

***ONTARIO*  
SUPERIOR COURT OF JUSTICE**

B E T W E E N:

ANTHONY WHITEHOUSE

Plaintiff

and

BDO CANADA LLP

Defendant

**MOTION RECORD OF THE PLAINTIFFS  
VOLUME 13 OF 20**

June 15, 2018

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me, this 14th day of June, 2018

*Iris A.*  
.....  
A COMMISSIONER FOR TAKING AFFIDAVITS  
*IRIS GRAHAM*

Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**ONTARIO SECURITIES COMMISSION**

Applicant

- and -

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.

Respondents

**Application under Section 129 of the Securities Act, R.S.O. 1990, c. S.5, as amended**

**MOTION RECORD**

**Volume 1 of 3**

Date: November 24, 2017

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Court File No. CV-17-11779-00CL

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Respondents

**Application under Section 129 of the Securities Act, R.S.O. 1990, c. S.5, as amended**

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ONTARIO  
SUPERIOR COURT OF JUSTICE  
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ONTARIO SECURITIES COMMISSION

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CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.

Respondents

**Application under Section 129 of the Securities Act, R.S.O. 1990, c. S.5, as amended**

**NOTICE OF MOTION**

Grant Thornton Limited ("GTL"), in its capacity as the Court-appointed receiver and manager (in such capacity, the "Receiver") of: (i) each of the Respondents except the Respondent, Chrysalis Yoga Inc. ("Chrysalis Yoga") (each of the Respondents except for Chrysalis Yoga being individually and collectively, the "Crystal Wealth Group"); and (ii) Receiver of the account of the Respondent, Chrysalis Yoga, No. 87296 00518 10 at Bank of Nova Scotia (the "Chrysalis Account"), will make a motion to a Judge presiding over the Commercial List at 10:00 a.m., or as soon after that time as the motion can be heard, on Monday, December 11<sup>th</sup>, 2017 at 330 University Avenue, Toronto, Ontario.

**PROPOSED METHOD OF HEARING:** The motion is to be heard orally.

1. THE MOTION IS FOR, among other things:

- (a) if necessary, an Order abridging the time for service and filing of this notice of motion and the Receiver's motion record or, in the alternative, validating service or dispensing with the requirement of same;
- (b) an Order approving the Second Report of the Receiver dated November 24, 2017 (the "**Second Report**"), and any supplements thereto, and the activities of the Receiver set out therein;
- (c) an Order sealing certain confidential appendices to the Second Report (the "**Confidential Appendices**") until further Order of the Court;
- (d) an Order approving the Receiver's methodology and proposal to make an interim distribution to investors of certain Crystal Wealth Funds;
- (e) an Order approving the Quiver MOU Amendments (as defined in the Second Report) executed by the Receiver and Quiver;
- (f) an Order approving the Receiver's recommendation regarding the treatment of an amended proof of claim filed with the Receiver by BDO Canada LLP (the "**Amended BDO Claim**"), and approving the BDO Agreement (as defined in the Second Report) entered into by the Receiver and BDO Canada LLP;
- (g) an Order declaring that:
  - (i) any payment, distribution and disbursement as authorized under the Order sought by the Receiver shall not constitute a "distribution" for the purposes of any federal or provincial tax legislation (collectively, the "**Tax Statutes**") and that the Receiver, in making such payments, distributions or disbursements is not "distributing", nor shall be considered to "distribute" nor to have "distributed" such funds for the purposes of the Tax Statutes, and shall have no obligation to obtain a clearance certificate in respect of such payments, distributions or disbursements; and
  - (ii) the Receiver shall not incur any liability under the Tax Statutes in respect of its making any payments ordered or permitted by the Order sought on the within motion, and is hereby forever released and discharged from any claims against it under or pursuant to the Tax Statutes or otherwise at

law or in equity by any person or entity, including, without limitation, claims by investors of the Crystal Wealth Funds (as defined in the Second Report), arising in respect of payments made by the Receiver as a result of the Order sought on this motion, and any claims of this nature are hereby forever barred;

- (h) an Order specifically directing the following entities and/or individuals to provide the Receiver and its counsel with certain requested but still outstanding information required by the Receiver for a proper account reconciliation and assessment of the Crystal Wealth Group:
  - (i) Jerry Froese ("**Froese**") – President & CEO of Frontline Factoring Inc. ("**Frontline**");
  - (ii) Alberto Storelli, Brian Peoples; and Joe Harker as it relates to their involvement in the US Real Estate LP (as that term is defined and described in the Second Report);
  - (iii) Craig Clydesdale ("**Clydesdale**") – principal of the OOM Energy Group (defined in the Second Report);
  - (iv) Kari Gillespie ("**Gillespie**") – Operations Manager of Liberty Mortgage Services Ltd.;
  - (v) Stephen Miller ("**Miller**") – a representative of MGE Corporation Limited;
  - (vi) Chuck Pinnell ("**Pinnell**") – principal of 611802 B.C. Ltd.;
  - (vii) Stan Spletzer – principal of Solid Holdings Inc.;
- (i) an Order that The Investment Administration Solution Inc. ("**IAS**"), the third-party entity that performed accounting and record keeping for the Crystal Wealth Funds, be directed to provide the Receiver and its counsel with certain requested but still outstanding information required for a proper assessment of the Crystal Wealth Funds, namely, monthly reporting for each of the Crystal Wealth Funds, including all underlying transactions, for the period January 1, 2015 to May 1, 2017;
- (j) an Order authorizing the Receiver to examine the following individuals under oath at the offices of Victory Verbatim located at 222 Bay Street, Suite 900, in Toronto, Ontario, with each such individual bearing their own cost of the attendance;

- (i) Al Housego, the former Lead Portfolio Strategist for certain of the Crystal Wealth Funds ("Housego");
  - (ii) the Respondent, Clayton Smith ("Smith");
  - (iii) Joanne Bentley;
  - (iv) Clydesdale;
  - (v) Gillespie;
  - (vi) Froese;
  - (vii) Miller;
  - (viii) Steven Bandola, a former employee of Frontline;
  - (ix) David DenHollander, the President of 647497 B.C. Ltd.;
  - (x) Jeffrey Maljaars, Principal of 15666496 Alberta Ltd.
  - (xi) Darcy Pahl, President of Dome Mountain Resources of Canada Inc.
  - (xii) Robert Maljaars, previous signing authority of Dome Mountain Resources of Canada Inc.
  - (xiii) Pinnell; and
  - (xiv) Alan Braun – Principal of Onstar Exploration Ltd.;
- (collectively, the "**Potential Examinees**");
- (k) an Order that Frontline pay to the Receiver the sum of \$536,775, representing payments received by Frontline from Zomongo TV, Advanced Metal, 156 Alberta, and Restoration Energy (as such entities are herein defined), which payments have yet to be remitted to the Receiver in trust for the Factoring Fund and Hedge Fund contrary to the FPAA (as defined in the Second Report);
  - (l) an Order approving the Receiver's Interim Statement of Receipts and Disbursements (the "**Receiver's Interim R&D**") for the period from April 26, 2017 to October 31, 2017;
  - (m) an Order approving the fees and disbursements of the Receiver and its counsel, Aird & Berlis LLP ("**A&B**"), for the period June 1, 2017 to September 30, 2017 (the "**Approved Fees**"), and the allocation of the fees and disbursements of the Receiver and its counsel from April 24, 2017 to September 30, 2017, as

described and detailed in the Second Report, and in the Krieger and van Zandvoort Affidavits (as defined in the Second Report); and

- (n) such further and other relief as counsel may advise and this Court may permit.

2. **THE GROUNDS FOR THE MOTION ARE:**

**Background**

- (a) pursuant to an Order of the Honourable Mr. Justice Newbould issued April 26, 2017 (the "**Appointment Order**"), GTL was appointed as the Receiver, without security, of the Chrysalis Account and of all the assets, undertakings and properties of the Crystal Wealth Group;
- (b) the proceedings were commenced by way of application (the "**Application**") made by the Ontario Securities Commission under section 129 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "**Act**"). On April 7, 2017, the Ontario Securities Commission (the "**OSC**") issued a temporary order (the "**Temporary Order**") providing, among other things, that the trading of units of all of the Crystal Wealth Funds cease and that trading in securities held by the Crystal Wealth Funds cease. On April 28, 2017, the OSC extended the Temporary Order to October 3, 2017. On October 2, 2017, the OSC further extended the Temporary Order to April 10, 2018, with certain amendments thereto that are described in the Second Report;
- (c) the Respondent, Crystal Wealth Management System Limited (the "**Company**"), created and managed the Crystal Wealth Funds, which are structured as open-ended mutual fund trusts, and distributed on an exempt basis, pursuant to offering memoranda ("**OMs**"). Prior to the Appointment Order, as the investment fund manager and portfolio manager of the Crystal Wealth Funds, the Company managed the day-to-day business of the Crystal Wealth Funds and was required to make investment decisions consistent with each Fund's investment objectives;
- (d) the Respondent, Smith, was the directing mind, and sole officer and director of the Company, and holds a controlling interest in the shares of the Company;

- (e) based on a valuation package provided by Smith to the Receiver, the assets under management of the Crystal Wealth Funds, as at April 20, 2017, purportedly amounted to approximately \$193,198,912;
- (f) the circumstances leading to the Receiver's Appointment, and a detailed description of the Crystal Wealth Funds, are summarized in the Receiver's First Report to Court dated June 22, 2017 (the "First Report") and in the Second Report;

#### **Impairments and Management Issues with the Crystal Wealth Funds**

- (g) a summary of the Crystal Wealth Funds and details regarding the steps and actions taken by the Receiver since the Appointment are discussed in detail in the First Report and the Second Report;
- (h) since the First Report, the Receiver has continued to spend a significant amount of time understanding and assessing the realizable value of investments contained within the Crystal Wealth Funds, in part because such investments are unconventional, and in part because of significant deficiencies in the Company's books and records with respect to the documentation (or lack thereof) associated with such investments, and the refusal by certain individuals, including the Potential Examinees, to provide required information to the Receiver to properly conduct its mandate;
- (i) the Receiver's understanding of the realizable value of such investments, and, where possible, its monetization of same, is detailed in depth in the Second Report;
- (j) the Receiver's investigation of the Company's affairs has identified serious concerns about the conduct of certain parties associated with the Crystal Wealth Funds and the underlying investments therein, which concerns are particularized in the Second Report;
- (k) the Receiver draws the following conclusions:
  - (i) the lack of segregation of duties in performing the day to day operations and governance thereof (e.g. Smith was the controlling mind, sole director, and Chief Compliance Officer) resulted in the Company not

- having an effective organizational structure to ensure proper oversight and governance of the Crystal Wealth Funds and possibly, compliance with Ontario securities laws;
- (ii) the decisions of the Company, Smith, and Housego to cause certain of the Crystal Wealth Funds to advance monies to third parties, purportedly on account of investments, which investments had questionable return and recovery prospects, were inconsistent with the Crystal Wealth Funds' investment objectives as set out in certain Funds' Offering Memorandums, and/or lacked the security which was to be provided by third parties to the Crystal Wealth Funds in connection with such investments;
  - (iii) the Receiver is concerned with the relationships between Smith, Housego, administrators of certain investments in Crystal Wealth Funds, and the principals of the companies in which certain Crystal Wealth Funds advanced monies purportedly on account of investments;
  - (iv) certain Crystal Wealth Funds' exposure was concentrated within a few companies who received monies from same;
  - (v) the Receiver is concerned as to the ultimate use of and lack of accountability for the investors' monies once such investments were made by the Company;
  - (vi) the Company transferred significant money between Crystal Wealth Funds which may have been used to falsely create liquidity to meet investor distributions and/or redemptions;
  - (vii) the Company made distributions to investors in Crystal Wealth Funds, which Funds had no sources of income, or cash flow. Such distributions appear to have been only supportable by Inter-fund Investments (as defined in the Second Report); and
  - (viii) the Company disclosed false or manipulated net asset values ("NAVs") of the Crystal Wealth Funds;
  - (l) accordingly, the quality of and ultimate collectability of, amongst other investments held by certain of the Crystal Wealth Funds: the Factoring Contracts; the Media Loans; certain Commercial Loans; the Gold Loans; and the US Real Estate LP (as defined in the Second Report), may be grossly impaired;
  - (m) the Receiver has significant concerns over the quality and ultimate collectability of approximately \$88.72 million of recorded value, or approximately 46% of the NAV of the Crystal Wealth Funds as provided by Smith as at April 20, 2017 in the sum of \$193,198,912. In addition, the Receiver has concerns that there may be further potential impairment of approximately \$27.91 million (recorded value);

- (n) additional information from certain parties, including the Potential Examinees, would assist the Receiver in implementing its mandate and confirming the status, impairment, and potential realization of certain investments held by the Crystal Wealth Funds;
- (o) the Appointment Order empowers and authorizes the Receiver to, amongst other things, examine under oath any person the Receiver reasonably considers to have knowledge of the affairs of Crystal Wealth Group, including, but not limited to, the Potential Examinees. It would be fair and most cost efficient for the administration of the Receivership, and given the issues and concerns raised in the Second Report with respect to the Potential Examinees, if the Potential Examinees are required to attend in Toronto, Ontario for their examinations, at their own cost;

#### **Future Distributions and Related Matters**

- (p) on June 30, 2017, this Court issued Orders authorizing, among other relief:
  - (i) that the Receiver may rely on the Unit Holder Listing (as defined in the First Report) to make distributions, without further approval of the Court, of the proceeds obtained from the divestiture of certain assets of the Crystal Wealth Funds to investors (the "Investors") of the Crystal Wealth Funds; and
  - (ii) a Creditor Claims Procedure Order to address the filing of certain creditor claims as against the Crystal Wealth Group;
- (q) for the reasons set out in the Second Report, the Receiver recommends and requests the approval of this Court that the Receiver be authorized to make an interim distribution to the Investors as proposed in the Second Report;
- (r) the Receiver is in the process of reviewing and assessing the creditor claims filed in accordance with the Creditor Claims Procedure Order, and will be reporting to the Court concerning the Receiver's determination of same on a future motion;
- (s) for the purposes of the proposed interim distribution to Investors, the Receiver has held back the necessary funds to satisfy the creditor claims filed in accordance with the Creditor Claims Procedure Order, in the event such claims are to be admitted, and are required to be paid. The sole exception to the

foregoing is with respect to an amended Proof of Claim filed by BDO Canada LLP on August 23, 2017, which the Receiver has separately addressed as detailed in the Second Report;

- (t) The Receiver has reached agreement with BDO to resolve the BDO Amended Claim, and believes that the BDO Agreement (as defined in the Second Report) is in the best interest of the stakeholders of the Crystal Wealth Group;
- (u) the Receiver has filed with the Court its Second Report, and the Receiver's activities have been reasonable and responsible in accordance with the Receiver's mandate as provided by the Appointment Order;
- (v) the Confidential Appendices contain certain commercially sensitive information, the release of which could prejudice the stakeholders of the Crystal Wealth Group;
- (w) the Receiver and its counsel, A&B, have accrued fees and expenses in their capacity as Receiver and counsel thereto, respectively, which fees and expenses require the approval of this Court pursuant to the Appointment Order;
- (x) the Receiver is of the view that its accounts and the accounts of its counsel, A&B, are reasonable, given the significant efforts undertaken by the Receiver and its counsel in fulfilling the Receiver's mandate pursuant to the Appointment Order;
- (y) the facts set out in the Second Report;
- (z) the Receiver's Interim R&D for the period April 26, 2017 to October 31, 2017;
- (aa) the affidavit of Jonathan Krieger sworn November 17, 2017;
- (bb) the affidavit of Mark van Zandvoort sworn November 22, 2017;
- (cc) section 129 of the *Securities Act*, R.S.O. 1990, c. S.5;
- (dd) rules 1.04, 2.03, 3.02, 11, 37 and 41 of the *Rules of Civil Procedure*; and

(ee) such further and other grounds as counsel may advise and this Court may permit.

3. **THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the motion:

- (a) the Second Report, inclusive of the appendices thereto and the fee affidavits filed by the Receiver and its counsel; and
- (b) such further and other material as counsel may submit and this Honourable Court may permit.

Date: November 24, 2017

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TO: ATTACHED SERVICE LIST

ONTARIO SECURITIES COMMISSION

and

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, ET AL.

Applicant

Respondents

Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST  
Proceedings commenced at TORONTO**

**NOTICE OF MOTION**

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# TAB 1

Court File No. CV- 17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE ) MONDAY, THE 11<sup>th</sup> DAY  
JUSTICE MYERS ) OF DECEMBER, 2017  
                  )  
                  )

**BETWEEN:**

**ONTARIO SECURITIES COMMISSION**

**Applicant**

- and -

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND and CHRYSALIS YOGA INC.

**Respondents**

**APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

**ORDER**

**THIS MOTION**, made by Grant Thornton Limited ("GTL"), in its capacity as the Court-appointed receiver and manager (in such capacity, the "Receiver"), without security, of all of the assets, undertakings and properties of each of the Respondents except the Respondent, Chrysalis Yoga Inc. ("Chrysalis Yoga") (each of the Respondents except for Chrysalis Yoga being individually and collectively, the "Crystal Wealth Group"), for an Order, *inter alia*, approving the Second Report of the Receiver dated November 24, 2017 (the "Second Report") and the activities of the Receiver set out in the Second Report, and for other relief requested by

the Receiver in its Notice of Motion dated November 24, 2017, was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the Second Report, including the affidavit of Jonathan Krieger sworn November 17, 2017 (the "**Krieger Affidavit**"), and the affidavit of Mark van Zandvoort sworn November 22, 2017 (the "**van Zandvoort Affidavit**"), and on hearing the submissions of counsel for the Receiver and such other counsel who were present, no one appearing for any other person on the service list, although duly served as appears from the affidavit of service of Colette Dillard sworn November 24, 2017, filed,

1. **THIS COURT ORDERS** that the time for service and filing of the notice of motion and the Receiver's motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.
2. **THIS COURT ORDERS** that the Second Report and the activities of the Receiver described therein be and are hereby approved.
3. **THIS COURT ORDERS** that the Confidential Appendices be and are hereby sealed until further Order of the Court.
4. **THIS COURT ORDERS** that the Receiver's resolution of the amended proof of claim filed by BDO Canada LLP ("**BDO**"), and the BDO Agreement (as defined in the Second Report), be and are hereby approved;
5. **THIS COURT ORDERS** that the Receiver's methodology and proposal to make interim distributions to investors of certain Crystal Wealth Funds (as defined in the Second Report) (the "**Investors**"), as set out in the Second Report, be and is hereby approved, and that the Receiver is hereby authorized to make such interim distributions to Investors.
6. **THIS COURT ORDERS** that any payment, distribution and disbursement as authorized under this Order by the Receiver shall not constitute a "distribution" for the purposes of section 159 of the *Income Tax Act* (Canada), section 270 of the *Excise Tax Act* (Canada), section 107 of the *Corporations Tax Act* (Ontario), section 117(1) of the *Taxation Act, 2007* (Ontario), or any other similar federal or provincial tax legislation (collectively, the "**Tax Statutes**") and that the Receiver, in making such payments, distributions or disbursements is not "distributing", nor shall be considered to "distribute" nor to have "distributed" such funds for the purposes of the Tax Statutes, and shall have no obligation to obtain a clearance certificate in respect of such

payments, distributions or disbursements. The Receiver shall not incur any liability under the Tax Statutes in respect of its making any payments ordered or permitted by this Order, and is hereby forever released and discharged from any claims against it under or pursuant to the Tax Statutes or otherwise at law or in equity by any person or entity, including, without limitation, claims by Investors, arising in respect of payments made under this Order, and any claims of this nature are hereby forever barred.

7. **THIS COURT ORDERS** that each of the following entities and/or individuals be and is hereby specifically directed to provide the Receiver and its counsel, Aird & Berlis LLP ("A&B"), with certain requested but still outstanding information required by the Receiver for a proper account reconciliation and assessment of the Crystal Wealth Group:

- (i) Jerry Froese ("Froese") – President & CEO of Frontline Factoring Inc. ("Frontline");
- (ii) Alberto Storelli, Brian Peoples; and Joe Harker as it relates to their involvement in the US Real Estate LP (defined and described in the Second Report);
- (iii) Craig Clydesdale ("Clydesdale") – principal of the OOM Energy Group (defined in the Second Report);
- (iv) Kari Gillespie ("Gillespie") – Operations Manager of Liberty Mortgage Services Ltd.;
- (v) Stephen Miller ("Miller") – a representative of MGE Corporation Limited;
- (vi) Chuck Pinnell – Principal of 611802 B.C. Ltd.; and
- (vii) Stan Spletzer – Principal of Solid Holdings Inc.

8. **THIS COURT ORDERS** that The Investment Administration Solution Inc. be directed to provide the Receiver and its counsel with certain requested but still outstanding information required for a proper assessment of the Crystal Wealth Funds, namely, monthly reporting for each of the Crystal Wealth Funds, including all underlying transactions, for the period January 1, 2015 to May 1, 2017.

9. **THIS COURT ORDERS** that the Receiver be and is hereby authorized to examine the following individuals under oath at the offices of Victory Verbatim located at 222 Bay Street, Suite 900, in Toronto, Ontario, with each such individual bearing their own cost of the attendance:

- (i) Al Housego, the former Lead Portfolio Strategist for certain of the Crystal Wealth Funds ("Housego");
- (ii) Clayton Smith ("Smith");
- (iii) Joanne Bentley;
- (iv) Clydesdale;
- (v) Gillespie;
- (vi) Froese;
- (vii) Miller;
- (viii) Steven Bandola, a former employee of Frontline;
- (ix) David DenHollander, the President of 647497 B.C. Ltd.;
- (x) Jeffrey Maljaars, Principal of 15666496 Alberta Ltd..
- (xi) Darcy Pahl, President of Dome Mountain Resources of Canada Inc.
- (xii) Robert Maljaars, previous signing authority of Dome Mountain Resources of Canada Inc.
- (xiii) Pinnell; and
- (xiv) Alan Braun – Principal of Onstar Exploration Ltd.

10. **THIS COURT ORDERS** that Frontline pay to the Receiver the sum of \$536,755 representing payments received by Frontline from Zomongo TV, Advanced Metal, 156 Alberta and Restoration Energy (as such entities are defined in the Second Report), which payments

have yet to be remitted to the Receiver in trust for the Factoring Fund and Hedge Fund contrary to the FPAA (as defined in the Second Report).

11. **THIS COURT ORDERS** that the Quiver MOU Amendments executed by the Receiver and Quiver (as those terms are defined in the Second Report) be and are hereby approved.

12. **THIS COURT ORDERS** that the Receiver's Interim Statement of Receipts and Disbursements through to October 31, 2017, as appended to the Second Report, be and is hereby approved.

13. **THIS COURT ORDERS** that the fees and disbursements of the Receiver for the period June 1, 2017 to September 30, 2017, as described in the Second Report and as set out in the Krieger Affidavit, be and are hereby approved, and that the allocation of the Receiver's fees and disbursements from April 24, 2017 to September 30, 2017, as described and detailed in the Second Report, be and is hereby approved.

14. **THIS COURT ORDERS** that the fees and disbursements of Aird & Berlis LLP, counsel to the Receiver, for the period June 1, 2017 to September 30, 2017, as described in the Second Report and as set out in the van Zandvoort Affidavit, be and are hereby approved, and that the allocation of A&B's fees and disbursements from April 24, 2017 to September 30, 2017, as described and detailed in the Second Report, be and is hereby approved.

15. **THIS COURT ORDERS** that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

16. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

17. **THIS COURT ORDERS** that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the

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within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

ONTARIO SECURITIES COMMISSION

-and-

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED et al.

Applicant

Respondents

Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**Proceedings commenced at Toronto**

**ORDER**

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# Tab B

Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**B E T W E E N:**

**ONTARIO SECURITIES COMMISSION**

Applicant

- and -

**CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE AND PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE FUND, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.**

Respondents

**APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT R.S.O. 1990,  
c. S.5, AS AMENDED**

**SECOND REPORT TO THE COURT SUBMITTED BY GRANT THORNTON LIMITED  
IN ITS CAPACITY AS RECEIVER**

**NOVEMBER 24, 2017**



**Grant Thornton Limited  
200 King Street West, 11<sup>th</sup> Floor  
Toronto, Ontario, M5H 3T4**

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Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

B E T W E E N :

**ONTARIO SECURITIES COMMISSION**

Applicant

- and -

**CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE AND PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE FUND, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.**

Respondents

**APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT R.S.O. 1990,  
c. S.5, AS AMENDED**

**SECOND REPORT TO THE COURT SUBMITTED BY GRANT THORNTON LIMITED  
IN ITS CAPACITY AS RECEIVER OF THE RESPONDENTS**

**NOVEMBER 24, 2017**

## **INTRODUCTION**

### **THE APPLICATION AND APPOINTMENT ORDER**

- 1 The Ontario Securities Commission (the “**OSC**”) issued a temporary order on April 7, 2017 (as extended by the OSC on April 13, 2017 and April 28, 2017 (the “**Temporary Order**”)) providing that the trading of units of all of the Crystal Wealth Funds (defined herein) cease, that trading in securities held by the Crystal Wealth Funds cease, and prohibiting the trading in or acquisition of securities by Clayton Smith (“**Smith**”) and Crystal Wealth Management System Limited (the “**Company**”), with limited exceptions that permitted Smith and the Company to liquidate exchange-traded securities in the Crystal Wealth Funds with such proceeds being deposited into the bank account of the relevant Fund. On October 2, 2017, the OSC further extended the Temporary Order to April 10, 2018 (the “**Extension Order**”), while modifying the Temporary Order issued April 7, 2017 to remove the portions of paragraphs 4 and 5 thereof referring to Smith in his capacity as advising representative, given that Smith’s registration was automatically suspended when he was terminated by the Receiver. The Temporary Order issued April 7, 2017 and the Extension Order are attached hereto as **Appendix “1”** to this Second Report of the Receiver (the “**Second Report**”).
- 2 On April 26, 2017, on application of the OSC to the Ontario Superior Court of Justice (Commercial List), the Honourable Mr. Justice Newbould issued an Order (the “**Appointment Order**”) appointing Grant Thornton Limited: (i) as receiver and manager (in such capacities, the “**Receiver**”), without security, of all of the assets, undertakings and properties (collectively, the “**Property**”) of each of the Respondents, except the Respondent, Chrysalis Yoga Inc. (“**Chrysalis Yoga**”) (each of the Respondents except for Chrysalis Yoga being individually and collectively, the “**Crystal Wealth Group**”); and (ii) as Receiver of the account of the Respondent, Chrysalis Yoga, No. 87296 00518 10 at Bank of Nova Scotia (the “**Chrysalis Account**”), and of all contents, including funds, contained in the Chrysalis Account. The proceedings were commenced by way of application made by the OSC (the “**OSC Application**”) under section 129 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “**Act**”). The said receivership proceedings shall be referred to herein as the “**Receivership Proceedings**”. A copy of the Appointment Order and the endorsement of the Honourable Mr. Justice Newbould are attached thereto as **Appendix “2”**.

- 3 As detailed in the OSC Application, the appointment of the Receiver was based on concerns the OSC had regarding, among other things, the Respondent, Crystal Wealth Media Strategy (the “**Media Fund**”). The OSC stated that it believed that Smith and the Company may have:
  - a) participated in a course of conduct relating to securities that they knew or reasonably ought to have known perpetrated a fraud, contrary to s. 126.1(1)(b) of the Act;
  - b) failed to act fairly, honestly and in good faith with clients, contrary to s. 2.1 of Rule 31-505 - *Conditions of Registration*; and
  - c) failed to comply with the standard of care expected of investment fund managers under s. 116 of the Act.
- 4 A summary of the circumstances leading to the appointment of the Receiver is outlined in the Receiver’s First Report to Court dated June 22, 2017 (the “**First Report**”) which is attached hereto, without appendices, as **Appendix “3”**. The complete OSC Application can be found on the Receiver’s case website at [www.GrantThornton.ca/CrystalWealth](http://www.GrantThornton.ca/CrystalWealth) (the “**Case Website**”).
- 5 Also on April 26, 2017, the Honourable Mr. Justice Newbould issued a Vesting Order (the “**Vesting Order**”) authorizing the Receiver to complete, on behalf of the Respondent, CLJ Everest Ltd. (“**CLJ Everest**”) (a company wholly owned by Smith), the sale transaction of the property located at 5043 Mount Nemo Crescent in Burlington, Ontario (the “**Mount Nemo Property**”) to Martin McCready (the “**Purchaser**”) pursuant to and in accordance with an agreement of purchase and sale dated April 12, 2017 (the “**Mount Nemo Sale Agreement**”). The Purchaser did not respond to the Receiver’s communications following the issuance of the Vesting Order, and the Purchaser failed to complete the sale transaction. The Receiver has reserved its rights to claim damages from the Purchaser as a result of his failure to complete the sale transaction. As will be described herein, the Mount Nemo Property remains listed for sale by the Receiver.
- 6 On April 26, 2017, counsel for the Crystal Wealth Group requested that the Honourable Mr. Justice Newbould set a motion date on which the Crystal Wealth Group would move to vary certain terms of the Appointment Order, specifically to access funds for paying

counsel and for Smith's personal living expenses. Justice Newbould set a hearing date of May 24, 2017 for the Crystal Wealth Group's motion.

- 7 On May 24, 2017, Smith advised that the Crystal Wealth Group's counsel had resigned and that he was not in a position to proceed with a motion (the materials for which had yet to be served) that day. Smith also advised that he would be self-represented. Accordingly, the Honourable Mr. Justice Morawetz issued an endorsement (the "**May 24, 2017 Endorsement**") that directed Smith's motion materials be served and filed with the Court by the close of business on June 1, 2017 and requiring that the parties attend at a 9:30am appointment with the Court on June 2, 2017 to schedule a date for the motion, if necessary. A copy of the May 24, 2017 Endorsement is attached hereto as **Appendix "4"**.

### **THE JUNE 2017 MOTIONS AND COURT RELIEF**

- 8 On June 1, 2017, Smith served counsel to the Receiver with a motion record in support of a motion requesting, among other things, that the Temporary Order, Appointment Order and Vesting Order be rescinded in their entirety.
- 9 A further development arose on June 1, 2017 when Crawley MacKewn Brush LLP ("CMB") provided a draft notice of motion to counsel to the Receiver indicating that CMB would be seeking an appointment as representative counsel for investors of the Crystal Wealth Funds.
- 10 On June 2, 2017, the Receiver, its counsel, Smith, and CMB, amongst others, attended a 9:30 a.m. appointment with the Court. During the appointment, the Honourable Mr. Justice Hainey advised Smith that his motion record, which failed to include any affidavit evidence, was insufficient to allow the Court to consider the relief sought, and accordingly, the Court declined to schedule Smith's proposed motion. The Honourable Justice Hainey thereafter issued an endorsement (the "**June 2, 2017 Endorsement**") scheduling a 9:30 a.m. appointment with the Court on June 23, 2017, and directed counsel to provide a progress report to the Court at that time. A copy of the June 2, 2017 Endorsement is attached hereto as **Appendix "5"**.
- 11 On June 9, 2017, CMB served the Receiver with a motion record in support of a motion to appoint CMB as representative counsel to the investors of the Crystal Wealth Funds.

- 12 On June 22, 2017, the Receiver provided the Court with its First Report and served a motion record in support of a motion to, among other things, approve: (i) a creditor claims procedure; and (ii) a proposed Sales Process (as defined and described in the First Report) to be conducted by the Receiver by which prospective purchasers and managers could submit bids to the Receiver to either purchase the assets of certain Crystal Wealth Funds, or to take over the management of certain Funds. On June 29, 2017, the Receiver provided the Court with its Supplement to the First Report dated June 29, 2017, a copy of which is attached hereto as **Appendix “6”**.
- 13 On June 23, 2017, the Honourable Justice Hainey issued an endorsement (the “**June 23, 2017 Endorsement**”) scheduling June 30, 2017 as the hearing date for the Receiver’s and CMB’s motions. A copy of the June 23, 2017 Endorsement is attached hereto as **Appendix “7”**.
- 14 On June 30, 2017, the Honourable Mr. Justice Hainey issued an Order and Endorsement (the “**June 30 2017 Order and Endorsement**”) that, among other things, approved:
- a) the Receiver’s First Report and the activities of the Receiver set out therein;
  - b) the Receiver’s reliance on the Unit Holder Listing (as defined in the First Report) to make interim distributions to investors of the proceeds generated from the divestiture of certain assets of the Crystal Wealth Funds; and
  - c) the Sales Process.
- A copy of the June 30<sup>th</sup> Order and Endorsement is attached hereto as **Appendix “8”**.
- 15 On June 30, 2017, the Honourable Mr. Justice Hainey also issued a Creditor Claims Procedure Order (the “**Creditor Claims Procedure Order**”) that, among other things, approved the procedure for determining and resolving claims to be filed by creditors against the Crystal Wealth Group. A copy of the Creditor Claims Procedure Order is attached hereto as **Appendix “9”**.
- 16 On June 30, 2017, the Court also heard the motion of CMB to be appointed as representative counsel. On July 5, 2017, the Honourable Mr. Justice Hainey issued an endorsement (the “**July 5, 2017 Endorsement**”) which dismissed CMB’s motion. In dismissing the motion, Justice Hainey found that “the investors’ interests are being

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protected and advanced by the Receiver" and that "the appointment of representative counsel will add unnecessary expense to the receivership which will adversely affect investors". A copy of the July 5, 2017 Endorsement is attached hereto as **Appendix "10"**.

## **PURPOSE OF THE SECOND REPORT**

- 17 The purpose of this Second Report is to inform the Court of the Receiver's activities since the date of the First Report and to support the Receiver's request for an order, among other things:
- a) approving this Second Report, including the actions and activities of the Receiver as described in this Second Report;
  - b) approving the Receiver's methodology and proposal to make an interim distribution to the investors of certain Crystal Wealth Funds, and authorizing the Receiver to make such interim distribution without liability, including, without limitation, liability for any tax implications arising therefrom;
  - c) approving the Quiver MOU Amendments executed by the Receiver and Quiver (as such terms are hereafter defined);
  - d) directing the following entities and/or individuals to provide the Receiver and its counsel with certain requested but still outstanding information required by the Receiver for a proper account reconciliation and assessment of the Crystal Wealth Group:
    - i) Jerry Froese ("Froese") – President & CEO of Frontline Factoring Inc. ("Frontline");
    - ii) Alberto Storelli ("Storelli"), Brian Peoples ("Peoples"); and Joe Harker ("Harker") as it relates to their involvement in the US Real Estate LP (defined and described herein);
    - iii) Craig Clydesdale ("Clydesdale") – Principal of the OOM Energy Group (defined herein);
    - iv) Kari Gillespie ("Gillespie") – Operations Manager of Liberty Mortgage Services Ltd.;
    - v) Stephen Miller ("Miller") – a representative of MGE (defined herein);
    - vi) Chuck Pinnell – Principal of 611802 B.C. Ltd.; and

- vii) Stan Spletzer – Principal of Solid Holdings Inc.
- e) directing that The Investment Administration Solution Inc. (“IAS”), the third-party entity that performed accounting and record keeping for the Crystal Wealth Funds, provide the Receiver and its counsel with certain requested but still outstanding information required for a proper assessment of the Crystal Wealth Funds, namely, monthly reporting for each of the Crystal Wealth Funds, including all underlying transactions, for the period January 1, 2015 to May 1, 2017;
- f) authorizing the Receiver to examine the following individuals under oath at the offices of Victory Verbatim located at 222 Bay Street, Suite 900, in Toronto, Ontario, with each such individual bearing their own cost of the attendance:
- i) Al Housego (“Housego”), the former Lead Portfolio Strategist for the Resource Fund, Bullion Fund, Factoring Fund, and Hedge Fund (as such Crystal Wealth Funds are defined below);
  - ii) Smith;
  - iii) Joanne Bentley;
  - iv) Clydesdale;
  - v) Gillespie;
  - vi) Froese;
  - vii) Miller;
  - viii) Steven Bandola, a former employee of Frontline;
  - ix) David DenHollander, the President of 647497 B.C. Ltd.;
  - x) Jeffrey Maljaars, Principal of 1566496 Alberta Ltd.;
  - xi) Darcy Pahl, President of Dome Mountain Resources of Canada Inc.;
  - xii) Robert Maljaars, previous signing authority of Dome Mountain Resources of Canada Inc. and Principal of 1566496 Alberta Ltd.;

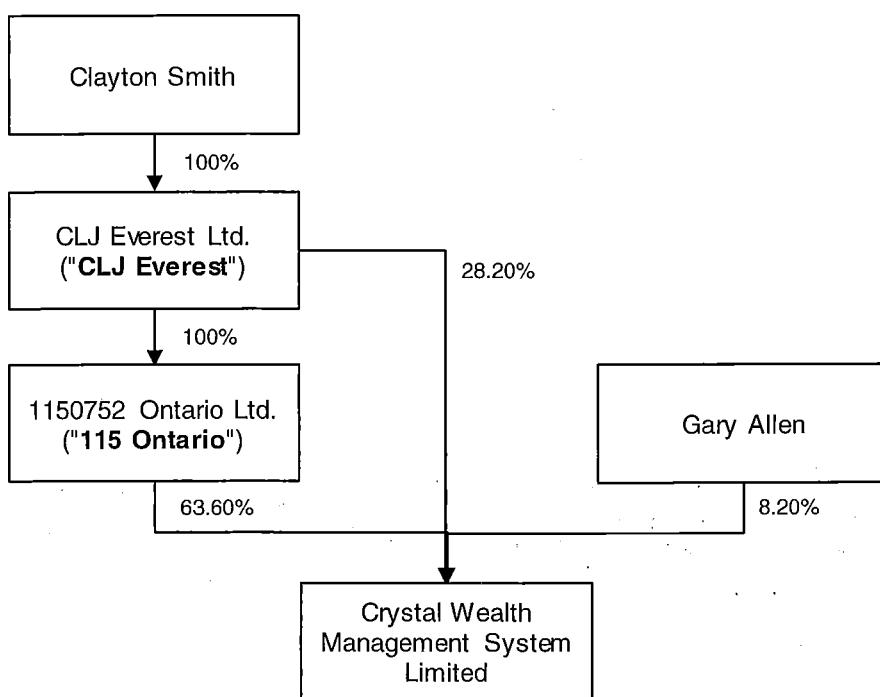
- xiii) Chuck Pinnell – Principal of 611802 B.C. Ltd.; and
- xiv) Alan Braun – Principal of Onstar Exploration Ltd.
- g) ordering Frontline pay to the Receiver the sum of \$536,775, representing payments received by Frontline from Zomongo TV, Advanced Metal, 156 Alberta, and Restoration Energy (as such entities are herein defined), which payments have yet to be remitted to the Receiver in trust for the Factoring Fund and Hedge Fund contrary to the FPAA (as defined below);
- h) approving the Receiver's Interim Statement of Receipts and Disbursements for the period from April 26, 2017 to October 31, 2017, attached hereto as **Appendix "11"**;
- i) approving the Receiver's recommendation regarding the treatment of an amended proof of claim filed by BDO Canada LLP ("BDO"), and the BDO Agreement (as defined below);
- j) approving the fees and disbursements of the Receiver and Aird & Berlis LLP ("A&B"), legal counsel to the Receiver, as described herein for the period of June 1, 2017 to September 30, 2017, and an allocation of such fees and disbursements from April 24, 2017 to September 30, 2017; and
- k) sealing the **Confidential Appendices** of this Second Report until further Order of the Court.
- 18 The Receiver's activities since the date of the First Report are detailed throughout this Second Report.

## **RESTRICTIONS AND TERMS OF REFERENCE**

- 19 In preparing this Second Report, the Receiver has relied upon unaudited and certain audited financial information, the Crystal Wealth Group's books and records, certain financial information obtained by third parties, and discussions with various individuals (collectively, the "**Information**"). Except as described in this Second Report, the Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.
- 20 This Second Report has been prepared for the use of this Court to provide general information and an update relating to the Receivership Proceedings for the purpose of assisting the Court in making a determination as to whether to approve the relief sought. This Second Report should not be relied on for any other purpose. The Receiver will not assume responsibility or liability for losses incurred as a result of the circulation, publication, reproduction or use of this Second Report contrary to the provisions of this paragraph.
- 21 Capitalized terms not defined in this Second Report are as defined in the First Report. All references to dollars are in Canadian currency unless otherwise noted.
- 22 Copies of materials filed in these Receivership Proceedings are available on the Receiver's Case Website.

## **CORPORATE STRUCTURE**

- 23 At the time of the Appointment Order, the Company was a corporation registered with the OSC in the categories of: "Exempt Market Dealer", "Investment Fund Manager", "Portfolio Manager", and "Commodity Trading Manager".
- 24 At the time of the Appointment Order, Smith was the controlling mind of the Company, was listed as the sole director and officer, and held a controlling interest of 91.76% in the Company. The ownership structure of the Company is as follows:



- 25 At the time of the Appointment Order, Smith was registered in Ontario with the OSC as a dealing representative, an advising representative in the category of "Portfolio Manager", and an advising representative in the category of "Commodity Trading Manager". Smith was also registered as the Company's chief executive officer, chief compliance officer and ultimate designated person.

26 The Company created and managed the following 15 proprietary investment funds (collectively referred to as the "**Crystal Wealth Funds**"):

- a) Crystal Wealth Mortgage Strategy (the "**Mortgage Fund**");
  - b) Crystal Enlightened Resource and Precious Metals Fund (the "**Resource Fund**");
  - c) Crystal Wealth Enlightened Factoring Strategy (the "**Factoring Fund**");
  - d) Crystal Wealth Medical Strategy (the "**Medical Fund**");
  - e) Crystal Enlightened Bullion Fund (the "**Bullion Fund**");
  - f) Crystal Wealth Media Strategy (the Media Fund);
  - g) Crystal Wealth High Yield Mortgage Strategy (the "**High Yield Mortgage Fund**");
  - h) Crystal Wealth Infrastructure Strategy (the "**Infrastructure Fund**");
  - i) Crystal Wealth Enlightened Hedge Fund (the "**Hedge Fund**");
  - j) Crystal Wealth Conscious Capital Strategy (the "**Conscious Capital Fund**");
  - k) ACM Income Fund;
  - l) ACM Growth Fund;
  - m) Absolute Sustainable Dividend Fund (the "**Sustainable Dividend Fund**");
  - n) Absolute Sustainable Property Fund (the "**Sustainable Property Fund**"); and
  - o) Crystal Wealth Retirement One Fund (the "**Retirement Fund**");
- (collectively, the "**Crystal Wealth Funds**", and individually, a "**Fund**").

A detailed description of the Crystal Wealth Funds is included in paragraphs 28 to 54 of the First Report. A summary of each of the Crystal Wealth Funds and the Recorded Values of each of the different investments is attached hereto as **Appendix "12"**.

- 27 The Crystal Wealth Funds are structured as open-ended mutual fund trusts. Units in each of the Crystal Wealth Funds were distributed to investors on an exempt basis, pursuant to offering memoranda ("OMs"). The Company managed the day-to-day business of the Crystal Wealth Funds and was required to make investment decisions consistent with each of the Crystal Wealth Funds' investment objectives. As will be discussed later in this Second Report, certain Crystal Wealth Funds hold investments which were not in compliance with their respective OMs.

## **EXECUTIVE SUMMARY**

- 28    **The Receiver strongly encourages that readers of this Second Report read it in its entirety as it provides important details of the work performed by the Receiver that led to its conclusions and concerns as set out in this Executive Summary.**
- 29    As the large majority of the investments contained within the Crystal Wealth Funds are unconventional, the Receiver has spent a significant amount of time, together with its advisors, to understand and assess the underlying investments, and the quality and realizable value of same, where possible. Furthermore, the significant deficiencies in the Company's books and records with respect to the documentation (or lack thereof) associated with such investments, and the refusal by certain individuals to provide required information to the Receiver to properly conduct its mandate, have created additional complexities for the Receiver and its counsel in understanding and supporting the investments and their respective values.
- 30    The Receiver is sympathetic to the needs of investors in the Crystal Wealth Funds, many of whom have conflicting interests. Certain investors may have a long term investment strategy. Some investors may have the need for short term stable income or dividends, while others are prepared to accept more risk. In executing its mandate, the Receiver has to balance the needs and interests of investors, and make recommendations in the best interest of all stakeholders.
- 31    The Receiver's investigation of the Company's affairs has identified serious concerns around the conduct of certain parties associated with the Crystal Wealth Funds and the underlying investments therein.
- 32    The Receiver draws the following conclusions:
  - a) The lack of segregation of duties in performing the day to day operations and governance thereof (e.g. Smith was the controlling mind, sole director, and Chief Compliance Officer, among others) resulted in the Company not having an effective organizational structure to ensure proper oversight and governance of the Crystal Wealth Funds and possibly, compliance with Ontario securities laws, including, without limitation, the Act;

- b) The decisions of the Company, Smith, and Housego to cause certain of the Crystal Wealth Funds to advance monies to third parties, purportedly on account of investments, which investments had questionable return and recovery prospects, were inconsistent with the Funds' investment objectives as set out in the OMs, and/or lacked the security which was to be provided by third parties to the Crystal Wealth Funds in connection with such investments;
  - c) The Receiver is concerned with the relationships between Smith, Housego, administrators of certain investments in Crystal Wealth Funds, and the principals of the companies in which certain Crystal Wealth Funds advanced monies purportedly on account of investments;
  - d) Certain Crystal Wealth Funds' exposure was concentrated within a few companies who received substantial monies from the Funds;
  - e) The Receiver is concerned as to the ultimate use of and lack of accountability for the investors' monies once such investments were made by the Company, Smith, and/or Housego on behalf of the Funds;
  - f) The Company transferred significant money between Crystal Wealth Funds which may have been used to falsely create liquidity to meet investor distributions and/or redemptions;
  - g) The Company made payment of distributions to investors in Crystal Wealth Funds, which Funds had no sources of income, or cash flow. Such payments appear to have been only supportable by Inter-fund Investments;
  - h) The Company disclosed false or manipulated net asset values ("NAVs") of the Funds, causing the NAVs of certain Funds to be materially overstated; and
  - i) Accordingly, the quality of and ultimate collectability of investments held by certain of the Crystal Wealth Funds: the Factoring Contracts; the Media Loans; certain Commercial Loans; the Gold Loans; and the US Real Estate LP, may be grossly impaired.
- 33 Given the Receiver's findings and concerns as detailed in this Second Report, the Receiver will be bringing the contents of the Second Report to the attention of the Ontario

Provincial Police and the Royal Canadian Mounted Police.

