

In the Tel Aviv-Jaffa District Court

LF 44348-04-16

Application no. _____

Before His Honor Deputy President H. Brenner

In re: The Companies Law, 1999

Companies Law

and in re: The Companies Ordinance [New Version], 1983

Companies Ordinance

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

Company

and in re: Adv. Guy Gissin - Functionary - Trustee for Execution of the Company's Creditors Arrangement

acting by his attorneys Adv. Yael Hershkovitz and/or Idan Danino, of Gissin & Co., Law Offices, 38B Habarzel Street, Tel Aviv 69710, Tel. 03-7467777, Fax. 03-7467700

Functionary

and in re: Reznik Paz Nevo Trusts Ltd, Trustee for the Company's Series A Bondholders

acting by its attorneys Adv. Amir Flamer and/or Evyatar Kramer, of Amir Flamer & Co., Law Offices, 7 Masada Street (BSR 4 Tower), Bnei Brak, Tel. 03-3730630, Fax. 03-3730650

Trustee for the Bondholders

and in re: The Official Receiver

of 2 Hashlosha Street, Tel Aviv, Tel. 03-6899695, Fax. 02-6467558

Official Receiver

and in re: KSV Kofman in its capacity as Information Officer

in accordance with the collaboration minutes signed by the Functionary

acting by its attorney, Erez Haver, Amit, Pollak, Matalon & Co., APM House, 18 Raoul Wallenberg Street, Tel Aviv, Tel. 03-5689000, Fax. 03-5689001

**Update Report No. 24 on behalf of the Functionary and Application
for the Grant of Instructions in relation to the Company's rights in Monies
from the Kingsclub Project Sale**

The Functionary respectfully files an update report on the arbitration proceedings that are taking place with Mattamy - the partner in the Downsview project (Chapter A. of the report) and on exercise of the rights in the Kingsclub project and non-receipt of the proceeds from it (Chapters B. and C. of the report). In light of the provisions of Chapter B. of the report, an application is also being filed for the grant of instructions (Chapter E. of the report) in relation to taking action in Canada in connection with the rights in monies from the Kingsclub project sale.

A. Update on the Downsview arbitration proceedings

1. Further to update report no. 23 of August 11, 2019, in relation to the existence of arbitration proceedings between the Functionary and the monitor for Mattamy with regard to the Company's rights in the Downsview project, the Functionary respectfully updates the Court that as a result of the pleas raised in the arbitration, and even before the arbitration proceedings came to an end, Mattamy recognized a debt in a sum of CAD 4.5 million plus annual interest in a sum of 15% and in an overall sum of CAD 5.762 million to the Company's subsidiary.
2. Pursuant to a loan agreement of May 2016, Mattamy provided a loan to the subsidiary in a sum of approx. CAD 8 million, that carries annual interest of 15%, currently amounting to a sum of approx. CAD 10.366 million (the "**DIP loan**").
3. Accordingly, it was agreed that the debt to the subsidiary, together with interest identical to the interest on the DIP loan at an annual rate of 15%, will be deducted from the amount of the loan, such that it will amount to a sum of only CAD 4.6 million correct as at June 28, 2019.
4. Agreement was also reached on extension of the DIP loan agreement to October 31, 2019.

A copy of the DIP loan agreement's extension is annexed hereto as **appendix 1**.

5. The Functionary will continue to give updates on results of the arbitration proceedings on their anticipated conclusion in the coming weeks.

B. Mediation proceedings with defendants and third parties

5.1 In October 2019, mediation proceedings will commence before His Honor Judge (Retired) Adi Zarankin between the Functionary and several entities that were sued by him in Israel and in Canada, including entities against which third party notices were filed in the framework of the said proceedings, including Apex Issuances Ltd, Deloitte - Brightman Almagor Zohar, the firm of Harris Schaeffer and Adv. Barry Rotenberg, the Canadian lawyers of the Company and the firm of Shimonov, against which a third party notice was filed by the Canadian lawyers.

