity (in accordance with the rating reports



that was annexed to the issue prospectus) never reached the Company, but rather private companies owned by the controlling shareholder and/or to cover debts of those companies.

- (b) Between July 2015 and January 2016, transfers were made of dwelling units in an Edge project (owned by the subsidiaries Edge on Triangle Park Inc. and Edge Residential Inc.) (hereinafter - the "**Edge project**"), the substance and circumstances of which are currently being examined and there might be causes to challenge them.

- 28. During Q1 of 2016, at the same time as the (unsuccessful) attempts to prepare and public financial statements for 2016 as required by the Securities Law and its regulations, it became clear to the controlling shareholder and their Canadian creditors and partners that notwithstanding the raising of huge amounts in bonds on the Israeli capital market, the business position of the controlling shareholder, of the Company and of its key assets was very poor. From investigations and examinations that the Official is carrying out, it emerges that *inter alia* as a result of pressure exerted by various entities in Canada on the various businesses of Mr. Saskin (both those that were under the Company and other private businesses), and after swift negotiations (the circumstances of which are still being investigated by the Official), in March 2016 the Company executed a series of transactions with First Capital Realikty Co. (hereinafter - "**FCR**"). According to the Company's reports, the said series of transactions was aimed at increasing the Company's liquidity, *inter alia*, through separation agreements and purchase agreements for assets from FCR by subsidiaries of the Company. However, the particular cash flow that reached the Company in consequence of these transactions did not help to prevent the deterioration in the Company's position and the group's assets. The main outcome of this series of transactions was essentially FCR's severance from most of the joint transactions of the Company and Mr. Saskin, while reducing the FCR group's exposure to the Company's business. The Official is continuing to examine how these transactions were executed and their significance and impact on the Company's collapse.

#### **B.5 The Company's collapse**

- 29. These acts, as well as other failures in the Company's activity and corporate governance, resulted in a spiral that included as aforesaid the serial resignation of officers of the Company and of its legal counsel, a reduction in rating, loss of confidence in the Company on the capital market that found expression in sharp increases in the yield of the Company's bonds, and damage to its cash flow. The aforesaid in their turn led to the institution of insolvency proceedings in the Company itself and in the Company's subsidiaries as aforesaid.

30. On May 4, 2016, in accordance with a resolution of the Company's bondholders' meeting, the bonds were called for immediate payment.

**C. The insolvency proceedings and realization of the assets in the subsidiaries**

**C.1 General**

31. As detailed above, already on April 21, 2016 the five subsidiaries which hold the backing assets filed an application for the institution of restructuring and creditors' arrangement proceedings in Canada (Companies' Creditors Arrangement Act - CCAA), and an application for the appointment of KSV Kofman Inc. as official ('monitor') in the scope of these proceedings (hereinafter - the "**monitor**"). In the framework of the understandings reached in the collaboration minutes signed with the monitor on May 13, 2016, it was agreed that the monitor would be appointed as official for most of the Company's subsidiaries (hereinafter - the "**general debt arrangement proceedings**"), while undertaking to collaborate and share information with the Official, who would be recognized as the Company's foreign representative in the Canadian creditors' arrangement proceedings. See in such regard the decision in application no. 6 of these proceedings.
32. The Official also entered into an agreement with the monitor for the financing of the expenses incurred by the Official as the Company's foreign representative in the proceedings in Canada, in the framework of which the monitor even provided financing for the considerable costs of hiring the legal advisors and the financial advisor for the Official in Canada.
33. Another group of subsidiaries of the Company (hereinafter - the "**Edge group**"), which appears in the holdings diagram under Urbancorp Cumberland 2 GP Inc., and which includes primarily the holdings in the Edge project, is managed by another Canadian official, The Fuller Landau Group Inc. (hereinafter - the "**Edge monitor**"), in the framework of the CCAA proceedings that are being conducted in relation to the said group, and subject to collaboration minutes similar to those signed with the monitor (hereinafter - the "**Edge group debt arrangement proceedings**"). See in such regard the decision in application no. 12 of these proceedings.

**C.2 Realization of four of the backing assets**

34. In recent months four of the "backing assets", which are, as aforesaid, assets the cash flow surplus of which was supposed to serve the debt to the Company's bondholders, were put up for sale. Another backing asset, the Downsview project, has not been realized at this stage, as detailed at length in paragraph 42 below.