- 34 The Receiver has significant concerns over the quality and ultimate collectability of approximately \$88.72 million of Recorded Value, or approximately 46% of the April 20<sup>th</sup> Package NAV provided by Smith of \$193,198,912. In addition, the Receiver has concerns that there may be further potential impairment of approximately \$27.91 million (Recorded Value).
- 35 The Receiver has monetized approximately 98% of the marketable securities held within the Crystal Wealth Funds, in consultation with its corporate finance team and NBCN. Notwithstanding the challenges regarding specific investments contained in the Crystal Wealth Funds, there is currently cash on hand for certain of the Crystal Wealth Funds from the proceeds of the Receiver's monetization of marketable securities and its on-going management of the Crystal Wealth Funds which are available for interim distributions to investors in certain of the Crystal Wealth Funds in the sum of \$30,817,199. Accordingly, the Receiver is requesting the Court to approve the first interim distribution to investors, the methodology of which is specified in the section below.
- 36 As authorized by the Court on June 30, 2017, the Receiver conducted a Sales Process in respect of the Crystal Wealth Funds, seeking parties interested in buying assets of certain Funds, or assuming management of certain Funds. By the Offer Deadline, the Receiver obtained seven offers from different Prospective Purchasers and Prospective Managers.
- 37 The Receiver worked diligently to investigate and consider Prospective Managers' offers to assume the management of certain Funds, however, the Receiver ultimately rejected the management offers as the Receiver was of the view that it was not in the best interest of Crystal Wealth Fund investors to accept any of the management offers that were submitted. The management offers received via the Sales Process provided no certainty that the Crystal Wealth Funds would be managed back to fiscal health (especially in light of the concerns with many of the recorded investments). In addition, no offer was received that gave the Receiver any comfort that the investors would have a timely avenue through which to redeem their units and turn them into cash (let alone any certainty with respect to the price at which such redemption might happen). The proposed management transactions themselves would have taken several months to be completed, with no guarantees of completion as the offers submitted were highly conditional.

- 38 Given the nature of the Funds and the serious issues with certain of the investments held therein, the Receiver is of the view that any third party manager would face the same issues of "creating" liquidity from these impaired investments and, arguably, would have to outsource management of same as they would not typically possess the necessary skill and experience to deal with these types of investments and their distressed status, as compared with the experience of the Receiver. Furthermore, certain recourse is available to the Receiver under the Appointment Order which would not be available to a third party management firm.
- 39 In addition to its specific communications and correspondence with individual investors, the Receiver has issued 10 formal Notices to investors in respect of the status of the Crystal Wealth Funds, including a description of the Receiver's actions to date. Such Notices have been posted on the Receiver's Case Website.

## **MONETIZED CRYSTAL WEALTH FUNDS**

- 40 As outlined in the First Report, certain of the Crystal Wealth Funds contained equity investments in companies, the securities of which were traded on active market exchanges and were readily saleable (“**Equities**”). In addition, certain Crystal Wealth Funds had unit holdings in mutual funds not managed by the Company and thus external to the Crystal Wealth Group, which were monetizable (“**External Mutual Funds**”). As authorized in subsection 6(k)(i) of the Appointment Order, and as set out in the First Report, the Receiver commenced the monetization of Equities and External Mutual Funds in June 2017.
- 41 As the result of the monetization of certain Equities and External Mutual Funds (the results of which are described in detail below), the following Crystal Wealth Funds have been fully monetized<sup>1</sup> into cash, with the exception of the below noted Inter-fund Investments:
- a) **Sustainable Dividend Fund**
    - i) Cash – \$6,656,066 and US \$3,542; and
    - ii) Inter-fund Investment held in the Sustainable Property Fund with a Recorded Value of \$75,693.
  - b) **ACM Growth Fund**
    - i) Cash – \$5,926,304 and US \$153,275; and
    - ii) Inter-fund Investments held with a total Recorded Value of \$4,739,753 in the following four Crystal Wealth Funds with the respective Recorded Values of:
      1. Factoring Fund – \$2,511,932;
      2. Mortgage Fund – \$1;
      3. Hedge Fund – \$1,655,059; and
      4. Media Fund – \$572,761.

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<sup>1</sup> Cash balances are as at October 31, 2017 as per NBCN.

c) ACM Income Fund

- i) Cash – \$930,429 and US \$2,180;
  - ii) Inter-fund Investments held with a total Recorded Value of \$9,898,493 in the following four Crystal Wealth Funds, distributed as follows:
    1. Media Fund – \$6,594,529;
    2. Factoring Fund – \$2,426,339;
    3. Medical Fund – \$560,297; and
    4. Hedge Fund – \$317,328.
- 42 As outlined above, Inter-fund Investments are investments made in Crystal Wealth Funds by other Crystal Wealth Funds through the purchase of units. As a result, similar to individual investor unit holdings, Inter-fund Investments cannot be valued until the investments in the underlying Crystal Wealth Funds of such Inter-fund Investments are realized/valued. The monetization of the Inter-fund Investments will occur through distributions made from one Crystal Wealth Fund to another Crystal Wealth Fund which holds units in the former Fund. Once such distributions are received by the latter Fund, if any, those monies will ultimately be made available for further distribution to investors of the latter Fund.
- 43 Unfortunately, a large majority of the above noted Inter-fund Investments are in the Media Fund, Factoring Fund, and Hedge Fund, all of which hold underlying investments that are illiquid, significantly impaired, and/or have been materially overstated by the Company. As a result, the Recorded Values of the Inter-fund Investments are significantly overstated whereby the Funds which have invested in the Media Fund, Factoring Fund, and Hedge Fund will receive far less from these Funds than was invested.

## **MONETIZATION OF EXTERNAL MUTUAL FUNDS, EQUITIES, AND WARRANTS**

- 44 In the First Report and Supplement to the First Report, the Receiver outlined its efforts to monetize readily saleable marketable securities held by certain Crystal Wealth Funds. The rationale for this was the over-arching investment objective of minimizing the downside risk of uncontrollable domestic and global market factors in the short term and to permit an interim distribution to the investors. Through a distribution, investors will be free to reinvest the proceeds received on their own accord. The Receiver, in consultation with colleagues in Canada and the US with extensive investment and portfolio expertise, as well as with the assistance of NBCN, carefully monetized all marketable securities, including Equities, Warrants, and External Mutual Funds which are traded on the various public stock exchanges, to the extent that such monetization was possible.
- 45 The Receiver was also cognizant of the Crystal Wealth Funds' underlying OMs when monetizing the marketable securities to ensure the monetization of certain investments did not create concentration risk in other particular investments. For example, the OM of the Resource Fund states that:

*"The [Resource] Fund will limit its exposure to any one issuer to no more than 30% of the Fund's net assets..."*

When performing the monetization of the below noted assets, the Receiver ensured the timing of such monetization reduced the risk of concentration of a particular investment whereby a negative movement in the value of same could have a detrimental impact on the underlying Crystal Wealth Fund(s).

- 46 The tables presented in this section with respect to the monetization of the Equities and External Mutual Funds contain the following information:
- a) the market value of the Equities and External Mutual Funds as at the closing of April 26, 2017, the date in which the Receiver was appointed over the Crystal Wealth Group, (the "**April 26<sup>th</sup> Market Value**"); and
  - b) the gross proceeds received by the Receiver from the monetization of the Equities and/or External Mutual Funds (the "**Monetization Proceeds**").

## **EXTERNAL MUTUAL FUNDS**

- 47 Upon completion of the monetization of the External Mutual Funds, the realized loss was minimal, amounting to approximately \$7,082 on Monetization Proceeds of \$5,045,681. The table below outlines the results of the monetization of the External Mutual Funds for each of the Crystal Wealth Funds that held same; no selling commissions were incurred on the disposition of External Mutual Funds.

Fund	April 26th Market Value	Monetization Proceeds
ACM Growth Fund	\$ 3,417,725	\$ 3,410,855
ACM Income Fund	565,089	564,876
Medical Fund	25,345	25,345
Media Fund	1,044,604	1,044,604
	<b>\$ 5,052,763</b>	<b>\$ 5,045,681</b>

## **EQUITIES**

- 48 As at the date of this Second Report, the Receiver has monetized approximately 98% of the Equities contained within the Crystal Wealth Funds. The Resource Fund and ACM Growth Fund currently have approximately \$50,000 each of low volume trading Equities remaining to which the Receiver is working with NBCN to monetize. Overall, the monetization of Equities generated a realized loss of \$554,382 and a realized gain of approximately US \$128,304, excluding commissions of \$57,263 and US \$11,469.
- 49 The table below outlines the results of the monetization of the Equities for the below noted Crystal Wealth Funds.

Fund	April 26th Market Value		Monetization Proceeds	
	CAD	USD	CAD	USD
Sustainable Dividend Fund	\$ 1,438,364	\$ 3,688,297	\$ 1,478,092	\$ 3,829,828
Resource Fund	1,190,079	-	1,081,758	-
ACM Growth Fund	4,947,908	402,478	4,514,672	389,251
Factoring Fund	191,419	-	138,866	-
	<b>\$ 7,767,770</b>	<b>\$ 4,090,776</b>	<b>\$ 7,213,388</b>	<b>\$ 4,219,079</b>

- 50 The majority of the CAD realized loss is attributable to three holdings in the ACM Growth Fund: (i) UEX Corporation; (ii) Pacific Booker Minerals Inc.; and (iii) Emblem Corporation. Had the Receiver not monetized all three Funds when it did, the loss would have been greater given that the market value as at October 31, 2017 was approximately \$63,000 less than the Receiver realized.

## **WARRANTS**

- 51 The Crystal Wealth Funds contained a number of warrant options for the purchase of shares in equities traded on active markets at a stated price (“**Warrants**”). Based on a preliminary review of supporting documentation, some of the Warrants contain restrictions on their assignability and ultimately, their salability. However, the Receiver is able to exercise such Warrants (i.e. purchase the company shares attached to the Warrants for a stated price) subject to the conditions of exercisability being satisfied. Although the underlying documentation for a majority of the Warrants was not contained in the Crystal Wealth Group’s books and records, the Receiver was able to obtain such documentation from NBCN. The Receiver has prepared a listing of the Warrants currently held by the Crystal Wealth Funds, which is attached hereto as **Appendix “13”**.
- 52 The Receiver continues to evaluate each of the Warrants with its advisors by monitoring the market values of the underlying shares of the companies to which the Warrants apply. In cases where the price to purchase shares under a particular Warrant is favourable (i.e. when the exercise price is less than that of the market value price of the shares), the Receiver has exercised the Warrant and acquired the underlying shares.

- 53 As at the date of this Second Report, the Receiver has exercised the following Warrants whereby it has purchased the shares in the underlying companies:
- a) GREATBANKS RES LTD 20JUL17 – 363,637 shares at a strike price of \$0.03/share;
  - b) NOVO RES CORP 24JUL17 – 96,160 shares at a strike price of \$0.80/share;
  - c) KLONDIKE GOLD CORP 5AUG17 – 100,000 shares at \$0.20/share;
  - d) MONTAN MINING CORP 14AUG17 – 363,640 shares at a strike price of \$0.02/share;  
and
  - e) GOLDEN RIDGE RES LTD 20OCT17 – 250,000 shares at a strike price of \$0.12/share  
(collectively, the “**Exercised Warrants**”).
- 54 As at the date of this Second Report, of the above Exercised Warrants, the Receiver has monetized the resulting shares obtained from one (1) of the Exercised Warrants: Novo Resources Corp. The Receiver monetized the 96,160 shares acquired in Novo Resources Corp. from exercising the Warrant of same for proceeds of \$726,864. This resulted in net cash proceeds to the Resource Fund of \$649,936, as the shares were acquired for \$76,928. The Receiver continues to work with NBCN to monetize shares acquired through the exercising of Warrants.

## THE RECEIVER'S PROPOSED INTERIM DISTRIBUTION

- 55 Through the completion of the monetization of the Equities, External Mutual Funds, certain shares acquired through exercising Warrants, and the maturation and payout of certain Off-Book Assets, the Receiver currently has net proceeds available for distribution to investors of certain Crystal Wealth Funds of \$30,817,199, after the allocation of professional fees and appropriate holdback for claims filed pursuant to the Creditor Claims Procedure Order.
- 56 Cash balances are those being held in the respective Fund accounts at NBCN. Any proceeds (e.g. mortgage payments) or realizations from the monetization of marketable securities of a particular Fund were deposited to that Fund's bank account at NBCN. In other words, each Fund is being managed and accounted for on its own with no commingling amongst the Funds.
- 57 The creditor claims filed are currently being analyzed by the Receiver. However, for purposes of the Receiver's request for a timely interim distribution to investors, the Receiver has included a holdback for the full value of the creditor claims filed (as outlined in the table below) while they remain under evaluation. As detailed in the Creditor Claims Procedure section to this Second Report, a claim which named a particular Fund was allocated to that Fund. For those claims which named the Crystal Wealth Funds in general, such claims were allocated among the Crystal Wealth Funds based on the weighted average of the recorded NAV as at April 20, 2017 of each Crystal Wealth Fund.
- 58 The sole exception to the holdbacks provided for on account of the creditor claims filed through the Creditor Claims Procedure concerns the contingent claim filed by BDO Canada LLP ("BDO"), which is addressed in paragraphs 410 to 418 below and has been resolved by the Receiver in a manner which permits the Receiver's proposed interim distributions to investors to proceed.
- 59 The following table demonstrates the calculated proposed per unit interim distribution to investors of certain of the Crystal Wealth Funds using the foregoing allocation methodology, and with respect to the allocation of Receiver and legal fees through to September 30, 2017 (including HST). The database of investors are that as contained in the records of IFDS pursuant to the June 30, 2017 Order. Cash balances for each of the

Crystal Wealth Funds are as at November 15, 2017. The total cash balance of \$38,780,756 consists of \$36,227,236 and US \$1,999,154, converted at a rate of 1.2773 (\$2,553,520).

Fund	Cash Balance	Claims/Account Holdbacks	Receiver & Legal Fees	Available Proceeds	Per Unit
Mortgage Fund	\$ 5,208,001	\$ (1,126,299)	\$ (205,000)	\$ 3,876,702	\$ 1.45
Resource Fund	1,910,766	(104,745)	(34,503)	1,771,517	\$ 2.93
Factoring Fund	637,647	(1,050,607)	(147,086)	(560,045)	\$ -
Medical Fund	2,368,693	(354,966)	(61,541)	1,952,186	\$ 2.86
Bullion Fund	271,308	(87,360)	(17,441)	166,507	\$ 2.02
Media Fund	8,954,229	(2,255,355)	(315,145)	6,383,729	\$ 1.18
High Yield Mortgage Fund	1,854,851	(205,975)	(63,658)	1,585,219	\$ 2.92
Infrastructure Fund	2,088,371	(372,335)	(32,803)	1,683,234	\$ 2.19
Hedge Fund	630,890	(387,839)	(86,693)	156,358	\$ 0.12
Conscious Capital Fund	27,912	(120,971)	(2,039)	(95,098)	\$ -
ACM Income Fund	933,137	(243,122)	(32,480)	657,534	\$ 0.62
ACM Growth Fund	6,121,572	(255,922)	(31,366)	5,834,284	\$ 4.88
Sustainable Dividend Fund	6,660,591	(122,762)	(37,021)	6,500,807	\$ 10.76
Sustainable Property Fund	1,112,788	(168,153)	(40,370)	904,265	\$ 1.99
	\$38,780,756	\$ (6,856,412)	\$ (1,107,146)	\$ 30,817,199	

- 60 As the foregoing table suggests, the Receiver is recommending a per unit distribution for all Crystal Wealth Funds except for the Factoring Fund and the Conscious Capital Fund, where no funds are available for distribution. With respect to the Factoring Fund, the lack of funds available for distribution to investors arises directly from the significant impairment of the purported investments made by the Factoring Fund prior to the Receiver's appointment, as is detailed throughout this Second Report and immediately below.

61 Holdbacks for actual and future estimated Receiver and legal fees are similarly tracked in the table above either by specific Crystal Wealth Fund, or if they represent time allocable to all Crystal Wealth Funds, then such fees were allocated on the basis of effort and number of investors in each Fund. Cumulative Receiver and legal fees of approximately \$127,671 (including HST) were allocated outside of the Crystal Wealth Funds to Crystal Wealth Group entities and individuals including, CLJ Everest, Smith, and 115 Ontario.

## **DISCUSSION OF INVESTMENTS AND RECEIVER'S FINDINGS**

### **FACTORING CONTRACTS**

#### **BACKGROUND**

- 62 As outlined in the First Report, all of the Factoring Contracts (agreements to purchase invoices or portions thereof, which after purchase are referred to as "**Purchased Invoices**", from operating businesses referred to as "Merchants", for a discount and a service fee) are sourced and administered by Frontline Factoring Inc. Frontline was tasked by the Company with finding these opportunities and then collecting the invoice value from the underlying debtor(s) of the invoice(s) (the "**Debtors**"). The procurement and administration of Factoring Contracts is governed by a Factoring Procurement and Administration Agreement ("**FPAA**") entered into with Frontline by the Factoring Fund and the Hedge Fund.<sup>2</sup> A copy of the FPAA entered into with Frontline by the Factoring Fund is attached hereto as **Appendix "14"**.
- 63 As at the date of this Second Report, the Factoring Fund and the Hedge Fund have outstanding Purchased Invoices acquired through Factoring Contracts entered into with the following Merchants:
- a) Dome Mountain Resources of Canada Inc. ("**Dome Mountain**");
  - b) Zomongo TV Corp ("**Zomongo TV**");
  - c) Advanced Metal Concept and Fabrication Ltd. ("**Advanced Metal**");
  - d) 1566496 Alberta Ltd. ("**156 Alberta**");
  - e) 647497 B.C. Ltd. ("**647 BC**");
  - f) Restoration Energy Inc. ("**Restoration Energy**"); and
  - g) Single Source Services Ltd. ("**Single Source**")

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<sup>2</sup> Frontline has advised the Receiver that it does "not ever remember" a FPAA executed by the Hedge Fund, and that Frontline cannot locate such an agreement. Frontline was accordingly to conduct the administration of the Hedge Fund Factoring Contracts as per the FPAA entered into by the Factoring Fund with Frontline.

(collectively, the “**MERCHANTS**”).

- 64 As at October 26, 2017, the Factoring Fund and Hedge Fund had total principal owing from the Merchants of \$23,013,773 and \$3,011,397, respectively, totaling \$26,025,170 (the “**Factoring Principal Balance**”). The Factoring Fund and Hedge Fund also had interest owing under the Factoring Contracts of \$3,744,678 and \$909,586, respectively, totaling \$4,654,265 (the “**Factoring Interest Balance**”). The sum of the Factoring Principal Balance and the Factoring Interest Balance, totaling \$30,679,435, is referred to herein as the “**Factoring Balance**”.
- 65 The following table outlines the principal and interest owing from each of the Merchants as at October 26, 2017.

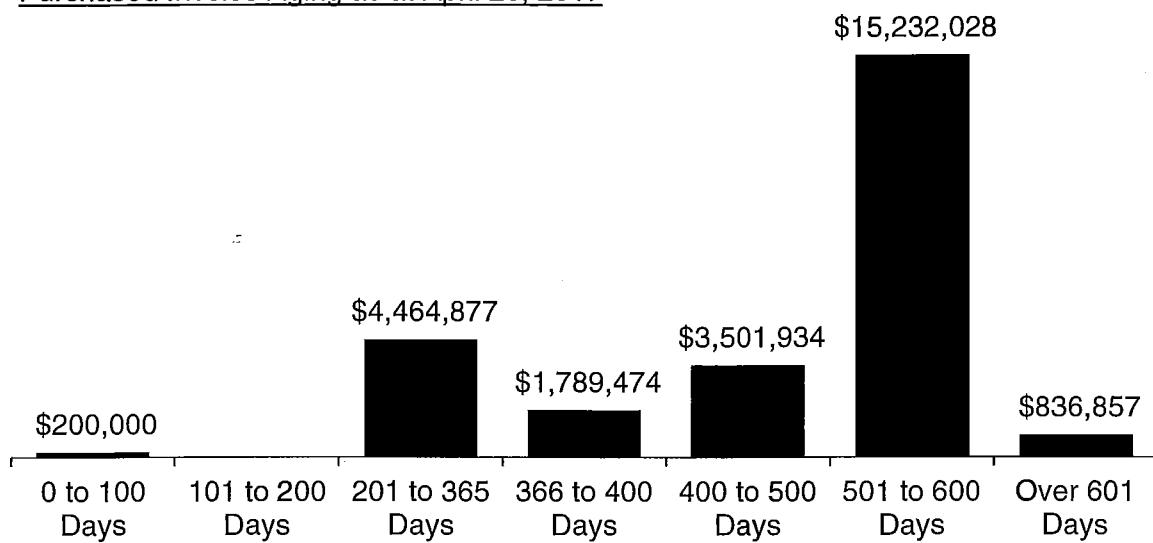
Merchant	Principal			Interest		
	Factoring Fund	Hedge Fund	Total	Factoring Fund	Hedge Fund	Total
Dome Mountain	\$ 12,793,175	\$ 1,015,660	\$ 13,808,835	\$ 2,280,593	\$ 181,058	\$ 2,461,651
Zomongo TV	6,204,373	1,494,737	7,699,110	845,396	660,307	1,505,702
Advanced Metal	1,256,311	-	1,256,311	248,029	-	248,029
156 Alberta	824,039	-	824,039	140,318	-	140,318
Restoration Energy	1,402,193	501,000	1,903,193	100,876	68,222	169,098
647 BC	439,698	-	439,698	109,260	-	109,260
Single Source	93,985	-	93,985	20,206	-	20,206
	<b>\$ 23,013,773</b>	<b>\$ 3,011,397</b>	<b>\$ 26,025,170</b>	<b>\$ 3,744,678</b>	<b>\$ 909,586</b>	<b>\$ 4,654,265</b>

A more detailed account of each of the balances owing from the Merchants, the underlying Purchased Invoices of such balances, and the Debtors of same, is included in a summary prepared by the Receiver attached hereto as **Appendix “15”** (the “**Outstanding Invoice Schedule**”). A detailed discussion of the status of the individual Merchants and the Receiver’s activities with respect to same is outlined below.

**RECEIVER'S KEY FINDINGS****Non-Performance of the Factoring Contracts**

- 66 Since its appointment, the Receiver has monitored the Factoring Contracts mainly through its review of the weekly reporting provided to the Factoring Fund and Hedge Fund by Frontline which outlines the outstanding Purchased Invoices and the activity of same (the “**Weekly Frontline Reporting**”).
- 67 As demonstrated in the Outstanding Invoice Schedule, the Factoring Fund and Hedge Fund have only collected \$2,310,507 and \$10,963, from four (4) Merchants, on the outstanding Purchased Invoices. A total of \$2,786,052 (which includes the above noted amounts) was collected by the Hedge Fund and Factoring Fund during the 12 months prior to the Appointment Order. The Receiver has concerns as to how redemptions and distributions to investors in the Factoring Fund and Hedge Fund were made prior to the Receiver's appointment given the minimal collections during the 12 months preceding the Receiver's appointment on the Factoring Contracts, and with respect to the US Real Estate LP and Gold Contracts. The Receiver has concerns that the Inter-fund Investments made by other Crystal Wealth Funds and/or investors who purchased units in the Factoring/Hedge Fund did so at an overstated NAV and funded the redemptions and distributions to other investors.
- 68 As at the Receiver's appointment on April 26, 2017, the average number of days outstanding for the Purchased Invoices (i.e. the difference between the invoice date and April 26, 2017) (the “**Invoice Days Outstanding**”) was approximately 405 days. The oldest invoice outstanding is dated August 4, 2015 while the most recent invoice outstanding is February 12, 2017. The following table demonstrates the aging of the principal balances owing under the Purchased Invoices.

Purchased Invoice Aging as at April 26, 2017



As shown above, as at April 26, 2017, approximately 82% (\$21,360,293) of the Factoring Principal Balance was over one (1) year past the invoice date.

- 69 In the Receiver's initial discussions with Frontline, Frontline advised that it was in constant communication with the Merchants noted above and that it was being advised by the Merchants that payments would be made on the Purchased Invoices in the near future. Notwithstanding these representations, as at the end of July 2017, the Receiver notes that no payments had been received from any of the Merchants or the Debtors since the Appointment Order.

**Frontline and the Receiver's Efforts in Pursuing Non-Paying Debtors**

- 70 In the absence of payments being received from the Debtors and/or the Merchants, despite Frontline's initial assurances, the Receiver engaged in the following with respect to all Debtors and Merchants.
- 71 On June 28, 2017, A&B, on behalf of the Receiver, sent Frontline a letter (the "**June 28 2017 Receiver Letter**") that, among other things:
- advised that at times, Frontline had failed to provide the Weekly Frontline Reporting and that such reporting should be provided to the Receiver forthwith;

- b) requested that Frontline provide reports to the Receiver with respect to any Non-Performing Factoring Arrangements as required by s. 5.1 of the FPAA (the “**Non-Performing Reports**”); and
- c) requested that Frontline, under s. 4.1(e) of the FPAA, send correspondence to all Debtors advising that the Receiver’s appointment is of no consequence to the amount owing under the Purchased Invoices and that the amount of same must be remitted in full.

A copy of the June 28 2017 Receiver Letter is attached hereto as **Appendix “16”**.

- 72 On June 30, 2017, Frontline delivered to the Receiver a Non-Performing Report dated June 30, 2017 (the “**June 30 2017 Non-Performing Report**”) which provided a status update on all of the Merchants. Based on the Receiver’s review of the Company’s books and records, the Receiver was unable to locate any Non-Performing Reports prepared by Frontline and sent to the Factoring Fund and/or Hedge Fund prior to receiving the June 30 2017 Non-Performing Report.
- 73 On July 12, 2017, letters were sent by Frontline to all of the underlying Debtors advising them of the Purchased Invoices outstanding and their obligation to remit payment (the “**Frontline July 12 2017 Letters**”). An example of the Frontline July 12 2017 Letters, excluding Debtor information, is attached hereto as **Appendix “17”**.
- 74 On August 15, 2017, after no correspondence and only one payment of \$25,000 being received, the Receiver sent letters to each of the Debtors (the “**August 15 2017 Debtor Letters**”). The August 15 2017 Debtor Letters, which referenced the Frontline July 12 2017 Letters and the Purchased Invoices outstanding, demanded that the Debtors remit all outstanding amounts owing under the Purchased Invoice — including accrued interest — directly to Frontline, in trust for the Receiver, by no later than 5:00 p.m. EST on August 23, 2017. Despite the August 15 2017 Debtor Letters, only one further payment has been remitted on account of a Purchased Invoice in the sum of \$113,044.51.<sup>3</sup>

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<sup>3</sup> The Debtor pursuant to this Purchased Invoice is Lotus Environmental Ltd, pursuant to the Factoring Fund’s Factoring Agreement with the Merchant, Advanced Metal. Frontline has yet to remit any of this payment to the Receiver, contrary to the Receiver’s directions to Frontline pursuant to the FPAA.

**Compliance with Factoring Fund and Hedge Fund OM's**

- 75 As outlined in the First Report, the Factoring Fund's investment objective is to:

*"...to provide consistently positive total returns...by investing primarily in commercial factoring contracts. The Fund is also authorized to invest in other securities- including equities, fixed income securities, investment funds and exchange-traded derivatives."*

(the "Factoring Fund Investment Objective").

- 76 The Receiver is of the opinion that the issuance of the Bridge Facility to Dome Mountain (as defined and described in detail below) resulted in the Factoring Fund breaching the Factoring Fund Investment Objective. The non-disclosure of such an investment is a gross misrepresentation to investors investing into a fund with the expectation to be invested in Factoring Contracts whereby traditional receivables are being purchased.
- 77 It is unclear if the Factoring Contracts would be considered appropriate investments in the Hedge Fund given the broad wording contained in the Hedge Fund's OM.

**Receiver's Conclusion on the Non-Performance of the Factoring Contracts**

- 78 Based on the foregoing, it is unlikely that the outstanding Purchased Invoices will be paid by the Debtors – several of whom are resident outside of Ontario, Canada, or North America – as it appears that no payments have been received by the Debtors directly for any of the outstanding Purchased Invoices. Neither the Factoring/Hedge Fund nor the Merchants have any security against the Debtors for the Purchased Invoices; both are unsecured creditors of the Debtors. The pursuit of the Debtors for the payment of the Purchased Invoices would be an expensive process which would likely result in unfavorable results, if any. Frontline has indicated that collections from the underlying Debtors is unlikely, and that the Merchants are likely the sole recourse for recovery.
- 79 Under the Factoring Contracts, there are certain provisions available to the Factoring Fund and Hedge Fund (i.e. the Receiver) against the Merchants to pursue the outstanding balances under the Purchased Invoices, including in some cases, security over the assets of the Merchants. As a result, pursuing the Merchants for the balances owing to the Factoring Fund and Hedge Fund is the most economical and best source of any recovery.

- 80 The following section describes: (i) what the Receiver has learned about each of the Merchants and the facts that led to the acquisition of the impaired Purchased Invoices by the Factoring Fund and Hedge Fund; and (iii) the Receiver's activities thus far in pursuing the Merchants for the repayment of same.

#### **RECEIVER'S DETAILED REVIEW OF FACTORING CONTRACTS**

##### **Dome Mountain**

- 81 As noted above, as at October 26, 2017, Dome Mountain has an outstanding balance owing to the Factoring Fund and Hedge Fund of \$15,073,768 and \$1,196,718, respectively, totaling \$16,270,486 (the "**Dome Mountain Balance**"). The Dome Mountain Balance includes principal owing to the Factoring Fund and Hedge Fund of \$12,793,175 and \$1,015,660, respectively, in addition to interest owing to the Factoring Fund and Hedge Fund of \$2,280,593 and \$181,058, respectively.
- 82 Based on numerous discussions with Frontline and a detailed review of the documentation located with respect to the Dome Mountain Balance, the Dome Mountain Balance is in fact a bridge loan (defined below as the "**Bridge Facility**") to Dome Mountain; it is not a Purchased Invoice. A questionable "invoice" was issued by Dome Mountain to MGE Corporation Limited, apparently to falsely portray the Bridge Facility to Dome Mountain as a Purchased Invoice pursuant to a Factoring Contract. The Receiver's review of these arrangements is detailed below.

##### *Dome Financing – 2015*

- 83 The Company (in trust) and Dome Mountain entered into a "factoring agreement" (i.e. a bridge loan agreement) dated November 4, 2015 for a term of 12 months (the "**Dome 2015 Loan Agreement**"). Under the Dome 2015 Loan Agreement, the Company purchased one (1) invoice issued to MGE Corporation Limited ("**MGE**") dated November 11, 2015 totaling \$80,000,000 (the "**MGE 2015 Invoice**"). A copy of the MGE 2015 Invoice is attached hereto as **Appendix "18"**.
- 84 Under the Dome 2015 Loan Agreement total advances of \$12,507,676 were made by certain Funds at various times during November 2015 to December 2015 as follows:
- a) Factoring Fund – \$10,127,676; and

- b) ACM Growth Fund – \$2,380,000.<sup>4</sup>

Frontline provided the Receiver with a Mandate Letter and Term Sheet between Overseas European Holdings limited (“**OEHL**”), an affiliate of MGE, and Dome Mountain dated November 7, 2015 (the “**MGE 2015 Term Sheet**”) that expired on November 6, 2016. A copy of the MGE 2015 Term Sheet is attached hereto as **Appendix “19”**. The MGE 2015 Term Sheet referenced a proposed acquisition of shares (the “**Acquisition**”) in Gavin Mines Inc. (“**Gavin Mines**”) by Dome Mountain, and noted that OEHL and MGE agreed to, among other things:

- a) assist in securing a bridge financing facility to finance drilling operations of Gavin Mines (the “**Bridge Facility**”);
- b) issue a performance guarantee bond to assist in securing the Bridge Facility (as described below); and
- c) issue a 10 year, US \$80 million loan to Dome Mountain to fund the Acquisition, capital expenditures, and to refinance the Bridge Facility (the “**Acquisition Loan Facility**”).

85 Frontline also provided the Receiver with a copy of a performance guarantee bond in the amount of \$12 million issued by Active Capital Reinsurance Ltd. for the period of November 6, 2015 to November 5, 2016 (the “**2015 Performance Bond**”). The 2015 Performance Bond, which is attached hereto as **Appendix “20”**, had named MGE as the insured and the Company (Crystal Wealth Management System Limited (in Trust)) as the beneficiary.

86 Based on the above, it is apparent that the Dome 2015 Loan Agreement and the purchase of the MGE 2015 Invoice were entered into together to disguise the transaction as a “factoring arrangement” although in substance, the advances to Dome Mountain were essentially a bridge loan, i.e. the Bridge Facility as outlined in the MGE 2015 Term Sheet. MGE, through the Acquisition Loan Facility, was to refinance the Bridge Facility provided by the Factoring Fund and ACM Growth Fund. Frontline has confirmed the Receiver’s

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<sup>4</sup> The amount advanced by the ACM Growth Fund was later assigned to the Factoring Fund through the execution of an Assignment Agreement dated November 11, 2016, between the ACM Growth Fund and the Factoring Fund (each by their manager and trustee, the Company).

understanding that the monies advanced by the Funds were in fact a Bridge Facility as described above.

- 87 The Receiver inquired with Frontline as to the underlying rationale with respect to this arrangement, to which Frontline advised that it had not procured this arrangement but rather Housego had sourced and negotiated the deal with Dome Mountain and MGE. Frontline advised that this arrangement was funded by the Factoring Fund and that Housego instructed Frontline to include it in the portfolio and administer same. The Receiver has obtained evidence that Frontline was actively involved in the origination of the Dome 2015 Loan Agreement.

*Dome Financing – 2016*

- 88 Upon expiry of the Dome 2015 Loan Agreement, the MGE 2015 Term Sheet, and the 2015 Performance Bond, the following occurred:
- a) the Company (in trust) entered into another 12 month “factoring agreement” with Dome Mountain dated November 4, 2016 (the **“Dome 2016 Loan Agreement”**);
  - b) the Company (in trust) and Dome Mountain entered into a security agreement (“**GSA**”) dated November 4, 2016 (the **“Dome Mountain GSA”**);
  - c) another Dome Mountain invoice (invoice no. 0206) dated November 5, 2016 to MGE (the **“MGE 2016 Invoice”**) was purchased by the Factoring Fund to replace the MGE 2015 Invoice;
  - d) an updated Mandate Letter and Term Sheet dated November 3, 2016 between MGE and Dome Mountain was executed (the **“MGE 2016 Term Sheet”**) with terms substantively the same as the MGE 2015 Term Sheet, aside from the Acquisition Loan Facility being reduced to US \$36 million; and
  - e) a performance guarantee in the amount of \$18 million (the **“Guarantee Limit”**) was issued by Best Meridian International Company SPC (“**BMIIC**”), as reinsurer, for the period of November 4, 2016 to November 6, 2017 (MGE – 112017-000016) (the **“2016 Performance Bond”**) whereby MGE is named as the insured and the Company (Crystal Wealth Management System Limited (in trust)) as the beneficiary. The 2016

Performance Guarantee also carried a premium of \$630,000 (the “**Performance Premium**”) payable by the insured, MGE.

A copy of the MGE 2016 Invoice, the MGE 2016 Term Sheet, and the 2016 Performance Bond are attached hereto as **Appendix “21”**, **Appendix “22”**, and **Appendix “23”** respectively.

- 89 The Invoice Summary (as defined below) provided by Frontline dated November 22, 2016, which is attached to this Second Report as **Appendix “24”**, notes that the Dome 2016 Loan Agreement, the 2016 Performance Bond, and the MGE 2016 Invoice were entered into because:

*“...MGE was unable to close on the funding of Gavin Mines as the numbers did not substantiate the purchase price, although we had an insurance policy covering the performance of MGE. As the deal has been restructured at a lower price, MGE will now be able to fund the share purchase and the insurance company is willing to reissue a new policy at an increased amount.”*

- 90 MGE and Dome Mountain also executed a Deed of Guarantee dated November 4, 2016 (the “**Deed of Guarantee**”), wherein MGE expressly acknowledged that Dome Mountain was borrowing funds from the Company (in trust for the Factoring Fund and the Hedge Fund), in the form of an interest-bearing loan (the Bridge Facility) in the amount of CAD \$18,000,000. The Deed of Guarantee expressly provides that MGE had procured the 2016 Performance Guarantee “*to ensure repayment of the [Bridge Facility]*” to the Factoring and Hedge Funds, together with all interest due to the Company (in trust for the Factoring Fund and Hedge Fund).
- 91 Consistent with the Deed of Guarantee, on November 4, 2016, MGE effected a registration under the PPSA (Alberta), registering MGE as a secured party of Dome Mountain with the following collateral description:

*100% of the share capital of [Dome Mountain], secured party has charge over the total share capital of the Debtor, Dome Mountain Resources of Canada Inc., as collateral for a loan of C\$18,000,000 starting on 4 November 2016, as per Deed of Guarantee of the same Date.*

92 On November 11, 2016, days following the execution of the Deed of Guarantee and the issuance of the Performance Guarantee, the Hedge Fund advanced an additional \$996,625 to Dome Mountain, in addition to the \$12,600,607 advanced in 2015 by the Factoring Fund, in apparent reliance on the representation by MGE that the \$18 million 2016 Performance Bond was in place to ensure that these advances, and all accrued interest, would be repaid to the Factoring Fund and Hedge Fund.

*Status of Dome Mountain*

93 Frontline has advised the Receiver that Dome Mountain is not performing as MGE has not yet been able to secure funding as contemplated in the MGE 2016 Term Sheet. The Non-Performing Reports indicate that MGE continues to push back the timeline with respect to the Acquisition Loan Facility.

94 Upon review of the 2016 Performance Bond, the Guarantee Limit is payable by BMIIC on or after November 6, 2017 should the Loan (as defined in the 2016 Performance Bond) not be repaid to the Factoring and Hedge Funds by November 6, 2017. As the Loan had not been repaid to the Factoring Fund the Hedge Fund, the Receiver took steps to ensure that a claim would be submitted by MGE pursuant to the Performance Guarantee, to ensure that the principal amount of the Bridge Facility, and all accrued interest, is repaid to the Factoring Fund and Hedge Fund as the beneficiaries of the 2016 Performance Bond.

95 However, Frontline advised the Receiver that after the 2016 Performance Bond was executed in November 2016, MGE, nor any other party, remitted the Performance Premium to the underwriter of the 2016 Performance Bond, Global BRG, LLC (“BRG”).

96 On October 17, 2017, after being contacted by the Receiver, BRG advised that the Performance Premium was never remitted and as a result, the 2016 Performance Guarantee was cancelled on November 28, 2016. A copy of the cancellation letter provided by BRG is attached hereto as **Appendix “25”**.

97 On October 19, 2017, the Receiver sent a letter to MGE (the “**October 19 2017 Letter**”) demanding that MGE provide, by no later than 5 p.m. EST on Friday, October 20, 2017, a written explanation to the Receiver advising of:

- a) the circumstances which gave rise to MGE’s failure to pay the Performance Premium;

- b) whether notice was given by MGE to the Crystal Wealth Group, Dome Mountain, and/or to Frontline that the Performance Premium had not been paid, and that the 2016 Performance Bond had been cancelled;
- c) the reason MGE registered its security interest against Dome Mountain as per the Deed of Guarantee, despite its failure to secure the 2016 Performance Bond as required and contrary to MGE's representations in the Deed of Guarantee; and
- d) whether a replacement policy of insurance, or performance guarantee, had been obtained by MGE or any other party to secure repayment of the Bridge Facility indebtedness owing to the Factoring and Hedge Funds.

98 After not receiving a response from MGE, A&B, on behalf of the Receiver, sent a follow-up email to MGE on October 23, 2017. A copy of the October 19 2017 Letter and the follow-up email sent by A&B are attached hereto as **Appendix "26"** and **Appendix "27"** respectively.

99 On October 24, 2017, A&B, the Receiver, and Stephen Miller, who had executed the 2016 Performance Guarantee and Deed of Guarantee on behalf of MGE, attended a call to discuss the contents contained in the October 19 2017 Letter. Miller advised that he was working with MGE's counsel to draft a response and to provide supporting documentation to support his response to the October 19 2017 Letter. Miller acknowledged such a response would be delivered by the end of the week (October 27, 2017). Miller also advised the Receiver of the following:

- a) it was the responsibility of Frontline, the Factoring Fund, and the Hedge Fund to pay the Performance Premium required by the 2016 Performance Bond;
- b) Froese (the President of Frontline) and Housego were aware that it was the responsibility of Frontline, the Factoring Fund, and the Hedge Fund to pay the Performance Premium, but they failed to cause the Performance Premium to be paid, thereby causing the 2016 Performance Bond to be cancelled; and
- c) MGE had at no time provided financing to Dome Mountain, given that Dome Mountain failed to obtain a valuation of Gavin Mines which was a precondition to MGE providing Dome Mountain with financing, or issuing a bond.

- 100 On October 30, 2017, after no response was received to the October 19, 2017 Letter, A&B sent a follow-up email to Miller requesting a response and that the previously-requested supporting documentation be delivered to the Receiver by the end of the day.
- 101 On October 31, 2017, MGE provided a response to the Receiver (the "**MGE October 31<sup>st</sup> Email**") which confirmed the assertions made by Miller in his discussion with the Receiver and A&B on October 24, 2017. More specifically, Miller asserted that Froese and Housego were "very well aware" that it was the Hedge Fund, Factoring Fund, and Frontline's responsibility to pay the Performance Premium of \$630,000. Miller further asserted that at no time had MGE provided financing to Dome Mountain. Notwithstanding the assertions made by Miller, A&B, on behalf of the Receiver, responded to Miller indicating that he had failed to provide any support for his assertion that it was the responsibility of Frontline, the Hedge Fund, and/or the Factoring Fund to pay the Performance Premium. As at the date of this Second Report, Miller has not provided any supporting documentation to support his assertions in the MGE October 31<sup>st</sup> Email, despite A&B having sent a further follow-up email to him on November 9, 2017 demanding a response. Copies of the MGE October 31<sup>st</sup> Email and A&B's responses to Miller sent on October 31, 2017 and November 9, 2017 are attached hereto as **Appendix "28"**.
- 102 As the MGE October 31<sup>st</sup> Email contradicted Froese's (Frontline's) account of the events, the Receiver sent correspondence to Froese on October 31, 2017 (the "**Receiver's October 31 2017 Email**") that, among other things:
- a) made Froese aware of the Receiver's correspondence with MGE and BRG;
  - b) made Froese aware of the assertions made by Miller in the MGE October 31<sup>st</sup> Email;
  - c) requested that Froese provide an update on the nature of the ongoing dealings between MGE and Dome Mountain;
  - d) requested that Froese explain and elaborate upon the meaning of his October 27, 2017 email to the Receiver, wherein Froese indicated that "*MGE has had some good progress [on obtaining financing] although nothing [was] definitive*";
  - e) requested that Froese provide an explanation as to why the \$630,000 Performance Premium was never paid, which left the Hedge Fund and Factoring Fund without recourse to an insurance policy;

- f) requested the reporting which was given to the Hedge Fund and Factoring Fund by Frontline leading up to the advances made by the Funds to Dome Mountain; and
- g) requested that Froese provide a copy of Frontline's due diligence summary report provided to the Factoring Fund and Hedge Fund and all correspondence and discussion notes which preceded the advances made to Dome Mountain.

A copy of the Receiver's October 31 2017 Email is attached hereto as **Appendix "29"**.

103 After repeatedly following up with Froese, on November 21, 2017, the Receiver received a response from Froese to the Receiver's October 31 2017 Email, which response is attached hereto as **Appendix "30"**. Froese's response failed to reasonably explain why the Performance Premium for the 2016 Performance Bond had not been paid, or why a claim had not been submitted pursuant to the 2015 Performance Bond. In his November 21<sup>st</sup> email to the Receiver, Froese indicates, among other things, that:

- a) On November 14, 2016, Froese "*Received instructions from Al Housego regarding wording of [Frontline] Invoice Summary and what needs to happen with internal structure*".

As indicated above, the Invoice Summary subsequently provided by Frontline was dated November 22, 2016, which is attached to this Second Report as **Appendix "24"** (as noted above), and notes that the Dome 2016 Loan Agreement, the 2016 Performance Bond, and the MGE 2016 Invoice were entered into because:

*"...MGE was unable to close on the funding of Gavin Mines as the numbers did not substantiate the purchase price, although we had an insurance policy covering the performance of MGE. As the deal has been restructured at a lower price, MGE will now be able to fund the share purchase and the insurance company is willing to reissue a new policy at an increased amount."*

- b) On November 15, 2016, Froese "*Received email instructions from Clayton Smith requesting we structure this as a factoring agreement and the object being factored is the sale proceeds from MGE with insurance as backup*". This email from Smith to Frontline was subsequently provided by Froese to the Receiver on November 21, 2017, and is included within **Appendix "30"** noted above; and

- c) During the first week of December 2016, Froese “received word that Crystal Wealth did not have any funds to pay for the insurance policy although based on their conversations with Steve Miller from MGE, they were confident he would perform”.

#### Dome Mountain Assets and Receiver's Recourse

- 104 The Receiver has requested that Frontline and Dome Mountain provide information to the Receiver concerning Dome Mountain and Gavin Mines. As at the date of this Second Report, neither Frontline nor Dome Mountain have provided such information, and by an email sent on November 8, 2017, Dome Mountain advised it “has not had any financial documents prepared”. There is accordingly no information or evidence as to how Dome Mountain utilized the \$13,808,835 which was advanced to it by the Factoring and Hedge Funds.
- 105 By letter dated November 22, 2017, the Receiver demanded immediate payment of the Dome Mountain Balance from Dome Mountain pursuant to the Dome 2016 Loan Agreement, as well as immediate payment of all amounts owing by Dome Mountain to the Factoring Fund pursuant to the Fund’s factoring arrangements with 156 Alberta and 647 BC, as detailed immediately below. A copy of the November 22, 2017 letter sent by the Receiver to Dome Mountain is attached to this Second Report as **Appendix “31”**.

#### **156 Alberta and 647 BC**

##### *156 Alberta*

- 106 The Factoring Fund entered into a Factoring Agreement with 156 Alberta dated January 8, 2015 (the “**156 Alberta Factoring Agreement**”). The Factoring Fund also entered into a security agreement with 156 Alberta dated January 8, 2015 granting the Factoring Fund a general continuing security interest over all present and future property and assets of 156 Alberta. Frontline has advised that, similar to 647 BC (described below), 156 Alberta performs project management and consulting for mining projects. The principals of 156 Alberta are Jeff Maljaars and Robert Maljaars (“**R. Maljaars**”). In addition to Darcy Pahl, who is the director of Dome Mountain, R. Maljaars executed Dome Mountain’s Factoring Contracts with the Company (in trust for the Factoring Fund and Hedge Fund) on behalf of Dome Mountain, with the stated title of “Director” of Dome Mountain. In MGE’s October 31 Email (**Appendix “28”**), Miller had indicated that the “majority” of MGE’s communications were with Darcy Pahl and R. Maljaars, and with Froese and Housego.