6. The Functionary will continue to give updates regarding the mediation proceedings.

C. Update on receipt of proceedings from the Kingsclub project sale

7. In update report no. 22 that was filed by the Functionary with the Honorable Court (application no. 84) on April 10, 2019, the Functionary updated that **"the Functionary had been informed that the hearing in the Canadian court regarding approval for receipt of the proceeds from the Kingsclub transaction had been fixed for April 30, 2019, and that the transaction's closing was expected to take place shortly thereafter, and to bring in a sum of approx. CAD 2.3 million to the creditors arrangement fund"**.

8. It is noted already here that the said information regarding the expected transaction and transfer of the transaction proceedings to the creditors arrangement fund was furnished to the Functionary and to his attorneys in Canada by the Canadian monitor, KSV Kofman (the "**monitor**"), both orally and in writing. On the basis of the understanding that the proceeds would be distributed to Company's creditors arrangement fund shortly after the transaction's closing, the Functionary did not object to the course of the transaction that was endorsed by the monitor. Indeed, in an e-mail sent by the Canadian monitor to the Functionary on June 8, 2019, the monitor furnished the following information:

"UNKI: We've signed the UNKI agreement earlier this week and expect to get the transaction approved later this month. The outside date for closing is the end of July. The purchase price is \$ 2.15 million and we will distribute the proceeds to you immediately following closing."

A copy of the correspondence with the monitor is annexed as **privileged appendix 2**.

9. The Kingsclub sale transaction, through the Company's subsidiary Urbancorp New King Inc. ("**UNKI**") was closed and approved by the Canadian Court on June 24, 2019.

10. Accordingly, already that same day, the Functionary's attorney applied to the monitor for an update regarding the date of the monies' release as aforesaid.

11. To the Functionary's surprise, he was told on that day by the monitor that although the transaction had been closed, in light of the existence of a mortgage in favor of a company owned by the partner, First Capital Reality Co. ("FCR"), the monies could not be released from UNKI to the Company, as follows:

"UNKI:

The UNKI settlement was approved earlier today.

UNKI and UMI are jointly liable to KLNC (an FCR company) for \$2 million. This obligation is secured by the Fuzion geothermal system. Until that mortgage is repaid, we cannot distribute the UNKI sale proceeds."

12. And subsequently that the monitor intended trying to reach an agreement with FCR for the monies' release.

A copy of the correspondence with the monitor is annexed as **privileged appendix 3.**

13. The Functionary asked to be a partner to and to get routine updates regarding these negotiations with FCR, in light of various pleas and rights that the Company itself has against this partner, especially in connection with the said mortgage.
14. The Functionary also made it clear to the monitor that over several months during which approval of the Kingsclub sale transaction was discussed, it was clarified in writing and orally that the monies would be released to the Company's creditors fund on the transaction's closing, and that it was on this basis that the Functionary did not object to the transaction.
15. It is noted that besides the above mentioned restrictions regarding release of the Kingsclub sale transaction monies, another application was filed on behalf of a Kingsclub project contractor for a lien over monies from sale of the Kingsclub project on the basis of a plea regarding the existence of a secured debt for works executed by it on the project. According to information received from consultants of the Functionary in Canada, the basis for the demand is disputed, and the Functionary intends objecting to this demand.
16. From June 2019 to date, the Functionary's efforts to advance the monies' release and take part in the negotiations that are being conducted in such regard have not been successful and adequate information has not been received in relation to a current assessment for the monies' release, as well as confirmation that they will not be paid to FCR by virtue of the mortgage in their favor as provided in paragraph 11 above.

The letter of the Functionary's attorneys to the monitor is annexed hereto as **appendix 4**, and a copy of the correspondence with the monitor following the aforesaid letter is annexed hereto as **privileged appendix 5**.

17. In light of all the aforesaid, the Functionary wishes to update that contrary to the information originally given to him and reported in report no. 22, it is not clear if and when it will be possible to distribute the Kingsclub transaction monies to the Company's creditors, in light of the existence of a mortgage in favor of FCR to secure its alleged rights.
18. Subject to the Court's approval, the Functionary will apply to the Canadian court (in accordance with the provisions of the collaboration minutes that were signed with the monitor on May 13, 2016¹), with a request to review the validity of the sale transaction, the rights in the monies received in the framework thereof and to transfer the handling of all the rights of the Company and the subsidiary vis-à-vis FCR to him, as provided below.