35. According to information given in the framework of the information supplementary to report no. 6 of the Official of November 18, 2016, the overall proceeds from the sale of the four backing assets total approx. CAD 76.5 million.
36. The proceeds that the Company will receive from the sale of the backing assets is subject to the repayment of mortgages over some of the backing assets, supplementation of debt claim proceedings against the asset companies in relation to third party debts, and payment of additional expenses such as the costs of financing proceedings, the professional fees of the monitor and his advisors and tax payments. Since on the date of filing this report the legal proceedings involved in the realization of these assets and the proceeds' distribution to the various interested parties in the subsidiaries are not yet complete, at this stage there is no certainty regarding the exact amount that the Company will receive. Nonetheless, it is clear that it is expected to be material.

### **C.3 Realization of rights in the 840 St. Clair project**

37. In addition to the sale of the four backing assets as aforesaid, rights were sold of the subsidiary Urbancorp 60 St. Clair Inc. in the 840 St. Clair project (40% of the rights in the project (hereinafter - "**840 St. Clair**")), while the net proceeds that are expected to be received by the said subsidiary on an estimate total approx. CAD 1.4 - 1.8 million. At this stage, the exact amount that will be transferred to the Company in respect of this realization is not yet clear.
38. In the framework of the detailed arrangement proposal that will be presented for the approval of the Company's creditors' meetings (hereinafter - the "**detailed arrangement proposal**"), all the details in relation to the amounts of the anticipated proceeds from the sale of the backing assets and 840 St. Clair will be given.

### **C.4 The geothermal assets**

39. Several of the Company's subsidiaries hold geothermal assets, which are in fact a right to benefit from user fees for heating and cooling systems installed in residential buildings. The user fees are paid by the cooperative house corporations in which the systems are installed. The contracts with the cooperative house corporations are executed for a period of 20 years plus two extension options for an additional period. The valuations given for the geothermal assets in the prospectus were based on capitalization of the cash flow from these assets for a period of 60 years, and were stated in an overall value of approx. CAD 44 million, correct as at June 30, 2015, for the four geothermal assets held by the Company.

40. However, examinations carried out by the Canadian officials regarding the possibilities for realizing these assets showed that the value stated for the geothermal assets in the prospectus does not meet the reality test and that transactions in assets of this type (and *a fortiori* potential transactions) do not support these valuations. It also transpired that transfer of the rights in the geothermal assets to the subsidiaries of the Company had not been completed, and that the ownership structure and the rights therein require complex legal and accounting clarification that is not yet complete. Moreover, with regard to most of the geothermal assets, legal proceedings are taking place with the cooperative house corporations, regarding pleas of the cooperative house corporations of exorbitant prices (according to the cooperative house corporations) that are being charged for the use of these systems.
41. The Official is continuing to act to supplement and protect the Company's rights with regard to the geothermal assets, but in light of the aforesaid, at this stage it is not possible to assess the ability and the anticipated time of the geothermal assets' realization.

#### **C.5 Projects in development and construction stages**

42. Subsidiaries of the Company have holdings, in partnership, in two significant projects currently in various development and/or construction stages, as detailed below. The Official believes that it will be difficult to realize the rights of the relevant companies in these projects (rights that are also subject to various rights of the partners in the projects), prior to completion of or at the least material progress in the projects. Consequently, over the coming years, one cannot expect realization and receipt of material proceeds from these projects.

##### **C.5.a. The Downsview project**

43. The Downsview project is construction development project that is held by a subsidiary of the Company at a rate of 51%, together with the company Mattamy (49%), which is also the project's development and construction manager.
44. For the purpose of financing the project's construction, the jointly owned company entered into a financing agreement with a Canadian corporation for the provision of a loan of approx. CAD 225 million, in the framework of which the partnerships in the project are required to provide equity.
45. In view of the insolvency proceedings that were instituted against the group's subsidiaries, the relevant subsidiary, Urbancorp Downsview Park

Development Inc. (hereinafter - "**UC Downsview**") was unable to provide its share of the equity as required by the financing agreement.

46. In order to enable the project's continued construction, it was agreed that Mattamy would provide UC Downsview with a credit facility of up to 8 million dollars, for the purpose of providing its share of the equity required for the project's construction. The loan will bear annual interest of 15% (like the existing loans that Mattamy is providing to UC Downsview in the project) and will be secured by a charge over UC Downsview's assets, including its shares in the project company.
47. The provision of the financing and creation of the charges as aforesaid was approved by the Canadian court on June 15, 2016 and a report was given to the Honorable Court in revision report no. 4 of the Official of July 4, 2016.