## 647 BC

- 107 On November 28, 2014, the Factoring Fund entered into a Factoring Agreement with 647 BC (the “**647 BC Factoring Agreement**”). The Factoring Fund also entered into a security agreement with 647 BC dated November 27, 2014 which granted the Factoring Fund a general continuing security interest over all present and future property and assets of 647 BC. Frontline has advised the Receiver that 647 BC performs project management services for large projects and had been a client of Frontline in the past. Froese advised that he is personally familiar with the owners of 647 BC, Marion DenHollander and David DenHollander (together, the “**DenHollanders**”). The Receiver has been advised by an investor that David DenHollander is also related to Dome Mountain. As will be detailed in the Zomongo TV section below, the DenHollanders are also involved with Zomongo Inc. and/or Zomongo TV, both of whom are Merchants pursuant to Factoring Contracts entered into with the Factoring Fund and/or the Hedge Fund.

### *Relationship of 647 BC and 156 Alberta to Dome Mountain*

- 108 As outlined in the table below, all but one of the Purchased Invoices from 647 BC and 156 Alberta are owing from Dome Mountain as the Debtor. A copy of the outstanding Purchased Invoices for 647 BC and 156 Alberta are attached to this Second Report as **Appendix “32”**.

							<b>Balances as at October 26th</b>		
	<b>Debtor</b>	<b>No.</b>	<b>Amount of Invoices</b>	<b>Days Outstanding as at April 26th</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>		
156 Alberta	Dome Mountain	2	\$ 1,010,000	312 Days	\$ 624,039	\$ 117,118	\$ 741,157		
647 BC	Dome Mountain	2	578,550	340 Days	439,698	109,260	548,958		
156 Alberta	IC Commerce	1	238,095	73 Days	200,000	23,200	223,200		
		5	<b>\$ 1,826,645</b>	<b>275 Days</b>	<b>\$ 1,263,737</b>	<b>\$ 249,579</b>	<b>\$ 1,513,316</b>		

- 109 The fact that an additional \$1,290,116 is owing to the Factoring Fund from Dome Mountain (as the Debtor), results in Dome Mountain, directly and indirectly, owing the Factoring/Hedge Fund a total of \$17,560,601 (principal of \$14,872,572 and interest of \$2,688,029). It is unclear as to the types of services provided by 156 Alberta and 647 BC as the invoice description contains only the words “*Consulting*” (for 156 Alberta) or “*Project Management*” (for 647 BC), with no other pertinent details.

110 In addition, to the 156 Alberta Dome Invoices and the 647 BC Dome Invoices, the following table outlines previous invoices issued to Dome Mountain from 156 Alberta and 647 BC that the Factoring Fund purchased resulting in the Fund advancing funds to 156 Alberta and 647 BC. These invoices were subsequently repaid.

<b>Merchant / Debtor</b>	<b>Invoice Summary Date</b>	<b>Invoice No.</b>	<b>Invoice Amount</b>	<b>Funds Advanced to Merchant</b>
<b>647497 BC Ltd.</b>				
Dome Mountain	28-Nov-14	257	\$ 357,000	\$ 279,888
Dome Mountain	22-Dec-14	261	367,500	288,120
Dome Mountain	27-Jan-15	264	328,125	257,250
Dome Mountain	11-May-15	302	507,675	398,017
Dome Mountain	30-Sep-15	304	237,891	186,506
			1,798,191	1,409,781
<b>1566496 Alberta Ltd.</b>				
Dome Mountain	27-Feb-15	145	152,250	119,364
Dome Mountain	17-Mar-15	146	131,250	102,900
Dome Mountain	30-Mar-15	149	183,750	144,060
Dome Mountain	13-Apr-15	150	131,250	102,900
Dome Mountain	29-Apr-15	151	262,500	205,800
Dome Mountain	11-May-15	152	510,300	400,075
Dome Mountain	31-Aug-15	153	105,000	82,320
Dome Mountain	10-Sep-15	155	220,500	172,872
Dome Mountain	29-Oct-15	157	340,000	266,560
Dome Mountain	06-Nov-15	158	260,000	203,840
Dome Mountain	05-Jan-16	159	390,000	305,760
Dome Mountain	15-Apr-16	215	65,100	51,038
			2,751,900	2,157,490
<b>Grant Total</b>			<b>\$ 4,550,091</b>	<b>\$ 3,567,271</b>

- 111 Based on the table above, it appears that Dome Mountain paid:
- \$1,798,181 to 647 BC for “*Project Management*” invoices issued to Dome Mountain; and
  - \$2,751,900 to 156 Alberta for “*Consulting*” invoices issued to Dome Mountain in circumstances where 156 Alberta appears to be a related party.
- 112 The Receiver is in the process of obtaining more information to determine the timing of these transactions as well as the original funding to Dome Mountain by the Factoring Fund

and Hedge Fund totaling approximately \$13,808,835. The Receiver has concerns that a portion of the \$13,808,835 was used to pay the above noted invoices issued to Dome Mountain totaling \$4,550,091.

- 113 On November 7, 2017, DenHollander sent Frontline an email, advising as follows:

*"I am out of the country and don't know when we will return. Perhaps sometime next year but at present not sure".*

DenHollander further advised that 647 BC is three years behind on its financial statements. DenHollander indicated that

*"[i]n regards to a repayment schedule [647 BC is] working on a plan which I hope will be finalized in the next 30-60 days which would allow us to start repaying funds".*

A copy of DenHollander's email to Frontline is attached to this Second Report as **Appendix "33"**.

- 114 By letters dated November 22, 2017, the Receiver demanded immediate payment from 647 BC and 156 Alberta pursuant to the 647 BC Factoring Agreement and the 156 Alberta BC Factoring Agreement, respectively. Copies of the November 22, 2017 letters sent by the Receiver to 647 BC and 156 Alberta are attached to this Second Report as **Appendix "34"**.

### Zomongo TV

- 115 The Factoring Fund and the Hedge Fund each entered into Factoring Agreements with Zomongo TV, an Alberta entity, dated August 7, 2015 (the "**Zomongo TV Factoring Agreement**").
- 116 The Factoring Fund also entered into a security agreement with Zomongo TV dated August 7, 2015 (the "**Zomongo TV Security Agreement**"). The Zomongo TV Security Agreement granted the Factoring Fund a general continuing security interest over all present and after acquired undertaking, property and assets of Zomongo TV, including all present and future right, title, and interest and benefit of Zomongo TV in all property, on a first-position secured basis.

- 117 In addition, pursuant to a Guarantee and Postponement of Claim dated January 25, 2017, Zomongo.TV Holdings Corp ("Zomongo TV Holdings") entered into a Guarantee and Postponement of Claim with the Hedge Fund dated January 25, 2017, pursuant to which Zomongo TV Holdings provided a continuing guarantee of all the obligations owing by Zomongo TV to the Hedge Fund. Zomongo TV Holdings also entered into a General Security Agreement dated January 25, 2017 with the Hedge Fund, granting the Hedge Fund a general continuing security interest over all present and future property and assets of Zomongo TV Holdings.
- 118 According to Frontline, in the latter half of 2016, as a result of Zomongo TV incurring net losses and generating negative cash flow in its operations, Zomongo TV required additional funding to continue as a going concern. Frontline advised the Receiver that the Factoring Fund did not have funds available to advance to Zomongo TV to assist it in continuing as a going concern.
- 119 As a result, on December 29, 2016, Zomongo TV and its associated entities entered into a credit agreement with TCA Global Credit Master Fund, LP ("TCA") effective December 30, 2016 (the "TCA Loan Agreement") for a revolving credit facility of up to US \$10,000,000 (the "TCA Credit Facility"). Funding available under the TCA Credit Facility is based on underlying working capital (e.g. accounts receivable, inventory, etc.) of Zomongo TV.
- 120 As a condition of the TCA Loan Agreement, the Factoring Fund entered into a Subordination of Loans Agreement with Zomongo TV (and its associated entities) and TCA dated December 28, 2016 (the "Zomongo TV Subordination Agreement"). The Zomongo TV Subordination Agreement resulted in the Factoring Fund being in a subordinated position to that of TCA (i.e. giving up its first position security to TCA). As at December 28, 2016, the Factoring Fund was owed a principal balance of \$11,960,213 from Purchased Invoices of Zomongo TV. For greater clarity, the Receiver is advised that the Factoring Fund subordinated its position as TCA would not provide additional funding unless it was given the position of first secured creditor.

*Current Status*

- 121 As at October 26, 2017, Zomongo TV has outstanding principal balances owing to the Factoring Fund and Hedge Fund of \$6,204,373 and \$1,494,737, respectively, totaling \$7,669,110 (the “**Zomongo TV Principal Balance**”) from the following Debtors:
- a) Accent Marketing – \$1,193,158 owing for three (3) invoices;
  - b) Golden Shores Enterprises Inc. – \$947,368 owing for two (2) invoices;
  - c) Eyeconic.tv – \$4,244,701 owing for seven (7) invoices;
  - d) Vanus Consulting Inc. – \$842,105 owing for two (2) invoices; and
  - e) Mobility Media & TV – \$723,000 owing for two (2) invoices
- (collectively the “**Zomongo TV Debtors**”).
- 122 In addition to the Zomongo TV Principal Balance, the Factoring Fund and Hedge Fund are owed \$845,396 and \$660,307 in interest and fees, respectively, totaling \$1,505,702 (together with the Zomongo TV Principal Balance, the “**Zomongo TV Balance**”).
- 123 The table below outlines, for each Zomongo TV Debtor: the number of Purchased Invoices; the total amount of the Purchased Invoices; the average number of days outstanding as the date of the Receiver’s appointment (April 26, 2017); and the balance owing to the Factoring Fund and Hedge Fund as at October 26, 2017.

Debtor	No.	Amount of Invoices	Days Outstanding as at April 26th	Principal and Interest as at Oct. 26th		
				Factoring Fund	Hedge Fund	Total
Accent Marketing	3	\$ 1,500,000	553 Days	\$ 905,719	\$ 211,115	\$ 1,116,834
Golden Shores Enterprises Inc.	2	1,500,000	387 Days	-	1,380,003	1,380,003
Eyeconic.tv	7	7,650,000	390 Days	4,696,198	156,468	4,852,666
Vanus Consulting Inc.	2	1,500,000	387 Days	955,365	-	955,365
Mobility Media & TV	2	3,000,000	252 Days	492,487	407,457	899,944
	16	<b>\$ 15,150,000</b>	<b>403 Days</b>	<b>\$ 7,049,769</b>	<b>\$ 2,155,044</b>	<b>\$ 9,204,812</b>

- 124 As demonstrated in the table above, prior to the Appointment Order, the Purchased Invoices were, on average, outstanding for 403 days. This puts into question the collectability, and thus the underlying Recorded Value of the Zomongo TV Balance. In initial discussions with the Receiver, Frontline had failed to highlight or acknowledge an issue with the Zomongo TV Balance and the Zomongo TV Debtors' repayment of the Purchased Invoices when asked by the Receiver as to the status of same.
- 125 Not until the June 29 2017 Non-Performing Report did Frontline acknowledge that the Zomongo TV Balance and the underlying Purchased Invoices were "non-performing". In each subsequent Non-Performing Report, Frontline advised that communication with Zomongo TV had been limited and it became apparent that the collectability of the Zomongo TV Balance from the Zomongo TV Debtors is at risk.
- 126 Based on the above, and especially in light of the fact that neither the Factoring Fund nor the Hedge Fund have any security over the Zomongo TV Debtors, the Receiver has concluded that the Zomongo TV Balance will be challenging to recover.

*Receiver's Strategy: Potential Zomongo TV Settlement Agreement*

- 127 In the June 29 2017 Non-Performing Report, Frontline indicated that Zomongo TV had advised that it was in the process of obtaining additional financing to payout the balance owing to the Factoring Fund and the Hedge Fund. In each subsequent Non-Performing Report, Frontline had advised that Zomongo TV was continuing to work on obtaining new financing and had lenders involved in performing due diligence to issue same.
- 128 On October 3, 2017, the Receiver received an email from Frontline (the "**Initial Zomongo Email**") indicating that Zomongo TV was in financial difficulties as TCA had not advanced the total amount of the funds that were potentially available under the TCA Loan Agreement (i.e. US \$10 million). As a result, Frontline claimed that Zomongo TV did not have the cash to continue completing the current projects entered into with a chain of hotels (the "**Hotel Rollout**"); Frontline represented that the Hotel Rollout would create a significant amount of cash flow. Frontline indicated that without additional funding, Zomongo TV could not continue operating.
- 129 On October 4, 2017, the Receiver, A&B, Frontline, and a representative acting on behalf of Zomongo, BFF Ventures, through its representative, Tim Barnes, attended a conference call to discuss the Initial Zomongo Email. BFF Ventures indicated that TCA

would not advance additional funding to Zomongo TV unless the Factoring/Hedge Fund converted the Zomongo TV Balance into equity in Zomongo TV and requested the Receiver to consent to same. The Receiver advised BFF Ventures that it could not reasonably consider a conversion of the Zomongo TV Balance to equity until it was provided with additional information, including but not limited to: (i) historical financial statements; (ii) details of the Hotel Rollout; (iii) a term sheet from Zomongo TV; (iv) financial projections; and (v) a call with TCA to discuss its request for the Zomongo TV Balance to be converted. A link to a data room containing some of the requested information was sent to the Receiver.

- 130 On October 6, 2017, BFF Ventures delivered to the Receiver a non-binding letter of intent (the “**Initial LOI**”) which included, but was limited to: (i) a conversion of the Zomongo TV Balance to shares in Zomongo TV; and (ii) a subsequent exclusive right for Zomongo TV to repurchase the shares over a 12 month period. The Initial LOI was not executed by the Receiver.
- 131 On October 11, 2017, the Receiver, A&B, Frontline, BFF Ventures, and Zomongo TV attended a conference call to discuss, among other things, the Initial LOI and to permit the Receiver and A&B to ask questions to Zomongo TV directly, including as to why the Initial LOI proposal was being made when it could not be agreed upon without TCA approval. On this call, the Receiver stated that a conversion of the Zomongo TV Balance to equity in Zomongo TV would be unacceptable. The Receiver also reiterated its request for a call with TCA.
- 132 On October 12, 2017, BFF Ventures delivered to the Receiver a revised non-binding letter of intent (the “**October 12 2017 LOI**”) which replaced the Initial LOI. The October 12 2017 LOI removed the proposed equity conversion into Zomongo TV Shares, and instead proposed payment terms to restructure the indebtedness owing by Zomongo TV to the Factoring and Hedge Funds, along with a proposed payment schedule. The Receiver neither accepted nor rejected the terms contained in the October 12 2017 LOI, as any such arrangement would be subject of TCA approval. The Receiver and A&B reiterated their request that a call with TCA representatives, be convened. Attached to this Second Report as **Confidential Appendix “1”** is a copy of the October 12 2017 LOI.

- 133 On October 26, 2017, on a without prejudice basis, the Receiver and A&B attended a call with representatives from TCA, Frontline, and BFF Ventures to discuss, among other things, the October 12 2017 LOI and the potential to come to an agreement to allow for TCA to advance the additional funding under the TCA Loan Agreement to Zomongo TV for the Hotel Rollout, while allowing Zomongo TV to make repayments to the Factoring and Hedge Funds under a restructured arrangement. In summary, the following items were discussed:
- a) TCA was in the middle of its internal due diligence process to determine the additional funding, if any, to be provided to Zomongo TV;
  - b) TCA would only commit to funding if the Zomongo TV Balance was resolved through an agreement between Zomongo TV and the Receiver;
  - c) Due to poor record keeping on behalf of Zomongo TV, Frontline, and the Company, the participants on the call were unable to agree as to the quantum of interest and factoring fees owing to the Factoring and Hedge Funds beyond the Zomongo TV Principal Balance;
  - d) TCA, Frontline, Zomongo TV, and BFF were comfortable with the accuracy of the Zomongo TV Principal Balance; and
  - e) TCA was in the process of reviewing the October 12 2017 LOI and was not committing to the terms contained therein. However, on a without prejudice basis, it was supportive of eventually coming to some form of an agreement.
- 134 On November 17, 2017, BFF Ventures advised the Receiver that TCA has now agreed to provide \$5 million in additional funding to Zomongo TV and its affiliates under the TCA Loan Agreement. On November 19, 2017, the Receiver requested that BFF Ventures, on behalf of Zomongo TV, deliver to the Receiver Zomongo TV's proposed form of agreement(s), in order for the Receiver to continue to evaluate the possibility of an arrangement to be agreed upon by TCA, Zomongo TV, and the Receiver, which would result in: (i) TCA providing additional funding to Zomongo TV; and (ii) the repayment of a portion of the Zomongo TV Balance being made to the Factoring and Hedge Funds by Zomongo TV under a restructured arrangement, likely on a monthly installment basis.

- 135 As at the date of this Second Report, the Receiver has not yet received Zomongo TV's proposed form of agreement(s) to effect a restructuring of the indebtedness owing to the Factoring and Hedge Funds by Zomongo TV.

*Zomongo Inc./Zomongo TV's Involvement with 647 BC Representatives*

- 136 As noted above, Zomongo Inc. is a former Merchant of the Factoring Fund pursuant to a Factoring Agreement entered into by the Factoring Fund and Zomongo Inc. dated November 20, 2014. Jocelyne Hughes-Ostrowski is the sole director of Zomongo Inc. The sole directors of Zomongo TV are Jocelyne Hughes-Ostrowski and Jeremy Ostrowski. Zomongo Inc. holds 83.63% of the shares in Zomongo TV, according to records provided to the Receiver by Zomongo TV.
- 137 Frontline's records indicate that no indebtedness is owing by Zomongo Inc. to the Factoring Fund. Nevertheless, on July 7 and 14, 2017, Frontline advised the Receiver that, as security for Zomongo Inc.'s indebtedness to the Factoring Fund, personal guarantees (the "**DenHollander Personal Guarantees**") had been provided by each of the DenHollanders to the Factoring Fund, which obligations were to be secured by a collateral mortgage (the "**DenHollander Mortgage**") over the DenHollanders' personal residence located in British Columbia (the "**DenHollander Property**"). Attached hereto as **Appendix "35"** are copies of the DenHollander Personal Guarantees and the mortgage documentation executed by the DenHollanders provided by Frontline to the Receiver, and a title search obtained by the Receiver for the DenHollander Property.
- 138 As mentioned, the DenHollanders are the owners of the Merchant, 647 BC, and are also related to another Merchant, Dome Mountain. It is unclear to the Receiver how the DenHollanders are also involved with Zomongo Inc. and Zomongo TV, or why they provided the DenHollander Personal Guarantees and the DenHollander Mortgage to secure the obligations owing by Zomongo Inc. to the Factoring Fund.
- 139 The Receiver has instructed Frontline that the DenHollander Mortgage – which was improperly registered by Frontline in Frontline's name as mortgagee - must remain registered on title to the DenHollander Property and must not be discharged.

**Advanced Metal**

- 140 The Factoring Fund entered into a Factoring Agreement with Advanced Metal dated September 21, 2015 for the purchase of a list of approved receivables from Advanced Metal up to a maximum of \$600,000 (the “**Advanced Metal Factoring Agreement**”).
- 141 The Factoring Fund also entered into a security agreement with Advance Metal dated September 15, 2015 which granted the Factoring Fund a general continuing security interest over all present and after acquired undertaking, property and assets of Advanced Metal, including all present and future right, title, and interest and benefit of Advanced Metal in all property; on a first secured basis.
- 142 On December 16, 2016, the Factoring Fund entered into a postponement and subordination of security interest agreement (the “**Advanced Metal Subordination Agreement**”). The Advanced Metal Subordination Agreement resulted in the Factoring Fund becoming a subordinated creditor to that of the Bank of Montreal (i.e. giving up its first position security to the Bank of Montreal). Similar to Zomongo TV, the Factoring Fund and Hedge Fund subordinated their position as the Bank of Montreal would not provide additional funding unless it was the first secured creditor.
- 143 In addition to Bank of Montreal, other registrations are made under the PPSA by creditors of Advanced Metal, including Roynat Inc. and National Leasing Group Inc. A writ of seizure and sale (Federal Writ) was filed on February 15, 2017 in favour of Her Majesty the Queen in Right of Canada in the amount of \$641,351.40.

*Current Status*

- 144 As at October 26, 2017, Advanced Metal had outstanding principal balances owing to the Factoring Fund of \$1,256,311 (the “**Advanced Metal Principal Balance**”) and interest owing of \$248,029 (together with the Advanced Metal Principal Balance, the “**Advanced Metal Balance**”) from the Debtors outlined in the following table (collectively the “**Advanced Metal Debtors**”), all of which have only one (1) invoice outstanding (the “**Advanced Metal Invoices**”).

Debtor	Invoice Amount	Days Outstanding as at April 26th	Balances as at October 26th		
			Principal	Interest	Total
Lotus Environmental Ltd.	\$ 879,824	631 Days	\$ 458,080	\$ 17,450	\$ 475,530
PROFAB Industrial Construction	89,378	474 Days	71,502	22,165	93,667
AIC International Group	252,000	498 Days	201,600	62,496	264,096
Lotus Energy Services Inc.	1,466,365	477 Days	200,441	62,136	262,578
Mi2 Energy Ltd.	213,868	426 Days	171,095	50,988	222,082
Downton's Transport Ltd.	191,991	267 Days	153,593	32,794	186,386
	<b>\$ 3,093,426</b>	<b>462 Days</b>	<b>\$ 1,256,311</b>	<b>\$ 248,029</b>	<b>\$ 1,504,340</b>

- 145 The Advanced Metal Balance includes the payments of \$25,000 and \$113,045 that Frontline received from Advanced Metal on August 11, 2017 and September 11, 2017, respectively, towards the Purchased Invoice issued to Lotus Environmental Ltd (i.e. the balance reflects the payments being made)
- 146 As demonstrated in the table above, prior to the Appointment Order, the Advanced Metal Invoice Invoices were, on average, outstanding for 462 days; putting into question the collectability of the Advanced Metal Balance, and thus the underlying Recorded Value of the Advanced Metal Balance.
- 147 Not until the June 29 2017 Non-Performing Report did Frontline acknowledge that the advances made to Advanced Metal on the Advanced Metal Invoices were “*old non-performing invoices*”. In the June 29 2017 Non-Performing Report, Frontline acknowledged that it was requesting new performing invoices to replace the Advanced Metal Invoices and that it had requested financial statements from Advanced Metal. In each subsequent Non-Performing Report, Frontline advised that it was able to establish a line of communication with Advanced Metal.
- 148 On July 28, 2017, Frontline advised that it had a meeting scheduled with the CEO of Advanced Metal to discuss payment alternatives and remedies.

- 149 On August 30, 2017, Frontline advised that after meetings and discussions, it was working with Advanced Metal to develop an alternative payment plan to retire the Advanced Metal Balance, including:
- a) replacing Advanced Metal Invoices with performing new invoices as they become available;
  - b) engaging a leasing company to enter into sale-leaseback transactions to obtain funding; and
  - c) selling the company.

- 150 On October 27, 2017, Frontline advised the Receiver that Advanced Metal is expecting to receive an offer for the company. However, such an offer has not yet been received. Advanced Metal communicated that another payment will be made on the Advanced Metal Balance in mid-November.

*Receiver's Recourse and Strategy*

- 151 As the Factoring Fund is in a subordinated second secured position, the Receiver is continuing to investigate options by which the Advanced Metal Balance, or a portion thereof, may be economically recovered.

**Restoration Energy**

Restoration Energy Factoring Arrangements

- 152 The Factoring Fund entered into a Factoring Agreement with Restoration Energy dated March 18, 2015 for the purchase of a list of approved receivables from Restoration Energy up to a maximum of \$2,000,000 (the "**Restoration Energy Factoring Fund Factoring Agreement**").
- 153 The Factoring Fund also entered into a security agreement with Restoration Energy dated March 18, 2015 which granted the Factoring Fund a general continuing security interest over all present and after acquired undertaking, property and assets of Restoration Energy, including all present and future right, title, and interest and benefit of Restoration Energy in all property; on a first secured basis.

- 154 On March 16, 2016, the Hedge Fund entered into a Factoring Agreement with Restoration Energy for the purchase of a list of approved receivables from Restoration Energy (together with the Restoration Energy Factoring Fund Factoring Agreement, the “**Restoration Energy Factoring Agreements**”).

The 1312163 Alberta Ltd. Guarantee and Collateral Mortgage

- 155 On March 20, 2015, the Factoring Fund and the Company entered into a Corporate Guarantee and Indemnity Agreement with 1312163 Alberta Ltd. (“**131 Alberta**”), an apparent arm’s length third party that is not evidently related to Restoration Energy or its principals, whereby 131 Alberta guaranteed any and all amounts advanced to Restoration Energy via the purchase of Restoration Energy’s accounts receivable, limited to a maximum principal amount of \$2,000,000 (the “**131 Alberta Guarantee**”). The 131 Alberta Guarantee provided for a collateral mortgage in favour of the Company (the “**Collateral Mortgage**”) against the legal title to approximately 90.88 acres of land owned by 131 Alberta located in Pine Lake, Alberta, comprising three parcels (the northernmost parcel, the “**North Parcel**”; the two southernmost parcels, the “**South Parcels**”; collectively, the “**131 Alberta Property**”). The Company subsequently registered the Collateral Mortgage against the 131 Alberta Property in the original principal amount of \$850,000, which was later amended by an amending agreement dated September 24, 2015 (registered on title on August 10, 2015), increasing the principal amount of the Collateral Mortgage to \$2,000,000.
- 156 The Collateral Mortgage is registered on title to the North Parcel behind two mortgages with an aggregate original principal amount totaling \$1,094,000. The Collateral Mortgage is registered on title to the South Parcels behind three mortgages (one of which is also registered against title to the North Parcel) with an aggregate original principal amount of \$1,210,000. Taken together, the Collateral Mortgage appears to be behind at least \$1,804,000 in principal of prior mortgages, plus an amount of accrued interest that is unknown but is likely to be considerable, for reasons detailed below.
- 157 Based on an appraisal dated September 25, 2011 (the “**Appraisal**”), the 131 Alberta Property was valued at an estimated \$3,180,800 (approximately \$35,000 per acre). In addition to its age, the Appraisal has weaknesses, including that it relies on certain assumptions which may not continue to be valid (i.e. given that the 131 Alberta Property

is zoned agricultural, and has not been approved for development despite a decade of efforts in this regard, and given the receipt of indications from the relevant municipality that only the North Parcel may potentially receive such an approval, and only then at a lower density than initially proposed). The Appraisal was also conducted in a very different market climate for Alberta real estate than that which exists at present.

- 158 Even if the Appraisal can be assumed to be accurate, which is likely not a safe assumption, the amount of equity available to satisfy the Collateral Mortgage appears to be extremely limited.
- 159 A&B and Darren Smits (“**Smits**”) attended a call on November 2<sup>nd</sup>, 2017 which provided background into the origins of this guarantee and the current valuation issues. Smits played several roles in the Restoration Energy and 131 Alberta arrangements. He is an investor into developments on the 131 Alberta Property (having, amongst other things, provided personal guarantees to support the obligations of 131 Alberta under its senior mortgages in respect of the Pine Lake Lands). Together with Frontline, he participated in the origination of the 131 Alberta guarantee arrangements with Restoration Energy. Finally, Smits, a lawyer at the firm of Miller Thomson LLP, is also counsel to Frontline and, at the relevant time, served as counsel to Crystal Wealth in respect of the Restoration Energy Factoring Agreements.
- 160 On the November 2<sup>nd</sup> call, Smits expressed skepticism about the assumptions in the Appraisal, particularly in light of the difficulties in obtaining zoning approval for the property. Smits that he had “no idea what the land is worth.” Smits suggested that the aggregate amount of accrued interest on two of the senior mortgages exceeded \$500,000, with further accrued interest on another, the quantum of which is unknown. Furthermore, Smits suggested that of the three parcels comprising the 131 Alberta Property, only the North Parcel would be of material value on a go-forward basis, as it is the only parcel which has experienced some traction in applying for municipal development approval (an area structure plan has been approved), and such value would only become apparent once such development begins. Materials subsequently provided by Smits show that, although preliminary engineering and cost studies have taken place, development of these lands has not begun.

### The Debt Exchange Agreement

- 161 On June 28, 2017, Frontline provided the Receiver with an unsigned debt security exchange agreement between 131 Alberta, the Company (including the Factoring Fund, and Hedge Fund), Restoration Energy, and Aspen Shore Estates Ltd. ("Aspen Shore") that was dated March 2017 (the "Debt Exchange Agreement"). Frontline advised that Housego and Smith had verbally agreed to the terms of the Debt Exchange Agreement one week prior to the Appointment Order.
- 162 The Debt Exchange Agreement appears to confirm that the Restoration Energy Invoices are uncollectible. Per the Debt Exchange Agreement:

*"Restoration Energy executed a number of factoring agreements with Crystal Wealth, the total accumulated amount outstanding as of September 22, 2016 is \$2,283,663.52 (the "Factoring Debt"), the funds of which were used by Restoration Energy to complete orders for customers, but due to technical issues with the technology the orders were not able to be completed.*

*Restoration Energy has retained the University of Calgary and has also brought a number of additional solid oxide fuel experts into the company in order to redesign the solid oxide fuel cell technology and products that are to be sold to third party consumers. Restoration Energy will be raising additional funds to complete these objectives."*

- 163 The Debt Exchange Agreement proposed that the Company (including the Factoring Fund and the Hedge Fund) would exchange its Factoring Debt (\$2,283,664) for convertible debt in Restoration Energy on the terms summarized below:
- a) Principal – \$2,200,000;
  - b) Interest Rate – 8% per annum;
  - c) Term – 5 years;
  - d) Conversion Option - At the option of the Company, convertible into common voting shares of Restoration Energy. Every \$1,000 of debenture shall be convertible to 650 common shares.

(the “**Convertible Restoration Debenture**”).

- 164 The Receiver advised Frontline that it could not accept and/or enter into the Debt Exchange Agreement until sufficient due diligence was performed on same. Frontline was unable to provide any relevant documentation to the Receiver to assist in such due diligence.
- 165 Accordingly, on August 8, 2017, A&B contacted Smits via e-mail to request a call to obtain certain due diligence materials required by the Receiver to evaluate the Debt Exchange Agreement, including with respect to the statements made in the Debt Exchange Agreement that the lenders that had first place mortgages against the 131 Alberta Property had commenced foreclosure actions in the Court of Queen’s Bench of Alberta in order to realize on their mortgages. Smits advised A&B during a conference call on August 8, 2017 that the foreclosure actions were not advancing at that time due to the refinancing of the senior mortgages.
- 166 When A&B did not receive any of the requested documentation from Smits subsequent to the August 8, 2017 conference call, A&B engaged in a further conference call with Smits on November 2, 2017, as detailed above. During that discussion, Smits advised A&B that the foreclosure actions remained dormant as 131 Alberta had agreed to sell the 131 Alberta Property to a newly-formed company, Aspen Shore, a company controlled by Perali Properties Inc. (“**Perali**”), for an assumption of the first mortgages and non-voting shares of Aspen Shore. Smits confirmed that the proposed sale of the 131 Alberta Property is also on hold, pending efforts to take out the Company’s Collateral Mortgage from title.
- 167 Subsequent to the November 2, 2017 conference call with Smits, A&B reiterated its request via email to Smits for the provision of certain documentation that would help evaluate: (i) the 131 Alberta Property and the status of the two foreclosure actions commenced against 131 Alberta, and guarantors, including Smits; and (ii) the proposed Debt Exchange Agreement and the Convertible Restoration Debenture.
- 168 Smits provided certain of this requested material to A&B by electronic file transfer on November 17, 2017. From the Receiver’s preliminary review of this material, it appears to confirm that each of the foreclosure actions has been assigned to Perali in connection with its refinancing and assumption of senior mortgage debt in respect of the Pine Lake Lands.

The Receiver continues to investigate potential recovery on the 131 Alberta Guarantee, and the extent to which the Convertible Restoration Debenture would be a viable alternative to enforcement proceedings on the Collateral Mortgage, to the extent that the latter is economically practical given the Company's subordinated position and the uncertain valuation of the 131 Alberta Property.

#### The Receiver's Discovery of Additional Guarantees

- 169 By electronic transmission on November 13, 2017, Smits provided additional transactional documents with respect to the Restoration Energy Factoring Fund Factoring Agreement. This package of documentation included materials which were not previously contained in the Company's books and records. Most notably, it revealed three additional guarantees of Restoration's obligations under the Restoration Energy Factoring Fund Factoring Agreement: i) a corporate guarantee granted by DDI Distribution Corp on March 18, 2015; ii) a corporate guarantee granted by Dionne Design Inc. on March 18, 2015; and iii) a personal guarantee granted by the principal of Restoration, Yvonne Martin-Morrison, on March 18, 2015 (collectively, the "**Additional Restoration Guarantees**"). Each of the Additional Restoration Guarantees is limited to the principal amount of \$2,000,000.
- 170 A&B conducted further diligence regarding these corporate guarantors. Dionne Design Inc. and DDI Distribution Corp. are each Alberta corporations, each of which is inactive and has been struck from the Alberta corporate records (for failure to file corporate returns). Further, a PPSA search against Dionne Design Inc. disclosed two reports of property seizures and a writ of execution, each of which would have been visible at the time the Company and/or Frontline, as applicable, would have considered whether this company was an appropriate candidate to issue a corporate guarantee of the Restoration Energy obligations to the Factoring Fund.
- 171 The above-noted concerns with these corporate guarantors calls into question whether appropriate due diligence was conducted in respect of these lending arrangements at the time they were entered into; additionally, the fact that the Additional Restoration Guarantees were not maintained on file with the Company, and needed to be procured from Smits, is representative of the general lack of oversight on these investments. This exemplifies the general failings that the Receiver has noted in respect of the management of these investments by Frontline and/or Housego, as applicable, as described in further

detail in the section that follows entitled “Receiver’s Concerns with the Administration of the Factoring Contracts”.

*Current Status*

- 172 As at October 26, 2017, Restoration Energy had outstanding principal balances owing to the Factoring Fund and Hedge Fund of \$1,402,193 and \$501,000, respectively, totaling \$1,903,193 (the “**Restoration Energy Principal Balance**”), and interest owing of \$169,098 (the “the “**Restoration Energy Interest Owing**”, collectively with the Restoration Energy Principal Balance, the “**Restoration Energy Balance**”) from Purchased Invoices issued to and owing from the Debtors outlined in the following table (collectively the “**Restoration Energy Debtors**”) (the “**Restoration Energy Invoices**”):

Debtor	No.	Amount of Invoices	Days Outstanding as at April 26th	Principal & Interest as at Oct. 26th		
				Factoring Fund	Hedge Fund	Total
CPPS Mission Projects	2	\$1,300,000	463 Days	\$ 559,269	\$ 569,222	\$ 1,128,491
University of Calgary	1	500,000	586 Days	429,000	-	429,000
TLP Outreach Association Inc.	1	600,000	512 Days	514,800	-	514,800
	4	\$2,400,000	520 Days	\$ 1,503,069	\$ 569,222	\$ 2,072,291

- 173 As demonstrated in the table above, prior to the Appointment Order, the Restoration Energy Invoice Invoices were, on average, outstanding for 520 days. This fact, combined with the concerns raised in the Debt Exchange Agreement concerning the collectability of these invoices, puts potential recovery into question, and, as a result, raises concerns with respect to the Company’s represented Recorded Value of the Restoration Energy Balance.
- 174 To the extent that the Restoration Energy Balance is not collectible from Restoration Energy, the collectability of such balance pursuant to the 131 Alberta Guarantee is also questionable, given: (i) the extent to which the Company’s position is subordinated to multiple senior lenders (an estimated \$2.3 million in known principal and accrued interest, plus an unknown amount of additional accrued interest, as compared to the estimated \$3,180,000.00 value of the Appraisal, which, as stated, may be unrealistic given the present undeveloped state of the 131 Alberta Property, the lack of zoning approval, and

the lack of any progress on zoning approval on two of the three parcels); and (ii) the weak market for Alberta real estate.

Demand Letters to Restoration Energy and the Guarantors

- 175 Based on the information obtained from Frontline, no formal demands for payment were ever made against the Debtors or Merchants of the Factoring and Hedge Funds prior to the Receiver's appointment.
- 176 On behalf of the Receiver, A&B issued a demand letter to Restoration Energy on November 7, 2017, and a subsequent demand letter to 131 Alberta on November 13, 2017, each of which enclosed a Notice of Intention to Enforce Security delivered pursuant to subsection 244(1) of the *Bankruptcy and Insolvency Act* (a "**BIA Notice**"). A&B also issued demand letters ( the "**Additional Restoration Guarantor Demands**") to each of the guarantors pursuant to the Additional Restoration Guarantees on November 14, 2017. Copies of the foregoing demand letters, and their enclosures, are attached as **Appendix "36"** to this Second Report.
- 177 Notably, the Additional Restoration Guarantor Demands sent to DDI Distribution Corp. and Dionne Design Inc. were sent by e-mail and registered mail in accordance with the underlying guarantees, but were electronically returned as undeliverable. As at the date of this Second Report, the registered mail copy has not been signed for by the respective recipients.
- 178 The Additional Restoration Guarantor Demand sent to Yvonne Martin-Morrison appears to have been successfully delivered via e-mail, but has not been responded to by Ms. Martin-Morrison as at the date of this Second Report.
- 179 As at the date of this Second Report, the Receiver has not received a response to any of the above-noted demands.

**Single Source**

- 180 The Factoring Fund entered into a Factoring Agreement with Single Source dated August 9, 2016 (the "**Single Source Factoring Agreement**"). The Factoring Fund also entered into a security agreement with Single Source dated August 9, 2016 granting the Factoring Fund a general continuing security interest over all present and future property and assets

of Single Source. In addition, Tanya McCrary-Singh (“**McCrary-Singh**”), the Chief Financial Officer of Single Source, provided a personal guarantee (the “**McCrary-Singh Guarantee**”) in favour of the Factoring Fund dated August 9, 2016, guaranteeing the obligations of Single Source to the Factoring Fund.

- 181 As at October 26, 2017, principal is outstanding under a single invoice factored by the Factoring Fund from Single Source in the sum of \$93,985, with accrued interest owing to the Factoring Fund of \$20,206.
- 182 By letter dated November 22, 2017, the Receiver demanded immediate payment from Single Source pursuant to the Single Source Factoring Agreement. A copy of the November 22, 2017 letter sent by the Receiver to Single Source is attached to this Second Report as **Appendix “37”**.
- 183 If payment is not remitted by Single Source to the Receiver shortly, the Receiver anticipates that it will take steps to enforce pursuant to the Single Source Factoring Agreement and McCrary-Singh Guarantee, with the goal of collecting on this receivable in a cost-effective manner given the amount owing.

#### **RECEIVER’S CONCERNs REGARDING THE ADMINISTRATION OF THE FACTORING CONTRACTS**

- 184 During its review, the Receiver has noted that the procurement and administration of the Factoring Contracts by Frontline and Housego, the latter of whom was the Lead Portfolio Strategist of the Hedge Fund and Factoring Fund until being terminated by the Receiver, was highly unsophisticated and lacked the necessary controls to ensure that advances made to Merchants would ultimately be repaid. The deficiencies noted by the Receiver, as discussed in this section, have ultimately led to the impaired status of the investments held by the Factoring and Hedge Funds as detailed above.

#### **High Level of Concentration Risk**

- 185 As outlined above, the Factoring Contracts have an exceptionally high level of concentration risk given that as at October 26, 2017, two (2) Merchants, Dome Mountain<sup>5</sup> and Zomongo TV, directly and indirectly account for 87.97% (57.97% and 30.00%,

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<sup>5</sup> Including the 156 Alberta Balance and the 647 BC Balance.

respectively) of the Factoring Balance; while three (3) Merchants account for the remaining 12.30%.

- 186 This concentration risk is further compounded in that the Dome Mountain Balance is a bridge loan (i.e. not a factoring arrangement) and the Zomongo TV Balance is purportedly owing from five (5) Debtors with only 16 outstanding invoices.

### **Due Diligence on Merchants and Debtors**

- 187 Under the FPAA, Frontline was required to perform a certain level of due diligence prior to putting forth a proposed Factoring Contract to the Factoring Fund and/or Hedge Fund. The FPAA's stated that:

- a) *"Each such proposed factoring arrangement must comply with all of the requirements of this Agreement and the Approved Investment Criteria."*
- b) *"Prior to its presentation to the [Factoring/Hedge Fund], Frontline shall have evaluated each potential factoring arrangement in accordance with the Due Diligence Guidelines and shall include, but will not be limited to, a review of the operations and credit worthiness of any Merchant, the Debtors involved, the accounts receivable aging and any other applicable Contract Documents..."*
- c) *"With respect to each specific proposed arrangement, Frontline shall also provide a written report as to whether the specific proposed arrangement complies with the Due Diligence Guidelines."*

(collectively referred to as the "**Required Due Diligence**").

- 188 The FPAA make reference to Exhibit "A" and Exhibit "C" which outline the Due Diligence Guidelines and the Approved Investment Criteria, respectively.

- 189 On September 11, 2017, the Receiver requested that Frontline provide documentation to confirm that the Required Due Diligence was performed. In response to the Receiver's request, on September 28, 2017, Frontline provided the Receiver with documents which were titled "invoice summaries" ("**Invoice Summaries**") in connection with each of the Merchant's outstanding invoices to Debtors, pursuant to which indebtedness is owing to the Factoring and Hedge Funds. The Invoice Summaries provided by Frontline are attached hereto as **Appendix "38"**.

- 190 On September 21, 2017, the Receiver requested that Frontline provide a copy of Exhibit "A" and Exhibit "C" referenced in the FPAA. Frontline indicated that a formal Exhibit "A" or Exhibit "C" were never executed. In an emailed response dated September 29, 2017, with respect to Exhibit "C", Froese indicated that:

*"Exhibit "C" was never completed in the Factoring Procurement and Administration Agreement. There were many discussions with Clayton Smith although I don't believe we ever came to an agreement. We started with conversations on each deal as well as [the Invoice Summaries] and if Crystal Wealth requested any addition information we would give it to them. Because of that, there were no written reports as there was nothing to reference."*

A copy of Froese's email referencing the above is attached hereto as **Appendix "39"**.

- 191 On October 31, 2017, after locating a document titled "Exhibit A – Due Diligence Guidelines" in the Company's books and records (a copy of which is attached hereto as **Appendix "40"**), the Receiver sent an email to Froese that requested certain documentation and written reports to support performance of the Due Diligence Guidelines by Frontline. In response, Froese indicated that:

*"...there was no formal Schedule "A" and the schedule you have may have been a draft copy for discussion purposes, although was never part of the agreement. As per information, I believe we have sent you everything that we have."*

A copy of the Receiver's email and Froese's response is attached hereto as **Appendix "41"**.

- 192 The Invoice Summaries do not satisfy the Required Due Diligence as they fail to include, among other things:
- a) any relevant information on the underlying Debtor of the invoice;
  - b) any detailed analysis of the business and risks of the Merchant's business;
  - c) a statement that the specific proposed arrangement complies with the Due Diligence Guidelines; and

- d) an evaluation as to whether the proposed factoring arrangements comply with the Approved Investment Criteria.
- 193 Based on the Company's books and records, there appears to be little to no evidence of any additional information provided to the Company that would confirm that Frontline performed the Required Due Diligence.

194 Notwithstanding the absence of Frontline performing the Required Due Diligence, Housego and/or Smith nevertheless caused the Factoring and Hedge Funds to enter into each of the Factoring Contracts based on little to no due diligence. The Company's books and records contain no evidence that Housego and/or Smith performed any additional due diligence themselves to supplement or compensate for the minimal due diligence performed by Frontline.

#### **Allocation of Payments Received by Frontline Contrary to the FPAA**

- 195 As noted above, payments of \$25,000.00 and \$113,044.41 were received by Frontline from Advanced Metal on August 11, 2017 and September 11, 2017, respectively (collectively the "**Advanced Metal Payments**"), towards the Purchased Receivable (invoice 35507) issued to Lotus Environmental Ltd. (the "**Lotus Invoice**"). When none of these funds were remitted by Frontline to the Receiver, the Receiver requested a conference call with Frontline to inquire as to why the entirety of the Advanced Metal Payments had not been remitted to the Receiver in accordance with the FPAA.
- 196 On October 3, 2017, the Receiver, A&B, and Frontline convened the conference call, as requested by the Receiver. Froese advised that Frontline had a verbal arrangement with Smith, whereby Frontline was permitted to retain certain sums of the payments received from Merchants or Debtors on account of interest in priority to repayment being first made to the Factoring Fund and/or Hedge Fund. Based upon this purported verbal arrangement, Froese indicated that the Factoring Fund would only receive \$53,094.02 of the Advanced Metal Payments (totaling \$138,044.41), and that Frontline would be permitted to retain the remaining \$84,950.39. According to Frontline, the allocation of the Advanced Metal Payments received was accordingly to be as follows based upon the verbal arrangement between Frontline and Smith:

- a) \$25,000 payment on August 11, 2017 – \$9,615.38 to the Factoring Fund and \$15,384.62 to Frontline; and

- b) \$113,044.51 payment on September 11, 2017 – \$43,478.64 to the Factoring Fund and \$69,565.87 to Frontline.

A copy of the “Payment Summaries” provided to the Receiver by Frontline in this regard are attached hereto as **Appendix “42”**.

- 197 The arrangement described by Froese is contrary to s. 4.6 of FPAA, which provides that the Factoring and Hedge Funds are to be repaid in priority to Frontline receiving any compensation:

*“...all monies received from a Merchant or its Debtors, either in the normal course of business or in the event of a collection action or resolution shall be paid, firstly to the Fund until the amount advanced by the Fund has been repaid in full and, secondly, on a pro rata basis to Frontline and the Fund for the amounts of the fees due to each of them...” [emphasis added]*

- 198 Frontline has been unable to provide any documentation to the Receiver to support its alleged verbal arrangement with Smith, which would supersede the priority payment scheme set out in s. 4.6 of the FPAA.