D. The Company's rights vis-à-vis FCR

19. As detailed in application no. 17 of July 25, 2016 (application no. 17) ("**application no. 17**"), FCR is a Canadian company whose securities are listed for trade on the stock exchange in Canada, which is active, itself, and through companies under its control, in the real estate sphere in Canada (primarily the development, construction and management of shopping centers). The FCR group had partnership and business relations with companies under the control of Mr. Saskin, including and especially with the Company and companies under its control.
20. Between FCR and companies owned by it and subsidiaries of the Company, there was, and still is, partially, a set of agreements pertaining to several real estate projects, as well as in relation to "geothermal assets" that were and/or are held jointly by the FCR group and subsidiaries of the Company. These geothermal assets, as well as the joint projects of the Company with the FCT group, were valued, for the purpose of the issue prospectus of the Company's bonds, at tens of millions of dollars.
21. On March 10, 2016, only several weeks before - on the initiative of the Company and Mr. Saskin - insolvency proceedings were commenced in relation to the group's main companies, the Company reported a series of transactions that were executed between the FCR group and the Company's group ("**FCR transactions**"). The FCR transactions, even though they were undoubtedly very material, and even though they were executed as of January 2016, were only reported to the public in March 2016. According to the Company's report to the public, the FCR transactions were aimed at "improving the Company's liquidity".

¹ See update report of May 17, 2016.

The practical outcome of the FCR transactions was a reduction in the FCR group's exposure to the Company's businesses and to the private businesses of Mr. Saskin (that were not part of the assets and businesses transferred to the Company for the purpose of the bonds' issue).

22. Following the proceedings in application no. 17, the then chairman of FCR, Mr. Dori Segal, was questioned by the Functionary, and FCR agreed to send materials to the Canadian monitor and to the Functionary.
23. In light of the course of events in relation to the Kingsclub project sale, the Functionary believes that there might be an advantage (subject of course to the Canadian court's approval) in granting the Functionary approval to act directly with FCR in relation to all the Company's rights vis-à-vis them, in relation to the Kingsclub project, in relation to the joint geothermal asset and a review of their value, and in relation to reviewing the series of transactions of March 2016 that might give the Company additional rights and pleas.

E. Application for the grant of instructions

24. In light of the aforesaid, the Functionary is applying for the Court's approval to apply to the Canadian court in accordance with the provisions of the collaboration minutes signed with the monitor for a hearing to be held in relation to the rights of the Company and UNKI, in the framework of the Kingsclub transaction approval and distribution of the transaction monies and in the framework of the mortgage transaction in which UNKI contracted, and *inter se* to allow the Functionary to independently deal with exhausting the rights of the Company and the subsidiary UNKI against FCR and to obtain from FCR and the monitor all the information required to such end.
25. The monitor's position, that is not consistent with the Functionary's understanding of the collaboration minutes, is that application to the Israeli court in such regard constitutes a breach of the collaboration minutes. The monitor gave notice that insofar as the Functionary applies to the Israeli court for the grant of instructions - he intends applying to the Canadian court for the collaboration minutes' cancellation.
26. The position of the Functionary and his attorneys in Israel and Canada is that applying to the Israeli court, reporting and filing a preliminary application for the grant of instructions to the Functionary in relation to future acts with the Canadian court does not constitute a breach of the provisions of the collaboration minutes.

A copy of the collaboration minutes signed with the monitor of May 13, 2016 is annexed hereto as **appendix 6**.

27. In accordance with the monitor's application, KSV in its capacity as information officer on behalf of the Canadian court in accordance with the collaboration minutes signed with the Functionary, is joined as a party to this application.
28. Subject to the monitor's consent, the Functionary does not have any objection to publication of the privileged appendices annexed to this report.

(Signed)

Guy Gissin, Adv.
The Functionary

(Signed)

Yael Hershkovitz, Adv.
The Functionary's attorney

Today, September 26, 2019