#### **C.5.b. The Kingsclub project**

48. The Kingsclub project is an investment real estate project that includes three residential buildings and commercial areas, which is held in partnership in equal shares by the Company's subsidiary Urbancorp New King Inc. (hereinafter - "**UNKI**") and King Liberty North Corporation (hereinafter - "**KLNC**"), which is a company related to FCR.
49. The Kingsclub project is currently in construction stages, and as detailed in report no. 3 of the Official of May 20, 2016, it was agreed in the first stage not to include it in the group's insolvency proceedings because of KLNC's claim that the company is solvent, and the concern that the institution of insolvency proceedings against this company will lead to cessation of financing for the project's construction by the local lending bank. Instead of instituting insolvency proceedings, the monitor was appointed as a member of the project's management committee instead of Mr. Alan Saskin.
50. The difficulty in realizing the Company's holdings in this projects stems not only from the fact that the holdings are joint and from the stage of the project, but also from the fact that an evaluation of the project's costs as known today significantly exceeds that included in the prospectus, and accordingly reflects a significant decrease in the value of the Company's holdings. The circumstances and reasons for this change in the project's costs are being examined by the Official.
51. According to the collaboration agreement between UNKI and KLNC in connection with the project's management (hereinafter - the "**collaboration agreement**"), UNKI was required to provide its share of additional financing required for the purpose of completing the project's construction, in an amount of CAD 24.7 million.

52. In light of UNKI's inability to provide the necessary financing, on November 7, 2016 the partnership entered into a standstill agreement pursuant to which KLNC would provide UNKI's share of the additional amount on the terms and conditions of the collaboration agreement, against consent the essence of which is an undertaking not to institute legal proceedings and/or proceedings for the enforcement of rights until the project's completion. The additional financing would be secured by the existing charges in favor of KLNC in relation to previous financing provided to UNKI in the project.
53. Hence, the standstill agreement is expected to enable the project's completion and subsequently realization of the Company's holdings.

#### **C.6 Expected realization of dwelling units**

54. On December 14, 2016 the Canadian court gave its approval for realization of the holdings of the Company's subsidiaries, Urbancorp Residential Inc. and King Residential Inc., in 28 dwelling units owned by them (hereinafter - "**sale of the dwelling units**"). The sale of the dwelling units was effected gradually by an offer of several units for sale in each stage. The anticipated net proceeds of the subsidiaries from the realization of these assets after the repayment of mortgages and payment of expenses is expected to be received by the Company in 2017. In the Official's assessment, the amounts that are expected to be received (net, after mortgages, other debts and expenses) are not expected to exceed CAD 2 million.

#### **C.7 Debt claim proceedings in companies managed by the monitor**

55. Simultaneously with the proceedings for realization of the backing assets and 840 St. Clair, the monitor (KSV Kofman) conducted debt claims proceedings for the subsidiaries under his management (as a reminder, the Edge group companies are managed by one monitor - Fuller Landau), for the purpose of paying the subsidiaries' debts to their creditors and possibly distributing any balance remaining to the shareholders of these companies, which are directly and indirectly held by the Company.
56. The Official filed, in the Company's name, debt claims in the framework of the general debt arrangement proceedings against the group's subsidiaries. The Official also filed, in the Company's name, debt claims against Mr. Saskin, both as director and officer of the Company in the framework of the general debt arrangement proceedings and in the framework of Mr. Saskin's personal insolvency proceedings.
57. The Official also filed debt claims against TCC / Urbancorp (Bay) Limited Partnership (hereinafter - "**TCC Bay**"), a private company owned (indirectly) by the controlling shareholder and his wife, in a sum of CAD 6

million, in respect of the assignment of rights detailed in paragraph 24 above.<sup>1</sup>

58. On December 9, 2016 a notice of rejection was received from KSV, in its capacity as monitor of TCC Bay, regarding the Company's debt claim, on the grounds that at the basis of the rights the subject of the assignment to the Company there was no real liability to the assigning company (which is also owned by the controlling shareholder), and hence TCC Bay's liability to the Company is not valid.
59. In his reply to the debt decision, the Official insisted (*inter alia*) that both the Canadian law and the bonds issued to the Company do not require or make payment of the amount stated therein by TCC Bay conditional upon a debt underlying the Company's assigned obligation of the company owned by the controlling shareholder, and that it would not be fair, ethical or correct to allow the controlling shareholder and his family to benefit from receipts from TCC Bay instead of paying them to the Company, not to mention that to the best of the Official's knowledge they were not denying the obligation included in the bonds.
60. The Official is currently considering the legal action that should be taken if the Company's debt claim against TCC Bay is not honored.
61. The Official and the monitor are in negotiations regarding amounts to which the Company shall be entitled, both as repayment of shareholders' loans and as owners, after the payment of debts to creditors who are third parties. These amounts stand at the basis of the distribution of the proceeds in the first stage of the arrangement as detailed below.