- 199 Frontline’s allocation of the Advanced Metal Payments is in contravention of s. 4.6 of the FPAA as the Factoring Fund and Hedge Fund are entitled to all monies received until the amount advanced by the Funds is recovered; the amount advanced on the Lotus Invoice that remains outstanding totals \$458,080. The Factoring Fund is therefore entitled to the entire amount of the Advanced Metal Payments and any future amounts received by Frontline in trust for the Factoring Fund until the \$458,080 advance on the Lotus Invoice is paid off in full.

- 200 On October 10, 2017, pursuant to section 4.6 of the FPAA, the Receiver directed Frontline to remit the entire amount of the Advance Metal Payments to the Receiver. In response, Froese advised that:

*“Frontline has been caught off guard with the request to send all the funds from the invoices to the receiver. As precedent had been set and agreed to by Crystal Wealth with the way we were handling all payments and per instructions from receiver to continue operations as we always have, would it be possible to start*

*with the new calculations (per original agreement) going forward. We will send the original amount from the invoice summaries right away."*

- 201 The Receiver has not – and does not – approve of an alternative priority arrangement for payment which is different than as prescribed by the FPAA. Accordingly, on October 13, 2017, the Receiver reiterated to Frontline that the Factoring Fund was entitled to the entire amount of the Advanced Metal Payments and demanded that payment of same be remitted by Frontline to the Factoring Fund immediately.
- 202 On October 16, 2017, Froese advised the Receiver that Frontline did not have sufficient funds to send the Advanced Metal Payments to the Receiver.
- 203 In response, the Receiver sent an email to Frontline again reiterating that the entirety of the Advanced Metal Payments, and all future payments received by Frontline, must be immediately remitted to the Receiver in trust for the Factoring and Hedge Funds, as applicable.
- 204 The email correspondence with respect to the Advanced Metal Payments between the Receiver and Froese, as summarized above, is attached hereto as **Appendix "43"**.
- 205 Notwithstanding numerous follow-up correspondence sent by the Receiver to Frontline, as at the date of this Second Report, the Receiver has not received any of the Advanced Metal Payments owing to the Factoring Fund.
- 206 As mentioned above, Frontline stated that it had a verbal arrangement with Smith to receive a portion of payments from Merchants/Debtors prior to the initial advance made by the Factoring/Hedge Fund being paid in full. As a result, on previous payments, Frontline has applied an allocation where it has been receiving a portion of the payments previously made by Merchants and/or Debtors before the initial advance made by the Factoring/Hedge Fund is repaid. The following table outlines: (i) the payments made by the Merchants and/or Debtors on the outstanding Purchased Invoices (Payments); (ii) the portion of the payment allocated to the Factoring/Hedge Fund's initial advance (Initial Advance); (iii) the portion of the payment allocated to the Factoring/Hedge Fund for interest outstanding, and (iv) the portion kept by Frontline for its fees and interest. A copy of Frontline's most recent Weekly Report to the Receiver concerning the status of the Factoring Contracts as at November 17, 2017 is attached hereto as **Appendix "44"**.

Merchant	Allocation of Payment					Frontline Interest & Fees
	Payments	Initial Advance	Fund Interest			
Zomongo TV	\$ 1,282,392	\$ 251,222	\$ 928,315	\$ 102,854		
Advanced Metal <sup>1</sup>	544,390	68,236	165,463		310,691	
156 Alberta	289,828	224,361	56,658		8,809	
Restoration Energy	204,860	-	90,439		114,421	
	<b>\$ 2,321,470</b>	<b>\$ 543,820</b>	<b>\$ 1,240,876</b>		<b>\$ 536,775</b>	

*Note 1 - Advanced Metal figures include the allocation of the Advanced Metal Payments between Frontline and the Factoring Fund.*

- 207 As shown in the table above, based on its alleged agreement with Smith and in contravention to the FPAA, Frontline has withheld \$536,775 of the payments received from Merchants and/or Debtors for the outstanding Purchased Invoices that should have been allocated to the initial advances made by the Factoring/Hedge Fund. The Receiver disagrees with Frontlines position and requests an Order that Frontline pay the \$536,775 outstanding to the Receiver in trust for the Factoring and Hedge Funds, as applicable.
- 208 Froese indicated to the Receiver during the October 3, 2017 conference call that the Frontline employee who developed the system for the Frontline Weekly Report summaries to the Factoring and Hedge Funds, Steven Bandola, left Frontline in April 2017, at the approximate time of the Receiver's appointment.

#### **Other Notable Items**

- 209 During the Receiver's due diligence, the Receiver noted that Froese currently holds 300,000 share purchase warrants in Zomongo TV. Froese had never made this disclosure to the Receiver. Such an investment presents a conflict of interest for Frontline as the Factoring and Hedge Fund are creditors and Froese is personally an equity holder of this Merchant of the Factoring/Hedge Funds.

#### **MEDIA LOANS**

#### **BACKGROUND**

- 210 The Media Fund's primary investment was that of term loans purchased from Media

House Capital (Canada) Corp. ("MHC") reflecting loans ("Media Loans") made to various production companies for the production of films. The Media Loans consist of two general types: (i) Gap Loans; and (ii) Tax Credit Loans, both of which are described and defined below.

### **Gap Loans**

- 211 The Media Fund loaned funds to single purpose production companies (i.e. entities incorporated for the sole purposes of producing a particular film). Each film would have its own separate legal entity in order for films to be financed and produced whereby the security of the loan is the unsold rights to the production (the "Gap Loans").
- 212 In most scenarios, a producer would build a financing plan for the production budget, putting together the components of financing, including, but not limited to, one or more of tax credits, government subsidies, pre-sales, and private equity. If additional funding was required to produce the film over and above the available sources, a Gap Loan would be obtained. The Gap Loan is the riskiest type of financing for a lender as the Gap Loan is issued based solely on estimated sales which, often times, is far less than can be generated by the production.

### **Tax Credit Loans**

- 213 Many jurisdictions offer tax credits as an incentive to producers to make their films in that jurisdiction. The tax credits are usually 25% - 30% of the overall production budget depending on where the film is shot and the nationalities of those involved. The Media Fund advanced loans to certain production companies secured by the rights to tax credits (the "Tax Credit Loans"), which security was occasionally subordinated to a senior secured lender.

### **Recorded Value of the Media Loans by the Company**

- 214 According to the April 20<sup>th</sup> Package, the Company had attributed a Recorded Value in excess of \$53 million, inclusive of principal and interest. Based on the Receiver's early conversations and correspondence with MHC, it was apparent that a significant number of the films underlying the Media Loans appear to be experiencing significant issues and/or delays.
- 215 As discussed in the First Report, and the Supplement to the First Report, the Receiver

engaged Quiver as an expert advisor to assist the Receiver in its investigation and management of the Media Fund.

- 216 On June 27, 2017, the Receiver and Quiver entered into a Memorandum of Understanding ("MOU") which outlined the roles and responsibilities of Quiver and its compensation in so acting. In summary, Quiver's mandate under the MOU was to, among other things:
- a) engage with all third party sales agents and domestic distributors to review the status of each film, including but not limited to interest and results from international distributors, timing of such interest, exposure and interest at film markets and festivals, and identification of unpaid, current and long-term accounts receivable;
  - b) identify the unsold rights by film, by media (e.g. video on demand, television, etc.), and determine the best course of action to extract value from said rights and provide recommendations on the best course of action moving forward; and
  - c) utilize relationships with the distributors and customers (e.g. Netflix, Amazon, Walmart, etc.) to generate collections.

- 217 Since the First Report, the Receiver and Quiver have executed two amendments to the MOU (the "MOU Amendments"), in order to extend Quiver's engagement first through to October 31, 2017, and subsequently, through to November 30, 2017. Copies of the MOU Amendments are attached hereto as **Confidential Appendix "2"**.

#### **ESTIMATED VALUE OF THE MEDIA LOANS**

- 218 On November 22, 2017, Quiver provided to the Receiver a report (the "Quiver Report") that, among other things: (i) outlined the nature of the Media Loans issued to the various production companies; (ii) set out collections obtained by the Receiver for Media Loans as at the date of the Quiver Report; and (iii) provided an estimated value of the Gap Loans and Tax Credit Loans. A copy of the Quiver Report which, among other things, details the underlying methodology in determining the projected amounts which are reasonably likely to be recovered by the Media Fund with respect to the Media Loans (the "Projected Media Loan Values"), is attached hereto as **Confidential Appendix "3"**. The Quiver Report, including its appendices, is in excess of 1,200 pages (it contains periodic financial accounting for the Media Loans). Due to this length, only the Quiver Report and its

Appendix D – Library Analysis have been included in this Confidential Appendix to the Second Report in hard-copy form; the full Quiver Report containing all appendices has been provided on a USB key within the Confidential Appendix.

- 219 Since its, appointment, the Receiver, has collected a total of \$6,859,188 and US \$153,591 with respect to the Media Loans.

#### INTER-FUND INVESTMENT IMPACT

- 220 As discussed in the First Report, the Media Fund was the largest recipient of Inter-fund Investments from a number of Crystal Wealth Funds totaling a Recorded Value of \$11,349,768 per the April 20<sup>th</sup> Package. The following table outlines the unit holdings and Recorded Values (per the April 20<sup>th</sup> Package) that certain of the Crystal Wealth Funds held in the Media Fund.

Fund	A		B		B/A Percentage of NAV
	Fund NAV	April 20th	Units in Media Fund	Recorded Value of Units	
ACM Income Fund	\$ 10,815,417		655,974	\$ 6,641,115	61.40%
Mortgage Fund	27,082,935		204,475	2,072,643	7.65%
Medical Fund	9,270,090		151,855	1,537,291	16.58%
ACM Growth Fund	11,609,064		56,974	576,764	4.97%
High Yield Mortgage Fund	5,442,165		51,409	521,098	9.58%
Factoring Fund	38,124,168		85	857	0.00%
	<b>\$ 102,343,839</b>		<b>1,120,772</b>	<b>\$ 11,349,768</b>	

- 221 Based on the Projected Media Loan Values, the above noted Inter-fund Investments were grossly overstated resulting in the value of each of the above noted Crystal Wealth Funds being overstated. The above noted Crystal Wealth Funds will accordingly receive far less from the Media Fund than their Inter-fund Investments in the Media Fund. In other words, significant monies deployed by the ACM Income Fund, ACM Growth Fund, Mortgage Fund, Medical Fund, and High Yield Mortgage Fund to invest in the Media Fund, will result in significant monetary losses to each of these Funds.
- 222 As the Media Fund was earning little to no income on the Media Loans, the Receiver has concerns as to how redemptions and distributions to Media Fund investors were satisfied prior to the Receiver's appointment (i.e. whether Inter-fund Investments in the Media Fund

by other Funds, or funds from investor purchases of units in the Media Fund, were used to fund Media Fund redemptions and distributions).

## **GOLD LOANS**

### **BACKGROUND**

- 223 The Factoring Fund and Hedge Fund entered into four (4) Gold Certificate Subscription Agreements with Onstar Exploration Ltd. (“**Onstar**”) as follows:
- a) three (3) Gold Certificate Subscription Agreements between the Factoring Fund and Onstar dated August 12, 2016, November 27, 2016, and September 25, 2016 for a total of 3,800 ounces of Gold; and
  - b) one (1) Gold Certificate Subscription Agreement between the Hedge Fund and Onstar dated September 25, 2016 for a total of 200 ounces of Gold.
- (collectively, the “**Onstar Subscription Agreements**”).
- 224 Under the Onstar Subscription Agreements, the Factoring Fund and the Hedge Fund purchased gold certificates for certain multiples of 1,000 ounces of Gold per certificate (the “**Gold Certificates**”) which cumulatively totaled 4,000 ounces of Gold.
- 225 In addition to the Onstar Subscription Agreements, the Factoring Fund, the Hedge Fund and the Bullion Fund collectively entered into seven (7) Gold Sale / Purchase Agreements (some of which have or will be expiring shortly) with the following entities:
- a) 611802 B.C. Ltd. (“**611 BC**”) – four (4) Gold Sale / Purchase Agreements with a combined Recorded Value of approximately \$1,255,819 (the “**611 BC Loan**”);
  - b) Inca One Gold Corp. (“**Inca**”) – two (2) Gold Sale / Purchase Agreements with a combined Recorded Value of approximately \$958,797 (the “**Inca Loans**”); and
  - c) Solid Holdings Ltd. (“**Solid Holdings**”) – one (1) Gold Sale / Purchase Agreement with a Recorded Value of \$333,332 (the “**Solid Holdings Loan**”).

The 611 BC Loan, Inca Loans, and Solid Loans (collectively, the “**Settlement Loans**”) are similar in nature in that upon expiry, the agreement is completed either through: (i) the

delivery of the Gold; or (ii) a cash settlement. A description of the commercial arrangement under the Settlement Loans is outlined in paragraph 63 of the First Report.

#### RECEIVER'S KEY FINDINGS AND ACTIONS

- 226 The Onstar Subscription Agreements and the Settlement Loans are, in substance, term loans to Onstar, 611 BC, Inca, and Solid Holdings (collectively, the “**Gold Sellers**”) and are therefore referred to as the “**Gold Loans**”. The Gold Loans are to be repaid upon maturity in either Gold or cash. For greater clarity, the Factoring/Hedge/Bullion Funds did not purchase Gold in its physical form under any of the Gold Loans.
- 227 The table below provides a summary of the Gold Loans held in the Bullion Fund, Hedge Fund, and Factoring Fund:

Fund	Ounces	Outstanding Gold Loans	CAD Amount Advanced	USD Amount Advanced	Market Value (CAD) Oct 31/17
Factoring Fund	4,341	5	\$911,441	US \$3,260,000	\$7,094,001
Bullion Fund	481	2	\$803,100	US \$0	\$760,556
Hedge Fund	761	4	\$845,704	US \$190,000	\$1,219,702
<b>Total</b>	<b>5,583</b>	<b>11</b>	<b>\$2,560,245</b>	<b>US \$3,450,000</b>	<b>\$9,074,259</b>

- 228 Although the market value of the ounces of Gold to be delivered upon maturity of the Gold Loans is approximately \$9,074,259 as at October 31, 2017,<sup>6</sup> each of the Gold Sellers are in, or appear to be in poor financial health and as a result, do not have the ability to repay the Gold Loans, whether in cash or in Gold.
- 229 Under the Gold Loans, the Crystal Wealth Funds are unsecured creditors, with no security over any of the Gold Sellers’ assets. The Receiver has concerns over the ultimate collectability of the Gold Loans. As at the date of this Second Report, the Crystal Wealth Funds have not received any repayment (in Gold or cash) for any of the Gold Loans.
- 230 The Company’s books and records contain little to no information on the Gold Sellers. In addition, the Receiver has been unable to locate documentation or evidence

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<sup>6</sup> The price of Gold as at October 31, 2017 was \$1,637 per ounce (US \$1,270 per ounce converted at an exchange rate of 1.2894)

demonstrating that any due diligence had been performed on the Gold Sellers by the Company, the Funds, or by Housego - the former Lead Portfolio Strategist of the subject Funds - or that the Gold Loans fit the investment criteria outlined in each of the Factoring, Hedge, and Bullion Fund's OMs.

- 231 The Gold Loans do not appear to fit into the investment strategy of the Factoring Fund or the Bullion Fund based on the wording contained in their respective OMs. It is unclear if the Gold Loans would be considered appropriate investments in the Hedge Fund given the broad wording contained in the Hedge Fund's OM.

#### RECEIVER'S DETAILED REVIEW OF GOLD CONTRACTS

##### **Onstar Subscription Agreements**

- 232 As outlined in the First Report, the Receiver was able to locate unsigned Gold Certificates in the Company's books and records which stated the following:

*Gold deliveries to the Owner [the Hedge/Factoring Fund] shall commence on April 30, 2017 F.O.B. Juneau, Alaska and shall occur monthly, until the entire 1,000 ounces of gold due under this Certificate has been delivered to the Owner. It is expected that all gold payments will be completed no later than April 30, 2019.*

The Receiver has obtained executed copies of the Onstar Subscription Agreements which are executed by Alan Braun ("Mr. Braun") on behalf of Onstar. The Receiver has confirmed with Onstar that no Gold has been delivered to either the Factoring Fund or the Hedge Fund as at the date of this Second Report.

##### *Housego's Involvement*

- 233 Through the Receiver's review, the Company's books and records contain minimal information with respect to Onstar's operations and contain no evidence of due diligence being performed by Housego or any other Company representative. The Receiver expected that such due diligence would include, but would not be limited to, an evaluation of the potential risks and benefits of the Factoring Fund and Hedge Fund advancing US \$3,000,000 and \$748,900 to Onstar and whether the Onstar Subscription Agreements would be considered applicable investments under the Factoring Fund and Hedge Fund OMs. The absence of any due diligence being performed prior to the advancement of funds is alarming.

- 234 In a letter dated April 24, 2017, signed by Smith, to the British Columbia Securities Commission (the “BCSC”) (in response to an assumed inquiry made by the BCSC as referenced in the letter) (the “**April 24 2017 BCSC Letter**”), Smith, among other things, states that:

*“Mr. Housego was introduced to Alan Braun through Taz Faryad. Mr. Faryad was trying to connect gold sellers and gold buyers. The [Company] manages a number of mutual fund trusts for which Mr. Housego acts as lead portfolio manager and in which Mr. Housego was looking to invest in gold. Presumably, Alan Braun was involved in a company or companies that produces gold so Mr. Faryad connected us to see if there was a fit. Mr. Housego first met Alan Braun at a meeting in Vancouver in early August 2016. Taz Faryad, Jerry Braun and Rene Gladu were also present.” [Emphasis added]*

In an email dated August 11, 2016 from Housego to Mr. Braun, Jerry Braun, Rene Gladu, and Taz Faryad, Housego confirmed that the first meeting mentioned in the April 24 2017 BCSC Letter occurred on August 8, 2016 and that this meeting was the first meeting of the parties. A copy of the April 24 2017 BCSC Letter is attached hereto as **Appendix “45”**.

- 235 Based on the above, Housego first met Mr. Braun on August 8, 2016; and four days later (on August 12, 2016), the Factoring Fund made the first advance to Onstar of US \$2,000,000. The April 24 2017 BCSC Letter provides further evidence that little to no due diligence was performed by Housego or the Company prior to entering into the Onstar Subscription Agreements and advancing the previously mentioned funds.
- 236 As noted in the First Report, Onstar claimed that Housego had verbally agreed to provide a total of US \$10 million of funding to Onstar for the development of a mine in Juneau, Alaska. However, to date, only the funding noted above has been provided. As a result, Onstar has had to seek external financing to complete the development of the Juneau, Alaska mine. The Receiver does not know at this time if Onstar was successful in seeking such funding.

#### *Gold Certificates*

- 237 The Onstar Subscription Agreements all reference executed Gold Certificates contained in Schedule A to same. The Onstar Subscription Agreements provided by Smith and

contained in the Company's books and records did not include copies of the executed Gold Certificates nor did the Onstar Subscription Agreements provided by Mr. Braun. Onstar, upon the Receiver's request, advised that it was unable to locate the executed Gold Certificates. However, Onstar did provide unsigned copies of the Gold Certificates to the Receiver which stated the same terms as outlined in paragraph 232 above.

- 238 The Onstar Subscription Agreements, under the "Registration and Delivery Instructions" section, state that the Gold Certificates were to be delivered to NBCN at the following address:

NBCN  
250 Yonge Street, 19<sup>th</sup> Floor  
Toronto, Ontario  
M5B 2L7  
Attention: Cheryl Rochemont

The Receiver has made numerous requests of NBCN to locate the Gold Certificates. As at the date of this Second Report, NBCN has been unable to locate the executed Gold Certificates, which suggests that the executed Gold Certificates were never delivered by Onstar to NBCN.

- 239 Upon review of email correspondence between Onstar and Housego, it appears the Gold Certificates were delivered to Housego. On October 30, 2017, the Receiver requested that Housego provide the copies of the Gold Certificates to the Receiver. Housego stated that he did not know where the Gold Certificates were as outlined in his response below:

*"I don't recall ever getting the certificates. I have looked but I do not have them. All certificates would have gone to HO and would have been part of the security needed to issue funds. I have no idea where they are or could be."*

- 240 On October 31, 2017, the Receiver requested that Smith provide copies of the executed Gold Certificates to the Receiver. Smith advised that he had never received the Gold Certificates and that NBCN would likely be in possession of same. Smith's response to the Receiver's request was as follows:

*"I don't have any documents from Crystal Wealth in my possession. Joanne Bentley handled most of the admin stuff, and I think the certificates may have been filed with NBCN."*

- 241 As the April 24 2017 BCSC Letter stated that Gold Certificates were attached, the Receiver sent a letter to the BCSC on November 22, 2017 requesting that a copy of the Gold Certificates be provided. As at the date of this Second Report, the Receiver has not received a response.

#### Receiver's Demand

- 242 As delivery of Gold per the Gold Certificates had not yet occurred, A&B, on behalf of the Receiver, issued a default letter to Onstar dated October 26, 2017 (the "**Onstar Default Letter**") which, among other things, demanded immediate delivery of Gold in accordance with the terms of the Gold Certificates. A copy of the Onstar Default Letter is attached hereto as **Appendix "46"**.
- 243 On November 2, 2017, in response to the Onstar Default Letter, Onstar advised the Receiver that it would honour the Onstar Subscription Agreements and Gold Certificates. Onstar advised that it was completing separate funding to fulfill the requirements of the Gold Certificates and that such funding would be in place in the month of November to early December 2017. Once funding is received, Onstar advised that a large scale operation would begin. Onstar stated that it currently has a small amount of Gold from the site available.
- 244 On November 7, 2017, the Receiver inquired of Mr. Braun as to whether cash payments could be made by Onstar instead of physical delivery of Gold at the same intervals in which deliveries of Gold would otherwise occur. The payments requested by the Receiver would be made by Onstar at the stated spot price of the expected Gold delivery (i.e. the spot price multiplied by the ounces to be delivered). As at the time of this Second Report, Onstar has not advised the Receiver as to whether such payments, in lieu of Gold deliveries, will be possible.
- 245 If necessary, the Receiver will arrange a location for the delivery of the Gold to be provided by Onstar, which arrangements are currently being put into place by the Receiver.

#### **611 BC Loans**

- 246 611 BC entered into the following Settlement Loans with the following Crystal Wealth Funds:

- a) One (1) Settlement Loan with the Bullion Fund – expiring November 28, 2017 whereby \$124,657 was advanced to 611 (the “**611/Bullion Loan**”);
- b) Two (2) Settlement Loans with the Hedge Fund – one (1) expiring November 28, 2017 and one (1) expiring January 16, 2018 with \$409,995 advanced to 611 (collectively the “**611/Hedge Loans**”); and
- c) One (1) Settlement Loan with the Factoring Fund – expiring February 2, 2018 whereby \$500,405 was advanced to 611 (the “**611/Factoring Loan**”).

Each of the 611 BC Loans were entered into by Pinnell on behalf of 611 BC.

- 247 As outlined in the First Report, the Receiver inquired as to 611 BC’s ability to execute an early exit from the 611 BC Loans; 611 BC stated that due to current cash constraints it will not be able to do so.
- 248 In subsequent discussions with the Receiver, 611 BC indicated that it did not engage in any mining activity directly nor did it hold any assets other than investments and receivables owing from other companies (as described below). 611 BC provided the Receiver with internally generated statements for the 12 months ending December 31, 2017 which indicated that 611 BC has no mining assets (i.e. land or equipment). The Receiver has requested more recent financial information.
- 249 Pinnell advised that the proceeds obtained from the 611 BC Loans was advanced to third party entities for certain projects as follows:
- a) proceeds obtained from the 611/Bullion Loan and one of the 611/Hedge Loans totaling approximately \$325,325 were advanced to a third party, Blacksand Gold Inc. (“**Blacksand**”), who entered into agreements with two other parties, Place One Mines Inc. (“**Placer One**”) and New North Construction Ltd (“**New North**”), for the development of a Gold mine in British Columbia (the “**BC Mine**”);
  - b) proceeds obtained from the second 611/Hedge Loan totaling approximately \$209,327 were advanced to a third party, Petra Capital Corporation (“**Petra**”), for the delivery of Gold from a Gold mine in Columbia (the “**Columbia Mine**”); and

- c) proceeds obtained from the 611/Factoring Loan of \$500,405 were also advanced to Petra for a portion of Petra's revenue interest in certain oil wells located in Louisiana, USA (the "**Oil Wells**".)

As outlined in paragraph 251 below, the Receiver has requested a number of documents to support the claims made by Pinnell and the projects described above. Such information remains outstanding as at the date of this Second Report.

- 250 On October 24, 2017, one month prior to the expiry of the 611/Bullion Loan and one of the two 611/Hedge Loans, the Receiver requested that 611 BC provide an update as to the status of the BC Mine and the expected payment date of the 611/Bullion Loan and 611/Hedge Loan expiring on November 28, 2017. 611 BC advised the Receiver that production at the BC Mine was halted as it requires additional funding to continue operating and that Placer One, BlackSand, and New North have commenced legal action against each other as a result. 611 BC advised the Receiver that it has not yet received any Gold from Placer One nor BlackSand.
- 251 On November 11, 2014, after numerous follow-up correspondence from the Receiver, Pinnell indicated that the requested information outlined below would be provided within the coming weeks. The Receiver will continue to follow up with Pinnell. As at the date of this Second Report, the following items requested by the Receiver remain outstanding:
- a) the most recent financial statements for 611 BC;
  - b) details of the legal proceedings between Placer One, BlackSand, and New North;
  - c) any status reporting provided on the mine(s), including, but not limited to, SGS Reports; and
  - d) copies of any due diligence performed by 611 BC prior to the advancement of funds to BlackSand, BC Mine, Placer One or any other entity;
  - e) the full name and address of the BC Mine;
  - f) the full name and address of the Columbia Mine;
  - g) the full name and address of the Oil Wells;

- h) the agreement(s) between Blacksand Gold Inc. and 611 BC;
- i) the agreement(s) between Blacksand Gold Inc. and Placer One;
- j) the agreement(s) between Placer One and New North; and
- k) the agreement(s) between Petra Capital and 611 BC.

*611 BC's Apparent Connection to Onstar*

- 252 Through its examination of various email correspondence, the Receiver notes that Pinnell was actively involved in sourcing and closing the Onstar Subscription Agreements and the funding secured by Onstar under same. Pinnell is included on almost all correspondence between Onstar and Housego that the Receiver has obtained. In addition, the Receiver obtained email correspondence between Mr. Braun and Housego that makes reference to Blacksand's involvement in Onstar's operations.
- 253 In his numerous discussions with the Receiver, Pinnell has made no reference to Onstar nor any of the parties noted above. The relationship between Mr. Braun and Pinnell supports the Receiver's plan to perform an examination under oath of each of them in Toronto.

**Inca Loans**

- 254 Inca entered into the following Settlement Loans with the following Crystal Wealth Funds:
- a) one (1) Settlement Loan dated December 28, 2015 with the Bullion Fund consisting of three tranches of funding – expiring January 1, 2017, April 1, 2017, and June 1, 2017 (the "**Inca 1 Loan**"); and
  - b) one (1) Settlement Loan with the Hedge Fund dated December 5, 2016 – expiring on December 1, 2017 (the "**Inca 2 Loan**", and together, the "**Inca Loans**").
- 255 Inca is a Canadian-based mineral resource company and mineral processing company with a Gold milling facility in Peru. The Company is publically traded on the TSX Venture Exchange, the Frankfurt Stock Exchange, and the Santiago Stock Exchange Venture.
- 256 On June 7, 2017, Inca provided a proposal to the Receiver which proposed that Inca settle the Inca Loans for a cumulative value of \$1,000,000 over the course of 52 weeks

beginning June 26, 2017. The proposal also included an alternative for Inca to repay the original face value (i.e. the acquisition cost) of the Inca Loans plus a 2.5% annual interest rate, for total proceeds of approximately \$725,000 within 60 days. Due to the commencement of the Sales Process, the Receiver declined this proposal.

*Financial Position of Inca*

- 257 Throughout the Receivership Proceedings, the Receiver has continued to monitor the financial results of Inca. Upon review of Inca's most recent audited financial results for the 12 months ending April 30, 2017, Inca incurred a net loss of \$2,997,722 and had **negative** cash flows from operations of \$3,474,200. As a result, the audited financial statements contained the following disclosure stating that Inca's financial performance:

*"...indicate[s] a material uncertainty that may cast significant doubt on [Inca's] ability to continue as a going concern. Management intends to finance operating costs over the year with the proceeds from debt financing, equity financing, its current working capital, proceeds from option and warrant exercises, and net profits from processing operations at the Company's gold milling facility in Peru. On August 26, 2016, the Company restructured and settled approximately \$13.5 million of the Company's long and short term debt and related unpaid interest.*

*The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and... its ability to raise equity capital or borrowings sufficient to meet current and future obligations."*

(the "**Going Concern Note**"):

- 258 The Receiver notes that after Inca had to restructure \$13.5 million of its debt, Housego, on behalf of the Hedge Fund, entered into the Inca 2 Loan whereby the Hedge Fund advanced approximately \$320,000 to Inca; putting more money into an already distressed company.
- 259 Inca's most recent interim consolidated financial results, approved by the board of directors on September 28, 2017, demonstrate that for the three months ending July 31, 2017, Inca incurred a net loss of \$575,883 and had **negative** cash flow from operations of \$154,315. As at July 31, 2017, Inca had total liabilities of approximately \$7,081,088 (\$2.74 million of which are secured debentures), and a reported cash balance of \$719,974.

Although the financial results were somewhat improved, the interim financial statements still contained the Going Concern Note; putting into question Inca's ability to continue operations.

- 260 Based on the above, it is clear that Inca's distressed financial position and its ability to continue as a going concern puts into question Inca's ability to repay the Inca Loans and thus the Bullion/Hedge Fund's ultimate value and recoverability of same.

#### *Potential Recovery*

- 261 After determining that no management takeover offers would be accepted through the Sales Process, the Receiver inquired as to Inca's financial position and ability to repay the Inca Loans. Inca advised that it did not have the financial resources to repay the Inca Loans in full, however, stated that it would put forth a payment proposal in short order.
- 262 On November 9, 2017, the Receiver sent follow-up email correspondence to Inca advising that a proposal had not been received. The Receiver will continue to follow up until a proposal is received from Inca.
- 263 Under the Inca Loans, the Hedge Fund and Bullion Fund are both unsecured creditors. Accordingly, if Inca does not deliver payment in accordance with the Inca Loans, or if a satisfactory alternative arrangement cannot be agreed upon, the Receiver's enforcement options as against Inca are limited.

#### **Solid Holdings Loan**

- 264 Solid Holdings entered into one (1) Settlement Loan with the Factoring Fund dated February 13, 2017 – expiring February 13, 2018. Under the Solid Holdings Loan, the Factoring Fund advanced \$300,306 to Solid Holdings.
- 265 In the Receiver's initial discussions with Solid Holdings, the Receiver was advised that Solid Holdings was undergoing significant financial and operational challenges.
- 266 On October 25, 2017, the Receiver requested that Solid Holdings provide an update as to the status of its operations. Solid Holdings advised the Receiver that production at its operations had experienced issues during the summer months as a result of the wildfires in British Columbia, however, mining had recently commenced. Furthermore, Solid Holdings advised that its senior secured lender had recently called its loans resulting in

Solid Holdings' pursuit of replacement financing. Solid Holdings advised that it was owed monies from a number of third parties who have failed to remit payment and that the payment of these balances were critical to Solid Holdings being able to settle the Solid Holdings Loan.

- 267 On October 30, 2017, the Receiver requested that Solid Holdings provide the following information to evaluate the claims made by Solid Holdings:
- a) the most recent financial statements for Solid Holdings;
  - b) the name(s) and location(s) of the mine(s) which is/are currently being developed by Solid Holdings and the entities and/or parties involved in the development of said mine(s);
  - c) status reporting on said mine(s), including but not limited to SGS Reports;
  - d) information relating to the proceedings commenced by the secured lender and details regarding sources of potential new funding to replace same; and
  - e) the listing of accounts receivable owed to Solid Holdings.

- 268 After numerous follow up correspondence to Solid Holdings, on November 2, 2017 Solid Holdings stated the following:

*"As I am presently in a stressful week working with the [senior secured lender] lawyer in Toronto, and considering all my options, I will respond in some fashion to receiver next week."*

- 269 The Receiver sent follow-up email correspondence on November 14, 2017, however, as at the date of this Second Report, the information requested by the Receiver has not yet been provided.

#### CONCLUSION

- 270 Each of the Gold Loans appear to be greatly impaired given that the Factoring Fund, Hedge Fund, and Bullion Fund are unsecured creditors under the respective agreements, and given that the Gold Sellers are, or appear to be experiencing financial challenges, putting into question their ability to repay the Gold Loans, whether in cash or in Gold.

- 271 Given the lack of due diligence performed by Housego and/or the Company prior to entering into the Gold Loan agreements, it is not surprising that the Factoring, Hedge and Bullion Funds are now in high risk position with respect to receiving any realizations from the Gold Loans. Had proper due diligence been conducted by Housego and/or the Company, it would have highlighted the above noted issues with the Gold Sellers, such that funds ought not to have ever been advanced by the Factoring, Hedge, and Bullion Funds on account of the Gold Loans.
- 272 With Housego being the main point of contact to the Gold Sellers, and the individual who entered into all of the Gold Loans, the Receiver is requesting that Housego be examined under oath in Toronto. The significant impairments with the Factoring Contracts held by the Factoring and Hedge Funds, for which Housego was also directly involved as the Lead Portfolio Strategist, further support the Receiver's request to examine Housego under oath in Toronto.
- 273 The Gold Loans do not appear to fit into the Factoring and Bullion Funds' investment objectives and/or strategy based on the wording contained in the Funds' respective OMs. It is unclear if the Gold Loans would be considered appropriate investments in the Hedge Fund given the broad wording contained in the Hedge Fund's OM.

## ***COMMERCIAL LOANS***

### **BACKGROUND**

- 274 As outlined in the First Report, the Company entered into Commercial Loans which included:
- a) a loan agreement with Pond dated December 15, 2015 (as amended, the "**Pond Loan Agreement**") with a principal value of \$4,500,000, at an interest rate of 12% payable quarterly in arrears, maturing on February 2, 2018 (the "**Pond Loan**");
  - b) loan agreements with the following entities (all of which are under the control of a common individual, Clydesdale, and are collectively referred to as the "**OOM Energy Group**"):
    - i) Magnitude CS Energy Inc. (formerly, 2445958 Ontario Inc.) ("**Magnitude**");

- ii) 2441472 Ontario Inc. ("**1472 Ontario**"), as guaranteed by 2404783 Ontario Corp. ("**4783 Ontario**");
- iii) MCSnoxrecovery Inc. ("**MCSnox**"); and
- iv) MCSAB10 Inc. ("**MCSAB**"), as guaranteed by 4873 Ontario;

Based on the Company's books and records and the information obtained by the Receiver thus far, it appears that the Commercial Loans between the Company and the OOM Energy Group have a cumulative principal balance of approximately \$12,535,270 plus outstanding interest as at October 31, 2017 of approximately \$1,285,687 totaling \$13,820,956 (the "**OOM Energy Balance**");

- c) a promissory note between 1092545 B.C. Ltd. ("**109 BC**"), as borrower, and the Company, as lender, dated November 4, 2016 for a principal balance of US \$125,000, which has matured (the "**109 BC Promissory Note**");
  - d) a promissory note issued by Cinnos Mission Critical Incorporated ("**Cinnos**") dated September 30, 2016 and purchased by the Infrastructure Fund for a principal balance of \$300,000 that matures on September 28, 2018 (the "**Cinnos Promissory Note**"); and
  - e) a participation interest in a mortgage issued to Kanwal Investments Inc. ("**Kanwal**") by Liberty Mortgage Services Inc. (the "**Kanwal Mortgage**").
- 275 For each of the above Commercial Loans, with the exception of the Cinnos Promissory Note and the Kanwal Mortgage, assignment agreements were entered into between the Company and certain of the Crystal Wealth Funds whereby the Commercial Loans were assigned from the Company to the applicable Crystal Wealth Fund.
- 276 The table below outlines the combined principal and interest owed to the various Crystal Wealth Funds as at October 31, 2017 under the Commercial Loans:

Entity	Outstanding Principal and Interest						Total
	Mortgage Fund	Factoring Fund	High Yield Mortgage Fund	Infrastructure Fund	Sustainable Property Fund		
Pond	\$ 3,588,000	\$ -	\$ 571,511	\$ -	\$ -	\$ -	\$ 4,159,511
Magnitude	1,251,973	-	-	5,692,102	-	-	6,944,075
1472 Ontario	1,872,658	-	-	-	-	-	1,872,658
MCSnox	2,772,004	-	-	-	-	-	2,772,004
MCSAB	-	-	-	-	2,232,219	-	2,232,219
109 BC	-	169,685	-	-	-	-	169,685
Cinnos	-	-	-	342,340	-	-	342,340
Kanwal	226,667	-	-	-	-	-	226,667
<b>Total</b>	<b>\$ 9,711,302</b>	<b>\$ 169,685</b>	<b>\$ 571,511</b>	<b>\$ 6,034,442</b>	<b>\$ 2,232,219</b>	<b>\$ 18,719,159</b>	

#### RECEIVER'S KEY FINDINGS AND ACTIONS

- 277 Although the OMs for the Infrastructure Fund and Sustainable Property Fund appear to contemplate investments like the applicable Commercial Loans, the “Investment Objective” and/or “Investment Strategy” sections of the OMs for the Mortgage Fund, Factoring Fund, and the High Yield Mortgage Fund, do not suggest that this type of investment would ever be made by the applicable Fund. Accordingly, the OMs are highly misleading to investors. The Receiver’s communications with investors support this. Numerous investors have communicated to the Receiver that they were unaware of the large investments in Commercial Loans, and expected their invested capital to be deployed with a different strategy and purpose.
- 278 This section (paragraphs 279 to 286 below) summarizes the actions taken and the significant issues identified by the Receiver with respect to the Pond Loan and the Commercial Loans made to the OOM Energy Group. The remainder of this section of the Second Report (paragraphs 287 to 344) provides a more detailed account of the events that have transpired since the First Report regarding the Commercial Loans.

### Pond – Pond Loan Amendment

- 279 Shortly after the Appointment Order, Pond advised the Receiver that it was unable to repay the interest and/or principal owing under the Pond Loan, as it had limited liquidity, and Pond was seeking external financing. Due to Pond's limited assets, immediate enforcement of the Pond Loan by the Receiver would have likely resulted in a shortfall in recovery for the Mortgage and High Yield Mortgage Funds and investors thereof.
- 280 The Receiver and Pond entered into the Pond Amendment which, among other things, extended the maturity of the Pond Loan and restructured the timing of the required principal and interest payments. In addition, the Receiver exercised an option granted under the Pond Loan Agreement to require Pond to enter into the Pond Intellectual Property Security Agreement (the "**Pond IPSA**"). The Company's first position security over the assets of Pond otherwise remains unchanged.

### The OOM Energy Group – Default and Demands

- 281 On October 26, 2017, for the Commercial Loans issued to the OOM Energy Group, A&B, on behalf of the Receiver, issued default notices (the "**OOM Default Notices**") to the OOM Energy Group, Clydesdale, and Clydesdale's counsel:
- a) advising certain OOM Energy Group entities that their failure to make the required interest payments when due under the terms of the applicable loan agreement(s) triggered an Event of Default under the applicable loan agreement(s);
  - b) advising all OOM Energy Group entities that their failure to provide the information requested by the Receiver on May 18, 2017 and June 6, 2017 in connection with the various loan agreements is an Event of Default under same;
  - c) requesting the most recent review engagement report for each of Magnitude, 1472 Ontario, MCSnox, and MCSAB, as provided for in their respective loan agreements;
  - d) making formal demand for payment of interest or principal owing under certain of the loans issued to OOM Energy Group, to the extent that such amounts were payable on demand without a default notice.

- 282 The cure period provided under the applicable loan agreements in respect of the payment defaults identified in the OOM Default Notices expired without a response from the OOM Energy Group, Clydesdale, or counsel thereto, Bill McKenzie ("McKenzie").
- 283 On November 11, 2017, McKenzie sent an e-mail to the Receiver and A&B, which email did not respond to the substantive issues mentioned in the OOM Default Notices, and instead asked for copies of the documents referred to therein (the "**McKenzie Email**"). In the McKenzie Email, McKenzie also provided that his client "wants to meet with the Receiver and arrange a final resolution." A copy of the McKenzie Email is attached hereto as **Appendix "47"**.
- 284 In addition, the Receiver is requesting that this Court issue an Order compelling Clydesdale to produce the documents that have been requested by the Receiver on numerous occasions to better evaluate the Commercial Loans to the OOM Energy Group and the financial health of the underlying OOM Energy Group entities.
- 285 On November 13, 2017, A&B, on behalf of the Receiver, issued demand letters and BIA Notices to the OOM Energy Group (as further described and detailed below), together with Clydesdale (in his personal capacity, as a guarantor of certain arrangements with Magnitude) (the "**OOM Demand Letters**"). On the same date, courtesy copies of the OOM Demand Letters were sent to each of Clydesdale and McKenzie by e-mail, attaching copies of the indicative loan agreements and transactional documents that were referred to in the OOM Demand Letters.

### **Compliance with OM**s

- 286 As outlined above, the Commercial Loans are held primarily by the Mortgage Fund, Infrastructure Fund, and Sustainable Property Fund. The Receiver has the following comments on whether Commercial Loans are consistent with the investment objectives of these Funds:
- a) **Infrastructure Fund** – The Commercial Loans assigned to the Infrastructure Fund appear to be of a nature that in compliance with the investment objectives of the Infrastructure Fund, although there is a high level of concentration risk, as 94.3% of the Commercial Loans assigned to this Fund are made with Magnitude;

- b) **Sustainable Property Fund** – the MCSAB Loan is structured according to Islamic finance concepts, and thus appears to be in compliance with the OM of the Sustainable Property Fund and its investment objective;
- c) **Mortgage Fund** – the investment objective of the Mortgage Fund is to “...generate a consistently high level of interest income...by investing primarily in residential mortgages in Canada”; Accordingly, the Commercial Loans held by the Mortgage Fund are not in compliance with this investment objective.

#### RECEIVER'S DETAILED REVIEW OF THE COMMERCIAL LOANS

##### **Pond Technologies Inc.**

- 287 Pond was incorporated on May 27, 2008 under the laws of Canada, with the purpose of pursuing microalgal biomass production using raw stack gas emissions from industrial emitters. Pond remains in the development stage of its business, has not yet reached profitability, and has relied on non-conventional sources of financing to fund operations.
- 288 Subsequent to the execution of the Pond Loan Agreement, the Company executed various participation agreements assigning the rights to a stated portion of the Pond Loan to the Mortgage Fund, High Yield Mortgage Fund, and an individual, Suzanne West, resulting in the following participation amounts of the Pond Loan:

Fund	Principal Balance	Principal Balance Allocation		
		Mortgage Fund	High Yield Mortgage Fund	Suzanne West
Pond Loan	\$ 4,500,000	\$ 2,950,000	\$ 550,000	\$ 1,000,000

- 289 Pursuant to a subordination and postponement agreement between St. Mary's Cement Inc., the Company, and Pond dated February 19, 2016, the Company is the first secured creditor of all of the assets of Pond. In addition, pursuant to the Pond IPSA, the Receiver is the first secured creditor of Pond's patents, copyrights and trademarks.
- 290 Pursuant to amending letter agreements dated October 5, 2016, October 20, 2016, October 26, 2016, and February 8, 2017, the Company agreed to defer, but not waive, the payment of interest by Pond pursuant to the Pond Loan Agreement. As at the date of the Receiver's appointment, Pond owed the Company approximately \$270,283 in overdue interest.

*The Receiver's Discussions with Pond*

- 291 In initial discussions with the Receiver, Pond advised the Receiver that it was unable to repay the interest and/or principal owing under the Pond Loan as it had limited liquidity. Moreover, Pond stated that prior to the appointment of Receiver, Smith had verbally assured Pond that the Company would commit to converting the entire Pond Loan into equity in Pond (half of the Pond Loan converted into shares of Pond at a price of \$2.00 per share while the other half would be converted at a price of \$2.40 per share).
- 292 Pond advised that it had been planning to go public via a reverse take-over ("RTO") bid by Ironhorse Oil & Gas Ltd., a public company listed on the TSX Venture Exchange (TSX.V: IOG) ("Ironhorse") (i.e. Ironhorse would acquire the common shares of Pond) (the "RTO Transaction"). Pond further advised that the aforementioned assurances regarding the debt to equity conversion were provided by Smith, on behalf of the Company, in subsequent discussions with Ironhorse as well as with the brokers engaged by Pond to raise additional equity and complete the RTO Transaction
- 293 On June 12, 2017, Pond provided the Receiver with a confidential draft-unsigned letter of intent from Ironhorse outlining proposed terms of the RTO Transaction. Pond advised that the RTO Transaction would not be achievable unless some alternative arrangements were made to the current structure of the Pond Loan Agreement.

*The Pond Loan Amendment*

- 294 A number of subsequent discussions and meetings took place between the Receiver and Pond eventually leading to the Receiver and Pond entering into the Pond Loan Amendment dated August 11, 2017 (the "Pond Loan Amendment"), attached hereto as **Appendix "48"**. The Pond Loan Amendment included, among other things, the following changes to the Pond Loan Agreement:
- a) Maturity – extended to June 30, 2019 (a 1.5 year extension);
  - b) Principal Payments – Pond shall repay the loan principal as follows:
    - i) \$1,000,000 by December 31, 2017;

- ii) 20% of the proceeds received by Pond from one or more financing transactions once the aggregate amount of such financing transactions is equal to or greater than \$10,000,000; and
  - iii) in full (including all principal, interest and other fees owing and outstanding) upon the Date of Termination (defined in the Pond Loan Amendment as the earlier of: (i) June 30, 2019; or (ii) the date upon which an Event of Default occurs);
- c) Interest Payments – Pond shall repay the loan interest as follows:
- i) \$581,399 on November 30, 2017 (representing the accrued interest from October 1, 2016 to November 30, 2017);
  - ii) quarterly interest payments commencing on December 31, 2017 and thereafter on the last day of March, June, September, and December of each year at a rate of 8% per annum; and
  - iii) a delayed interest payment accruing on a daily basis of 4% (i.e. the differential from the 12% interest rate) due upon the Date of Termination (estimated to be \$293,934 if principal is paid upon maturity).

- 295 On August 15, 2017, Pond issued a notice to its shareholders that, among other things, advised of:
- a) a successful equity financing raise of \$1.6 million through a brokered private placement;
  - b) the Pond Loan Amendment; and
  - c) the execution of a letter of intent with Ironhorse to continue pursuing the RTO Transaction.

A copy of the notice to shareholders issued by Pond is attached to this Second Report as **Appendix “49”**.