#### **C.8 Realization of assets and debt claim proceedings in the Edge companies**

62. On December 16, 2016 the Canadian court approved the entry of Edge's monitor (Fuller Landau) into sale agreements for the commercial areas and for 21 dwelling units in the Edge project (from 37 dwelling units). Together with filing the application for approval of these sale proceedings, the Edge trustee began debt claim proceedings for the Edge companies group. These proceedings are expected to come to an end in February, simultaneously with the continued sale of the dwelling units in the project. According to the information given to the Official, it is not very likely that any proceeds will be received from the realization of these assets by the Company before realization of all the dwelling units available for sale.

---

<sup>1</sup> Another assignment of rights in a sum of CAD 2 million was made to a subsidiary fully owned by the Company and it was clarified that the results of the proceedings regarding the Company's debt claim would also apply to that subsidiary's right of claim against the company owned by the controlling shareholder.

63. The Official is currently working to summarize and prepare the debt claims of the Company against the Edge group companies.
64. Edge's monitor is conducting negotiations with the Toronto Municipality regarding a possible right in public areas of the Edge project, but the details of the negotiations remain confidential at this stage.
65. Furthermore, the Official and his Canadian attorneys have identified transactions regarding Edge group companies that might be challenged. A litigation committee made up of creditors of Edge companies (including the Official) was established in order to give advice regarding the institution of legal proceedings in the Edge group and these transactions will be referred to it. Insofar as a decision is made to institute proceedings regarding these transactions, the success of the move might yield another significant repayment. Moreover, insofar as the Edge monitor refuses to institute proceedings as aforesaid, the creditors may institute certain proceedings in their own personal interest and at their expense.

**D. The state of the Company's debts and additional data**

66. In accordance with the provisions of the Companies (Compromise or Arrangement Application) Regulations, 5762-2002 (hereinafter - the "**Regulations**"), the detailed arrangement to be presented to the Company's creditors will include a discovery appendix on behalf of the Company containing all the necessary details of the Company's assets, liabilities, financial data and the like (hereinafter - the "**discovery report**").
67. At this stage, and for the sake of convenience, the Official will seek in this chapter to present to the Honorable Court, in a nutshell, the state of the Company's debts and details of collateral provided in favor of these debts. Of course, the following is not a substitute for the details contained in the discovery report but is merely in addition thereto.
68. It is also noted that a detailed report of the Official's debt decisions, including any objection thereto, will be presented to the Honorable Court after January 16, 2017 - the date fixed for filing objections to the debt decisions.
69. The Company's main debts are as described above, to the bondholders. On December 7, 2015 the Company and the trustee signed a trust deed (hereinafter - the "**trust deed**"), in the framework of the bonds' issue prospectus, pursuant to which NIS 180,000,000 nv. was raised.
70. From a sum of NIS 180,583,000 that was raised pursuant to the prospectus, approx. NIS 8.5 million remained held by the trustee in accordance with the provisions of the trust deed, which was annexed to the prospectus



(hereinafter - the "**trust deed**") as an interest and expenses pillow, in accordance with the provisions of the trust deed. From this amount, a sum of NIS 500,000 was transferred to the Official, for the purpose of financing the legal proceedings in Israel and in Canada. Correct as at the date of this application, the balance of the interest and expenses pillow in the trust fund is approx. NIS 8 million.

71. In addition to the bonds' principal as aforesaid, in accordance with the terms and conditions of the trust deed annual interest has accrued on the bonds' principal of 8.15% until April 12, 2016, and annual interest of 8.65% as of April 12, 2016, in consequence of a decrease in the bonds' rating. The trust also provides for a default interest supplement at an annual rate of 3% on the unpaid balance of the debt.<sup>2</sup>
72. It is noted that correct as at the date of filing this application, the Official has granted the trustee for the bonds approval to charge contractual interest until the date of the Official's appointment (April 25, 2016), which is effectively the relevant date for the purpose of the suspension of proceedings order.<sup>3</sup>
73. The bonds are secured by the following charges:
  - (a) an unlimited fixed, first ranking and only charge over the designated account, which is the account to which the issue proceeds were transferred, and the account to which the subsidiaries undertook to transfer all the surpluses<sup>4</sup> arising from the backing projects;
  - (b) an unlimited fixed, first ranking and only charge over all the Company's rights by virtue of the shareholders' loans that were provided for the backing projects, so long as the shareholders' loans have not been repaid by the subsidiaries.
74. In the debt decision in the trustee's debt claim, the Official acknowledged components of the trustee's debt claim that were approved as a secured debt, up to the amounts actually received from repayment of any of the

---

<sup>2</sup> The bonds were called for immediate payment pursuant to a decision of the bondholders of May 5, 2016.

<sup>3</sup> See in such regard also the position of the Official Receiver, in relation to the application for extension of the Official's appointment of September 19, 2016, pursuant whereto the appointment order is the relevant date for the purpose of counting the times in accordance with section 350(b) of the Companies Law.