- 296 The receiver entered into a further amending agreement in respect of the Pond Loan on November 16, 2017 (the “**Second Pond Loan Amendment**” and, together with the Pond

Loan Amendment, the “**Pond Loan Amendments**”). The Second Pond Loan Amendment changed the date of the first interest payment noted above from November 30, 2017 to December 21, 2017, in consideration of an extension fee of \$10,000 to be paid by Pond to the Receiver. A copy of the Second Pond Loan Amendment attached to this Second Report as **Appendix “50”**.

### *Conclusion*

- 297 The Pond Loan Amendments restructured Pond’s indebtedness to increase the likelihood of recovery for the Mortgage and High Yield Mortgage Funds. Moreover, the two Funds maintained a first secured position in the assets of Pond. A conversion of the Pond Loan to equity, as Smith purportedly agreed to in principle prior to the Appointment Order, would have resulted in the investors having no security over the assets of Pond.

### **OOM Energy Group**

- 298 The table below outlines the portion of the OOM Energy Balance owing to the Mortgage Fund, Infrastructure Fund, and the Sustainable Property Fund:

Entity	Outstanding Principal and Interest			Total
	Mortgage Fund	Infrastructure Fund	Sustainable Property Fund	
Magnitude	\$ 1,251,973	\$ 5,692,102	\$ -	\$ 6,944,075
1472 Ontario	1,872,658	-	-	1,872,658
MCSnox	2,772,004	-	-	2,772,004
MCSAB	-	-	2,232,219	2,232,219
<b>Total</b>	<b>\$ 5,896,635</b>	<b>\$ 5,692,102</b>	<b>\$ 2,232,219</b>	<b>\$ 13,820,956</b>

### *Magnitude CS Energy Inc.*

- 299 The Company entered into a loan agreement dated July 6, 2016 with Magnitude (as borrower) and Clydesdale (in his individual capacity, as guarantor) (the “**Magnitude Working Capital Loan Agreement**”) which, among other things, included the following terms:

- a) Purpose – for general operating expenses and working capital;

- b) Principal – \$3,000,000 due upon maturity;
- c) Interest – 13% due quarterly; and
- d) Maturity – July 6, 2021

(the “**Magnitude Working Capital Loan**”).

- 300 The Magnitude Working Capital Loan is primarily accounted for in the Infrastructure Fund, pursuant to assignment agreements in respect of certain promissory notes representing advances thereunder. Some additional indebtedness that appears to arise pursuant to the Magnitude Working Capital Loan is assigned to the Mortgage Fund.
- 301 The most recent interest payment received by either the Infrastructure Fund or the Mortgage Fund on account of the Magnitude Working Capital Loan was received by the former on January 3, 2017. Interest is required to be paid quarterly (i.e. the next payment was due on March 31, 2017). This March 31 quarterly payment, and subsequent quarterly payments, have not been made. This non-payment is an Event of Default (as defined in the Magnitude Working Capital Loan Agreement).
- 302 In addition to the arrangements under the Magnitude Working Capital Loan Agreement as referred to above, the Company also entered into a series of promissory notes made between the Company and Magnitude (collectively, the “**Magnitude Factoring Promissory Notes**”), the proceeds of which were apparently used to pay accrued interest and partial payment of principal for a factoring agreement made between the Factoring Fund and Magnitude on July 11, 2015 (the “**Magnitude Factoring Agreement**”), and which promissory notes were subsequently assigned to the Infrastructure Fund.
- 303 As at October 31, 2017, the Company’s books and records indicate that a total of approximately \$3,312,484 is owing under the Magnitude Factoring Promissory Notes (principal and interest of \$3,008,071 and \$304,413 respectively). Each of the Magnitude Factoring Promissory Notes provides that interest and principal are due on demand.
- 304 On October 26, 2017, A&B, on behalf of the Receiver, issued a default and demand letter (the “**Magnitude Default & Demand Letter**”) to Magnitude, with a courtesy copy to Clydesdale, that, among other things, advised Magnitude of:

- a) its failure to make the required interest payments when due under the terms of the Magnitude Working Capital Loan Agreement, constituting an Event of Default under the loan agreement;
- b) its failure to provide the information requested by the Receiver on May 18, 2017 and June 6, 2017 in connection with the Magnitude Working Capital Loan Agreement, constituting an Event of Default under the loan agreement;
- c) the Receiver's request for Magnitude's most recent review engagement report pursuant to Article 2 under the "Covenants" heading of the Magnitude Working Capital Loan Agreement;
- d) the Receiver's formal demand for payment of the indebtedness owing under the Magnitude Promissory Notes as at September 30, 2017 (\$3,176,017.85 plus professional fees and accruing interest); and
- e) an enclosed BIA Notice.

A copy of the Magnitude Default & Demand Letter is attached to this Second Report as **Appendix "51"**. As at the date of this Second Report, the specified defaults have not been cured.

- 305 On November 13, 2017, A&B, on behalf of the Receiver, issued a further demand letter to Magnitude (the "**Magnitude Demand Letter**"), making formal demand on the entire indebtedness outstanding under the Magnitude Working Capital Loan Agreement, and reiterating the Receiver's demand on the Magnitude Promissory Notes, and enclosing a BIA Notice. A demand letter was also issued to Craig Clydesdale, in his personal capacity as guarantor of the indebtedness under the Magnitude Working Capital Loan Agreement (the "**Clydesdale Demand Letter**"). Copies of the Magnitude Demand Letter and Clydesdale Demand Letter are attached to this Second Report as **Appendix "52"**.

*2441472 Ontario Inc. (Mortgage Fund)*

- 306 The Mortgage Fund entered into a loan agreement with 1472 Ontario (as borrower) and 4873 (as guarantor) dated November 7, 2014 (the "**1472 Ontario Loan Agreement**") which includes the following terms:

- a) Purpose – To finance up to 100% of the installed cost of a MCS COGEN MARK 6 CoEnergyPoD, to be deployed at the premises of St. Mary's Cement Inc. (Canada) located at 55 Industrial St., Toronto, Ontario;
  - b) Principal – \$1,800,000 due upon maturity (a prepayment option is available to the Company on December 8, 2017);
  - c) Interest – 13% due monthly; and
  - d) Maturity – November 7, 2029
- (the "**1472 Ontario Loan**").

- 307 The 1472 Ontario Loan was assigned to the Mortgage Fund, pursuant to a participation agreement dated November 2, 2016.
- 308 According to the books and records of the Company, the most recent interest payment received by the Mortgage Fund with respect to the 1472 Ontario Loan was received in March 2017. As interest is required to be paid monthly, the non-payment of interest since March 2017 is an Event of Default under the 1472 Ontario Loan Agreement.
- 309 On October 26, 2017, A&B, on behalf of the Receiver, issued a default notice (the "**1472 Ontario Default Notice**") to 1472 Ontario and Clydesdale that, among other things, advised of:
- a) 1472 Ontario's failure to make the required interest payments when due under the terms of the 1472 Ontario Loan Agreement – an Event of Default under the 1472 Ontario Loan Agreement;
  - b) 1472 Ontario's failure to provide the information requested by the Receiver on May 18, 2017 and June 7, 2017 in connection with the 1472 Ontario Loan Agreement – an Event of Default under the 1472 Ontario Loan Agreement; and
  - c) the Receiver's request that 1472 provide its most recent review engagement report to the Receiver, as required under the 1472 Ontario Loan Agreement.

A copy of the 1472 Ontario Default Notice is attached hereto as **Appendix "53"**. As at the date of this Second Report, the specified defaults had not been cured.

310 On November 13, 2017, A&B, on behalf of the Receiver, issued a demand letter (the “**1472 Ontario Demand Letter**”), making formal demand on 1472 Ontario for repayment of the entire indebtedness outstanding under the 1472 Ontario Loan Agreement, and enclosing a BIA Notice. A copy of the 1472 Ontario Demand Letter is attached hereto as **Appendix “54”**.

*MCSnoxrecovery Inc.*

311 The Company entered into a loan agreement with MCSnox dated March 8, 2015 (the “**MCSnox 2015 Loan Agreement**”) which includes the following terms:

- a) Purpose – to complete the first Pond algae bioreactor installation at St. Mary’s Cement, Leaside, ON and for working capital purposes;
  - b) Principal – \$550,000 due upon maturity, or if borrower completes an equity financing greater than the principal amount, or on an event of default;
  - c) Interest – \$300,000 due on June 6, 2015 then 11% commencing January 1, 2016 thereafter, due on demand;
  - d) Maturity – March 8, 2026;
- (the “**MCSnox 2015 Loan**”).

312 According to the books and records of the Company, the most recent interest payment received by the Mortgage Fund with respect to the MCSnox 2015 Loan was received in December 2016.

313 In addition to the MCSnox 2015 Loan Agreement, the Company entered into a separate agreement with MCSnox dated November 2, 2016 (the “**MCSnox 2016 Loan Agreement**”, and together with the MCSnox 2015 Loan Agreement, the “**MCSnox Loan Agreements**”) which includes the following terms:

- a) Purpose – to complete the first Pond algae bioreactor installation at St. Mary’s Cement, Leaside, ON and for working capital purposes;
- b) Principal – \$2,000,000 due upon maturity, or if borrower completes an equity financing greater than the principal amount, or on an event of default;

- c) Interest – 11% due on demand;
  - d) Maturity – November 7, 2029;
- (the “**MCSnox 2016 Loan**”, together with the MCSnox 2015 Loan, the “**MCSnox Loans**”).

- 314 The MCSnox Loans were assigned to the Mortgage Fund, pursuant to an assignment agreement dated November 2, 2016.
- 315 According to the books and records of the Company, the most recent interest payment received by the Mortgage Fund with respect to the MCSnox 2016 Loan was received in December 2016.
- 316 On October 26, 2017, A&B, on behalf of the Receiver, issued a default and demand letter (the “**MCSnox Default & Demand Letter**”) to MCSnox which, among other things, advised of:
- a) the Receiver’s formal demand for payment of the interest owing under the MCSnox Loans, which as at September 30, 2017 totaled \$198,181;
  - b) MCSnox’s failure to provide the information requested by the Receiver on May 18, 2017 and June 7, 2017 in connection with the MCSnox Loan Agreements, constituting an Event of Default under each of the MCSnox Loan Agreements; and
  - c) the Receiver’s request that MCSnox provide its most recent review engagement report, as required under the MCSnox Loan Agreements.

A copy of the MCSnox Default & Demand Letter is attached hereto as **Appendix “55”**.

- 317 On November 3, 2017, A&B, on behalf of the Receiver, issued a subsequent default notice (the “**MCSnox Second Default Notice**”) to MCSnox and Clydesdale which advised MCSnox that it had failed to remit payment of the accrued interest under the MCSnox Loans as demanded in the MCSnox Default & Demand Letter and that such failure was an Event of Default under each of the MCSnox Loan Agreements. As at the date of this Second Report, the defaults specified in each of the above-noted letters have not been cured. A copy of the MCSnox Second Default Notice is attached hereto as **Appendix “56”**.

- 318 On November 13, 2017, A&B, on behalf of the Receiver, issued a demand letter (the “**MCSnox Demand Letter**”), making formal demand on MCSnox for repayment of the entire indebtedness outstanding under the MCSnox Loan Agreements, and enclosing a BIA Notice. A copy of the MCSnox Demand Letter is attached hereto as **Appendix “57”**.

*MCSAB10 Inc.*

- 319 The Company entered into a loan agreement among MCSAB (as borrower) and 4873 Ontario Corp (as guarantor), dated November 28, 2016 (the “**MCSAB Loan Agreement**”), which includes the following terms:

- a) Purpose – To finance up to 90% of the installed cost of a MCS COGEN MARK 6 CoEnergyPoD, to be deployed at the premises of Imaginea Energy Corp. located in Jenner, Alberta;
  - b) Principal – \$2,600,000 due upon maturity (\$2,000,000 had been advanced);
  - c) User Fees – 13% due monthly;
  - d) Maturity – December 9, 2019;
- (the “**MCSAB Loan**”).

- 320 The MCSAB Loan was assigned to the Sustainable Property Fund, pursuant to an assignment agreement with the Company dated December 9, 2016.

- 321 According to the books and records of the Company, no payments have been received by the Company or the Sustainable Property Fund with respect to the MCSAB Loan. As payments are required to be made paid monthly, non-payment is an Event of Default under the MCSAB Loan Agreement.

- 322 On October 26, 2017, A&B, on behalf of the Receiver, issued a default notice (the “**MCSAB Default Notice**”) to MCSAB, with a courtesy copy to 4873 Ontario, which, among other things, advised of:

- a) MCSAB’s failure to make the required payments when due under the terms of the MCSAB Loan Agreement, constituting an Event of Default thereunder;

- b) MCSAB's failure to provide the information requested by the Receiver on May 18, 2017 in connection with the MCSAB Loan Agreement, constituting an Event of Default;
- c) false representations and warranties made by MCSAB and 4873 Ontario with respect to the existence of certain competing security interests, constituting an Event of Default; and
- d) the Receiver's request that MCSAB provide its most recent review engagement report to the Receiver pursuant to Article 2 of the MCSAB Loan Agreement.

A copy of the MCSAB Default Notice is attached to this Second Report as **Appendix "58"**.

- 323 On November 13, 2017, A&B, on behalf of the Receiver, issued a demand letter (the "**MCSAB Demand Letter**"), making formal demand on MCSAB for repayment of the entire indebtedness outstanding under the MCSAB Loan Agreements, and enclosing a BIA Notice. A copy of the MCSAB Demand Letter is attached hereto as **Appendix "59"**.

#### *4873 Ontario*

- 324 As noted above, 4873 Ontario is a guarantor of the applicable debtor's obligations under each of the 1472 Loan Agreement and the MCSAB Loan Agreement.
- 325 On November 13, 2017, A&B, on behalf of the Receiver, issued a demand letter (the "**4873 Demand Letter**") making formal demand on 4873 Ontario for repayment of the entire indebtedness outstanding under each of the 1472 Loan Agreement and the MCSAB Loan Agreement. A copy of the 4873 Demand Letter is attached hereto as **Appendix "60"**.

#### *Status of Demands*

- 326 As at the date of this Second Report, none of the OOM Energy Group entities have responded to the OOM Demand Letters issued by the Receiver.

#### *Examination of Clydesdale*

- 327 As detailed in the First Report, on May 18, 2017, the Receiver conducted a call with Bill McKenzie ("**McKenzie**"), Clydesdale's counsel. During the call, McKenzie had little knowledge of the specifics surrounding the OOM Energy Group and the loans issued to same. Upon request for Clydesdale to provide documents related to the OOM Energy Loans, McKenzie advised that such documents would be provided after a written request

was issued, outlining the specific documents required by the Receiver. The Receiver issued a document request list concerning loans issued to the OOM Energy Group on June 7, 2017. As at the date of this Second Report, neither McKenzie nor Clydesdale have provided the documents requested.

- 328 As particularized above, Clydesdale has yet to respond to any of the Receiver's default notices, demands, or requests for information in respect of any of the OOM Energy Group entities, either personally or via his counsel, with the exception of the November 11, 2017 McKenzie Email which, as noted above, did not provide a substantive response or promise any corrective action. As the Receiver anticipates Clydesdale and his counsel will continue to be uncooperative, and as further background information is necessary to properly evaluate the Company's dealings with the OOM Energy Group and the scope of any possible recovery from same, the Receiver will be issuing a notice for Clydesdale to attend at an examination under oath in Toronto in due course.
- 329 In addition, the Receiver is requesting that this Court issue an Order compelling Clydesdale to produce the documents that have been requested by the Receiver on numerous occasions to better evaluate the Commercial Loans to the OOM Energy Group and the financial health of the underlying OOM Energy Group entities.
- 330 None of the foregoing is intended to waive or limit any remedies which may be exercised by the Receiver in connection with the enforcement of any of the Commercial Loans to the OOM Energy Group, or any rights of examination or production in connection therewith as already authorized by the Appointment Order.

#### **1092545 B.C. Ltd. (Factoring Fund)**

- 331 The 109 BC Promissory Note was assigned to the Factoring Fund pursuant to an assignment agreement with the Company dated November 9, 2016.
- 332 The 109 BC Promissory Note matured on the earlier of 90 days following the date it was made or the date that Century Energy Ltd. receives TSX.V approval to advance funds to 109 BC, at which point all principal and accrued interest became payable. The Company's books and records indicated that neither the principal nor interest had been paid.
- 333 The 109 BC Promissory Note provides that it is secured by a trust account deposit held by Morton Law LLC ("Morton Law"). The 109 BC Promissory Note states that: "The

*current balance of the Morton Law trust account held for the Borrower is \$250,000 USD". Under the 109 BC Promissory Note, the Company is also entitled to 20% of US \$125,000 in shares of Century Energy Ltd. if and when that company acquires 109 BC (the "**Share Bonus**").*

- 334 On October 26, 2017, A&B, on behalf of the Receiver, issued a demand letter (the "**109 BC Demand Letter**") to 109 BC, with a courtesy copy to Morton Law LLC, making formal demand for payment of US \$125,000 together with accrued interest and the Share Bonus, if applicable. A copy of the 109 BC Demand Letter is attached hereto as **Appendix "61"**.
- 335 Certain aspects of the background of the principal of 109 BC, Marcel Rada ("Mr. Rada"), provides some reason to be suspicious about the 109 BC Promissory Note. Particularly, Mr. Rada appears to have a history of engaging in similarly structured transactions in which investors are not repaid in full, as set out in the agreed facts of *Re Rada*, [2011] IIROC No. 27, a decision of the Investment Industry Regulatory Organization of Canada ("IIROC") discussed immediately below.
- 336 Mr. Rada was formerly a registered investment dealer. In response to enforcement efforts of IIROC, Mr. Rada entered into a settlement agreement, where he, amongst other things, admitted to engaging in off-book transactions, without the knowledge or consent of his employer, at least some of which (like the transaction between the Company and 109 BC) were structured as bridge financing, evidenced by promissory notes containing a share bonus. The indebtedness created by these transactions was never repaid in full, and Mr. Rada obtained a personal benefit from same. A copy of *Re Rada*, [2011] IIROC No. 27, is attached hereto as **Appendix "62"**.
- 337 On October 30, 2017, in a call with A&B, Mr. Rada acknowledged that the 109 BC Promissory Note was in fact overdue. Mr. Rada also stated that he is in the process of negotiating with the Guyanese government regarding certain mining permits, and that the success of these permits will affect how 109 BC repays the 109 BC Promissory Note.
- 338 A&B, on behalf of the Receiver, sent an email to Mr. Rada confirming that the call occurred and the facts noted in the previous paragraph. A&B requested that Mr. Rada provide documentary confirmation regarding the status of the required mining permits by November 3, 2017 and that a repayment proposal be delivered to the Receiver by November 15, 2017. On November 16, 2017, Mr. Rada telephoned A&B, advising that no

documentary evidence of any sort regarding mining permits was available, and that a repayment proposal would be delivered by November 21, 2017.

339 On November 22, 2017, Mr. Rada sent an email advising that 109 BC was insolvent, that it had a large amount of debt, and that there was no guarantee that the mining permits would be granted in a timely manner. Mr. Rada proposed to settle the 109 BC Promissory Note by way of one of the following payment options:

- a) US \$12,500 on or before January 30, 2018;
- b) US \$25,000 on or before April 30, 2018; or
- c) US \$37,500 on or before July 31, 2018.

In addition, Mr. Rada stated that:

*"If one of [the above three options] options is not acceptable 1092545 BC Ltd will be forced into dissolution. It has no cash or assets. Only debt."*

A copy of A&B's email correspondence with Mr. Rada is attached hereto as **Appendix "63"**.

340 Given Mr. Rada's confirmation that the balance of the 109 BC Promissory Note is likely not recoverable, A&B investigated the status of the trust deposit purportedly held by Morton Law as security. The response from Morton Law on November 22, 2017 was that *"we are not, and have not previously been, counsel to 1092545 BC. We do not hold any funds in trust for that entity."* A copy of A&B's letter to Morton Law of November 22, 2017, together with the response thereto, is attached as **Appendix "64"**.

#### **Cinnos Mission Critical Corporation (Infrastructure Fund)**

341 The Cinnos Promissory Note principal and interest is repayable on maturity, or convertible into preferred shares of Cinnos in the event of a qualified financing. The Receiver will continue to monitor the performance of this investment until its stated maturity date, being September 28, 2018.

### **Kanwal Developments Inc. (Mortgage Fund)**

- 342 The Mortgage Fund entered into a Mortgage Participation & Service Agreement with Liberty Mortgage Services Ltd. (“**Liberty Mortgage**”) dated June 17, 2008 (the “**Participation Agreement**”). Under the Participation Agreement, the Mortgage Fund participates in the sum of \$500,000 (the “**Kanwal Participation**”) of a \$10,800,000 first mortgage to Kanwal (the “**Kanwal Mortgage**”).
- 343 On October 27, 2017, the Receiver contacted Liberty Mortgage to obtain additional documentation to assess the underlying value of the principal and the potential impairment, if any, to the Kanwal Participation. The Receiver sent follow-up correspondence to Liberty Mortgage in this regard on October 31, 2017 and November 3, 2017.
- 344 As at the date of this Second Report, the Receiver has not received any documentation from Liberty Mortgage. The Receiver requests that this Court issue an Order compelling Liberty Mortgage to provide the documents requested by the Receiver on October 27, 2017.

### **US REAL ESTATE LP**

- 345 As outlined in the First Report, the Hedge Fund and Factoring Fund cumulatively own 99.99% of 107 LP, an entity that has an indirect ownership interest in a number of rental properties located in the United States together with corporate and individual partners (collectively the structure is referred to as the “**US Real Estate LP**”). The Hedge Fund and Factoring Fund act as limited partners (the “**Limited Partners**”) in the US Real Estate LP.
- 346 The remaining 0.01% ownership of 107 LP is held by 1076874 B.C. Ltd., an entity listed as the general partner which is owned by the following individuals:
- a) Alberto Storelli (Canadian) (“**Storelli**”) – 51.0%;
  - b) Brian Peoples (USA) (“**Peoples**”) – 24.5%; and
  - c) Joe Harker (USA) (“**Harker**”) – 24.5%.

All or one of Storelli, Peoples, and Harker (collectively the “**General Partners**”) are listed as directors or officers in a majority of the entities included in the US Real Estate LP. The Receiver understands that Storelli is the directing mind of the US Real Estate LP and is a personal friend of Housego.

- 347 From June 6, 2016 to March 14, 2017, the Hedge Fund and Factoring Fund (as Limited Partners) invested US \$7,500,000 in the US Real Estate LP by way of unit purchases in 107 LP through subscription agreements (the “**Subscription Agreements**”).
- 348 The purpose of the US Real Estate LP is to acquire and develop real estate properties in the United States to subsequently earn rental income and proceeds from the possible and/or eventual sale of such properties. Through their investment in 107 LP, the Receiver understands that the Factoring Fund and Hedge Fund have an indirect minority ownership interest in the following properties held by the US Real Estate LP:
- a) 3961 Covington Highway, Decatur, Dekalb County, Georgia (“**The Parke on Covington**”);
  - b) 3859 Austin Circle, Decatur, Dekalb County, Georgia (“**Wynhollow**”);
  - c) 325 - 3rd Avenue SW, Birmingham, Alabama (“**Montevallo**”);
  - d) 201 - 3rd Avenue SW, Birmingham, Alabama (“**King’s Manor**”);
  - e) 922 Lawndale Drive, Tupelo, Mississippi (“**Tupelo**”); and
  - f) 619 E. Groveland Parkway, Chicago, Illinois (“**Chicago #1**”).

(collectively referred to as the “**US Properties**”).

- 349 As outlined in its First Report, the Receiver had not been able to make direct contact with Storelli; however, it has had limited discussions with Storelli’s counsel, as detailed below.

#### **INFORMATION REQUESTS AND UPDATES ON THE US PROPERTIES**

- 350 On June 29, 2017, the Receiver conducted a call with Storelli’s counsel, to discuss, among other things: the status of the US Real Estate LP; the progress and status of the development of the US Properties; and additional documentation required by the

Receiver, including but not limited to the financial statements of the various entities in the US Real Estate LP.

351 On July 30, 2017, the Receiver obtained an update on the US Properties as at March 31, 2017:

- a) Chicago #1 – “*property was purchased on Nov 17, 2016; renovations only just started in Dec 2016.*”
- b) The Parke on Covington – “*property was purchased on Nov 10, 2016; renovations are 42% done (approx. \$433,000).*”
- c) Wynhollow – “*property was purchased on June 7, 2016; renovations are 62% done (approx. \$1,214,000).*”
- d) Montevallo – “*property was purchased on Aug 19, 2016 and subsequently refinanced on February 13, 2017 based on same value as the purchase price; renovations are 45% done (approx. \$1,714,500).*”
- e) Tupelo – “*property was purchased on March 17, 2017; renovation work just beginning.*”
- f) King's Manor – “*property next door to Montevallo and was purchased on March 21, 2017; currently preparing for renovations.*”

352 In addition, the Receiver obtained the consolidated notice to reader financial statements for 107 LP for the year ended December 31, 2016; the information is outdated and irrelevant given the events that occurred after December 31, 2016.

353 As at the date of this Second Report, the Receiver has not received financial information for DaVinci Capital Property, Inc. (“DVCP”), a Nevada corporation which has an indirect ownership interest in each of the US Properties, nor any of the special purpose entities (“SPEs”) that purchased the US Properties. Storelli’s counsel has represented that such information will be provided to the Receiver after the SPE’s year end of December 31, 2017.

354 On August 31, 2017, the Receiver obtained additional information on the US Properties, excluding Chicago #1, from an anonymous investor in the Crystal Wealth Funds. A copy of the additional information provided is attached hereto as **Appendix “65”**.

355 On September 18, 2017, after the Receiver's request, Storelli's counsel provided an update on the US Properties<sup>7</sup>:

- a) Chicago #1 – “1 out of the 6 units are currently occupied. There has not been a press to fill the units due to the pending renovations of the building. We had architects/plans in progress but they were put on hold due to a change of direction by Rothbury from a condo conversion to long term rentals.”
- b) The Parke on Covington – “Renovations are approximately 90% complete. The property is currently 78% leased.”
- c) Wynhollow – “Renovations are approximately 65% complete. 47% leased, 94% leased when excluding down units.”
- d) Montevallo – “We are currently punching out the first two buildings (20 total units) and will have them ready for occupancy in the next two weeks pending final city approvals. Another 36 units will be delivered in blocks of six over the next 30 days for a total of 56 units, which will complete Phase I of III of the rehab. Phase II is currently underway and is approximately 50% complete. Phase III has not yet commenced.”
- e) Tupelo – “Project on hold. In negotiations with City of Tupelo to purchase. Due to their desire to own the property, they are putting up road blocks on our renovations. We have engaged local counsel to help out here.”
- f) King's Manor – “The property was 100% leased when we bought it to tenants paying just \$225 per month in rent. We immediately began de-leasing the property in order to commence renovations and bring the rents up to current market levels. We are down to eight tenants and have commenced renovations and expect to be fully complete within the next 90-days. Exterior renovations are underway while we vacate the property.”

#### ISSUES OBTAINING INFORMATION CONCERNING US REAL ESTATE LP DURING THE SALES PROCESS

356 As discussed in detail below, during the Sales Process, the Receiver coordinated calls with the potential managers and the various third party service providers involved in the

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<sup>7</sup> The update on the Chicago #1 property was provided to the Receiver on November 10, 2017 after numerous follow-up emails and correspondence.

administration of the Crystal Wealth Funds including but not limited to Xynergy, Spectrum, IFDS, and Frontline. The purpose of these calls was for the potential managers to perform the required due diligence on particular investments and to determine if they would continue operating under the various third party contracts entered into by the Crystal Wealth Group.

- 357 On September 18, 2017, the Receiver requested that Storelli and/or his counsel provide times that would be suitable to arrange a call with the potential managers, the Receiver, and any of the General Partners.
- 358 On September 22, 2017, Storelli's counsel advised that prior to a call being conducted, the potential managers would have to execute a non-disclosure agreement ("NDA") that Storelli's counsel prepared, despite the fact that the potential managers had already executed a confidentiality agreement with the Receiver as part of the Sales Process.
- 359 On September 26, 2017, A&B, on behalf of the Receiver, advised Storelli's counsel that the potential managers had already executed the confidentiality agreement provided for in the Sale Process, and were therefore already subject to an obligation to keep all information they receive confidential. A&B also advised Storelli's counsel that the Receiver cannot entertain the imposition of further levels of confidentiality on the process, as doing so is both unnecessary and would result in additional unnecessary costs and delay.
- 360 On September 26, 2017, Storelli's counsel responded stating that the Limited Partners:  
  
*"...are merely limited partners in [107 LP] that owns a minority interest stake in [US Real Estate LP] and are entitled to information pursuant to the partnership agreement and it is up to those funds as to what they do with that information. As to any third parties, the partnership is under no obligations to disclose and although my client wishes to cooperate, in the interests of safeguarding information as to the majority interest holders requires an NDA of third parties who wish to obtain information. We await the signed NDA."*
- 361 A conference call between the potential managers and the General Partners accordingly did not proceed.

## CONCLUSION

- 362 As noted in Storelli's counsel's email on September 26, 2017, the Limited Partners own a minority interest in the US Real Estate LP. In addition, as preferred shareholders, it appears that the Limited Partners have no security over the assets of 107 LP and/or the various US Real Estate LP entities. As a preferred shareholder, the Receiver, on behalf of the Limited Partners, has no recourse other than to continue to monitor the development of the US Properties and the US Real Estate LP's compliance with the Subscription Agreements and other relevant agreements governing the US Real Estate LP.
- 363 On September 22, 2017, Storelli's counsel indicated that the other owners of the US Properties are potentially interested in acquiring 107 LP's interests in same for cash and/or units of a different limited partnership which intends to become listed on the TSX Venture Exchange by June 30, 2018. The Receiver has not declined nor indicated an interest in pursuing this option as this time. The Receiver plans to update the Court and investors accordingly in subsequent reporting.
- 364 As outlined previously, given the broad nature of the Hedge Fund investment objective it is unclear if the investment in the US Real Estate LP would comply with the Hedge Fund's OM. It is the Receiver's view that the Factoring Fund's investment in the US Real Estate LP is outside of the scope of the Factoring Fund's investment objective as outlined in its OM. The non-disclosure of such an investment is a misrepresentation to investors investing into a fund by which the OM stated that they are to be invested primarily in factoring receivable agreements whereby traditional receivables are being purchased from Merchants.

## **MEDICAL FACTORING CONTRACTS**

- 365 As outlined in the First Report, the Medical Fund invests in Medical Factoring Contracts which are administered by Xynergy Medical Capital LLC ("Xynergy"). Similar to the Factoring Contracts, Xynergy enters into contracts to purchase healthcare receivables (after purchase, invoices are referred to as "**Purchased Medical Receivables**") from operating businesses in the United States ("**Clients**") for a discount and service fees. The Purchased Medical Receivables are assigned to Xynergy who ultimately collects the invoice value. Unlike the Factoring Contracts, the Medical Factoring Contracts are not

entered into between the Clients and the Medical Fund but rather a participation in the agreements between Xynergy and the Client is purchased by the Medical Fund.

- 366 Xynergy and the Medical Fund entered into a Master Medical Receivables Purchase and Administration Agreement on March 31, 2016 (the “**MMRPAA**”) which essentially gives the Medical Fund the opportunity to purchase participations in Xynergy’s Medical Factoring Contracts with various Clients (defined therein). Under the MMRPAA, Xynergy administers the Medical Factoring Contracts.

#### **SALE OF THE GEODATA BALANCE**

- 367 As noted in the First Report, on June 20, 2017, Xynergy put forth a revised offer to acquire the Medical Fund’s participation in the balance of invoices related to a client, GeodataPR International, Inc. (“**Geodata**”) (the “**Geodata Participation**”), for US \$684,313 (100% of the balance of the Geodata accounts receivable).
- 368 On July 10, 2017, the Receiver and Xynergy executed a bill of sale where Xynergy re-acquired the Geodata Participation for US \$684,313. The Receiver received the funds on July 12, 2017.

#### **CURRENT MEDICAL FACTORING CONTRACTS**

- 369 After the sale of the Geodata Participation, the Medical Fund currently has balances owing under the following two (2) executed participation agreements:
- a) a participation agreement dated August 22, 2014 between the Medical Fund and Xynergy for a participation in Unlimited Prosthetics, Inc.’s (“**UPI**”) accounts receivable and 33.94% of the factoring fees (the “**UPI Participation**”); and
  - b) a participation agreement dated March 31, 2016 between the Medical Fund and Xynergy for a participation in Servicios de Salud Integrada, CSP’s (“**SSI**”) accounts receivable and 70% of the factoring fees (the “**SSI Participation**”).

#### **Unlimited Prosthetics, Inc.**

- 370 Xynergy has advised that UPI went into default in June 2015 and ceased paying the balance owed under the factoring agreement between Xynergy and UPI dated April 3, 2013. In email correspondence from Xynergy to Smith which has been obtained by the

Receiver, Xynergy had indicated that after June 2015, the account balance was US \$257,194, of which US \$197,271 were funds advanced to UPI by the Medical Fund (i.e. the principal balance) and US \$59,923 were accrued fees. Per the UPI Participation, accrued fees are split 66.06% (US \$39,585) and 33.94% (US \$20,338) to Xynergy and the Medical Fund, respectively.

- 371 On January 12, 2016, after litigation efforts against UPI were pursued, Xynergy entered into a settlement agreement with UPI and Erika Sanchez (as guarantor) for a settlement of the account balance for US \$215,000 (the “UPI Settlement”) (the “UPI Settlement Agreement”). Under the UPI Settlement Agreement, UPI was to repay the UPI Settlement as follows: (i) US \$500 immediately; (ii) US \$6,500 before January 27, 2016; and (iii) payments of US \$7,000 on the 27<sup>th</sup> of each month thereafter until the UPI Settlement is paid in full. Of the UPI Settlement, approximately \$181,909 is owing to the Medical Fund and \$33,091 is owing to Xynergy.
- 372 As at the date of this Second Report, there have been a total of 21 payments totaling US \$147,000. As a result, the account balance for UPI is US \$68,000, consisting of nine (9) payments to be received. Xynergy has concerns if the remaining payments will be received.

#### **Servicios de Salud Integrada, CSP**

- 373 SSI is located in Puerto Rico and is engaged in the business of supplying radiology technicians to hospitals and clinics in the San Juan Municipality. All invoices are issued to and paid by the San Juan Municipality (i.e. the underlying debtor).
- 374 On March 27, 2013, Xynergy entered into a medical receivables factoring agreement with SSI under which a US \$600,000 medical factoring facility was provided (“SSI Factoring Agreement”).
- 375 As noted in the First Report, Xynergy is obligated to purchase eligible Medical Receivables under the SSI Factoring Agreement. The Receiver has continued to allow Xynergy to purchase Medical Receivables from SSI using the designated SSI cash balance held in trust by Xynergy on behalf of the Medical Fund. Since the commencement of the Receivership to October 31, 2017, the average balance owing from SSI has been approximately US \$285,000, including fees owed to the Medical Fund.

- 376 The current state of Puerto Rico, as a result of Hurricane Irma and Hurricane Maria, has caused a significant delay in the payment of outstanding invoices by the San Juan Municipality. Xynergy has advised the Receiver that, after speaking with SSI and the San Juan Municipality, the situation in Puerto Rico will result in lengthy delays in receiving payments of outstanding invoices from San Juan Municipality, however, such payments are ultimately expected.
- 377 As at October 31, 2017 the balance outstanding from SSI is approximately US \$293,324 including factoring fees consisting of \$277,513 and \$15,811 owed to the Medical Fund and Xynergy, respectively. Xynergy continues to correspond with the Receiver and provide updates on the SSI balance as requested.

### **NFL PARTICIPATION AGREEMENTS**

- 378 On August 29, 2013, the National Football League (the “NFL”) agreed to pay \$765 million to settle a lawsuit brought by more than 4,500 players and their families to provide medical help to more than 18,000 former players suffering from severe neurological conditions or who could potentially suffer from such conditions in the future. After subsequent hearings and appeals, the Settlement became effective on January 7, 2017 (the “NFL Settlement Agreement”).
- 379 KrunchCash LLC (an entity associated with Xynergy) (“KrunchCash”) entered into various funding agreements (the “NFL Funding Agreements”) with NFL players (the “NFL Players”) who had made claims (the “NFL Player Claims”) under the NFL Settlement Agreement. Under the NFL Funding Agreements, KrunchCash would advance funds to certain NFL Players for a portion of the value of the NFL Player Claims and would charge a stated factoring fee on such an advance.
- 380 In March 2016, under the MMRPAA, the Medical Fund began entering into participation agreements to purchase a stated percentage in the NFL Funding Agreements between certain NFL Players and KrunchCash (the “NFL Participation Agreements”), which participations were effected through the execution of assignment agreements. Under the NFL Participation Agreements, the Medical Fund would advance funds toward the participation and would earn a stated factoring fee. The factoring fee and initial advance under each NFL Participation Agreement is to be repaid to the Medical Fund as each NFL Player Claim is paid by the NFL.

- 381 As at the date of the Receiver's appointment, the Medical Fund entered into a total of 26 NFL Participation Agreements totaling US \$4,318,359 consisting of principal advances of US \$3,824,240 and accrued fees owed to the Medical Fund of US \$247,060.
- 382 In July 2017, four (4) of the NFL Participation Agreements totaling US \$662,500 in principal and US \$104,374 in accrued fees, half of which fees were owing to Xynergy, were paid out through refinancing obtained by the respective NFL Players. The total amount remitted to the Medical Fund was US \$714,687 (i.e. US \$662,500 in principal plus US \$52,187 in accrued fees)
- 383 As at October 31, 2017, there are currently 22 NFL Participation Agreements outstanding with a total value of US \$3,908,286 consisting of principal advances of US \$3,161,740 and accrued fees owed to the Medical Fund of US \$373,273. A summary of the NFL Participation Agreements outstanding as at October 31, 2017 is attached hereto as **Appendix "66"**.
- 384 On November 10, 2017, Xynergy advised that it was served with a subpoena from a New York court regarding complaints made by NFL Players for bad practices of financial institutions with respect to the purchase of all or a portion of NFL Player Claims (i.e. charging egregious fees to NFL Players). Xynergy advised that this is currently being handled by its legal counsel who has advised Xynergy that nothing significant should come of the subpoena as Xynergy's fees are fair. The Receiver has requested additional information regarding the issued subpoena.
- 385 With respect to the timing of payment, Xynergy advised that the timing of payments of the NFL Player Claims is expected to be in the first quarter of 2018, however, due to a recent court action and the backlog of NFL Player Claims required to be reviewed and audited by the claims manager, such payments could be delayed. The Receiver understands that the deadline by which NFL Player Claims were to be submitted to the NFL pursuant to the NFL Settlement Agreement was August 7, 2017.

#### **DISCLOSURE OF THE NFL PARTICIPATION AGREEMENTS BY THE COMPANY**

- 386 No reference is made in the Medical Fund OM, the Medical Fund Strategy Overview document contained on the Company's website, or in any other marketing material distributed to investors of the Medical Fund, concerning the Medical Fund's position and/or

investment process for investing in the NFL Funding Agreements through the NFL Participation Agreements. Copies of the Medical Fund OM and Medical Fund Overview document are attached hereto as **Appendix “67”** and **Appendix “68”**, respectively.

- 387 As outlined in the First Report, the Medical Fund’s investment objective is to

*“...generate a high level of interest income with minimal volatility...by investing in U.S. medical receivables factoring facilities contracts (MRFFCs).”*

- 388 Furthermore the Investment Strategy section of the Medical Fund’s OM states that:

*“MRFFCs are financing structures designed to assist health care clinics, hospitals, doctors and other health-care practitioners (Medical Providers) in the United States and/or its territories to meet their immediate cash flow needs while awaiting collection of receivables for medical services that they have performed.”*

- 389 The Medical Fund OM goes on to further discuss the process of the underwriting and purchasing of receivables from Medical Providers (defined in paragraph 365 above as Purchased Medical Receivables), but makes no mention of its investment in NFL Funding Agreements, which in the Receiver’s view would not be included in a reasonable investor’s definition of Purchased Medical Receivables.

- 390 The Receiver is of the view that the failure to disclose the NFL Participation Agreements, an investment that encompasses approximately 74.96% of the Medical Fund’s NAV (as at April 20<sup>th</sup>, 2017), is a gross misrepresentation to investors.

## **RESIDENTIAL MORTGAGES**

### **BACKGROUND**

- 391 As at the date of the Appointment Order, the Mortgage Fund, High Yield Mortgage Fund, and Sustainable Property Fund (collectively, the **“Mortgage Related Funds”**) held a total of 191 investments in first, second, or third ranking non-conventional residential mortgages administered by third parties (**“Residential Mortgages”**). 189 of the Residential Mortgages (\$18,813,884) are administered by a third-party, Spectrum Canada Mortgage Services Inc. (**“Spectrum”**) (the **“Spectrum Mortgages”**), while the remaining two (2) Residential Mortgages (\$196,000) were administered by Squire Management Inc.

(“Squire”) (the “**Squire Mortgages**”).

- 392 On June 23, 2017, the Receiver accepted Squire’s offer to acquire the Squire Mortgages for proceeds of \$197,526. The proceeds included the entire principal value of the Squire Mortgages in the sum of \$196,000, plus accrued interest of \$1,526 to June 23, 2017.

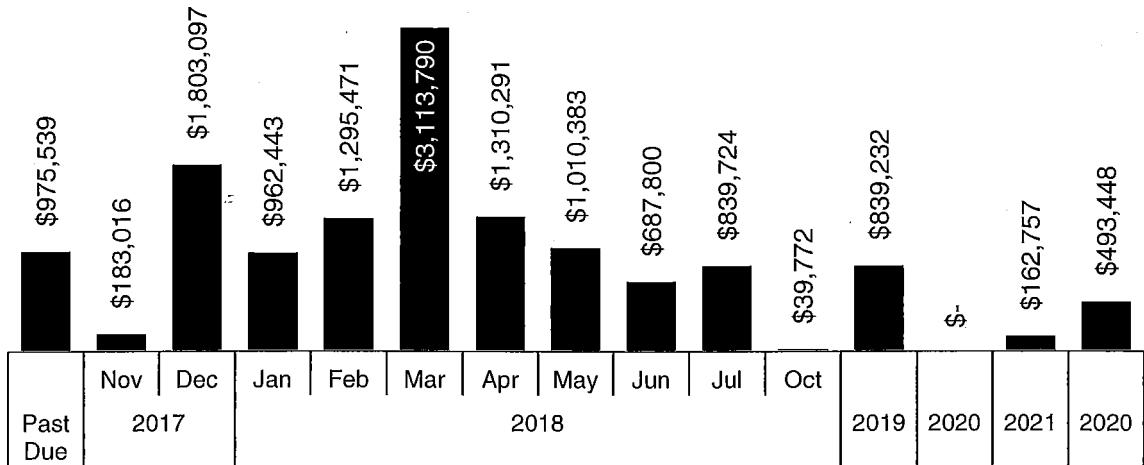
#### **THE RECEIVER’S FINDINGS**

- 393 Most of the Residential Mortgages are performing as the underlying mortgagors continue to remit their required payments. As at October 31, 2017, a total of three (3) Residential Mortgages totaling approximately \$654,483 in balances owing were in a default position and are currently undergoing foreclosure proceedings. Based on the information currently available, Spectrum has advised that a portion of these balances is expected to not be collected.
- 394 As at October 31, 2017, the number of Spectrum Mortgages has reduced to 146 with a cumulative balance owing of \$13,577,540 held in the following Mortgage Related Funds:

Fund	Residential Mortgages	Balance Owing	Average Loan to Value
Mortgage Fund	109	\$ 10,692,960	60.59%
High Yield Mortgage Fund	33	\$ 1,490,165	77.98%
Sustainable Property Fund	4	\$ 1,394,415	69.55%
<b>Total</b>	<b>146</b>	<b>\$ 13,577,540</b>	<b>64.58%</b>

- 395 The Receiver has instructed Spectrum to encourage the pay-out of Spectrum Mortgages upon renewal to avoid the continued renewal of same. If pay-out is not possible, the Residential Mortgages are being renewed on a six month basis at a modestly higher interest rate with the goal of a payout being made at the end of such renewal(s). The following chart demonstrates the balances owing of Residential Mortgages as at October 31, 2017 based on their respective maturity dates:

Residential Mortgages: Maturity Distribution



- 396 The Receiver anticipates the wind-down of the Mortgage Related Funds will occur in an orderly manner based on the renewal/payout strategy discussed above.
- 397 As outlined in the chart above, there are Residential Mortgages totaling \$975,539 which are considered "past due"; this balance is made up of five (5) Residential Mortgages (the "**Non-Performing Mortgages**"). For each of the Non-Performing Mortgages, Spectrum has continued to keep the Receiver apprised of the actions taken by Spectrum or its agents in each case. The Non-Performing Mortgages consist of four (4) Residential Mortgages which are at various stages of foreclosure proceedings or litigation.

CONCLUSION AND RECEIVER'S NEXT STEPS CONCERNING THE RESIDENTIAL MORTGAGES

- 398 As at the date of this Second Report, the Receiver is confident that a continued orderly wind-down of the Residential Mortgage portfolio with the assistance of Spectrum will yield successful recovery for a majority of the Residential Mortgage investments. As the Residential Mortgages continue to expire, the Receiver expects that most mortgagors will be able to obtain refinancing to payout their balances owing to the Mortgage Related Funds; similar to what has been occurring since the Appointment Order. Notwithstanding the above, the Receiver expects that there will be a small number of mortgagors who cannot obtain refinancing and therefore may possibly require a short-term renewal from the Mortgage Related Funds until such refinancing can be obtained.

**PRIVATE EQUITIES AND PRIVATE WARRANTS**

- 399 As outlined in the First Report, certain of the Crystal Wealth Funds contained: (i) equity investments in companies whereby the securities were obtained through private placements or direct purchases and are not traded on active market exchanges and therefore are not readily saleable (“**Private Equities**”); and (ii) warrant options for the purchase of shares in such companies at a stated price (“**Private Warrants**”).
- 400 Private Equities held in the Crystal Wealth Funds are obtained primarily through private placements or through direct purchases from persons who independently held the Private Equities. These investments are not actively traded in external markets and are not easily valued or realizable. The Receiver continues to review documentation and correspond and/or meet with the issuers with respect to these investments to develop a monetization strategy.
- 401 The Private Equities and Private Warrants are held by the Conscious Capital Fund and consist of:
- a) Private Equity – 336,571 common shares in Pond with a Recorded Cost of \$1.33 per share; and
  - b) Private Warrants – 212,040 “Units” issued by Pond whereby each Unit is convertible into:
    - i) one (1) Common Share in the capital of Pond (i.e. 212,040 shares in Pond); and
    - ii) one (1) warrant to purchase one common share of Pond at a strike price of \$2.50 per share exercisable at any time on or before November 1, 2018.
- 402 As such Private Equities and Private Warrants are the sole investments held by the Conscious Capital Fund, no monies are accordingly available for an interim distribution to investors of this Fund.

## **CREDITOR CLAIMS PROCEDURE**

- 403 The Creditor Claims Procedure Order issued June 30, 2017 approved, among other things, the procedure (the “**Creditor Claims Procedure**”) for determining and resolving claims filed by creditors against the Crystal Wealth Group, with the exception of investor claims arising from or relating to their investments in the Crystal Wealth Group (including the Crystal Wealth Funds). Complete details of the Creditor Claims Procedure are set out in the Creditor Claims Procedure Order.
- 404 On June 30, 2017, a copy of the Creditor Claims Procedure Order (together with all schedules) was posted on the Case Website.
- 405 On July 5, 2017, the Receiver sent a Claims Package and an instruction letter to each of the 34 Known Creditors via regular mail (as such terms are defined in the Creditor Claims Procedure Order). In addition, the Receiver provided a Claims Package to parties that requested same prior to the Claims Bar Date of August 3, 2017.
- 406 On July 10, 2017, a notice of the Creditor Claims Procedure was published in the national edition of *The Globe and Mail*.

## **RESULTS OF THE CREDITOR CLAIMS PROCEDURE**

- 407 As at the Claims Bar Date, 26 persons or entities filed claims totaling \$16,227,134 against the following Crystal Wealth Group entities:
- a) the Company and/or the Crystal Wealth Funds – \$2,251,071;
  - b) Media Fund – one (1) claim for \$21,913;
  - c) Mortgage Fund – one (1) claim for \$298,191;
  - d) CLJ Everest – three (3) claims totaling \$1,105,324; and
  - e) Smith – six (6) claims totaling \$12,550,635.
- (collectively, the “**Filed Claims**”).
- 408 The Filed Claims consisted of claims filed by, among others: (i) third party fund

administrators and service providers; (ii) trade vendors; (iii) former employees of the Company; and (iv) former investment advisors independently contracted by the Company. The Receiver is currently conducting a detailed review of the Filed Claims and has yet to make a determination of accepting or disallowing all or part of each claim, except with respect to the Amended BDO Claim (as defined and discussed in the section immediately below).

- 409 A listing of the Filed Claims is attached hereto as **Appendix “69”**. A further report to the Court to be issued by the Receiver on a subsequent motion will address the Receiver's evaluation of the Filed Claims. As indicated above, the Receiver has set aside the appropriate reserve on account of the Filed Claims, in the event they were to be approved in full.

### **THE AMENDED BDO CLAIM**

- 410 Included in the Filed Claims was an unsecured claim of \$511,101 (the “**Audit Fees**”) against the Company and each of the Crystal Wealth Funds which was filed on July 26, 2017 by BDO, the auditor of the Company and the Crystal Wealth Funds prior to the Receiver's appointment (the “**Initial BDO Claim**”). The Initial BDO Claim was for work performed by BDO in preparing the audited financial statements for the year ended December 31, 2016 and for the preparation of certain tax filings.
- 411 On August 23, 2017, the Receiver received a letter (the “**August 23, 2017 Letter**”) from BDO's legal counsel, Blake, Cassels & Graydon LLP (“**Blakes**”), which enclosed an amended proof of claim and which revised the claim of BDO to \$180,796,338 (the “**Amended BDO Claim**”). A copy of the Amended BDO Claim is attached hereto as **Appendix “70”**.
- 412 In addition to the Initial BDO Claim for Audit Fees, the Amended BDO Claim included additional claims for the following:
- a) invoices rendered by BDO's counsel, Blake, Cassels & Graydon LLP (“**Blakes**”), for its representation in connection with certain regulatory proceedings commenced by the OSC in respect of the Crystal Wealth Group, and certain anticipated legal fees to complete BDO's representation in the proceedings commenced by the OSC – \$285,237 (the “**Blakes' Fees Indemnity Claim**”);

- b) the amount claimed against BDO in a Statement of Claim issued on July 20, 2017 (the “**Proposed Class Action**”) by a Plaintiff, Anthony Whitehouse (“**Whitehouse**”), who is an investor in certain of the Crystal Wealth Funds. The Statement of Claim (bearing Court File No. CV-17-579357) is issued pursuant to the *Class Proceedings Act, 1992*, and is a proposed class action lawsuit against BDO by investors of certain Crystal Wealth Funds, seeking damages for negligence in the sum of \$150,000,000, and an additional \$25,000,000 in punitive damages. Whitehouse is accordingly the proposed representative plaintiff. To the Receiver’s knowledge, the Statement of Claim has yet to be served on BDO, and a certification motion has yet to take place – \$175,000,000 (the “**Class Action Indemnity Claim**”); and
- c) estimated legal fees for BDO’s defence of the Proposed Class Action– \$5,000,000 (the “**Estimated Defence Fees Indemnity Claim**”).

- 413 In support of the claims advanced by BDO in the Amended BDO Claim, BDO relies upon the appointment letter agreement between BDO and the Company dated December 21, 2016 (the “**Appointment Letter**”).<sup>8</sup> The Appointment Letter stipulates that the Company agreed to:
- a) At s. 8.3: “*reimburse us for our time and expenses, including reasonable legal fees, incurred in responding to any investigation that is requested or authorized by you or investigations of you undertaken under government regulation or authority, court order, or other legal process*”; and
  - b) At s. 12.1 “*...indemnify and hold harmless BDO from and against all losses, costs (including solicitors’ fees), damages, expenses, claims, demands or liabilities arising out of or in consequence of a misrepresentation by a member of your management or board of directors...[and] the services performed by BDO pursuant to this Agreement, unless, and to the extent that, such losses, costs, damages and expenses are found by a court of competent jurisdiction to have been due to the gross negligence of BDO...*”.
- 414 BDO claims that pursuant to s. 8.3 and 12.1 of the Appointment Letters, BDO has a valid

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<sup>8</sup> In addition to the Appointment Letter, similar standard-form appointment letter agreements (collectively, the “**Appointment Letters**”) were entered into with each of the Crystal Wealth Funds. BDO provided the individual appointment letter agreements to the Receiver upon request, which BDO is also relying upon in support of the BDO Amended Claim.

claim for Blakes' Fees Indemnity Claim, the Class Action Indemnity Claim, and the Estimated Defence Fees Indemnity Claim.

- 415 Rather than embark on a costly and time consuming adversarial process vis-à-vis BDO with respect to Amended BDO Claim, which would have hindered the Receiver's efforts in seeking timely interim distributions to investors on this motion, the Receiver has secured BDO's agreement to abandon its Class Action Indemnity Claim in its entirety, in exchange for the Receiver's agreement to admit the BDO Invoice Claim and the Blakes' Fees Indemnity Claim. In eliminating the BDO Class Action Indemnity Claim, the Receiver has eliminated the risk that distributions to investors of the Crystal Wealth Funds which are the subject of the Proposed Class Action may not have been permitted to be made as a result of the Class Action Indemnity Claim and the significant potential liability arising therefrom to the subject Funds. The Receiver has further secured BDO's agreement that BDO shall not make any further claims, or amendments to claims, of any nature or kind, and in any proceeding or forum, as against any Crystal Wealth Group entity, including, without limitation, as against any of the Crystal Wealth Funds or against Crystal Wealth Management System Limited. The sole exception to the foregoing is that, in the event the Receiver were to commence an Ontario Superior Court of Justice action as against BDO, BDO shall be permitted to defend the action, and assert contributory negligence as against the Crystal Wealth Group entities, or any of them, should BDO elect to do so. Attached hereto as **Appendix "71"** is the email exchange between A&B and Blakes (the "**BDO Agreement**") setting out the terms of the agreement reached by the Receiver and BDO to resolve the BDO Amended Claim and any and all future claims of BDO as against the Crystal Wealth Group.
- 416 The Receiver's agreement to admit the BDO Invoice Claim and the Blakes' Fee Indemnity Claim arises from the terms of BDO's Appointment Letters (described in paragraph 413 above) which were executed by the Crystal Wealth Funds and the Company prior to the Receiver's appointment, and the Receiver's determination, following its review of the BDO invoices and the accounts of its counsel that are the subject of the BDO Invoice Claim and of the Blakes' Fees Indemnity Claim, that such fees are reasonable. The anticipated legal fees included in Blakes' Fees Indemnity Claim are less than the actual fees incurred, as noted by the Receiver during its review. No additional allowance above and beyond the quantum set out in the Blakes' Fees Indemnity Claim is being admitted by the Receiver for this claim.

- 417 Primarily, the Receiver's agreement to admit the BDO Invoice Claim and the Blakes' Indemnity Claim at this juncture was concluded in order to enable the Receiver to make timely interim distributions to investors, while eliminating the Class Action Indemnity Claim which, if allowed, could have otherwise been in excess of all assets and monies held by the Crystal Wealth Group and could therefore have had a devastating impact on investor recovery. The BDO Agreement further prevents any further or future claims being made by BDO as against the Crystal Wealth Group entities, except as specifically provided for in paragraph 415 above, and as outlined in the paragraph immediately below.
- 418 The Receiver has expressly reserved its position to BDO that, in allowing the BDO Invoice Claim, the Receiver is not acknowledging the quality of services provided by BDO to the Crystal Wealth Funds and the Company. The Receiver has agreed to reserve \$1,000,000 on account of BDO's Estimated Defence Fees Indemnity Claim, while reserving the Receiver's rights to deny and contest that indemnity claim at a later date.

### **THE PROPOSED CLASS ACTION**

- 419 The Statement of Claim, enclosed with the Amended BDO Claim, outlines that Whitehouse is claiming for, among other relief:
- a) an order certifying the Class Action Proceeding (as defined in the Statement of Claim) and appointing Whitehouse as representative Plaintiff on his own behalf and on behalf of the Class (as defined in the Statement of Claim);
  - b) a declaration that BDO had a duty of care to the Class which it breached by negligently performing its professional services causing damages (as described in the Statement of Claim);
  - c) damages for negligence in the sum of \$150,000,000; and
  - d) punitive damages of \$25,000,000.
- 420 The Statement of Claim asserts that damages to the Class were a result of BDO's negligence in performing the audits to which the Class relied on when purchasing units in the following Crystal Wealth Funds:
- a) Mortgage Fund;

- b) Media Fund;
- c) Resource Fund;
- d) High Yield Mortgage Fund;
- e) Factoring Fund;
- f) ACM Income Fund;
- g) Medical Fund;
- h) ACM Growth Fund;
- i) Bullion Fund; and
- j) Retirement Fund;

(collectively, the “**Class Action Funds**”)

- 421 Based on the April 20<sup>th</sup> Package and the table included in **Appendix “12”**, the Class Action Funds had a total Recorded Value of approximately \$159,928,046 consisting of:
- a) Cash in the amount of \$2,355,368;
  - b) On-Book Assets with a Recorded Value of \$44,403,183;
  - c) Off-Book Assets with a Recorded Value of \$115,156,579; and
  - d) Accruals with a Recorded Value of ***negative*** \$1,987,083.
- 422 As has been detailed throughout this report, the Recorded Value of the NAV of these Funds was materially overstated by the Company, such that the Amended BDO Claim vastly exceeds the assets of the Company and of the Crystal Wealth Funds.

## **SALES PROCESS**

- 423 In the First Report, the Receiver recommended to the Court that the Receiver conduct a sales process (the “**Sales Process**”) for certain Crystal Wealth Funds in a manner in which:
- a) potential bidders may make an offer to purchase the investments from one or more of the Crystal Wealth Funds (the “**Potential Bidders**”) (an offer submitted by a Potential Bidder is referred to herein as a “**Purchase Offer**”); and/or
  - b) potential managers may present an offer to assume the management of one or more of the Crystal Wealth Funds’ investment activities and assume the Company’s position and duties to investors (the “**Potential Managers**”) (an offer submitted by a Potential Manager is referred to herein as a “**Management Offer**”).

Additional details with respect to the Sales Process are outlined in the First Report.

- 424 Prior to the commencement of the Sales Process, the Receiver had compiled a list of 15 entities who had indicated that they had an interest in either submitting a Purchaser Offer and/or Management Offer (collectively, the “**Initial Interested Parties**”).
- 425 On July 12, 2017, the Receiver distributed a solicitation letter (the “**Solicitation Letter**”) to the Initial Interested Parties to: (i) confirm their interest, (ii) provide background on the Crystal Wealth Funds which were the subject of the Sales Process (the “**Listed Funds**”)<sup>9</sup>; and (iii) outline the conditions and terms of the Sales Process. A copy of the Solicitation Letter is attached hereto as **Appendix “72”**.
- 426 In addition to the Solicitation Letter, a confidentiality agreement (the “**Confidentiality Agreement**”) was provided to the Initial Interested Parties. The Confidentiality Agreement was required to be executed and returned to the Receiver in order for Initial Interested Parties to receive a confidential information memorandum prepared by the Receiver (the “**Confidential Information Memorandum**”) and to access the electronic data room

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<sup>9</sup> The Retirement Fund, Resource Fund, ACM Income Fund, ACM Growth Fund, and Sustainable Dividend Fund were not subject to the Sales Process, given that the assets of these Funds were comprised of only cash, marketable securities, and/or Inter-fund Investments.

established by the Receiver (the “**Data Room**”). A copy of the Confidential Information Memorandum, without appendices, is attached hereto as **Confidential Appendix “4”**.

- 427 On July 12, 2017, the Receiver created the Data Room and uploaded numerous documents with respect to the Listed Funds and the investments contained within them. The primary source for documents being contained in the Data Room was the Company’s Dropbox document storage system (which the Receiver understands housed all of the books and records of the Company, except for hard copy files pertaining to individual investors) supplemented by documents provided by Smith. As the Receiver continued to correspond with various service providers to the Company and the Crystal Wealth Funds, including but not limited to Xynergy, Frontline, Spectrum, and IFDS, the Receiver would, if deemed relevant, upload such documents obtained from these service providers to the Data Room. Each time a document was uploaded to the Data Room, all parties with access to the Data Room would receive a notification of same.
- 428 On July 14, 2017, the Receiver placed the Solicitation Letter on the Case Website.
- 429 Beginning on July 31, 2017, the Receiver placed two (2) targeted advertisements of the Sales Process in the Chartered Financial Analyst (CFA) Institute “Financial Newsbrief” which is delivered to CFA members on a daily basis. Since notification of the Receivership Proceedings had already been widely disseminated by the Receiver in the national editions of *The Globe and Mail* and *National Post* on May 4, 2017, and by virtue of the Creditor Claims Procedure being published by the Receiver in the national edition of *The Globe and Mail* on July 10, 2017, the CFA “Financial Newsbrief” forum was specifically chosen as the Receiver wished to target this sales opportunity to sophisticated investment professionals, being the global CFA network whose membership is in excess of 142,000 members in 159 countries.
- 430 The Receiver, with the assistance of its transactions team (Grant Thornton Corporate Finance Inc.), carefully identified an additional nine (9) asset management companies who managed similar *alternative* investment portfolios (“**Related Asset Managers**”) and who it believed may have an interest in the Sales Process (the Related Asset Managers and the Initial Interested Parties are collectively referred to as the “**Interested Parties**”). The Receiver emphasizes the word “*alternative*” as the general composition of the Crystal

Wealth Funds contains non-traditional investments. A copy of the Solicitation Letter and the Confidentiality Agreement was sent to the Related Asset Managers on July 25, 2017.

- 431 The Receiver received executed Confidentiality Agreements from 12 of the Interested Parties, who were then provided with a copy of the Confidential Information Memorandum and access to the Data Room. The Interested Parties who submitted executed Confidentiality Agreements are referred to as "**Prospective Purchasers**" and/or "**Prospective Managers**".
- 432 Between July 12, 2017 and the deadline by which Prospective Purchasers and Prospective Managers were required to submit their offers to the Receiver by 5 p.m. EST on August 10, 2017 (the "**Offer Deadline**"), the Receiver responded to numerous inquiries from Prospective Purchasers/Prospective Managers, provided answers to specific questions concerning the Listed Funds and their investments, and uploaded additional documents to the Data Room. Such activity also included numerous correspondence, discussions, and meetings with Prospective Purchasers or Prospective Managers and arranging for Prospective Purchasers or Prospective Managers to conduct individual discussions with the Service Providers.

### **RESULTS OF THE SALE PROCESS**

- 433 By the Offer Deadline, the Receiver obtained the following offers from seven (7) different Prospective Purchasers and Prospective Managers:
- a) two (2) Management Offers for the assumption of the management of all of the Listed Funds' investment activities and the Company's duties to investors of such Funds (the "**Complete Management Offers**") (the Prospective Managers who submitted the Complete Management Offers are referred to as the "**Complete Managers**");
  - b) one (1) Management Offer for two of the Listed Funds (the "**Limited Management Offer**") received from a "**Limited Manager**";
  - c) three (3) cash Purchase Offers for certain assets in the Listed Funds (the "**Cash Purchase Offers**") (collectively, the "**Cash Purchasers**"); and

d) one (1) Purchase Offer for certain assets in the Listed Funds in exchange for preferred shares to investors (the “**Preferred Share Offer**”) received from a “**Preferred Share Purchaser**”;

(collectively the “**Initial Offers**”).

434 All of the Initial Offers contained an irrevocable date of August 17, 2017, as stipulated in the Confidential Information Memorandum.

435 Shortly after the Offer Deadline, the Receiver commenced a review of the Initial Offers. A summary of the Initial Offers is attached hereto as **Confidential Appendix “5”**.

436 On August 16, 2017, after review of the Complete Management Offers, the Receiver sent a list of additional questions to the Complete Managers (the “**August 16, 2017 Questions**”) in order to more fully understand their offers, particularly from an investor perspective. In addition, the Receiver requested that the Complete Managers extend the irrevocable date of the Complete Management Offers to September 1, 2017 to which both Complete Managers consented. The questions put forth by the Receiver in the August 16, 2017 Questions related to each of the Complete Managers’ plan with regards to:

- a) the anticipated timeline for investors to redeem their units in the Listed Funds and the quantum of liquidity, if any (e.g. cash injection, short term loan, investment, etc.), that would be provided by the Complete Managers to assist in satisfying redemption requests;
- b) their intentions in allowing for new investors to invest in the Listed Funds or if the Funds would be closed to new investors;
- c) the anticipated process to determine the underlying NAV of the Listed Funds;
- d) the current and/or proposed internal processes and controls to be put in place to provide on-going reporting on the NAV of the Listed Funds to investors;
- e) the proposed fees to be charged by the Complete Managers;
- f) their intention to assume current agreements with Service Providers in which the Company and/or any of the Listed Funds were counterparties;

- g) their intended process to obtain required regulatory approvals and/or registrations with the OSC and/or other securities regulator(s), if any; and
- h) their specific plans with respect to the management of some of the more alternative investments (e.g. Factoring Contracts, Media Loans, US Real Estate LP, Commercial Loans).

A copy of the August 16, 2017 Questions and summary of answers from the Complete Managers is attached hereto as **Confidential Appendix “6”**.

- 437 In addition to the Complete Managers, the Receiver requested and obtained the consent from the Limited Manager, Cash Purchasers, and Preferred Share Purchaser to extend the irrevocable date of their respective Initial Offers to September 1, 2017 in order to allow the Receiver to conduct additional due diligence and to engage in further discussions with the Prospective Purchasers and Prospective Managers.

### **SHORTLISTED PARTIES**

- 438 On September 1, 2017, the Receiver issued letters to the Limited Manager and two (2) of the Cash Purchasers advising that their offers would not be accepted.
- 439 The Limited Management Offer was declined due to the negligible purchase price offered for the management of two (2) Listed Funds, and due to the Receiver's view that the Limited Manager lacked the expertise to manage the named Listed Funds.
- 440 The two (2) Cash Purchase Offers were rejected due to the extremely low value assigned to the assets contained within the Listed Funds outlined for purchase.
- 441 The Complete Management Offers, the Preferred Share Offer, and the remaining Cash Purchase Offer are collectively referred to as the "**Shortlisted Offers**" and the parties who submitted same are referred to as the "**Shortlisted Parties**".
- 442 On September 1, 2017, the Receiver provided the Shortlisted Parties the opportunity to conduct additional due diligence up to 5 p.m. EST on September 28, 2017 (the "**Additional Due Diligence Period**"), subject to the Shortlisted Offers' irrevocable dates being extended to October 6, 2017. The Receiver also requested that each Shortlisted Party prepare a proposed form of purchase/assumption agreement, along with a specific

timeline containing key pre and post-closing items, to be submitted to the Receiver for its consideration by September 28, 2017.

- 443 During the Additional Due Diligence Period, the Receiver conducted the following key activities:
- a) attended numerous conference calls with Shortlisted Parties;
  - b) coordinated and scheduled discussions and meetings with various Service Providers, including but not limited to, Spectrum, Xynergy, Frontline, NBCN and IFDS;
  - c) obtained and uploaded additional information to the Data Room when received;
  - d) responded to various inquiries from the Shortlisted Parties;
  - e) attended calls with the OSC to gain an understanding of the regulatory requirements required to be satisfied, if any, by each of the Shortlisted Parties; and
  - f) performed background and due diligence checks on each of Shortlisted Parties.
- 444 Throughout the Receivership Proceedings, and more particularly during the Sales Process, the Receiver also received a broad range of feedback from investors concerning their preferences with respect to the outcome of the Sales Process.
- 445 By September 28, 2017, the Receiver obtained a proposed purchase/assumption agreement from each of the Shortlisted Parties and reviewed each proposed agreement in order to carefully evaluate all of the terms and conditions being proposed. Where required, the Receiver contacted a Shortlisted Party in order to clarify specific terms and conditions of the proposed agreement.
- 446 After the Receiver carefully considered all of the information and submissions provided by the Shortlisted Parties and the general opinions expressed by the investor population, the Receiver determined that it would not be pursuing any of the Shortlisted Offers received from Complete Managers and the Preferred Share Purchaser. In arriving at this decision, the Receiver considered the proposed structure, terms, and timelines involved to give effect to the transactions proposed, as well as the broader implications on the stakeholders and investors of the Crystal Wealth Group if the transactions underlying the offers were to be effected.

447 More specifically, the following points influenced the Receiver's decision:

- a) both Complete Management Offers and the proposed management agreements submitted by the Complete Managers were highly conditional and would have required a significant amount of time, cost, and effort to effect a transaction with no guarantees that a transaction would ultimately be completed;
- b) the Complete Management Offers were conditional upon certain relief being granted by the OSC, which is beyond the Receiver's control. For example, one of the Complete Management Offers required that exemptive relief be granted by the OSC in respect of the Listed Funds, to relieve the Complete Manager from past outstanding audit requirements;
- c) as outlined previously in this Second Report, a large majority of the assets contained within the Listed Funds, including but not limited to the Factoring Contracts, Media Loans, and Gold Contracts, are grossly impaired. The Complete Management Offers failed to adequately address or propose a definitive solution as to how the Complete Managers would, as a minimum, recover the principal of the investments, let alone with profit, or otherwise take steps to effect recovery which are preferable to the steps being taken by the Receiver and its counsel. The Receiver is of the view that the Complete Management Offers failed to offer definitive alternatives to the steps already being taken by the Receiver which would better enable investors to recover their original investments in Listed Funds which hold the impaired investments;
- d) both Complete Management Offers did not satisfy the Receiver that investors would be allowed to redeem their investment in the Crystal Wealth Funds in a timely fashion, and contained no guarantees or assurances as to the minimum value at which such redemptions would occur, once available;
- e) both Complete Management Offers accordingly did not provide any assurance that the eventually established NAV by such Complete Managers would any better, then or in the future, than exists at present. In fact, one of the Complete Management Offers was conditional upon the Complete Manager establishing the NAV of the Listed Funds prior to the transaction being effected, and being satisfied with the NAV. Given what the Receiver has learned about the impaired nature of the investments held in many of the Listed Funds, as is detailed throughout this Second Report, a reasonable

possibility existed that this Complete Manager, upon its ultimate establishment of the NAV, may have not wished to proceed with the underlying transaction, which would have only served to result in further delay and expense during which time the Receiver's efforts are better directed at undertaking enforcement and recovery steps in order to maximize investor returns;

- f) the Amended BDO Claim which arose in the midst of the Sales Process, after the Initial Offers had been received by the Receiver, created an additional complication, namely, that the Amended BDO Claim (and in particular, the Class Action Indemnity Claim) would either need to be definitively disallowed prior to any such Complete Management Offer transaction being effected, or would likely have been incorporated into the underlying transaction as an assumed contingent obligation which would have restricted a Complete Manager in the future use of the investments in the Class Action Funds, including the issuance of redemptions to investors.

The fact that the Receiver has now resolved and eliminated BDO's Class Action Indemnity Claim does not alter the Receiver's view that it is not in the best interest of investors to further pursue either of the Complete Management Offers.

- g) during the period in which a Complete Management Offer would be negotiated and finalized, the Receiver's ability to enforce and realize on impaired assets would be delayed which may result in further losses to certain Listed Funds;
- h) both Complete Management Offers contained only a nominal purchase price for the assumption of management of the Listed Funds, which when considered in the context of the additional concerns pertaining to the Complete Management Offers as set out above, did not favour proceeding with the acceptance of either Complete Management Offer; and
- i) with respect to the Preferred Share Offer, the offer did not provide immediate liquidity for investors to redeem their units and also would have resulted in the investors being in a subordinate position in regards to the specific investments in the Listed Fund which was the subject of the Preferred Share Offer; in other words, the transaction would have placed the investors in a worse position vis-à -vis the security being held as collateral for their investments.

- 448 A comparison of the two Complete Management Offers is attached to this Second Report as **Confidential Appendix "7"**.
- 449 In view of the foregoing, on October 4, 2017, the Receiver notified the Complete Managers and the Preferred Share Purchaser that it would not be pursuing any of the Complete Management Offers or Preferred Share Offer received throughout the Sales Process. However, no notification was given to the one (1) Cash Purchase Offer, as will be addressed below.

### **THE CASH PURCHASE OFFER**

- 450 The Receiver is in the process of advancing negotiations with respect to the remaining Cash Purchase Offer. It is anticipated that a supplement to this Second Report will be issued by the Receiver in advance of the motion seeking approval of this Second Report, which supplement will report to the Court with respect to whether an agreement concerning the remaining Cash Purchase Offer has been reached, for which approval will be sought from the Court on this motion.

## **RECEIPTS AND DISBURSEMENTS OF THE RECEIVERSHIP**

- 451 Attached hereto as **Appendix “11”** is the Receiver’s Interim Statement of Receipts and Disbursements for the period April 26, 2017 to October 31, 2017 which outlines the cash balances of the Company and the Crystal Wealth Funds. From April 26, 2017 to October 31, 2017, cash receipts totaled \$30,836,285 and US \$2,242,157 while disbursements were \$1,132,420 and US \$509. The ending cash balances as at October 31, 2017 were \$37,705,633.
- 452 Cash receipts to the Crystal Wealth Funds were generated from the following significant receipts, among others:
- a) the monetization of Equities – \$7,779,181 and US \$4,207,609 respectively, net of commissions;
  - b) collection of Media Loan principal and interest payments – \$6,859,188 and US \$153,591;
  - c) the collection of Residential Mortgage principal and interest payments – \$5,652,373;
  - d) the monetization of External Mutual Funds – \$5,051,937;
  - e) the collection of payments from NFL Participation Agreements – US \$714,867; and
  - f) the sale of the Geodata Balance – US \$684,313.
- 453 Disbursements from the Crystal Wealth Funds primarily relate to Court approved Receiver and legal fees, insurance, the purchase of Equities upon exercising Warrants, outside consulting fees paid to contractors including Quiver, bank charges and commissions, and HST related to taxable expenses.

## **OTHER NOTABLE ITEMS**

### ***INVESTMENT ADVISOR COMPENSATION***

- 454 As has been described in detail throughout this Second Report, it is apparent that the historical reported values of certain Crystal Wealth Funds have been overstated by the Company and that provisions in such Funds should have been made to reflect the permanent impairment of certain investments.
- 455 The independent Investment Advisors were compensated, in part, based on the NAV of the Crystal Wealth Funds in which their investors were invested. Accordingly, as the monthly NAV of certain Crystal Wealth Funds were overstated, compensation to the Investment Advisors, based on such inflated NAVs, were overcompensated.
- 456 Although the Receiver is reviewing all of the Independent Advisor compensation agreements, a review of the accounting records of the Company indicates that over the 12 months preceding the Receiver's appointment, some of the Investment Advisors received significant payments. Below is a listing of certain of the Investment Advisors and the payments received by them for the 12 months ending April 26, 2017 totaling \$1,699,944:
- a) Housego – \$713,785;
  - b) Jeff Mushaluk – \$256,647;
  - c) Dale Wells – \$253,221;
  - d) Clayton Smith – \$200,642;
  - e) Scott Whale – \$175,582; and
  - f) Tim Johnston – \$100,067.
- 457 The Receiver will report the results of its review of the agreements between the above noted individuals in its next report to the Court.

***INTERFERENCE IN THE RECEIVER'S ADMINISTRATION OF THE CRYSTAL WEALTH GROUP***

458 Since the release of the Receiver's Notice to Investors dated October 6, 2017 advising of the Receiver's decision to not accept any of the Complete Management Offers (the "October 6 2017 Notice"), it has become evident to the Receiver that third parties, which may include former representatives (i.e. Investment Advisors) of the Company, have continued to communicate with investors, and are purporting to provide investors with information concerning the Receiver's administration of the Crystal Wealth Group, and with respect to the Crystal Wealth Funds. Such information being communicated to investors has been false and misleading. Such statements recently made by numerous investors to the Receiver, which reflect that third parties are providing the investors with false and misleading information, include that:

- a) all of the assets and investments contained within the Crystal Wealth Funds were healthy and performing prior to the appointment of the Receiver;
- b) the Receiver will be performing an expedited liquidation of all of the assets at minimal prices;
- c) the Amended BDO Claim is a consequence of mismanagement and misleading guidance by the Receiver;
- d) the Receiver denied investors the right to have representative counsel appointed;
- e) if representative counsel was appointed then the Proposed Class Action would not have been commenced by Whitehouse (despite Whitehouse having had his own counsel present at the June 30, 2017 motion before the Honourable Justice Mr. Hainey, in order to oppose CMB's appointment as representative counsel);
- f) the OSC placed the Crystal Wealth Group into receivership, even though the Crystal Wealth Group had in excess of \$100 Million in assets and no significant financial issues; and
- g) the Complete Managers would be able to manage the Crystal Wealth Funds back to profitability and recover all investments at full value. Furthermore, many investors who have recently written to the Receiver were aware that there were two (2) Complete

Managers, the number of which had not been publicized by the Receiver prior to the issuance of this Second Report.

- 459 Almost all of such communications from investors advising of inaccurate information provided by other sources has been from investors who are located in British Columbia and are primarily invested in the Factoring Fund, Bullion Fund, and Hedge Fund, in which Housego was the Lead Portfolio Strategist. Coincidentally: (i) these recent investor communications expressing investors' strong disagreement to the Receiver's decisions appear to be in the format of a "form letter" addressed to the same email addresses (some with the same incorrect spelling of certain email addresses); and (ii) the Factoring Fund, Bullion Fund, and Hedge Funds have the most significant issues regarding the quality of investments and non-compliance to the corresponding OMs. In subsequent discussions with a number of investors, the Receiver was advised that Housego was the author of this form letter being submitted by investors. Absent Housego's examination under oath, the Receiver can only surmise that Housego – who received payments of \$713,785 in the 12 months ending April 26, 2017 - is one of the primary sources of such misinformation in order to redirect blame regarding the poor quality of the investments held by the Factoring Fund, Bullion Fund, and Hedge Fund, and the use of investor monies by these Funds.
- 460 Since the commencement of the Receivership Proceedings, and more notably after the Receiver's communication to investors of its decision to not pursue any Management Offers, the Receiver has and continues to spend a considerable amount of time addressing such false information being distributed to investors in order to correct the record and to clarify the resulting confusion which has resulted within the investor base.

#### UNAUTHORIZED COMMUNICATION TO INVESTORS BY A COMPLETE MANAGER

- 461 Since the October 6 2017 Notice, certain investors have confirmed that they have been contacted by one of the Complete Managers, Brian Bosse ("Bosse") of BlueSpring Investments Inc.; such correspondence is a breach of the confidentiality agreement executed by Bosse as a condition of his participation in the Sales Process.
- 462 In a meeting held on October 11, 2017 between the Receiver and Bosse at the Receiver's office, Bosse indicated that he had spoken to an investor who had been concerned as to why his Complete Management Offer was not pursued by the Receiver.

463 On a call convened with the Receiver on October 31, 2017, Bosse indicated his displeasure with the Notice issued by the Receiver to investors dated October 30, 2017 (the “**October 30 2017 Notice**”) which, among other things, communicated to investors the reasons why the Receiver did not accept any of the Complete Management Offers. Bosse demanded that the Receiver take down the October 30 2017 Notice to which the Receiver declined. During the call, Bosse had also communicated to the Receiver that he had been in discussions with “numerous investors in the past few weeks” and that the October 30 2017 Notice damaged the credibility he had with the investors with whom he had been in contact. The Receiver advised Bosse that communication with investors regarding the Crystal Wealth Funds and the Sales Process was in contravention of the Confidentiality Agreement and that all future communications must cease. During the call, the Receiver asked Bosse to disclose the number of investors he had discussions with and the number of occurrences of such discussions however Bosse refused to disclose this information to the Receiver.

#### THE INVESTMENT ADMINISTRATION SOLUTION INC.’S FAILURE TO PROVIDE DOCUMENTS

- 464 Although the Company performed its financial accounting and record keeping internally, as it relates to the Crystal Wealth Funds, the financial accounting and recording keeping was outsourced to a third-party, Investment Administration Solution Inc. (“**IAS**”).
- 465 The Receiver has made numerous requests to IAS to obtain the monthly reporting for each of the Crystal Wealth Funds and the underlying transaction detail for same from January 1, 2016 to May 31, 2017. As at the date of this Second Report, IAS has ignored the Receiver’s requests and has failed to provide such documentation.
- 466 The Receiver requests that this Court issue an Order directing IAS to provide the Receiver and its counsel with certain requested but still outstanding information and documentation required for a proper account reconciliation and assessment the Crystal Wealth Funds.

## **OTHER ACTIVITIES OF THE RECEIVER SINCE THE APPOINTMENT ORDER**

467 Upon its appointment, the Receiver took immediate steps to secure and preserve the Property of the Crystal Wealth Group, communicate with stakeholders, and deal with other operational and administrative tasks. The Receiver has conducted the following key activities in relation to its appointment:

- a) responded to numerous calls and emails from Crystal Wealth Group investors and other stakeholders;
- b) distributed **ten** (10) notices from the Receiver to all investors, which were also posted to the Receiver's Case Website, from May 1, 2017 to October 30, 2017 updating them on the receivership as events unfolded;
- c) created and maintained a listing of investors with holdings, accounts, and contact information including email addresses;
- d) held meetings and corresponded with NBCN on a number of investor matters, including the on-going management of the securities, records and monetization of assets within the Crystal Wealth Funds;
- e) corresponded with various third-parties involved in administering certain Crystal Wealth Funds, and, in some cases, their legal counsel and financial advisors;
- f) collected monthly payments and funds held by third-parties administering certain Crystal Wealth Funds and/or their assets;
- g) corresponded with borrowers of the Crystal Wealth Funds, and, in some cases, their legal counsel and financial advisors;
- h) executed the MOU Amendments dated September 28, 2017 and October 30, 2017 with Quiver;
- i) conducted meetings with certain third-parties and borrowers, as appropriate;
- j) corresponded and held numerous discussions with various stakeholders, providers and/or their legal counsels;

- k) corresponded and held various discussions with BDO and its counsel;
- l) corresponded and held various discussions and meetings with parties expressing interest in either purchasing or managing certain Crystal Wealth Funds; and
- m) maintained a public website for the Receivership Proceedings in accordance with the Commercial List E-Service Protocol.

## **MOUNT NEMO PROPERTY**

- 468 As outlined in the First Report, on June 8, 2017, the Receiver entered into an MLS listing agreement with RE/MAX Aboutowne Realty Corp., Brokerage (the “**Broker**”) effective until October 31, 2017 (the “**Listing Agreement**”).
- 469 Prior to listing the Mount Nemo Property, the Receiver performed the following activities to prepare the Mount Nemo Property for sale:
- a) arranged for and retained a third-party to open and maintain the pool and waterfall located on the Mount Nemo Property;
  - b) engaged a third party landscaping company to provide grass cutting and general maintenance and landscaping services for the Mount Nemo Property; and
  - c) ensured adequate security was in place.
- 470 On July 12, 2017, the Mount Nemo Property was listed for \$3,399,000 on the Oakville/Milton, Hamilton/Burlington, and Toronto District Real Estate Board in addition to various other online real estate websites. The Receiver elected to begin listing the Mount Nemo Property at this price as it represented the approximate amount of the Purchaser’s offer as contained in the Mount Nemo Sale Agreement.
- 471 Beginning the week ending July 17, 2017, the Broker provided the Receiver with periodic updates outlining, among other things: (i) the number of showings; (ii) the internet traffic on various websites; (iii) general updates on the condition of the Mount Nemo Property; and (iv) the status of any past or future showings.
- 472 Due to the minimal interest in the Mount Nemo Property and the fact that minimal showings were arranged and no offers had been received, the Receiver executed an amendment to the Listing Agreement dated August 30, 2017 which reduced the listing price of the Mount Nemo Property to \$3,199,000 (a reduction of \$200,000) (the “**First Amendment**”).
- 473 On October 31, 2017, the Listing Agreement with the Broker expired. On November 2 and November 3, 2017, the Receiver notified the Broker that it would not be renewing the Listing Agreement. The Receiver’s decision resulted from the fact that no offers were

received despite the Property having been listed for six months, and given that only a minimal amount of showings were conducted.

- 474 The Receiver contacted another broker, Sotheby's International Realty Canada ("Sotheby's"), who had submitted a proposal as part of the Receiver's Request for Proposals process discussed in the First Report, to inquire if Sotheby's remained interested in listing the Mount Nemo Property.
- 475 In the RFP process, the Receiver had ranked Sotheby's proposal behind that of the Broker, however, the Sotheby's proposal highlighted: (i) its extensive experience selling similar real estate in the Burlington and surrounding area; (ii) a competitive commission structure; (iii) detailed and real time reporting tools and functionality; and (iv) a detailed marketing plan to prepare and execute the sale of the Mount Nemo Property.
- 476 On November 6, 2017, the Receiver entered into an MLS listing agreement with Sotheby's (the "**Sotheby's Listing Agreement**") which is attached to this Second Report as **Confidential Appendix "8"**.

## **THE RECEIVER'S CONTINUED DEALINGS WITH SMITH**

- 477 As a result of the Appointment Order, all of Smith's known assets, including bank accounts, continue to be frozen, and all of the Property (as defined in the Appointment Order) was vested in the Receiver.
- 478 As discussed in the First Report, on May 18, 2017, the Receiver delivered a form of statutory declaration (the "**Statutory Declaration**") to Smith requesting that he provide information concerning, among other things, his assets, liabilities, income, and expenses.
- 479 On May 24, 2017, June 6, 2017, and July 4, 2017, A&B, on behalf of the Receiver, sent follow-up correspondence to Smith reiterating the Receiver's request that Smith complete the Statutory Declaration.
- 480 On July 20, 2017, Smith delivered to the Receiver an unsworn version of the form of statutory declaration, to which Smith had made significant changes (the "**Unsworn and Altered Statutory Declaration**").
- 481 On July 24, 2017, the Receiver provided notice to Smith that the Unsworn and Altered Statutory Declaration contained significant changes to the Statutory Declaration provided by the Receiver on May 18, 2017 and that same was not sworn. On July 28, 2017, Smith advised the Receiver he would provide a sworn Statutory Declaration.
- 482 Subsequent to the Receiver following-up on August 11, 2017, August 28, 2017, and September 1, 2017, Smith provided a sworn Statutory Declaration to the Receiver which was received on September 7, 2017. The delivered Statutory Declaration included hand written changes by Smith to the form of Statutory Declaration which the Receiver had required be completed by Smith.
- 483 The Receiver continues to reserve its rights to cross-examine Smith on his sworn Statutory Declaration, and to examine Smith as permitted by the Appointment Order.

## **RECEIVER'S FEES AND DISBURSEMENTS**

- 484 Pursuant to paragraph 23 of the Appointment Order, the Receiver and its counsel are to be paid their reasonable fees and disbursements at their standard rates and charges, incurred both before and after the making of the Appointment Order. Pursuant to paragraph 24 of the Appointment Order, the Receiver and its counsel shall pass their accounts.
- 485 The Receiver seeks to have its fees and disbursements, including those of its legal counsel, approved by the Court up to and including September 30, 2017, and seeks approval of the allocation methodology described in paragraphs 57 to 61 above. The Receiver and its counsel have maintained detailed records of their professional time and costs.
- 486 The total fees for the Receiver for the period June 1, 2017 to September 30, 2017, were \$385,280.07, plus disbursements of \$4,089.28, plus HST of \$50,618.02, for a total of \$439,987.37. The time spent by the Receiver is more particularly described in the Affidavit of Jonathan Krieger sworn November 17, 2017 (the "**Krieger Affidavit**"), which is attached hereto as **Appendix "73"** and contains copies of invoices that set out the services provided during this time period.
- 487 The total fees of A&B, as counsel to the Receiver, for the period of June 1, 2017 to September 29, 2017, were \$315,692.50, plus disbursements of \$7,125.88, plus HST of \$41,696.38, for a total of \$364,514.76. The time spent by A&B is more particularly described in the Affidavit of Mark van Zandvoort sworn November 22, 2017 (the "**van Zandvoort Affidavit**"), which is attached as **Appendix "74"** and contains, among other things, copies of invoices that set out the services provided during this period of time.
- 488 It is the Receiver's opinion that the fees and disbursements of the Receiver and A&B accurately reflect the work done by the Receiver and on behalf of the Receiver by A&B in connection with the receivership and the administration of the Property of the Crystal Wealth Group from June 1, 2017 to September 30, 2017.
- 489 It is the Receiver's opinion that the fees and disbursements of A&B are fair and reasonable and justified in the circumstances. The Receiver recommends approval of A&B's accounts by this Honourable Court.

## **TELE-TOWN HALL FOR INVESTORS**

490 Due to the volume and complexity of the information contained within this Second Report, the Receiver will be conducting a "Town Hall" meeting with investors via tele-conference (the "Tele-Town Hall") whereby investors will be given the opportunity to ask the Receiver questions with respect to the receivership of the Crystal Wealth Group and its administration of same. The Tele-Town Hall will be conducted by the Receiver on December 7, 2017 from 11:00 am EST to 1:00 pm EST. The Receiver will provide more detailed information and instructions with respect to the Tele-Town Hall to investors in due course, which information will be available on the Receiver's Case Website.

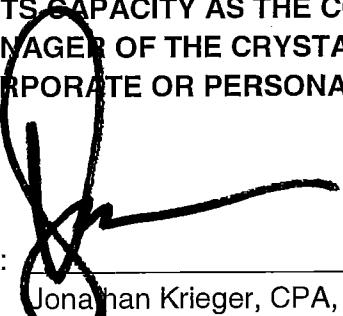
## **CONCLUSION**

491 For the reasons set out in this Second Report, the Receiver respectfully requests the relief and approval requested in the Receiver's Notice of Motion dated November 24th, 2017.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED** this 24th day of November, 2017.

**GRANT THORNTON LIMITED,  
IN ITS CAPACITY AS THE COURT-APPOINTED RECEIVER AND  
MANAGER OF THE CRYSTAL WEALTH GROUP, AND NOT IN ITS  
CORPORATE OR PERSONAL CAPACITY**

Per:

  
Jonathan Krieger, CPA, CA, CIRP, LIT  
Senior Vice-President

30976692.9

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# TAB 1



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE *SECURITIES ACT*,  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF  
CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**TEMPORARY ORDER  
(Subsections 127(1) and 127(5))**

**WHEREAS:**

1. it appears to the Ontario Securities Commission (the “Commission”) that:
  - a. Crystal Wealth Management System Limited (“Crystal Wealth”) is a Burlington-based Ontario corporation, registered in the categories of Exempt Market Dealer (“EMD”), Investment Fund Manager (“IFM”), Portfolio Manager (“PM”) and Commodity Trading Manager;
  - b. Crystal Wealth is the trustee, IFM, PM and promoter, and for some funds is also the commodity trading manager, for the following 15 investment funds, which are structured as open-ended mutual fund trusts:

Crystal Wealth Media Strategy

Crystal Wealth Mortgage Strategy

Crystal Enlightened Resource & Precious Metal Fund

Crystal Wealth Medical Strategy

Crystal Wealth Enlightened Factoring Strategy

ACM Growth Fund

ACM Income Fund

Crystal Wealth High Yield Mortgage Strategy

Crystal Enlightened Bullion Fund

- 2 -

Absolute Sustainable Dividend Fund  
Absolute Sustainable Property Fund  
Crystal Wealth Enlightened Hedge Fund  
Crystal Wealth Infrastructure Strategy  
Crystal Wealth Conscious Capital Strategy  
Crystal Wealth Retirement One Fund

(collectively with any other investment funds managed or advised by Crystal Wealth, the “Crystal Wealth Funds”);

- c. Clayton Smith (“Smith”) is an Ontario resident and is the sole officer and director of Crystal Wealth. Smith is registered in Ontario as a dealing representative, an advising representative in the category of PM, an advising representative in the category of Commodity Trading Manager, and as Crystal Wealth’s Chief Compliance Officer (“CCO”) and Ultimate Designated Person (“UDP”);
- d. CLJ Everest Ltd, (“CLJ Everest”) is an Ontario company, with a registered office in Burlington. Smith is the sole officer and director of CLJ Everest. CLJ Everest holds 28.26% of Crystal Wealth’s shares and 100% of the shares of 1150752 Ontario Limited (“115 Limited”);
- e. 115 Limited holds 63.5% of Crystal Wealth’s outstanding shares;
- f. Smith and Crystal Wealth (collectively, the “Respondents”) may have participated in a course of conduct relating to securities that they knew or reasonably ought to have known perpetrated a fraud contrary to subsection 126.1(1)(b) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”); failed to act fairly, honestly and in good faith with clients, contrary to section 2.1 of Rule 31-505 – *Conditions of Registration*; and failed to comply with the standard of care expected of an IFM under section 116 of the Act;
- g. Crystal Wealth may have failed to comply with the Funds’ obligations to deliver the Funds’ audited financial statements for the calendar year ending December 31,

- 3 -

2016, according to sections 2.1, 2.2 and 2.11 of National Instrument 81-106 – *Investment Fund Continuous Disclosure*;

- h. Crystal Wealth may have failed to comply with its obligations to file its audited financial statements in compliance with subsection 21.10(3) of the Act and sections 12.10(2), 12.12, 12.13 and 12.14 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registration Obligations*;
  - i. Crystal Wealth and Smith may have acted contrary to the public interest.
  - j. Smith may have authorized, permitted or acquiesced in Crystal Wealth's contraventions of the Act and if so, may be deemed to have failed to comply with Ontario securities law pursuant to section 129.2 of the Act;
  - k. Staff are conducting an investigation into the conduct described above;
2. the Commission is of the opinion that the time required to conclude a hearing could be prejudicial to the public interest as set out in subsection 127(5) of the Act;
  3. the Commission is of the opinion that it is in the public interest to make this Order;
  4. by Authorization Order made March 24, 2017, pursuant to subsection 3.5(3) of the Act, each of Maureen Jensen, Monica Kowal, D. Grant Vingoe, Philip Anisman, Robert P. Hutchison, Janet Leiper, Timothy Moseley, and Mark J. Sandler, acting alone, is authorized to make orders under section 127 of the Act.