<sup>4</sup> "Surpluses" were defined in the trust deed as also including "all the monies deriving to the Company or the subsidiaries in the event of sale of a backing project, in whole or in part, save for amounts required for the purpose of paying of all the debts to the lenders financing the relevant project in respect of such project and the permitted deductions. In such regard, it is clear that the Company and/or the subsidiaries may, at any time, in their sole discretion and without needing approval from the trustee and/or the bondholders, sell one or more backing asset, provided that the monies deriving to the company shall be transferred to the designated account".

shareholders' loans that the company provided to the backing assets (as defined in the prospectus).

75. In addition to the bondholders, debts claims were filed with the Company in aggregate amounts of approx. NIS 8.5 million (not including conditional claims), by service providers, officers and subsidiaries of the Company. From the debt claims filed with the Company, the Official has approved, correct as at the date of filing this application, debt claims in an aggregate sum of approx. NIS 2 million.<sup>5</sup>
76. Besides the debt to the bondholders, according to the information in the Official's possession no collateral has been given to any other creditor of the Company.
77. Several conditional debt claims were filed with the Official, by the controlling shareholder, service providers and officers of the Company. Underlying these conditional debt claims is an alleged obligation of the Company to indemnify those entities for damages occasioned to them as a result of class actions filed against them in connection with the Company's collapse. In the Official's opinion, this indemnity duty, insofar as arising in the circumstances of each and every case, is limited in any event both pursuant to the relevant agreements and pursuant to the Company's resolution of March 15, 2016, **to an amount that does not exceed 25% of the Company's equity.**
78. **Since, as is known to all, the Company (as well as the companies in its group) are in insolvency proceedings, it is clear that there is not and cannot be any "equity", until after all the Company's debts to its creditors have been settled in full, including the costs of the insolvency proceedings.**
79. Hence, so long as the Company is in insolvency proceedings, in accordance with the creditors' arrangements for an insolvent company, these creditors will be considered, at the most, deferred creditors, whose rights are inferior to those of the other creditors, and limited (together with all the other indemnity applicants), to a sum of one quarter of the equity that the Company might have after payment of all the obligations to creditors.
80. *Inter alia* for the aforesaid reason, the Official rejected the conditional debt claims. The Official's detailed position regarding the indemnity requirements are set out in his reply to applications nos. 20 and 24 in these proceedings. These decisions of the Official are still subject to appeal, and are being heard in various applications before the Honorable Court.

---

<sup>5</sup> All at the rate of the USD and CAD as at April 25, 2016.

81. A debt claim was filed with the Official by a past holder of the Company's bonds, for damage (alleged) from a sale of the Company's bonds at a loss during April. The past holder also filed application no. 23 in these proceedings for the grant of instructions, in which the Honorable Court was moved to order the Official to recognize debt claims of bondholders in accordance with the purchase price of the bonds and the loss that was actually caused to them.
82. The Official's position is that there is no room to recognize the claim of a past holder of the bonds who sold the bonds, together with the risk and prospects inherent therein, in particular in the framework of insolvency proceedings of a company, where the additional debt to them necessarily reduces the percentage repayment to the Company's other creditors in general, and the Company's current bondholders in particular.
83. The Official's detailed position on the status of past holders of the Company's bonds is set out in his reply to application no. 23 of these proceedings.
84. Moreover, an application was filed against the Company, its controlling shareholders and other officers by Mr. Tuvia Pechthold for the recognition of a class action in a sum of approx. NIS 42 million (Tel Aviv District). In the Honorable Court's decision of November 14, 2016, it approved the continued conduct of the class action against the Company, subject to the deposit of a sum of NIS 75,000, which was deposited on November 29, 2016 (decision of November 6, 2016, application no. 10); in addition, Apex Issurances Ltd (which was the main underwriter of the Company's issue of December 2015) filed an application for the grant of leave to serve a third party notice against the Company in the application for recognition of a class action that was filed by another class plaintiff - Ms. Naomi Monroe against Apex.
85. The class plaintiff - Mr. Pechthold, did not file a debt claim, while Apex filed a debt claim the "existence and amount of which is conditional upon the results of the class action" filed by Ms. Monroe. The Official rejected Apex's debt claim.
86. A full report on the Official's debt decisions and any objection filed in relation thereto will be presented to the Honorable Court after the end of the appeal period for the debt decisions, on January 16, 2016. In this report, the Court will be moved, *inter alia*, to approve that the debt claims of Canadian creditors will be heard in accordance with the Canadian law and before the Canadian court, in accordance with the provisions of the issue prospectus. Of course, the proceedings will be filed thereafter also for the approval of the Canadian court, and will be subject to its approval.