**IT IS ORDERED** pursuant to section 127 of the Act that:

1. pursuant to paragraphs 2 and 2.1 of subsection 127(1), all trading, including redemptions and distributions, or acquisitions of the securities of Crystal Wealth Funds shall cease;
2. pursuant to paragraphs 2 and 2.1 of subsection 127(1) all trading in securities held by the Crystal Wealth Funds, or the acquisition of securities by Crystal Wealth on behalf of the Crystal Wealth Funds shall cease;

- 4 -

3. pursuant to paragraphs 2 and 2.1 of subsection 127(1), the trading in or the acquisition of any securities or derivatives by Smith, CLJ Everest and 115 Limited shall cease;
4. pursuant to subsection 127(2), as an exception to the prohibition on trading securities and derivatives in paragraphs 2 and 3 above, Crystal Wealth in its capacity as portfolio manager for the Funds may, and Clayton Smith in his capacity as advising representative may, if in compliance with Ontario securities law, place orders to sell securities and derivatives already held as of the date of this temporary order by the Crystal Wealth Funds, provided that the sales occur through the facilities of a recognized exchange and all proceeds of such sales remain in the account of the respective Crystal Wealth Fund for which the order was placed until further order of the Commission;
5. pursuant to subsection 127(2), as an exception to the prohibition on trading securities and derivatives in paragraphs 2 and 3 above, Smith in his capacity as advising representative may, if in compliance with Ontario securities law, place orders to sell securities and derivatives already held by clients in discretionary accounts for which Crystal Wealth is the portfolio manager (the "Managed Accounts"), provided that the sales occur through the facilities of a recognized exchange;
6. pursuant to subsection 127(2), the following terms and conditions apply to the registration of Crystal Wealth as an exempt market dealer:
  - a. Crystal Wealth and any dealing representatives shall not accept any new money for investment from any existing clients, and shall not accept any new clients or open any new client accounts of any kind;
7. pursuant to subsection 127(2), the following terms and conditions apply to the registration of Crystal Wealth as a portfolio manager and investment fund manager:
  - a. Crystal Wealth's activities as a portfolio manager and investment fund manager shall be applied exclusively to the Managed Accounts and to the Crystal Wealth Funds, subject to the restrictions on trading set out in paragraph 2 and the exception in paragraph 4;

- 5 -

- b. Crystal Wealth and any advising representatives shall not accept any new money for investment from any existing clients, shall not accept any new clients or open any new client accounts of any kind;
8. pursuant to subsection 127(6) of the Act, this Order shall take effect immediately and shall expire on the 15th day after its making unless extended by the Commission.

**DATED** at Toronto, this 7<sup>th</sup> day of April, 2017.

*"Maureen Jensen"*

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Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF**  
**CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED,**  
**CLAYTON SMITH, CLJ EVEREST LTD, 1150752 ONTARIO LIMITED, CRYSTAL**  
**WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL**  
**ENLIGHTENED RESOURCE & PRECIOUS METAL FUND, CRYSTAL WEALTH**  
**MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY,**  
**ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD**  
**MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE**  
**SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND,**  
**CRYSTAL WEALTH ENLIGHTENED HEDGE FUND,**  
**CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS**  
**CAPITAL STRATEGY and**  
**CRYSTAL WEALTH RETIREMENT ONE FUND**

Janet Leiper, Commissioner

October 2, 2017

**ORDER**

(Subsection 127(8) of the *Securities Act*, RSO 1990, c S.5)

WHEREAS on October 2, 2017, the Ontario Securities Commission (the **Commission**) held a hearing at the offices of the Commission located at 20 Queen Street West, 17<sup>th</sup> Floor, Toronto, Ontario, with respect to an application by Staff of the Commission (**Staff**) to extend the temporary cease trade order initially issued on April 6, 2017, amended on April 7, 2017, and extended on April 13, 2017 and April 28, 2017 (the **Temporary Order**);

ON READING the materials filed by Staff, the consent email dated September 21, 2017 from counsel for the Receiver, Grant Thornton Limited which was appointed by order of the Ontario Superior Court of Justice (Commercial List) pursuant to section 129 of the *Securities Act*, RSO 1990, c S.5 (the **Act**) on April 26, 2017 (the **Receiver**), and the email of Clayton Smith (**Smith**), dated September 23, 2017 stating that Smith does not consent to the extension of the Temporary Order, and on considering the oral submissions of Staff, appearing in person, and no one appearing for the Receiver and no one appearing for Smith although properly served;

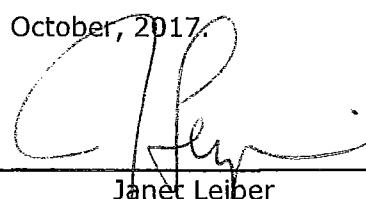
IT IS ORDERED that:

1. pursuant to subsection 127(8) of the *Act*, the **Temporary Order** is extended until April 10, 2018, or until further order of the Commission, without prejudice to the right of any of the parties to seek to vary the **Temporary Order** on application to the Commission, with the following modifications:

- 2 -

- a. the portions of paragraphs 4 and 5 of the order dated April 7, 2017, referring to Smith in his capacity as advising representative are struck, given that Smith is no longer acting in the capacity of an advising representative at Crystal Wealth Management System Limited, as his registration was automatically suspended when he was terminated by the Receiver; and
2. the hearing of this matter is adjourned until April 9, 2018 at 10:00 a.m. or such other date and time as provided by the Office of the Secretary and agreed to by the parties.

**DATED** at Toronto, this 2<sup>nd</sup> October, 2017.



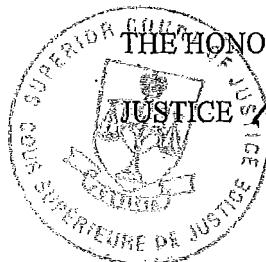
Janet Leiper

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# TAB 2

Court File No. CV-17-11779-00CL

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST



THE HONOURABLE

JUSTICE

*N. Evans C.D.*

)  
)  
)

WEDNESDAY, THE 26<sup>th</sup> DAY

OF APRIL, 2017

ONTARIO SECURITIES COMMISSION

Applicant

- and -

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.

Respondents

Application under Section 129 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended

ORDER  
(Appointing Receiver)

THIS APPLICATION made by the Ontario Securities Commission (the "Commission") for an Order pursuant to section 129 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Securities Act") appointing Grant Thornton Limited ("GTL") as: (i) receiver and manager (in such capacities, the "Receiver") without security, of all of the assets, undertakings and properties of each of the Respondents except the Respondent, Chrysalis Yoga Inc. ("Chrysalis Yoga") (each of the Respondents except for Chrysalis Yoga being individually and collectively, the "Crystal Wealth Group"); and (ii) Receiver of the account of the Respondent, Chrysalis Yoga, No. 87296 00518 10 at Bank of Nova Scotia (the "Chrysalis Account"), and of all contents, including funds, contained in the Chrysalis Account, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the application record of the Commission, including the affidavit of Marcel Tillie sworn April 17, 2017 and the exhibits thereto, the affidavit of Michael Ho sworn April 17, 2017 and the exhibits thereto, the supplementary affidavit of Michael Ho sworn April 24, 2017 and the exhibits thereto, the affidavit of David Adler sworn April 24, 2017 and the exhibits thereto, the consent of GTL to act as the Receiver, and the factum and brief of authorities of the Commission, and on hearing the submissions of counsel for the Commission, counsel for the Crystal Wealth Group, and counsel for Chrysalis Yoga,

#### CONSOLIDATION

1. THIS COURT ORDERS that the application to extend Freeze Directions commenced by the Commission by way of a notice of application issued through this Honourable Court on April 18, 2017 (Court File No. CV-17-11769-00CL) is hereby consolidated with the within application and that they proceed as one application identified by Court File No. CV-17-11779-00CL.

#### SERVICE

2. THIS COURT ORDERS that the time for service and filing of the Commission's notice of application, application record, and factum is hereby abridged and validated so that this application is properly returnable today and hereby dispenses with further service thereof.

- 2 -

## APPOINTMENT

3. **THIS COURT ORDERS** that pursuant to section 129 of the *Securities Act*, GTL is hereby appointed Receiver, without security, of:

- (a) all of the present and future assets, undertakings and properties of the Crystal Wealth Group of every nature and kind whatsoever, whether in the possession or under the control of the Crystal Wealth Group or any other Person (as defined herein) and wherever situate including all proceeds thereof (the "Property"), including, without limitation, cash, deposit instruments, securities or other property held by the Crystal Wealth Group on behalf of or in trust for any other person or entity and the funds, securities, or other property frozen by Freeze Directions issued by the Commission on April 6 and 7, 2017 which are attached hereto as Schedule "A"; and
- (b) as the Receiver of the Chrysalis Account, and of all contents, including funds, contained in the Chrysalis Account (hereinafter included in all references to the Property).

4. **THIS COURT ORDERS** that all institutions holding funds on deposit to the credit of the Crystal Wealth Group, or any of them, including the institutions which are the subject of the Freeze Directions attached hereto as Schedule "A", are directed to pay all such funds to the Receiver or as the Receiver may otherwise direct in writing.

5. **THIS COURT ORDERS** that the the Freeze Directions issued by the Commission on April 6, 2017 with respect to Chrysalis Yoga, copies of which are attached hereto as Schedule "B", shall continue until further order of this Court, with the exception:

- (a) that the funds contained in the Chrysalis Account shall be paid by Bank of Nova Scotia to the Receiver or as the Receiver may otherwise direct in writing, and that the Receiver shall have unrestricted access to the Chrysalis Account and records in connection therewith; and

- 3 -

- (b) Chrysalis Yoga shall be permitted to use a bank account opened by Chrysalis Yoga at the Canadian Imperial Bank of Commerce, account no. 05162 010 59 37914 (the "Chrysalis Yoga CIBC Account"), for the sole purpose of operating Chrysalis Yoga's yoga studio business, provided that:
- (i) the sole sources of the funds deposited into the Chrysalis Yoga CIBC Account shall be: (i) the parents of Shanine Lee Dennill; or (ii) clients of the yoga studio operated by Chrysalis Yoga, and not, directly or indirectly, from the Respondent Clayton Smith ("Smith") and entities connected with or related to Smith as further particularized in sub-paragraph 5(b)(ii) below;
- (ii) the Chrysalis Yoga CIBC Account shall not be used in any manner by, and the funds contained therein shall not be received from or distributed to, directly or indirectly, Smith or persons or entities connected with or related to Smith, including, without limitation: (i) the Crystal Wealth Group; (ii) any investment funds managed by Crystal Wealth Management System Limited; or (iii) any other company associated with Smith; and
- (iii) copies of monthly bank statements for the Chrysalis Yoga CIBC Account shall forthwith be provided on a monthly basis by Chrysalis Yoga to Staff of the Ontario Securities Commission ("Staff"), until such time as Staff revokes or varies this requirement in writing, or the Ontario Securities Commission or Ontario Superior Court of Justice (Commercial List) orders otherwise.

#### RECEIVER'S POWERS

6. **THIS COURT ORDERS** that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality

- 4 -

of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

- (a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
- (b) to receive, preserve, protect and maintain control of the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;
- (c) to manage, operate, and carry on the business of the Crystal Wealth Group, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Crystal Wealth Group;
- (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, legal counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;
- (e) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Crystal Wealth Group or any part or parts thereof;
- (f) to receive and collect all monies and accounts now owed or hereafter owing to the Crystal Wealth Group and to exercise all remedies of the Crystal Wealth Group in collecting such monies, including, without limitation, to enforce any security held by the Crystal Wealth Group;

- 5 -

- (g) to settle, extend or compromise any indebtedness owing to the Crystal Wealth Group;
- (h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Crystal Wealth Group, for any purpose pursuant to this Order;
- (i) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Crystal Wealth Group, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;
- (j) to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;
- (k) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business as follows:
  - (i) without the approval of this Court, liquidating any exchange traded securities and derivatives held by the Respondents, Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal

- 6 -

Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund (collectively, the "**Crystal Wealth Funds**"), Crystal Wealth Management System Limited ("**Crystal Wealth**"), CLJ Everest Ltd. ("**CLJ Everest**"), and 1150752 Ontario Limited ("**115**"), within 60 days of the Receiver's appointment, or within such longer period of time as the Receiver deems advisable;

- (ii) without the approval of this Court, selling, conveying, transferring, leasing, or assigning any other Property of the Crystal Wealth Funds, including without limitation illiquid assets such as film loans, mortgages, medical receivables, factoring receivables, or any other illiquid assets, regardless of the purchase price or aggregate purchase price of such transactions;
- (iii) without the approval of this Court, selling, conveying, transferring, leasing, or assigning any other Property of Crystal Wealth, CLJ Everest, and 115 in which the consideration for the transaction does not exceed \$250,000, provided that the aggregate consideration for all such transactions does not exceed \$1,000,000;
- (iv) with the approval of this Court, selling, conveying, transferring, leasing, or assigning any other Property of Crystal Wealth, CLJ Everest, and 115 in which the consideration for the transaction or the aggregate consideration for all such transactions exceeds \$250,000 or \$1,000,000, respectively; and
- (v) with the approval of this Court, selling, conveying, transferring, leasing, or assigning any Property of the Respondent, Clayton Smith;

- 7 -

and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act*, or section 31 of the Ontario *Mortgages Act*, as the case may be, shall not be required;

- (l) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;
- (m) to report to, meet with and discuss with any person or entity deemed necessary or advisable by the Receiver on all matters as the Receiver deems appropriate relating to the Property, the affairs of the Crystal Wealth Group, and the receivership, and to share information with such persons and entities, subject to such terms as to confidentiality as the Receiver deems advisable;
- (n) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;
- (o) to apply for any permits, licences, approvals or permissions as may be required by any governmental or regulatory authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Crystal Wealth Group;
- (p) to enter into agreements with any trustee in bankruptcy appointed in respect of the Crystal Wealth Group, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Crystal Wealth Group;
- (q) to exercise any shareholder, partnership, joint venture or other rights which the Crystal Wealth Group may have;
- (r) without limiting the generality of clause 6(m) above, to share information, meet with and discuss with any regulatory bodies and their advisors, including without limitation the Commission and any other regulatory

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authorities as the Receiver deems appropriate on all matters relating to the Property, the affairs of the Crystal Wealth Group, and the receivership of the Crystal Wealth Group, subject to such terms as to confidentiality as the Receiver deems advisable, including, without limitation, the Communications Protocol attached as Schedule "C" hereto;

- (s) to examine under oath any person the Receiver reasonably considers to have knowledge of the affairs of the Crystal Wealth Group, including, without limitation, any present or former director, officer, employee or person registered or previously registered with the Commission or subject to or formerly subject to the jurisdiction of the Commission or any other regulatory body respecting the Property and affairs of the Crystal Wealth Group;
- (t) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations; and
- (u) and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Crystal Wealth Group, and without interference from any other Person.

7. **THIS COURT ORDERS** that the Receiver may engage as its legal counsel Aird & Berlis LLP, notwithstanding that Aird & Berlis LLP has had an advisory role with respect to the Commission.

#### **DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER**

8. **THIS COURT ORDERS** that (i) the Respondents, (ii) all of their current and former directors, officers, employees, persons registered or previously registered or subject or formerly subject to the jurisdiction of the Commission or any other regulatory body, agents, accountants, legal counsel and shareholders, and all other persons acting on their instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a

- 9 -

"Person") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request.

9. **THIS COURT ORDERS** that the Receiver is hereby empowered and authorized, but not required, to take possession and control of any monies, funds, deposit instruments or securities held by or in the name of the Crystal Wealth Group, or any of them, or by a third party for the benefit of the Crystal Wealth Group, or any of them, including without limitation the monies, funds, deposit instruments, or securities held in the accounts listed on the attached Schedule "D".

10. **THIS COURT ORDERS** that all Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Respondents, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "**Records**") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 10 or in paragraph 11 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure, and that, without limiting the generality of subparagraph 6(r) or this paragraph 10 of this Order, the process for the Commission's review of information that may include documents over which privilege may be claimed, which process is attached as Schedule "E" hereto, is hereby approved.

11. **THIS COURT ORDERS** that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the

- 10 -

information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

12. **THIS COURT ORDERS** that the Receiver shall provide each of the relevant landlords with notice of the Receiver's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Receiver's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Receiver, or by further Order of this Court upon application by the Receiver on at least two (2) days' notice to such landlord and any such secured creditors.

#### **NO PROCEEDINGS AGAINST THE RECEIVER**

13. **THIS COURT ORDERS** that no proceeding or enforcement process in any court, tribunal, regulatory or administrative body (each, a "Proceeding") shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

#### **NO PROCEEDINGS AGAINST THE CRYSTAL WEALTH GROUP OR THE PROPERTY**

14. **THIS COURT ORDERS** that no Proceeding against or in respect of the Crystal Wealth Group or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Crystal Wealth Group or the Property are hereby stayed and suspended pending further Order of this Court, provided that nothing herein shall prevent the commencement or continuation of any investigation or proceedings against the Respondents or any of them by or

- 11 -

before any regulatory body including, without limitation, the Commission or the Enforcement Staff of the Ontario Securities Commission.

#### **NO EXERCISE OF RIGHTS OR REMEDIES**

15. **THIS COURT ORDERS** that all rights and remedies against the Crystal Wealth Group, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of any "eligible financial contract" as defined in the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA"), and further provided that nothing in this paragraph shall: (i) empower the Receiver or the Crystal Wealth Group to carry on any business which the Crystal Wealth Group is not lawfully entitled to carry on; (ii) exempt the Receiver or the Crystal Wealth Group from compliance with statutory or regulatory provisions relating to health, safety or the environment; (iii) prevent the filing of any registration to preserve or perfect a security interest; or (iv) prevent the registration of a claim for lien.

#### **NO INTERFERENCE WITH THE RECEIVER**

16. **THIS COURT ORDERS** that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Crystal Wealth Group, without written consent of the Receiver or leave of this Court.

#### **CONTINUATION OF SERVICES**

17. **THIS COURT ORDERS** that all Persons having oral or written agreements with the Crystal Wealth Group or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Crystal Wealth Group are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Crystal Wealth Group's current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver in

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accordance with normal payment practices of the Crystal Wealth Group or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

#### **RECEIVER TO HOLD FUNDS**

18. **THIS COURT ORDERS** that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "Post Receivership Accounts") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

#### **EMPLOYEES**

19. **THIS COURT ORDERS** that all employees of the Crystal Wealth Group shall remain the employees of the Crystal Wealth Group until such time as the Receiver, on the Crystal Wealth Group's behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay.

#### **PIPEDA**

20. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act* and any other applicable privacy legislation, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "Sale"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such

- 13 -

information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Crystal Wealth Group, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

#### LIMITATION ON ENVIRONMENTAL LIABILITIES

21. **THIS COURT ORDERS** that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act*, and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

#### LIMITATION ON THE RECEIVER'S LIABILITY

22. **THIS COURT ORDERS** that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Receiver by any applicable legislation.

#### RECEIVER'S ACCOUNTS

23. **THIS COURT ORDERS** that the Receiver and counsel to the Receiver shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges unless

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otherwise ordered by the Court on the passing of accounts, and that the Receiver and counsel to the Receiver shall be entitled to and are hereby granted a charge (the "Receiver's Charge") on the Property, as security for such fees and disbursements, both before and after the making of this Order in respect of these proceedings, and that the Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person.

24. **THIS COURT ORDERS** that the Receiver and its legal counsel shall pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

25. **THIS COURT ORDERS** that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the standard rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

#### **FUNDING OF THE RECEIVERSHIP**

26. **THIS COURT ORDERS** that the Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$500,000 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge.

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27. **THIS COURT ORDERS** that neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.
28. **THIS COURT ORDERS** that the Receiver is at liberty and authorized to issue certificates substantially in the form annexed as Schedule "F" hereto (the "Receiver's Certificates") for any amount borrowed by it pursuant to this Order.
29. **THIS COURT ORDERS** that the monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates evidencing the same or any part thereof shall rank on a *pari passu* basis, unless otherwise agreed to by the holders of any prior issued Receiver's Certificates.

#### SERVICE AND NOTICE

30. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "Protocol") is approved and adopted by reference herein and, in these proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure (the "Rules"). Subject to Rule 3.01(d) of the Rules and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL; [www.granthornton.ca/crystalwealth](http://www.granthornton.ca/crystalwealth).

31. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Receiver is at liberty to serve or distribute this Order, any other materials and orders in these proceedings, and any notices or other correspondence, by forwarding a notice with a link to the Case Website to the Crystal Wealth Group's creditors or other interested parties by email, facsimile transmission, or ordinary mail to their respective addresses as last shown on the records of the Crystal Wealth Group, or as otherwise ordered by the Court, and that any such service or distribution by email, facsimile transmission, or ordinary

- 16 -

mail shall be deemed to be received on the next business day following the date of sending thereof, or if sent by ordinary mail, on the third business day after mailing.

#### GENERAL

32. **THIS COURT ORDERS** that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

33. **THIS COURT ORDERS** that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Crystal Wealth Group.

34. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

35. **THIS COURT ORDERS** that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

36. **THIS COURT ORDERS** that any interested party may apply to this Court to vary or amend this Order on not less than thirty (30) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

ENTERED AT / INSCRIT À TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO:

Dale J.

APR 26 2017

PER / PAR:

PL

4174

**SCHEDULE "A"**  
**FREEZE DIRECTIONS - CRYSTAL WEALTH GROUP**

See attached.



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

Phone: 416-263-7653  
Fax: 416-503-2319

Web site: [www.osc.gov.on.ca](http://www.osc.gov.on.ca)

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION  
(Subsection 126(1))**

**TO:** CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED  
192 Plains Road East  
Burlington, Ontario  
L7T 2C3

**C/O:** CLAYTON SMITH  
192 Plains Road East  
Burlington, Ontario  
L7T 2C3

**RE:** Accounts at NBCN Inc., Royal Bank of Canada, The Toronto Dominion Bank and Interactive Brokers Canada Inc.

**TAKE NOTICE THAT** pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5 (the "Act") you are directed to refrain from withdrawing any funds, securities or property from the institutions listed in Schedule "A" to this Freeze Direction including from, but not limited to, the accounts listed in Schedule "A" to this Freeze Direction until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

**TAKE NOTICE THAT** pursuant to subsection 126(1) of the Act you are directed to maintain funds, securities or property, and you are directed to refrain from disposing of, transferring,

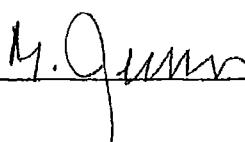
dissipating or otherwise dealing with or diminishing the value of those funds, securities or property until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise, except that Crystal Wealth may dispose of securities and derivatives already held in Brokerage Accounts identified on Schedule "A" as at the date of the Directions on behalf of one or more of the following funds:

Crystal Wealth Media Strategy (the "Media Fund")  
Crystal Wealth Mortgage Strategy (the "Mortgage Fund")  
Crystal Enlightened Resource & Precious Metal Fund (the "Enlightened Resource Fund")  
Crystal Wealth Medical Strategy (the "Medical Fund")  
Crystal Wealth Enlightened Factoring Strategy (the "Factoring Fund")  
ACM Growth Fund  
ACM Income Fund  
Crystal Wealth High Yield Mortgage Strategy (the "High Yield Mortgage Fund")  
Crystal Enlightened Bullion Fund (the "Enlightened Bullion Fund")  
Absolute Sustainable Dividend Fund (the "Sustainable Dividend Fund")  
Absolute Sustainable Property Fund (the "Sustainable Property Fund")  
Crystal Wealth Enlightened Hedge Fund (the "Enlightened Hedge Fund")  
Crystal Wealth Infrastructure Strategy (the "Infrastructure Fund")  
Crystal Wealth Conscious Capital Strategy (the "Conscious Capital Fund")  
Crystal Wealth Retirement One Fund (the "Retirement Fund")

(collectively the "Funds"),

provided that any disposition of securities on behalf of the Funds occurs through the facilities of a recognized exchange and all proceeds of such sales are maintained in the account of the Fund on whose behalf the trade is executed.

DATED at Toronto this 17th day of April, 2017.



## SCHEDULE "A" TO FREEZE DIRECTION

Institution	Account Name	Account Number
NBCN Inc.	Crystal Wealth Management System Limited	27Q000A
NBCN Inc.	Crystal Wealth Management System Limited	27QCNAA
NBCN Inc.	Crystal Wealth Management System Limited	27QTAAA
NBCN Inc.	Crystal Wealth Management System Limited	27QAABC
NBCN Inc.	Crystal Wealth Management System Limited	27QCNCA
Royal Bank of Canada	Crystal Wealth Management System Limited	00002 1304211
Royal Bank of Canada	Crystal Wealth Management System Limited	00002 1304260
The Toronto Dominion Bank	Crystal Wealth Management System Limited	5004279-0122
Interactive Brokers Canada Inc.	Crystal Wealth Management System Limited	F4795511
The Toronto Dominion Bank	Crystal Wealth Mortgage Strategy	5266530-0125
Interactive Brokers Canada Inc.	ACM Growth Fund	U1446894
Interactive Brokers Canada Inc.	Crystal Wealth Strategic Yield Media Fund	U4657920
Interactive Brokers Canada Inc.	Crystal Wealth Medical Income Fund	U4895282
Interactive Brokers Canada Inc.	Crystal Enlightened Resource and Precious Metals Fund	U4804316

Institution	Account Name	Account Number
NBCN Inc.	Crystal Wealth Media Strategy	27Q003E
NBCN Inc.	Crystal Wealth Media Strategy	27Q003F
NBCN Inc.	Crystal Wealth Mortgage Strategy	27Q050E
NBCN Inc.	Crystal Wealth Mortgage Strategy	27Q050F
NBCN Inc.	Crystal Enlightened Resource & Precious Metal Fund	27Q070E
NBCN Inc.	Crystal Enlightened Resource & Precious Metal Fund	27Q070F
NBCN Inc.	Crystal Wealth Medical Strategy	27Q080E
NBCN Inc.	Crystal Wealth Medical Strategy	27Q080F
NBCN Inc.	Crystal Wealth Enlightened Factoring Strategy	27Q090E
NBCN Inc.	Crystal Wealth Enlightened Factoring Strategy	27Q090F
NBCN Inc.	ACM Growth Fund	27QA23E
NBCN Inc.	ACM Growth Fund	27QA23F
NBCN Inc.	ACM Income Fund	27QA24E
NBCN Inc.	ACM Income Fund	27QA24F
NBCN Inc.	Crystal Wealth High Yield Mortgage Strategy	27QB26E
NBCN Inc.	Crystal Wealth High Yield Mortgage Strategy	27QB26F

Institution	Account Name	Account Number
NBCN Inc.	Crystal Enlightened Bullion Fund	27QC25E
NBCN Inc.	Crystal Enlightened Bullion Fund	27QC25F
NBCN Inc.	Absolute Sustainable Dividend Fund	27QD93A
NBCN Inc.	Absolute Sustainable Dividend Fund	27QD93B
NBCN Inc.	Absolute Sustainable Property Fund	27QD94A
NBCN Inc.	Absolute Sustainable Property Fund	27QD94B
NBCN Inc.	Crystal Wealth Enlightened Hedge Fund	27QF14E
NBCN Inc.	Crystal Wealth Enlightened Hedge Fund	27QF14F
NBCN Inc.	Crystal Wealth Infrastructure Strategy	27QG01E
NBCN Inc.	Crystal Wealth Infrastructure Strategy	27QG01F
NBCN Inc.	Crystal Wealth Conscious Capital Strategy	27QH93E
NBCN Inc.	Crystal Wealth Conscious Capital Strategy	27QH93F
NBCN Inc.	Crystal Wealth Retirement Retirement One Fund	27QB27E
NBCN Inc.	Crystal Wealth Retirement Retirement One Fund	27QB27F



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen uest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION  
(Subsection 126(1))**

**TO:** CLAYTON SMITH  
5043 Mount Nemo Crescent  
Burlington, Ontario  
L7M 0T7

**RE:** Accounts at The Toronto Dominion Bank

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5 (the "Act") you are directed to refrain from withdrawing any funds, securities or property from the institutions listed in Schedule "A" to this Freeze Direction including from, but not limited to, the accounts listed in Schedule "A" to this Freeze Direction until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

TAKE NOTICE THAT pursuant to subsection 126(1) of the Act you are directed to maintain funds, securities or property, and you are directed to refrain from disposing of, transferring, dissipating or otherwise dealing with or diminishing the value of those funds, securities or property until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

M. Dunn

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**SCHEDULE "A" TO FREEZE DIRECTION**

Institution	Account Name	Account Number
The Toronto Dominion Bank	Clayton Edward Smith	6045439-2228
The Toronto Dominion Bank	Clayton Edward Smith and Lee Ann Smith	0523771-0122



Ontario  
Securities  
Commission

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valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT**  
**R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION**  
(Subsection 126(1))

**TO:** CLJ EVEREST LTD.  
5043 Mount Nemo Crescent  
Burlington, Ontario  
L7M 0T7

**C/O:** CLAYTON SMITH  
5043 Mount Nemo Crescent  
Burlington, Ontario  
L7M 0T7

**RE:** Accounts at The Toronto Dominion Bank

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5 (the "Act") you are directed to refrain from withdrawing any funds, securities or property from the institutions listed in Schedule "A" to this Freeze Direction including from, but not limited to, the accounts listed in Schedule "A" to this Freeze Direction until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

TAKE NOTICE THAT pursuant to subsection 126(1) of the Act you are directed to maintain funds, securities or property, and you are directed to refrain from disposing of, transferring, dissipating or otherwise dealing with or diminishing the value of those funds,

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securities or property until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

DATED at Toronto this 12 day of April, 2017.

M. J. M.

4184

**SCHEDULE "A" TO FREEZE DIRECTION**

Institution	Account Name	Account Number
The Toronto Dominion Bank	CLJ Everest Ltd	5002640-0122



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION  
(Subsection 126(1))**

**TO:** Branch Manager  
Royal Bank of Canada  
200 Bay Street  
Main Floor  
Toronto, Ontario  
M5J 2J5

**RE:** Crystal Wealth Management System Limited

All Accounts and Sub Accounts under Nos. (1) 00002 1304211 and (2) 00002 1304260

**TAKE NOTICE THAT** pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") you are hereby directed to retain all funds, securities or property that you may have on deposit or under your control or for safekeeping in the name of or otherwise under the control of Crystal Wealth Management System Limited including any funds, securities or property on deposit in accounts with the following numbers:

00002 1304211, and  
00002 1304260

or any other account, and hold them until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

**AND TAKE FURTHER NOTICE THAT** this Freeze Direction applies to any and all funds, securities or property in a recognized clearing agency and to any and all securities in the process of transfer by a transfer agent.

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AND TAKE FURTHER NOTICE THAT this Freeze Direction may be served by fax or courier to the last known address of the parties named in this Freeze Direction in the records of Royal Bank of Canada.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

M. Quinn



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED

- and -

IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED

**FREEZE DIRECTION**  
(Subsection 126(1))

TO: Branch Manager  
Interactive Brokers Canada Inc.  
1800 McGill College Avenue  
Suite 2106  
Montreal, Quebec  
H3A 3J6

RE: 1. ACM Growth Fund,  
2. Crystal Wealth Management System Limited,  
3. Crystal Wealth Strategic Yield Media Fund,  
4. Crystal Wealth Medical Income Fund, and  
5. Crystal Enlightened Resource and Precious Metals Fund

All Accounts and Sub Accounts under Nos. (1) U1446894, (2) F4795511, (3) U4657920,  
(4) U4895282 and (5) U4804316

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") you are hereby directed to retain all funds, securities or property that you may have on deposit or under your control or for safekeeping in the name of or otherwise under the control of ACM Growth Fund, Crystal Wealth Management System Limited, Crystal Wealth Strategic Yield Media Fund, Crystal Wealth Medical Income Fund and Crystal Enlightened Resource and Precious Metals Fund (the "Funds") including any funds, securities or property on deposit in accounts with the following numbers:

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U1446894,  
F4795511,  
U4657920,  
U4895282, and  
U4804316

or any other account, and hold them until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise, with the exception that securities other than units of Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metal Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund (collectively the "Crystal Wealth Funds"), held in the name of, or otherwise under the control of, or on behalf of any of the Funds in the accounts at the brokerage may be sold provided that the disposition occurs through the facilities of a recognized exchange and all proceeds of such sales are maintained in the account where such securities were held.

AND TAKE FURTHER NOTICE THAT this Freeze Direction applies to any and all funds, securities or property in a recognized clearing agency and to any and all securities in the process of transfer by a transfer agent.

AND TAKE FURTHER NOTICE THAT this Freeze Direction may be served by fax or courier to the last known address of the parties named in this Freeze Direction in the records of Interactive Brokers Canada Inc.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

A handwritten signature in black ink, appearing to read "H. Dunn", is written over a horizontal line.



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION  
(Subsection 126(1))**

**TO:** Branch Manager  
NBCN Inc.  
The Exchange Tower  
130 King Street West  
Suite 3000  
PO Box 21  
Toronto, Ontario  
M5X 1J9

**RE:** 1. Crystal Wealth Media Strategy,  
2. Crystal Wealth Mortgage Strategy,  
3. Crystal Enlightened Resource & Precious Metal Fund,  
4. Crystal Wealth Medical Strategy,  
5. Crystal Wealth Enlightened Factoring Strategy,  
6. ACM Growth Fund,  
7. ACM Income Fund,  
8. Crystal Wealth High Yield Mortgage Strategy,  
9. Crystal Enlightened Bullion Fund,  
10. Absolute Sustainable Dividend Fund,  
11. Absolute Sustainable Property Fund,  
12. Crystal Wealth Enlightened Hedge Fund,  
13. Crystal Wealth Infrastructure Strategy,  
14. Crystal Wealth Conscious Capital Strategy,  
15. Crystal Wealth Management System Limited, and  
16. Crystal Wealth Retirement One Fund

All Accounts and Sub Accounts under Nos. (1) 27Q003E and 27Q003F, (2) 27Q050E and 27Q050F, (3) 27Q070E and 27Q070F, (4) 27Q080E and 27Q080F, (5) 27Q090E and 27Q090F, (6) 27QA23E and 27QA23F, (7) 27QA24E and 27QA24F, (8) 27QB26E and 27QB26F, (9) 27QC25E and 27QC25F, (10) 27QD93A and 27QD93B, (11) 27QD94A and 27QD94B, (12) 27QF14E and 27QF14F, (13) 27QG01E and 27QG01F, (14) 27QH93E and 27QH93F, (15) 27Q000A, 27QCNA, 27QTAAA, 27QAABC and 27QCNA, and (16) 27QB27E and 27QB27F

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") you are hereby directed to retain all funds, securities or property that you may have on deposit or under your control or for safekeeping in the name of or otherwise under the control of Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metal Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund (collectively the "Funds") and Crystal Wealth Management System Limited including any funds, securities or property on deposit in accounts with the following numbers:

27Q003E and 27Q003F,  
 27Q050E and 27Q050F,  
 27Q070E and 27Q070F,  
 27Q080E and 27Q080F,  
 27Q090E and 27Q090F,  
 27QA23E and 27QA23F,  
 27QA24E and 27QA24F,  
 27QB26E and 27QB26F,  
 27QC25E and 27QC25F,  
 27QD93A and 27QD93B,  
 27QD94A and 27QD94B,  
 27QF14E and 27QF14F,  
 27QG01E and 27QG01F,  
 27QH93E and 27QH93F,  
 27Q000A, 27QCNA, 27QTAAA, 27QAABC and 27QCNA, and  
 27QB27E and 27QB27F

or any other account, and hold them until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise, with the exception:

- (1) securities other than units of the Funds held in the name of or otherwise under the control of or on behalf of any of the Funds in the accounts at the brokerage may be sold provided that the sale or disposition occurs through the facilities of a recognized

exchange and all proceeds of such sales or distributions are maintained in the account where such securities were held; and

- (2) of managed accounts, except managed accounts in the name or for the benefit of Clayton Edward Smith, Crystal Wealth Management System Limited, CLJ Everest Ltd., Chrysalis Yoga Inc., 1150752 Ontario Limited and Lee Ann Smith.

AND TAKE FURTHER NOTICE THAT this Freeze Direction applies to any and all funds, securities or property in a recognized clearing agency and to any and all securities in the process of transfer by a transfer agent.

AND TAKE FURTHER NOTICE THAT this Freeze Direction may be served by fax or courier to the last known address of the parties named in this Freeze Direction in the records of NBCN Inc.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

M. Dunn



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT**  
**R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION**  
(Subsection 126(1))

**TO:** Branch Manager  
TD Bank Group  
2931 Walkers Line  
Burlington, Ontario  
L7M 4M6

**RE:** Clayton Edward Smith  
All Accounts and Sub Accounts under No. 6045439-2228

**TAKE NOTICE THAT** pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") you are hereby directed to retain all funds, securities or property that you may have on deposit or under your control or for safekeeping in the name of or otherwise under the control of Clayton Edward Smith including any funds, securities or property on deposit in accounts with the following number:

**6045439-2228**

or any other account, and hold them until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

**AND TAKE FURTHER NOTICE THAT** this Freeze Direction applies to any and all funds, securities or property in a recognized clearing agency and to any and all securities in the process of transfer by a transfer agent.

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AND TAKE FURTHER NOTICE THAT this Freeze Direction may be served by fax or courier to the last known address of the parties named in this Freeze Direction in the records of TD Bank Group.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

M. Gunn



Ontario  
Securities  
Commission

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valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED

- and -

IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED

**FREEZE DIRECTION**  
(Subsection 126(1))

TO: Branch Manager  
TD Bank Group  
20 Main Street East  
Grimsby, Ontario  
L3M 1M9

RE: 1. CLJ Everest Ltd  
2. Crystal Wealth Management System Limited  
3. Clayton Edward Smith and Lee Ann Smith

All Accounts and Sub Accounts under Nos. (1) 5002640-0122, (2) 5004279-0122 and (3)  
0523771-0122

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") you are hereby directed to retain all funds, securities or property that you may have on deposit or under your control or for safekeeping in the name of or otherwise under the control of CLJ Everest Ltd, Crystal Wealth Management System Limited and Clayton Edward Smith and Lee Ann Smith including any funds, securities or property on deposit in accounts with the following numbers:

5002640-0122,  
5004279-0122, and  
0523771-0122

4195

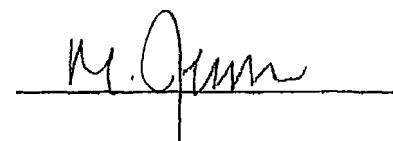
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or any other account, and hold them until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

AND TAKE FURTHER NOTICE THAT this Freeze Direction applies to any and all funds, securities or property in a recognized clearing agency and to any and all securities in the process of transfer by a transfer agent.

AND TAKE FURTHER NOTICE THAT this Freeze Direction may be served by fax or courier to the last known address of the parties named in this Freeze Direction in the records of TD Bank Group.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

A handwritten signature in black ink, appearing to read "M. Dunn", is written over a horizontal line.



Ontario  
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22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION  
(Subsection 126(1))**

**TO:** Branch Manager  
TD Bank Group  
55 King Street West  
Toronto, Ontario  
M5K 1A2

**RE:** Crystal Wealth Mortgage Strategy  
All Accounts and Sub Accounts under No. 5266530-0125

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") you are hereby directed to retain all funds, securities or property that you may have on deposit or under your control or for safekeeping in the name of or otherwise under the control of Crystal Wealth Mortgage Strategy including any funds, securities or property on deposit in accounts with the following number:

**5266530-0125**

or any other account, and hold them until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

AND TAKE FURTHER NOTICE THAT this Freeze Direction applies to any and all funds, securities or property in a recognized clearing agency and to any and all securities in the process of transfer by a transfer agent.

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AND TAKE FURTHER NOTICE THAT this Freeze Direction may be served by fax or courier to the last known address of the parties named in this Freeze Direction in the records of TD Bank Group.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

M. Dunn

**4198**

**SCHEDULE "B"**  
**FREEZE DIRECTIONS OVER CHRYSALIS YOGA**

See attached.



Ontario  
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22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

Phone: 416-263-7663  
Fax: 416-603-2319

Web site: [www.osc.gov.on.ca](http://www.osc.gov.on.ca)

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION  
(Subsection 126(1))**

**TO:** CHRYSALIS YOGA INC.  
4040 Palladium Way  
Burlington, Ontario  
L7M 0C2

**C/O:** Shanine Lee Dennill  
4040 Palladium Way  
Burlington, Ontario  
L7M 0C2

**RE:** Accounts at The Bank of Nova Scotia

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5 (the "Act") you are directed to refrain from withdrawing any funds, securities or property from the institutions listed in Schedule "A" to this Freeze Direction including from, but not limited to, the accounts listed in Schedule "A" to this Freeze Direction until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

4200

**SCHEDULE "B"**  
**FREEZE DIRECTIONS OVER CHRYSALIS YOGA**

See attached.



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22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M5H 3S8

Phone: 416-283-7663  
Fax: 416-693-2319

Web site: [www.osc.gov.on.ca](http://www.osc.gov.on.ca)

**IN THE MATTER OF THE SECURITIES ACT**  
**R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION**  
(Subsection 126(1))

**TO:** CHRYSALIS YOGA INC.  
4040 Palladium Way  
Burlington, Ontario  
L7M 0C2

**C/O:** Shanine Lee Dennill  
4040 Palladium Way  
Burlington, Ontario  
L7M 0C2

**RE:** Accounts at The Bank of Nova Scotia

TAKE NOTICE THAT pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5 (the "Act") you are directed to refrain from withdrawing any funds, securities or property from the institutions listed in Schedule "A" to this Freeze Direction including from, but not limited to, the accounts listed in Schedule "A" to this Freeze Direction until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

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TAKE NOTICE THAT pursuant to subsection 126(1) of the Act you are directed to maintain funds, securities or property, and you are directed to refrain from disposing of, transferring, dissipating or otherwise dealing with or diminishing the value of those funds, securities or property until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

DATED at Toronto this 1<sup>st</sup> day of April, 2017.

M. O. MM

4203

11

**SCHEDULE "A" TO FREEZE DIRECTION**

Institution	Account Name	Account Number
The Bank of Nova Scotia	Chrysalis Yoga Inc.	87296 00518 10



Ontario  
Securities  
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de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M6H 3S8

22e étage  
20, rue queen ouest  
Toronto ON M6H 3S8

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED**

**FREEZE DIRECTION  
(Subsection 126(1))**

**TO:** Branch Manager  
Bank of Nova Scotia  
4519 Dundas Street  
Burlington, Ontario  
L7M 5B4

**RE:** Chrysalis Yoga Inc.  
All Accounts and Sub Accounts under No. 87296 00518 10

**TAKE NOTICE THAT** pursuant to subsection 126(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") you are hereby directed to retain all funds, securities or property that you may have on deposit or under your control or for safekeeping in the name of or otherwise under the control of Chrysalis Yoga Inc. including any funds, securities or property on deposit in accounts with the following number:

**87296 00518 10**

or any other account, and hold them until the Ontario Securities Commission in writing revokes or varies this Freeze Direction or consents to release a particular fund, security or property from this Freeze Direction or until the Ontario Superior Court of Justice orders otherwise.

**AND TAKE FURTHER NOTICE THAT** this Freeze Direction applies to any and all funds, securities or property in a recognized clearing agency and to any and all securities in the process of transfer by a transfer agent.

4205

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AND TAKE FURTHER NOTICE THAT this Freeze Direction may be served by fax or courier to the last known address of the parties named in this Freeze Direction in the records of Bank of Nova Scotia.

DATED at Toronto this 6<sup>th</sup> day of April, 2017.

M. Gunn

**SCHEDULE "C"**  
**COMMUNICATIONS PROTOCOL**

**WHEREAS:**

1. Pursuant to Orders of the Honourable Justice \_\_\_\_\_ of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated April 26, 2017 (the "Appointment Order"), Grant Thornton Limited has been appointed as Receiver of a bank account No. 87296 00518 10 at Bank of Nova Scotia in the name of Chrysalis Yoga Inc., and of all of the assets, undertakings and properties (collectively, the "Property") of:
  - (i) Clayton Smith;
  - (ii) Crystal Wealth Management System Limited;
  - (iii) CLJ Everest Ltd.;
  - (iv) 1150752 Ontario Limited;
  - (v) Crystal Wealth Media Strategy;
  - (vi) Crystal Wealth Mortgage Strategy;
  - (vii) Crystal Enlightened Resource & Precious Metals Fund;
  - (viii) Crystal Wealth Medical Strategy;
  - (ix) Crystal Wealth Enlightened Factoring Strategy;
  - (x) ACM Growth Fund;
  - (xi) ACM Income Fund;
  - (xii) Crystal Wealth High Yield Mortgage Strategy;
  - (xiii) Crystal Enlightened Bullion Fund;
  - (xiv) Absolute Sustainable Dividend Fund;
  - (xv) Absolute Sustainable Property Fund;
  - (xvi) Crystal Wealth Enlightened Hedge Fund;
  - (xvii) Crystal Wealth Infrastructure Strategy;
  - (xviii) Crystal Wealth Conscious Capital Strategy,
  - (xix) Crystal Wealth Retirement One Fund,

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(collectively, the "Crystal Wealth Group");

2. The Receiver was initially appointed pursuant to an Application of the Ontario Securities Commission (the "OSC") under section 129 of the *Securities Act* (Ontario);
3. The OSC has commenced an investigation into the activities of Crystal Wealth Management Systems Limited ("Crystal Wealth") and its principal, Clayton Smith ("Smith"), as well as the activities of companies connected to Smith, which investigation is ongoing.
4. In the course of the Receiver's appointment it receives, reviews and is otherwise advised of confidential information (including personal information), documents and/or materials (collectively, the "Confidential Information"), including without limitation Confidential Information relating to (i) the business, operations, financial condition and/or affairs of the Crystal Wealth Group; and (ii) former and current officers, directors, employees, clients, investors, shareholders and/or creditors of the Crystal Wealth Group;
5. Pursuant to paragraph 6(r) of the Appointment Order, the Receiver is authorized to share information, meet with and discuss with any regulatory bodies ("Regulators") and their advisors, including without limitation the OSC and any other regulatory authorities as the Receiver deems appropriate, on all matters relating to the Property, the affairs of the Crystal Wealth Group and the receivership of the Crystal Wealth Group, subject to such terms as to confidentiality as the Receiver deems advisable;
6. The Receiver is of the view that if so requested by the OSC or any other Regulator, the Receiver should have the authority to provide the requesting Regulator with information and documentation regarding the Crystal Wealth Group (the "Information", which term includes, without limitation, Confidential Information), on and subject to the terms of this protocol; and
7. Staff of the OSC seeks approval of this protocol by the Court.