**E. The principles of the debt arrangement proposal**

87. In this chapter we will detail to the Honorable Court the main terms and conditions of the arrangement that the Official intends presenting to the creditors' meetings of the Company, as follows:

- (a) The making of distributions from the proceeds expected to be received from realization of the four backing assets and 840 St. Clair during the first half of 2017, at an expected rate of at least approx. 50% of all the Company's debts (in accordance with the debt decisions of the Official - subject to appeals as aforesaid). As detailed above, the proceeds from the sale of the backing assets are approx. CAD 76.5 million, while from this amount, and before the payment of debts to creditors of the subsidiaries and/or repayment of an investment to the Company, payments will be made of mortgages over some of the assets, reimbursement of the costs of the legal proceedings and advocates' professional fees and tax payments. Since at this time the legal proceedings involved in the realization of these assets and distribution of the proceeds to the various interested parties in the subsidiaries are not yet complete, there is no certainty at this stage regarding the percentage repayment to the Company.

A detailed computation shall be annexed to the detailed arrangement proposal, of the amounts that the Company will receive up to the date of publishing the detailed creditors' arrangement proposal from realization of the backing assets and St. Clair, as repayment of shareholders' loans and/or of a capital investment, and from realization of other assets and rights (insofar as received).

- (b) The making of distributions from proceeds from the dwelling units' realization, as provided in paragraph 54 above, which is expected in the course of 2017. As noted above, the proceeds from these realizations will not have a material effect on repayment of all the Company's debts.
- (c) The making of distributions from proceedings from realization of the Edge group assets as provided in paragraph 62 above, which is expected in the course of 2017 and/or proceeds from any other source in this group of companies, including as provided in paragraphs 63-65 above.
- (d) The making of distributions from proceedings received by the Company by virtue of the assignment of rights, as provided in paragraph 24 above, in the course of 2017, subject to acceptance of the Official's pleas in such regard as detailed in paragraphs 58-59 above.

- (e) Continuation of the investigation into the circumstances of the Company's collapse might result in acts being taken against various entities which were involved in the Company's collapse.
  - (f) Examination of the ability to obtain payment from the controlling shareholder, including in the framework of his personal insolvency proceedings in Canada, which might yield another repayment source in 2017.
88. In addition to making the distributions as detailed above, the detailed arrangement shall include assignment of the rights of claim of the bondholders to the arrangement fund, for the purpose of taking action and instituting legal proceedings against third parties which in accordance with the investigations carried out by the Official were involved in the Company's collapse, in Canada and in Israel, including officers and third parties, professional advisors, underwriters and the like. The detailed arrangement proposal shall include provisions for financing the expenses of the Official and the Canadian attorneys in taking action against these entities and an amount that shall be determined in the creditors' arrangement for the purpose of taking action as aforesaid shall be deposited to such end in the Official's account.

**F. Convening of creditors' meetings**

89. The Honorable Court is moved to exercise its power in accordance with the provisions of section 350(a) of the Law and grant the Company approval to convene meetings of the Company's creditors during Q1 of 2017 (hereinafter - the "**meetings**") for the purpose of approving the detailed debt arrangement proposal, on the basis of the principles presented in Chapter E. above, in the final formula as published by the Official at least 14 days prior to the date of convening the meetings. Insofar as there is any material change in the terms and conditions of the detailed debt arrangement proposal, a new application shall be filed with this Honorable Court in relation to approval for convening the meetings.
90. As provided in paragraph 74 above, some of the components of the trustee's debt claim, up to the amounts that will actually be received from the repayment of any of the shareholders' loans provided by the Company to the backing assets, were recognized as a secured debt. Hence, a separate meeting shall take place in respect of the secured debt to creditors at which the trustee shall vote for the bondholders (in accordance with the bondholders' resolution at the preliminary meeting) in respect of all the amounts secured as aforesaid.

91. The Honorable Court is moved to order that each one of the meetings mentioned above shall be governed by the following rules and provisions:

(a) Since the Company is a Canadian company and some of its creditors are Canadian, the Honorable Court is moved to approve that the unsecured creditors' meeting take place simultaneously in Israel and at the offices of the Official's attorneys in Canada, using communication means, such that the Canadian creditors will be able to take part in and vote at the meeting without having to travel to Israel. It will also be possible to vote through voting papers in English.

(b) The decision-making process at the creditors' meetings shall be as follows:

- the Official shall be in charge of the management and coordination of the creditors' meetings and shall serve as the chairman of any meeting;
- the Official shall determine the entitlement of any creditor to vote at any meeting, subject of course to the right of any creditor to apply to the Court for the grant of instructions in such regard;
- the trustee for the bonds shall vote at meetings of the secured creditors (in respect of part of the secured debt as aforesaid) and at meetings of unsecured creditors (in respect of the unsecured debt balance) in accordance with the manner of voting at the preliminary meeting;
- the Official shall attend to publishing notice of the creditors' meetings on the distribution site of the Israel Securities Authority (ISA), and to any relevant publication required in Canada. The notice shall include, *inter alia*, also the following details: the agenda of the meeting; the manner of holding it, including the quorum required for the meeting and any adjourned meeting, the possibility of voting through voting papers and any other matter necessary for the vote; any order of the Court in relation to a vote, insofar as it deems fit;
- the Official shall attend to publishing the results of the meetings within seven days of the meeting.

92. The Honorable Court is also moved to order that invitation to the preliminary meeting of the bondholders shall be governed by the following provisions:

- (a) The Company shall publish the detailed arrangement proposal in an "immediate report" to be published on the website of TASE and on the website of ISA (Magna), as required by the provisions of the Securities Law, 5728-1968 and the regulations pursuant thereto.
- (b) As soon as possible, and no later than 14 days from the date of publishing the detailed arrangement proposal, an immediate report shall be published, by arrangement with the trustee, of the invitation to the meeting, the agenda of which shall include a proposed resolution in connection with approval of the proposed arrangement, with all its appendices. The notice shall include, *inter alia*, also the following details: the agenda for the meeting; the manner of holding it, including the quorum required for the meeting and any adjourned meeting, the possibility of voting through voting papers and any other matter necessary for the vote; any order of the Court in relation to a vote, insofar as it deems fit. All the documents ancillary to this application including the trust deed shall be annexed to the invitation report.
- (c) The meeting shall take place within seven days of the invitation report's publication.
- (d) The meeting shall be conducted by the trustee for the bonds, who shall serve as the meeting's chairman.
- (e) A list shall be prepared of those participating in the vote; the trustee's participation for the purpose of counting the participants in accordance with section 350(i) of the Companies Law shall be computed on the basis of the number of bondholders participating in and voting at the preliminary meeting.
- (f) A list shall be prepared of the powers of attorney and/or confirmations of title reaching the trustee, if any.
- (g) **Conflict of interest** - the trustee shall examine the existence of a conflict of interest amongst the bondholders, whether the interest derives from their holdings of the bonds or from another interest of theirs, as determined by him. When counting the votes at a meeting, the trustee shall not count the votes of holders who did not comply with his request as provided below or of holders in respect of whom he has found that there is a conflict of interest as aforesaid in such section. Notwithstanding the aforesaid, if the total holdings of participants in a vote, who are not holders with a conflict of interest, falls below five percent of the balance of the nominal value of the

bonds, the trustee shall take into account, when counting the votes, also the votes of the holders with a conflict of interest.

- (h) Without derogating from the generality of the aforesaid, each of the following shall be deemed to have a conflict of interest:
- a holder who is the controlling shareholder;
  - a holder who served as an officer of the Company at or about the time of the event underlying the meeting's resolution;
  - a holder which is a subsidiary and/or related company and/or included company of the Company;
  - a holder whom the trustee has determined has a "conflict of interest" pursuant to the following provisions, subject to any law and/or directive of a competent authority, and including - any holder who declares in writing to the trustee for the bonds that he has any other material interest that deviates from the interest of the general bondholders at the relevant meeting.
- (i) The trustee may request a holder participating in a meeting to notify him, before the vote, of another interest that he has and of the existence of a conflict of interest. A holder who does not send a written declaration after being asked to do so by the trustee shall be deemed to have declared that he has another interest as aforesaid for the purpose of the vote. Without derogating from the aforesaid, the trustee shall examine if the holder has a conflict of interest, also having regard to the said holder's holdings of other securities of the Company and/or securities of any other relevant corporation in respect of the resolution presented for the meeting's approval (as detailed in the voting paper), in accordance with the said holder's declaration.
- (j) The existence of a conflict of interest shall be determined also in reliance on a general test for conflicts of interest that the trustee shall perform. For the avoidance of doubt, it is expressed that these provisions in connection with the definition of a conflict of interest do not derogate from the provisions of any law or binding directives of ISA on this issue.
- (k) It is expressed that the existence of a conflict of interest as aforesaid shall be examined by the trustee separately in relation to each resolution on the agenda of any relevant meeting. Moreover, it is expressed that a holder's declaration that he has a conflict of interest in respect of any resolution or any meeting does not, in itself, show a



conflict of interest of such holder in respect of another resolution on the meeting's agenda or a conflict of interest in respect of other meetings. The trustee shall rely on the holders' declarations as given to him in the voting papers and shall not examine them on their merits.

93. The arrangement's approval by the meetings shall be passed by the majority prescribed in section 350(i) of the Law, i.e. a majority of those participating in the vote (save for those abstaining) who together hold three quarters of the vote's represented value, or, in the circumstances described in section 350(m) of the Companies Law - on the terms and conditions detailed in that section, and subject to the filing of an application in such regard by the Company that shall be approved by the Court.
94. The Honorable Court is moved to provide any other relief and/or order, as it deems fit, required for the purpose of convening and conducting the meetings.

**G. The Official's powers**

95. The detailed arrangement shall give the Official all the powers detailed in the appointment order, which were recognized some time ago also by the Canadian court.

**H. The Court's powers**

96. The Tel Aviv-Jaffa District Court, in LF 44348-04-16, shall be the only competent court for this arrangement, and it shall have sole and exclusive jurisdiction over all the matters involved in the arrangement's implementation and any matter resulting from the arrangement, unless expressly noted otherwise in the arrangement.
97. Subject to and after receiving the Honorable Court's approval of this application, the Official shall file the application for recognition by the court in Canada as well.

**I. The appointment's extension**

98. In order to enable the Official to act to obtain approval for the creditors' arrangement proposal as aforesaid, the Official is respectfully filing, in good time, an application for extension of the appointment, in accordance with the appointment order given on April 25, 2016 (hereinafter - the "**appointment order**"), for a period of 90 days.

99. The special reasons underlying the Official's application to extend the period of the appointment beyond nine months in accordance with the provisions of section 350(b) of the Companies Law, 5759-1999, are as follows:
- (a) Involved is a company which was incorporated and registered pursuant to the Canadian law, which issued securities in Israel and which, notwithstanding its prospectus, is governed by two sets of laws (Canadian and Israeli). Moreover, the location of the Company's assets in Canada imposes additional restrictions by virtue of the Canadian law, as detailed below. The need for conduct and approval on a routine basis under two legal systems and/or two sets of laws creates significant complexity.
  - (b) The Canadian court recognized the Official's powers pursuant to the appointment order, and this was also the basis for approval of the minutes regarding the collaboration with the Canadian monitors; there is concern that non-extension of the appointment and/or the existence of liquidation proceedings in this case will confiscate and/or at the least require renewed approval and recognition of the Official's powers. The Official was also told by his Canadian attorneys that proceedings for the liquidation of a Canadian company may only be conducted by a Canadian official with a suitable license.
  - (c) Correct as at the date of filing this application, the Official does not have any final data regarding the amounts that the Company will receive from the realization of the backed assets. These data will be presented in the detailed arrangement proposal as aforesaid.
  - (d) Correct as at the date of this application, proceedings are taking place for the realization of other assets and rights of the Company, in the framework of the general debt arrangement proceedings and in the framework of the Edge group proceedings, which together might result in a significant contribution to the Company's funds.
  - (e) The deadline for filing an appeal against the Official's debt decisions is January 15, 2017 (January 16, 2016 in Canada), and the extension of the proceedings should be allowed in order to end the handling of the debt claims.
100. To the best of the Official's knowledge, extension of the suspension of proceedings period does not prejudice the Company's creditors. In such regard it is noted that despite the suspension of proceedings order, leave was recently granted to continue the conduct of the class action of *Tuvia Pechthold v. Urbancorp Inc. et al* (CA 1746-04-16) against the Company.

**J. The orders required from the Honorable Court in the framework of this application**

101. The Honorable Court is moved to exercise its power in accordance with the provisions of section 350(a) of the Law and to grant the Company approval to convene the meetings, for the purpose of approving the detailed debt arrangement on the basis of the principles presented above, which shall be published in Q1 of 2017, as detailed above.
102. The Court is also moved to approve extension of the Official's appointment as detailed at length in Chapter I. above.
103. Finally, the Court is moved to approve the powers that will be granted to the Official in the framework of the arrangement, as provided in paragraph 95 above.

**K. Conclusion**

104. In view of all the aforesaid, the Official believes that in the circumstances of the case, the principles of the proposed arrangement as detailed above present the Company's creditors with the best alternative for maximizing the proceedings to which they are entitled.
105. All the data detailed in this application is based on the contents of the Company's books and on information given to the Official in the scope of his position.
106. The facts described in this application in Chapter B. and C. above are based on information reaching the Official in the scope of his activity in Canada and/or from investigations and examinations carried out by him.
107. The Honorable Court has subject-matter and local jurisdiction to hear the application *inter alia* in light of the provisions of the trust deed and in light of the Canadian court's recognition of the Israeli proceedings as foreign main proceedings in Canada.

(Signed)

---

Guy Gissin, Adv.  
Official for Urbancorp Inc.

Today, January 8, 2016, Tel Aviv