**NOW THEREFORE:**

1. The Receiver may provide Information to the OSC or a Regulator upon request by the OSC or the Regulator; provided that the Receiver determines in its sole discretion that provision of such Information (i) is in the best interests of the estate herein, (ii) would not breach or be prohibited by any agreement to which the Receiver is a party or by the laws of any jurisdiction to which the Receiver (which term includes any of its officers, partners, employees and agents) may be subject; and (iii) would not result in the breach of any duty or obligation of confidentiality to which the Receiver (which term includes any of its officers, partners, employees and agents) may be subject or which the Receiver may owe pursuant to the laws of Canada or of any other jurisdiction.
2. The Regulator will deal with any Information provided by the Receiver in a manner consistent with any law to which the OSC or Regulator is subject, including, without limitation, the *Securities Act* (Ontario) and subject to any specific confidentiality

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requirements imposed by the Receiver in respect of any such Information provided to the Regulator.

3. The Receiver is in no way responsible or liable for any incorrect and/or incomplete Information.
4. The Receiver shall have no liability arising from (i) the disclosure of Information to the Regulator; (ii) the content of the Information; (iii) the use of the Information by the Regulator; or (iv) any disclosure of the Information by the OSC or Regulator.

**SCHEDULE "D"**  
**DEPOSIT ACCOUNTS**

As provided at paragraph 9 of the Order to which this Schedule is attached, the Receiver is hereby empowered and authorized, but not required, to take possession and control of any monies, funds, deposit instruments, or securities held by or in the name of the Crystal Wealth Group, or any of them, or by a third party for the benefit of the Crystal Wealth Group, or any of them, including without limitation the monies, funds, deposit instruments, or securities held in the following accounts:

Institution	Account Name	Account Number
Bank of Nova Scotia	Chrysalis Yoga Inc.	87296 00518 10
Royal Bank of Canada	Crystal Wealth Management System Limited	00002 1304211
Royal Bank of Canada	Crystal Wealth Management System Limited	00002 1304260
TD Bank Group	Clayton Edward Smith	6045439-2228
TD Bank Group	CLJ Everest Ltd.	5002640-0122
TD Bank Group	Crystal Wealth Management System Limited	5004279-0122
TD Bank Group	Crystal Wealth Mortgage Strategy	5266530-0125
TD Bank Group	Clayton Edward Smith and Lee Ann Smith	0523771-0122
TD Bank Group	1150752 Ontario Limited	5001601-0122
Interactive Brokers Canada Inc.	ACM Growth Fund	U1446894
Interactive Brokers Canada Inc.	Crystal Wealth Management System Limited	F4795511

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Institution	Account Name	Account Number
Interactive Brokers Canada Inc.	Crystal Wealth Strategic Yield Media Fund	U4657920
Interactive Brokers Canada Inc.	Crystal Wealth Medical Income Fund	U4895282
Interactive Brokers Canada Inc.	Crystal Enlightened Resource and Precious Metals Fund	U4804316
NBCN Inc.	Crystal Wealth Media Strategy	27Q003E
NBCN Inc.	Crystal Wealth Media Strategy	27Q003F
NBCN Inc.	Crystal Wealth Mortgage Strategy	27Q050E
NBCN Inc.	Crystal Wealth Mortgage Strategy	27Q050F
NBCN Inc.	Crystal Enlightened Resource & Precious Metals Fund	27Q070E
NBCN Inc.	Crystal Enlightened Resource & Precious Metals Fund	27Q070F
NBCN Inc.	Crystal Wealth Medical Strategy	27Q080E
NBCN Inc.	Crystal Wealth Medical Strategy	27Q080F
NBCN Inc.	Crystal Wealth Enlightened Factoring Strategy	27Q090E
NBCN Inc.	Crystal Wealth Enlightened Factoring Strategy	27Q090F
NBCN Inc.	ACM Growth Fund	27QA23E
NBCN Inc.	ACM Growth Fund	27QA23F

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Institution	Account Name	Account Number
NBCN Inc.	ACM Income Fund	27QA24E
NBCN Inc.	ACM Income Fund	27QA24F
NBCN Inc.	Crystal Wealth High Yield Mortgage	27QB26E
NBCN Inc.	Crystal Wealth High Yield Mortgage	27QB26F
NBCN Inc.	Crystal Enlightened Bullion Fund	27QC25E
NBCN Inc.	Crystal Enlightened Bullion Fund	27QC25F
NBCN Inc.	Absolute Sustainable Dividend Fund	27QD93A
NBCN Inc.	Absolute Sustainable Dividend Fund	27QD93B
NBCN Inc.	Absolute Sustainable Property Fund	27QD94A
NBCN Inc.	Absolute Sustainable Property Fund	27QD94B
NBCN Inc.	Crystal Wealth Enlightened Hedge Fund	27QF14E
NBCN Inc.	Crystal Wealth Enlightened Hedge Fund	27QF14F
NBCN Inc.	Crystal Wealth Infrastructure Strategy	27QG01E
NBCN Inc.	Crystal Wealth Infrastructure Strategy	27QG01F
NBCN Inc.	Crystal Wealth Conscious Capital Strategy	27QH93E
NBCN Inc.	Crystal Wealth Conscious Capital Strategy	27QH93F

D - 4

Institution	Account Name	Account Number
NBCN Inc.	Crystal Wealth Management System Limited	27Q000A
NBCN Inc.	Crystal Wealth Management System Limited	27QCNAA
NBCN Inc.	Crystal Wealth Management System Limited	27QTAAA
NBCN Inc.	Crystal Wealth Management System Limited	27QAABC
NBCN Inc.	Crystal Wealth Management System Limited	27QCNC
NBCN Inc.	Crystal Wealth Retirement One Fund	27QB27E
NBCN Inc.	Crystal Wealth Retirement One Fund	27QB27F

## SCHEDULE "E"

### IN THE MATTER OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, ET AL.

#### PRIVILEGE PROTOCOL FOR RECEIVER PRODUCTIONS

This Protocol identifies how Staff of the Ontario Securities Commission ("Staff") intend to address any potentially solicitor-client privileged documents that may be obtained from the Receiver in Staff's investigation of Crystal Wealth Management Systems Limited ("Crystal Wealth") and its principal, Clayton Smith ("Smith"), as well as the activities of companies connected to Smith. Generally, Staff will make best efforts to identify, in accordance with this Protocol, any documents over which privilege may be claimed prior to reviewing them and exclude those documents from Staff's review. Staff will advise the Receiver of any privilege issues that may arise as a result of the review and will consult with the Receiver on those issues that are not otherwise addressed in this Protocol.

##### A. HARD COPY DOCUMENTS

1. The investigating team (the "Team") will endeavor not to request any hard copy documents from the Receiver that could be privileged.
2. Prior to requesting any documents, the Team will review any index provided by the Receiver. The Team will also not review any documents or folders obtained that on their face may contain privileged advice. For example, folders labelled "**Privileged and Confidential**" will not be reviewed and will be immediately returned to the Receiver.
3. Hard copy documents obtained from the Receiver will be scanned by the Technology & Evidence Control Unit ("TEC") and added to the main database of documents (the "**Main Database**").

##### B. E-MAILS

4. Upon request by the Team, the Receiver will provide electronic documents, which include the emails of certain custodians. These electronic documents will not have been reviewed for privilege prior to production.
5. TEC will upload the electronic documents into a database (the "**Receiver Database**") that is segregated from the Main Database. The Team will never have access to the Receiver Database.
6. TEC may "**de-dupe**" the electronic documents in the Receiver Database.
7. TEC will run searches through the Receiver Database to attempt to identify potentially privileged electronic documents (the "**Blind Search**"). The search terms for the Blind Search will be provided by the Team, based on its knowledge of the file (see Appendix

"A"). This list will be supplemented with a list of Ontario law firms provided by TEC.<sup>1</sup> Electronic documents that do not include "hits" from the Blind Search will be added to the Main Database and can be reviewed by the Team.

8. TEC will generate a summary report of the emails in the Receiver Database that contain "hits" from the Blind Search. The Report will set out the address fields (i.e., "To"; "From"; "CC" and "BCC"). A Team member will review the report to determine which emails have also been addressed to third parties and will code those emails as "Third Party". Those emails may also be added to the Main Database and can be reviewed by the Team.
9. With regard to the remaining electronic documents in the Receiver Database, that is those which generated a "hit" in the Blind Search, the Team will discuss next steps with the Receiver before taking any steps with respect to these documents. Options to consider may include, but are not limited to, delaying the assessment of privilege issues in the Receiver Database to a later time when a privilege holder is able to review or initiating a privilege review with the use of a "Filter Lawyer".

#### **IDENTIFICATION AND SEGREGATION OF POTENTIALLY PRIVILEGED DOCUMENTS DURING REVIEW**

1. In the event a Team member comes across a potentially privileged document in the Main Database, the Team member will stop reviewing the document immediately, record the document ID and advise litigation counsel, who will advise the Receiver.
2. If the potentially privileged document identified was originally a hard copy document, TEC will remove the electronic version from the Main Database and will identify the original document from the boxes provided by the Receiver. TEC will secure the document in an envelope, which will be returned to the Receiver with a completed chain of custody form.
3. If the potentially privileged document identified was originally an electronic document, TEC will remove the document from the Main Database and put it back into the Receiver Database, to which the Team has no access.
4. If possible, TEC may extract information such as name of lawyer, name of law firm, email address and, upon direction by litigation counsel, use the information to run further Blind Searches in the Main Database to segregate any similar, additional documents identified. These electronic documents will be dealt with as described in item 8, above.

Staff reserve the right to challenge at a later date any claim of solicitor client privilege that may be made over any documents identified as potentially privileged in accordance with this

---

<sup>1</sup> List downloaded from Korbitec Inc. (ACL or Automated Civil Litigation software) on July 27, 2016. The list for the Blind Search shall not include Kelly Margaritas, Margaritis Law, Stephanie McManus, or Compliance Support Services.

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Protocol. Staff also acknowledge that production of a document by the Receiver does not constitute a waiver of solicitor client privilege with respect to it.

**APPENDIX "A"****PRIVILEGE SEARCH TERMS  
LAWYERS AND LAW FIRMS**

From following list, search:

- (a) last name of known lawyer
- (b) portions of law firm email address
- (c) email address of known lawyer (to the extent not covered by (b))

	<b>Name of Lawyer</b>	<b>Law Firm</b>	<b>Email Address</b>
1.	Laura Paglia	Borden Ladner Gervais LLP	lPaglia@blg.com
2.	Suzanne Kittell	Borden Ladner Gervais LLP	SKittell@blg.com
3.	Kathryn M. Fuller	Borden Ladner Gervais LLP	kfuller@blg.com
4.	Martin J. Doane	Martin J. Doane, Barrister & Solicitor	mjd@martinjdoane.com
5.	Jeremy Devereux	Norton Rose Fulbright Canada LLP	Jeremy.devereux@nortonrosefulbright.com
6.	Bruce O'Toole	Crawley MacKewn Brush LLP	botoole@cmlaw.ca
7.	Ellen Bessner	Babin Bessner Spry	ebessner@babinbessnerspry.com
8.	Nigel Campbell	Blake, Cassels & Graydon LLP	nigel.comapbell@blakes.com
9.	Doug McLeod	Blake, Cassels & Graydon LLP	Doug.mcleod@blakes.com

**SCHEDULE "F"**  
**RECEIVER CERTIFICATE**

CERTIFICATE NO. \_\_\_\_\_

AMOUNT \$ \_\_\_\_\_

1. THIS IS TO CERTIFY that Grant Thornton Limited is the receiver and manager (in such capacities, the "Receiver") of the assets, undertakings and properties of all of the Respondents, except the Respondent Chrysalis Yoga Inc., including all proceeds thereof (collectively, the "Property", which term shall include the funds contained in the account of Chrysalis Yoga Inc. bearing No. 87296 00518 10 at Bank of Nova Scotia), appointed by Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated the \_\_\_\_\_ day of \_\_\_\_\_, 2017 (the "Order") made in an application having Court file number 17-CL-\_\_\_\_\_, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$ \_\_\_\_\_, being part of the total principal sum of \$ \_\_\_\_\_ which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily][monthly] not in advance on the \_\_\_\_\_ day of each month] after the date hereof at a notional rate per annum equal to the rate of \_\_\_\_\_ per cent above the prime commercial lending rate of Bank of \_\_\_\_\_ from time to time.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Toronto, Ontario.
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver

to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**GRANT THORNTON LIMITED**, solely in its capacity as Receiver of the Property, and not in its personal capacity

Per: \_\_\_\_\_

Name:

Title:

ONTARIO SECURITIES COMMISSION

Applicant

and CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, ET AL.

Respondents

Court File No. CV-17-11779-00CL

*ONTARIO*  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST  
Proceedings commenced at TORONTO

**APPOINTMENT ORDER**

ONTARIO SECURITIES COMMISSION  
20 Queen Street West, 22<sup>nd</sup> Floor  
Toronto ON M5H 3S8

Catherine Weiler (LSUC # 52424M)  
Tel: (416) 204-8985  
Fax: (416) 593-8321  
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Yvonne B. Chisholm (LSUC No. #37040F)  
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Email: ychisholm@osc.gov.on.ca

*Lawyers for the Applicant,  
Ontario Securities Commission*

4220

April 26, 2017

ONTARIO SECURITIES COMMISSION

and

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, ET AL.

Applicant

Respondents

Court File No. CV-17-11779-0086

April 26, 2017  
 Counsel for Crystal Wealth Systems and for  
 Chrysalis Yoga Inc have attended & advised  
 they do not oppose the order sought. I  
 am satisfied that the relief is fully  
 justified and that the requirements of  
 section 128 of the Securities Act have  
 been met. Order to go.

Dale J.

Service of a true copy hereof admitted  
 this 25 day of April, 2017

Chrysalis Yoga Inc.  
 SOLICITOR FOR

Service of a true copy hereof admitted  
 this 25 day of April, 2017

SOLICITOR FOR

Dale J.  
 Crystal Wealth

ONTARIO  
 SUPERIOR COURT OF JUSTICE  
 COMMERCIAL LIST  
 Proceedings commenced at Toronto

APPLICATION RECORD  
 VOLUME 8 OF 8

ONTARIO SECURITIES COMMISSION  
 20 Queen Street West, 22<sup>nd</sup> Floor  
 Toronto ON M5H 3S8

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Lawyers for the Applicant,  
 Ontario Securities Commission

4222

# TAB 3

Court File No. CV-17-11779-00CL

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

B E T W E E N:

ONTARIO SECURITIES COMMISSION

Applicant

- and -

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE AND PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE FUND, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.

Respondents

APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT R.S.O. 1990,  
c. S.5, AS AMENDED

FIRST REPORT TO THE COURT SUBMITTED BY GRANT THORNTON LIMITED  
IN ITS CAPACITY AS RECEIVER

JUNE 22, 2017



Grant Thornton Limited  
200 King Street West, 11<sup>th</sup> Floor  
Toronto, Ontario, M5H 3T4

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- Appendix 1** Securityholder Services Agreement dated February 17, 2004, unsigned Securityholder Services Agreement dated May, 2009, and unsigned Amending Agreement dated November 30, 2016
- Appendix 2** Summary of Mount Nemo Property Proposals Received
- Appendix 3** Mount Nemo Property Listing Agreement dated June 8, 2017

Court File No. CV-17-11779-00CL

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

B E T W E E N:

ONTARIO SECURITIES COMMISSION

Applicant

- and -

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE AND PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE FUND, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.

Respondents

APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT R.S.O. 1990,  
c. S.5, AS AMENDED

FIRST REPORT TO THE COURT SUBMITTED BY GRANT THORNTON LIMITED  
IN ITS CAPACITY AS RECEIVER OF THE RESPONDENTS

JUNE 22, 2017

## INTRODUCTION AND PURPOSE OF THE FIRST REPORT

- 1 On April 7, 2017, the Ontario Securities Commission (the "**OSC**") issued a temporary order (the "**Temporary Order**") providing that the trading of units of all of the Crystal Wealth Funds (defined herein) cease, that trading in securities held by the Crystal Wealth Funds cease, and prohibiting the trading in or acquisition of securities by Clayton Smith ("**Smith**") and Crystal Wealth Management System Limited (the "**Company**"), with limited exceptions that permitted Smith and the Company to liquidate exchange-traded securities in the Crystal Wealth Funds with such proceeds being deposited into the bank account of the relevant fund. A copy of the Temporary Order is attached as **Appendix "1"** to this First Report of the Receiver (the "**First Report**"). On April 28, 2017, the OSC extended the Temporary Order to October 3, 2017 (the "**Extension Order**"). The Extension Order is attached as **Appendix "2"** to this First Report.
- 2 On April 26, 2017, on application of the OSC to the Ontario Superior Court of Justice (Commercial List), the Honourable Mr. Justice Newbould issued an Order (the "**Appointment Order**") appointing Grant Thornton Limited: (i) as receiver and manager (in such capacities, the "**Receiver**"), without security, of all of the assets, undertakings and properties (collectively, the "**Property**") of each of the Respondents, except the Respondent, Chrysalis Yoga Inc. ("**Chrysalis Yoga**") (each of the Respondents except for Chrysalis Yoga being individually and collectively, the "**Crystal Wealth Group**"); and (ii) as Receiver of the account of the Respondent, Chrysalis Yoga, No. 87296 00518 10 at Bank of Nova Scotia (the "**Chrysalis Account**"), and of all contents, including funds, contained in the Chrysalis Account. The proceedings were commenced by way of application made by the OSC (the "**Application**") under section 129 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "**Act**"). The said receivership proceedings, shall be referred to herein as the "**Receivership Proceedings**". A copy of the Appointment Order and the endorsement of the Honourable Mr. Justice Newbould are attached as **Appendix "3"** to this First Report of the Receiver (the "**First Report**").
- 3 On April 26, 2017, the Honourable Mr. Justice Newbould issued an Order (the "**Vesting Order**") that, among other things, authorized the Receiver to complete, on behalf of the Respondent, CLJ Everest Ltd. ("**CLJ Everest**"), the sale transaction of the property located at 5043 Mount Nemo Crescent in Burlington, Ontario (the "**Mount Nemo Property**") to Martin McCready (the "**Purchaser**") pursuant to and in accordance with an

agreement of purchase and sale dated April 12, 2017 (the "**Mount Nemo Sale Agreement**"). A copy of the Vesting Order is attached to this First Report as **Appendix "4"**.

4 As outlined in the OSC's Application, the appointment of the Receiver was based on concerns the OSC had regarding, among other things, the Respondent, Crystal Wealth Media Strategy (the "**Media Fund**"). The OSC presented evidence that:

- a) ...*Smith advanced approximately \$9.6M from the Media Fund (which are investors' monies) to a third-party, Media House Capital (Canada) Corp., and another entity related to it, purportedly to purchase film loans for the Media Fund ("Film Loans", also referred to herein as "Media Loans"), when in fact at least \$329,930 was transferred to Smith's personal account, and \$2,307,347.50 was transferred to his personal holding company, CLJ Everest. It was stated that Smith used these monies to, among other things, make credit card payments, purchase the Mount Nemo Property, and fund his then common-law spouse's yoga studio.*<sup>1</sup>
- b) ...*raised concerns about the existence and validity of the Film Loans owned by the Media Fund, and whether the value of the Film Loans as reflected in the net asset value ("NAV") of the Media Fund has been materially overstated. Smith appears to have acknowledged that the Film Loans should be written down in value, but nevertheless he has not caused that to happen and the NAV of the Media Fund remained substantially unchanged.*<sup>2</sup>

5 The OSC stated that it believed that Smith and the Company may have:

- a) participated in a course of conduct relating to securities that they knew or reasonably ought to have known perpetrated a fraud, contrary to s. 126.1(1)(b) of the Act;
- b) failed to act fairly, honestly and in good faith with clients, contrary to s. 2.1 of Rule 31-505 - *Conditions of Registration*; and

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<sup>1</sup> Affidavit of Marcel Tillie, sworn April 17, 2017, para. 26; Affidavit of Michael Ho, sworn April 17, 2017, paras. 17-63

<sup>2</sup> Affidavit of Marcel Tillie, sworn April 17, 2017, paras. 32 and 41-57.

- c) failed to comply with the standard of care expected of investment fund managers under s. 116 of the Act.
- 6 The potential breaches of the Act identified with respect to the Media Fund have an impact on several of the other Crystal Wealth Funds due to the significant number of inter-fund investments between the Crystal Wealth Funds which inter-fund transactions, as discussed in detail later in this First Report, are particularly prevalent with respect to the Media Fund.
- 7 More detailed information pertaining to the Crystal Wealth Group, including the circumstances leading to the appointment of the Receiver, are contained in the affidavits of:
- a) Marcel Tillie sworn April 17, 2017;
  - b) Michael Ho sworn April 17, 2017;
  - c) David Adler sworn April 24, 2017; and
  - d) the supplementary affidavit of Michael Ho sworn April 24, 2017;
- (collectively, the "**Commission Affidavits**"), all filed in support of the Application. Copies of the Commission Affidavits, without exhibits, are attached hereto as **Appendix "5"**.
- 8 The purpose of this First Report is to inform the Court of the Receiver's activities since the date of the Appointment Order, to inform the Court of the Receiver's recommendations for the sale of certain investments of the Crystal Wealth Group, and to support the Receiver's request for an order, among other things, approving:
- a) this First Report, including the actions and activities of the Receiver as described in this First Report;
  - b) a claims process to be conducted by the Receiver in respect of creditor claims against the Crystal Wealth Group, other than those of investors (the "**Creditor Claims Procedure Order**");
  - c) the Receiver's reliance on the Unit Holder Listing (as defined herein) to make interim distributions to investors, where possible, without further approval of the

Court, of the proceeds obtained from the divestiture of certain assets of the Crystal Wealth Funds;

- d) the Receiver's request for an Order approving the proposed sale process ("Sale Process") with respect to certain Crystal Wealth Funds and authorizing the Receiver to carry out its functions in accordance with the Sale Process;
  - e) the Receiver's Interim Statement of Receipts and Disbursements for the period from April 26, 2017 to May 31, 2017 appended as **Appendix "6"** to the First Report;
  - f) the fees and disbursements of the Receiver and Aird & Berlis LLP, legal counsel to the Receiver ("A&B"), as described herein; and
  - g) sealing **Confidential Appendices "1", "2", and "3"** of this First Report until further Order of the Court.
- 9 The Receiver's activities since its appointment are detailed throughout this First Report, with specific details of particular activities being described at paragraph 178 below.

#### **RESTRICTIONS AND TERMS OF REFERENCE**

- 10 In preparing this First Report, the Receiver has relied upon unaudited financial information, the Crystal Wealth Group's books and records, certain financial information, discussions with the Crystal Wealth Group's former management and employees, and discussions with various interested parties (collectively, the "**Information**"). Except as described in this First Report, the Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.
- 11 This First Report has been prepared for the use of this Court to provide general information and an update relating to the Receivership Proceedings for the purpose of assisting the Court in making a determination as to whether to approve the relief sought. This First Report should not be relied on for any other purpose. The Receiver will not assume responsibility or liability for losses incurred as a result of the circulation, publication, reproduction or use of this First Report contrary to the provisions of this paragraph.

- 12 Capitalized terms not defined in this First Report are as defined in the Appointment Order.  
All references to dollars are in Canadian currency unless otherwise noted.
- 13 Copies of materials filed in these Receivership Proceedings are available on the  
Receiver's Case Website at: [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth).

## BACKGROUND

- 14 The Company is a corporation registered with the OSC in the categories of: "Exempt Market Dealer", "Investment Fund Manager", "Portfolio Manager", and "Commodity Trading Manager". Prior to the commencement of the Receivership Proceedings, it operated out of an office located at 192 Plains Road E., Burlington, Ontario (the "**Premises**").
- 15 Smith is the controlling mind of the Company, is listed as the sole director and officer, and holds a controlling interest of 91.76% in the Company. Smith's ownership is held indirectly through CLJ Everest, a holding company incorporated in Ontario of which Smith is the sole shareholder, officer, and director. CLJ Everest holds 28.26% of the Company's outstanding shares and 100% of the shares of the Respondent, 1150752 Ontario Limited ("**115 Ontario**"). 115 Ontario in turn holds 63.50% of the Company's outstanding shares. The remaining 8.24% of the Company's shares are held by an individual named Gary Allen who, as the Receiver understand, acts as a silent shareholder. A copy of the legal corporate structure provided by Smith to the Receiver is attached hereto as **Appendix "7"**.
- 16 At the time of the Appointment Order, Smith was registered in Ontario with the OSC as a dealing representative, an advising representative in the category of "Portfolio Manager", and an advising representative in the category of "Commodity Trading Manager". Smith was also registered as the Company's chief executive officer, chief compliance officer and ultimate designated person. In fulfilling his responsibilities in the latter two roles, Smith bears responsibility for the Company's compliance with Ontario securities laws, including, without limitation, the Act.
- 17 The Company created and managed the following 15 proprietary investment funds (collectively referred to as the "**Crystal Wealth Funds**"):
- a) Crystal Wealth Mortgage Strategy (the "**Mortgage Fund**");

- b) Crystal Enlightened Resource and Precious Metals Fund (the "**Resource Fund**");
- c) Crystal Wealth Enlightened Factoring Strategy (the "**Factoring Fund**");
- d) Crystal Wealth Medical Strategy (the "**Medical Fund**");
- e) Crystal Enlightened Bullion Fund (the "**Bullion Fund**");
- f) Crystal Wealth Media Strategy (the **Media Fund**);
- g) Crystal Wealth High Yield Mortgage Strategy (the "**High Yield Mortgage Fund**");
- h) Crystal Wealth Infrastructure Strategy (the "**Infrastructure Fund**");
- i) Crystal Wealth Enlightened Hedge Fund (the "**Hedge Fund**");
- j) Crystal Wealth Conscious Capital Strategy (the "**Conscious Capital Fund**");
- k) ACM Income Fund;
- l) ACM Growth Fund;
- m) Absolute Sustainable Dividend Fund (the "**Sustainable Dividend Fund**")
- n) Absolute Sustainable Property Fund (the "**Sustainable Property Fund**"); and
- o) Crystal Wealth Retirement One Fund (the "**Retirement Fund**").

A detailed description of the Crystal Wealth Funds and the work performed by the Receiver with respect to each of them is included later in this First Report.

- 18 The Crystal Wealth Funds are structured as open-ended mutual fund trusts. Units in each of the funds were distributed to investors on an exempt basis, pursuant to offering memoranda ("OMs"). The Company managed the day-to-day business of the Crystal Wealth Funds and was required to make investment decisions consistent with each fund's investment objectives. Based on internal information provided by Smith, the assets under management ("AUM") of the Crystal Wealth Funds, as at April 20, 2017, was approximately \$193,198,912. The Receiver believes this amount is materially overstated.

## OVERVIEW OF THE CRYSTAL WEALTH FUNDS

- 19 During the initial stages of its appointment, the Receiver obtained a general understanding of the Company and, in particular, the Crystal Wealth Funds. The following sections of this First Report provide a summary of the Crystal Wealth Funds and details regarding the steps and actions taken by the Receiver in this regard.
- 20 The Receiver conducted a series of discussions with Smith focusing on the process of administering the Crystal Wealth Funds, the individuals who made investment decisions, how buy/sell orders were executed by the Company, the entities involved in recording trades, and the identity of investors within the Crystal Wealth Funds at any given time, and the frequency and methodology for the pricing of the funds.
- 21 On May 4, 2017, the Receiver met with Smith and Joanne Bentley ("Bentley") (the Company's trading officer and an associate advising representative at the time of the Appointment Order), to review each of the Crystal Wealth Funds in detail, for the purpose of understanding the investment objective of each fund and the underlying investments contained within. During the meeting, Smith provided the Receiver with the most recent valuation package for each of the Crystal Wealth Funds prepared by the Company prior to the Appointment Order. The valuation package, dated April 20, 2017 (the "**April 20<sup>th</sup> Package**"), outlines the investments in, and respective values of, each investment for each of the funds. This information includes the acquisition cost and the supposed market value of each investment, which are referred to herein as the "**Recorded Cost**" and the "**Recorded Value**", respectively. A copy of the April 20<sup>th</sup> Package is attached to this First Report as **Appendix "8"**.
- 22 In general, each of the Crystal Wealth Funds contains one or more of the following types of investments:
  - a) cash and money market securities ("**Cash**") held with two third parties, NBCN Inc. (otherwise known as National Bank Correspondent Network) ("**NBCN**") and Interactive Brokers Canada Inc. ("**IBCI**");
  - b) investments where the underlying security is held and recorded by NBCN ("**On-Book Assets**"); and
  - c) investments not held or recorded by NBCN but rather administered by the

Company and/or a third-party ("Off-Book Assets")

(collectively referred to as the "**Investment Categories**").

- 23 At the conclusion of the meeting, the Receiver provided Smith with a more detailed request to provide supporting documentation verifying the existence, value, and ownership of the investments contained in each of the Crystal Wealth Funds, with specific emphasis on the Off-Book Assets.
- 24 Shortly thereafter, Smith compiled and delivered to the Receiver a set of documents in response to the Receiver's request (the "**Provided Documents**"). The Provided Documents, particularly as they relate to the Off-Book Assets, are largely incomplete. In order to supplement the Provided Documents, the Receiver has been concurrently contacting various third parties to obtain the information required to support and corroborate the assets recorded on the Company's records.
- 25 Through discussions with Smith and the Receiver's review of the Provided Documents, it became apparent to the Receiver that the governance and management of the Crystal Wealth Funds, again more relating to the Off-Book Assets, was insufficient for a Company managing AUM of purportedly approximately \$200M. Through a continued review of the additional documentation obtained from various sources, the Receiver noted that there are little to no internal tracking mechanisms in place at the Company with respect to the Off-Book Assets. In addition, there appears to be no protocol for organizing documentation with respect to the investments and no central location or repository for same. This has continued to further impact the Receiver's efforts to gain a comprehensive understanding of the Off-Book Assets.
- 26 Notwithstanding the foregoing, the following is a summary of the Crystal Wealth Funds and the Investment Categories outlined in the April 20<sup>th</sup> Package:

Fund <sup>1</sup>	Portfolio Manager	Cash	On-Book Assets	Off-Book Assets	Accruals	Total
Mortgage Fund	Smith	\$ 1,217,989	\$ 2,578,364	\$ 23,242,421	\$ 44,162	\$ 27,082,935
Resource Fund	A. Housego	185,489	1,908,151	966	(6,799)	2,087,807
Factoring Fund	A. Housego	411,706	11,026,656	27,771,688	(1,085,882)	38,124,168
Medical Fund	Smith	449,770	1,540,927	7,277,553	1,840	9,270,090
Bullion Fund	A. Housego	268,830	763,006	-	(2,280)	1,029,555
Media Fund	Smith	731,305	1,018,720	53,520,539	(803,721)	54,466,843
High Yield Mortgage Fund	Smith	760,006	1,378,897	3,344,820	(41,557)	5,442,165
Infrastructure Fund	Smith	2,087,302	315,000	5,362,300	-	7,764,601
Hedge Fund	A. Housego	531,692	1,561,271	11,862,643	(36,657)	13,918,950
Conscious Capital Fund	Smith	27,905	658,198	(274,000)	(2,897)	409,206
ACM Income Fund	Smith	371,053	10,458,518	-	(14,153)	10,815,417
ACM Growth Fund	Smith	(2,040,779)	13,674,671	-	(24,828)	11,609,064
Sustainable Dividend Fund	Smith	121,340	6,524,987	3,475	(19,627)	6,630,175
Sustainable Property Fund	Smith	245,796	-	4,314,619	(12,480)	4,547,935
		\$ 5,369,403	\$ 53,407,366	\$ 136,427,023	\$ (2,004,879)	\$ 193,198,912
1-USD to CAD Rate: 1.3481001						

27 The general types of investments contained within each of the Investment Categories, all of which are discussed in detail later in this First Report, are as follows:

a) ***On-Book Assets include:***

- i. investments in units of Crystal Wealth Funds ("Inter-fund Investments");
- ii. equity investments in companies whereby the securities of same are traded on active market exchanges and readily saleable ("Equities") as well as warrant options for the purchase of similar shares at a stated price in respect of equities traded on active market exchanges ("Warrants");
- iii. equity investments in companies whereby the securities were obtained through private placements or direct purchases and are not traded on active market exchanges and therefore are not readily saleable ("Private Equities") and warrant options for the purchase of shares in same at a stated price ("Private Warrants");
- iv. gold purchase agreements for the right to purchase a stated number of gold bullion ounces ("Gold") at a discount ("Gold Contracts");
- v. fixed income debentures with the option for the holder to convert the instrument into a set number of shares in the borrower ("Convertible Debentures");

- vi. unit holdings in mutual funds not managed by the Company and thus external to the Crystal Wealth Group, which the Receiver understands should be reasonably redeemable or monetizable ("External Mutual Funds"); and
- vii. currency future contracts, entered into with the purpose of hedging against a decline of the U.S. Dollar in relation to the Canadian Dollar ("USD Futures").

b) *Off-Book Assets include:*

- i. investments in first or second non-conventional residential mortgages administered by third parties ("Residential Mortgages");
- ii. term loans issued to private corporations and entities for various purposes ("Commercial Loans");
- iii. term loans purchased from Media House Capital (Canada) Corp. ("MHC") reflecting loans made to various production companies for the production of films ("Media Loans");
- iv. contracts with commercial businesses under which specific Crystal Wealth Funds purchased accounts of such businesses at a discount ("Factoring Contracts");
- v. participation rights in contracts with healthcare providers to purchase medical accounts receivable at a discount ("Medical Factoring Contracts"); and
- vi. preferred and common partnership units in 1076874 Properties Limited Partnership ("107 LP"), an entity that owns an interest in various rental properties located in the United States.

A detailed summary of the Crystal Wealth Funds and the Recorded Values of the investments as at April 20, 2017, prepared by the Receiver, is attached as **Appendix "9"** to this First Report.

## CRYSTAL WEALTH FUND DESCRIPTIONS

- 28 For the purposes of this section, noted Cash balances and investment values are based on the Recorded Values in the April 20<sup>th</sup> Package, unless otherwise stated. They should not be taken as any statement, representation or reflection of actual or realizable value.

### Mortgage Fund

- 29 The Mortgage Fund is the oldest active fund of the Crystal Wealth Group initially launched on or about April 12, 2007 with the objective of generating "a consistently high level of interest income with no downside volatility by investing primarily in first and second Canadian residential mortgages"<sup>3</sup>.
- 30 As at April 20, 2017, the Mortgage Fund held Cash of \$1,217,989 along with the following investments:
- a) On-Book Assets:
    - i. a 90 day GIC with HSBC Canada with a Recorded Value of \$522,765; and
    - ii. Inter-fund Investment in the Media Fund with a Recorded Value of \$2,055,599.
  - b) Off-Book Assets:
    - i. one hundred thirty four (134) individual Residential Mortgages managed by Spectrum Canada Mortgage Services Inc. ("Spectrum") and Squire Management Inc. ("Squire"), with a Recorded Value of \$14,322,861;
    - ii. Commercial Loans with a Recorded Value of \$8,543,500 made to the following entities:
      1. MCSnoxrecovery Inc. ("MCSnox") – \$2,000,000;
      2. 2441472 Ontario Inc. ("1472") – \$1,800,000;

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<sup>3</sup> <http://crystalwealth.com/quartz-strategies/crystal-wealth-mortgage-strategy/>, Mortgage Fund OM, Nov. 21, 2016.

- 3. Magnitude CS Energy Inc. ("Magnitude") – \$1,133,500;
- 4. Pond Technologies Inc. (formerly known as Pond Biofuels Inc.) ("Pond") – \$3,110,000; and
- 5. Kanwal Development Inc. ("Kanwal") – \$500,000.

A detailed discussion of the Commercial Loans appears later in this First Report.

- iii. accrued and uncollected interest related to Residential Mortgages and Commercial Loans with a Recorded Value of \$376,060.

### **Resource Fund**

- 31 The Resource Fund was launched on or about August 14, 2009, and its objective was to "...generate positive absolute annual returns by investing primarily in securities with economic exposure to the global resource and precious metals sector"<sup>4</sup>.
- 32 As at April 20, 2017, the Resource Fund held Cash of \$185,489. The Resource Fund also held the following investments:
- a) On-Book Assets:
    - i. thirty nine (39) Equities in the resource and precious metals sector with a Recorded Value of \$1,563,820 along with 21 Warrants with a Recorded Value of \$36,878;
    - ii. one (1) 5% Convertible Debenture with a Recorded Value of \$50,000 plus accrued interest with a Recorded Value of \$966 (recorded as an Off-Book Asset);
    - iii. one (1) USD foreign exchange contract with a Recorded Value of negative \$4,718; and

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<sup>4</sup> [crystalwealth.com/sapphire-funds/crystal-enlightened-resource-and-precious-metals-fund](http://crystalwealth.com/sapphire-funds/crystal-enlightened-resource-and-precious-metals-fund), Resource Fund OM, Nov. 21, 2016.

- iv. Inter-fund Investments in the Bullion Fund and Factoring Fund with Recorded Values of \$261,643 and \$528, respectively.

### **Factoring Fund**

- 33 The Factoring Fund has an inception date of on or about January 22, 2010 and an objective to "...provide consistently positive total returns while seeking to protect against downside risk by investing primarily in commercial factoring contracts"<sup>5</sup>. In addition, the Factoring Fund is "...authorized to invest in other securities including equities, fixed income securities, investment funds and exchange-traded derivatives"<sup>6</sup>. The exclusive partner of this Crystal Wealth Fund in executing this strategy is Frontline Factoring Inc. ("Frontline"). Frontline is discussed later in this First Report.
- 34 As at April 20, 2017, the Factoring Fund held Cash of \$411,706 and held the following investments:
- a) On-Book Assets:
    - i. six (6) Equities and three (3) Warrants totaling a Recorded Value of \$988,026;
    - ii. one (1) 10% Convertible Debenture, from Garmatex Holdings Ltd. with a Recorded Value of \$30,000;
    - iii. five (5) Gold Contracts with a Recorded Value of \$6,996,654;
    - iv. one (1) External Mutual Fund with a Recorded Value of 67,406;
    - v. USD foreign exchange contracts with a Recorded Value of negative \$8,234; and
    - vi. Inter-fund Investments in the Hedge Fund and Media Fund with Recorded Values of \$2,951,950 and \$854, respectively.

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<sup>5</sup> [crystalwealth.com/sapphire-funds/crystal-wealth-enlightened-factoring-strategy](http://crystalwealth.com/sapphire-funds/crystal-wealth-enlightened-factoring-strategy), Factoring Fund OM, Nov. 21, 2016

<sup>6</sup> [crystalwealth.com/sapphire-funds/crystal-wealth-enlightened-factoring-strategy](http://crystalwealth.com/sapphire-funds/crystal-wealth-enlightened-factoring-strategy), Factoring Fund OM, Nov. 21, 2016

b) Off-Book Assets:

- i. a promissory note with a principal amount owing of USD \$125,000 (Recorded Value of \$168,513) along with an additional conversion option for common shares in the borrower, 1092545 B.C. Ltd. ("109 BC"), along with accrued interest with a Recorded Value of \$41,136;
- ii. twelve (12) Factoring Contracts managed by Frontline with a Recorded Value of \$22,821,205, in addition to accrued interest and fees with a Recorded Value of \$1,641,268; and
- iii. a 31.545% ownership in 107 LP with Recorded Cost and a Recorded Value of \$2,898,415 (US \$2,650,000) in addition to accrued (but uncollected) interest with a Recorded Value of \$201,151.

**Medical Fund**

35 The Medical Fund was launched on or about January 22, 2010 with an objective to "...generate a high level of interest income with minimal volatility and low correlation to most traditional asset classes by investing in American health care receivables"<sup>7</sup>. The exclusive partner in executing this strategy is Xynergy Medical Capital LLC ("Xynergy"), who is discussed later in this First Report.

36 As at April 20, 2017, the Medical Fund held Cash of \$449,770 and the following investments:

a) On-Book Assets:

- i. one (1) External Mutual Fund with a Recorded Value of \$25,288;
- ii. one (1) USD Equity traded on the "Over-The-Counter Markets Exchange" in the United States with a Recorded Value of \$7,846;
- iii. one (1) USD foreign exchange contract with a Recorded Value of negative \$18,812; and

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<sup>7</sup> <http://crystalwealth.com/quartz-strategies/crystal-wealth-medical-strategy/>, Medical Fund OM, Nov. 21, 2016

iv. Inter-fund Investment in the Media Fund with a Recorded Value of \$1,526,605.

b) Off-Book Assets:

i. thirty (30) Medical Factoring Contracts managed by Xynergy and accrued fees related to same with Recorded Values of \$6,470,773 (US \$4,800,019) and \$806,780 (US \$598,469), respectively.

**Bullion Fund**

37 The Bullion Fund was launched on or about July 3, 2015. The Bullion Fund's objective was to "...provide investors with the opportunity to invest in gold and silver bullion in a convenient way while simultaneously earning a yield on their bullion holdings"<sup>8</sup>.

38 As at April 20, 2017, the Bullion Fund held Cash of \$268,830 and the following investments:

a) On-Book Assets:

i. two (2) Gold Contracts with a Recorded Value of \$763,006.

**Media Fund**

39 The Media Fund was launched on or about September 2, 2011. This fund's objective was to "...generate a high level of interest income with minimal volatility and low correlation to most traditional asset classes by investing in debt obligations of motion pictures and series television productions"<sup>9</sup>. The exclusive partner in executing this strategy was MHC, who is discussed in detail later in this First Report.

40 As at April 20, 2017, the Media Fund held Cash of \$731,305 and the following investments:

a) On-Book Assets:

i. one (1) External Mutual Fund with a recorded value of \$1,042,228; and

<sup>8</sup> <http://crystalwealth.com/sapphire-funds/crystal-enlightened-bullion-fund/>, Bullion Fund OM, May 17, 2016

<sup>9</sup> <http://crystalwealth.com/quartz-strategies/crystal-wealth-media-strategy/>, Media Fund OM, Nov. 21, 2016

- ii. one (1) USD foreign exchange contract with a negative Recorded Value of \$23,508.

b) Off-Book Assets all managed by MHC:

- i. twenty one (21) CAD Media Loans with principal and accrued interest Recorded Values of \$33,649,959 and \$11,873,156, respectively; and
- ii. four (4) USD Media Loans with principal and accrued interest Recorded Values of \$5,325,456 (US \$3,950,423) and \$2,671,968 (US \$1,982,065), respectively.

### **High Yield Mortgage Fund**

- 41 The High Yield Mortgage Fund was launched on or about January 23, 2015. The High Yield Mortgage Fund's objective was to "...generate a consistently high level of interest income while focusing on preservation of capital by investing primarily in residential 2nd mortgages in Canada"<sup>10</sup>. The exclusive partner in executing this strategy was and continues to be Spectrum.
- 42 As at April 20, 2017, the High Yield Mortgage Fund held Cash of \$760,006 and the following investments:

a) On-Book Assets:

- i. Inter-fund Investments in the Media Fund and Mortgage Fund with Recorded Values of \$516,820 and \$862,077, respectively.

b) Off-Book Assets:

- i. fifty one (51) individual Residential Mortgages, administered by Spectrum, with a principal balance of \$2,467,145 (Recorded Value) plus monthly accrued interest with a Recorded Value of \$437;

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<sup>10</sup> [crystalwealth.com/quartz-strategies/crystal-wealth-high-yield-mortgage-strategy/](http://crystalwealth.com/quartz-strategies/crystal-wealth-high-yield-mortgage-strategy/), High Yield Mortgage Fund OM, Nov. 21, 2016

- ii. an inter-fund loan receivable from the Conscious Capital Fund with a Recorded Value of \$274,000; and
- iii. participation in the Pond Loan (as defined below) with a principal balance of \$550,000 plus accrued interest with a Recorded Value of approximately \$53,238;

### **Infrastructure Fund**

- 43 The Infrastructure Fund was launched on or about May 6, 2016. The Infrastructure Fund's objective was to "...generate a consistently high level of interest income along with long-term growth potential while focusing on preservation of capital by investing primarily in debt and equity instruments of infrastructure projects and companies"<sup>11</sup>.
- 44 As at April 20, 2017, the Infrastructure Fund held Cash of \$2,087,302 and the following investments:
- a) On-Book Assets:
    - i. a Convertible Debenture to Cinnos Mission Critical Incorporated ("Cinnos") with a principal balance of \$315,000 (the note is convertible into common shares of Cinnos at a rate of 85% of the value of such share upon an initial equity raise); and
  - b) Off-Book Assets:
    - i. seven (7) separate loans to two (2) companies for a total principal value of \$5,154,571 called the OOM Energy Loans (defined and discussed herein) with a Recorded Value of accrued interest of \$193,782; and
    - ii. accrued interest related to the Convertible Debenture from Cinnos with a Recorded Value of \$13,947.

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<sup>11</sup> <http://crystalwealth.com/quartz-strategies/crystal-wealth-infrastructure-strategy/>. Infrastructure Fund OM, Nov. 21, 2016

## Hedge Fund

- 45 The Hedge Fund was launched on or about February 26, 2016. The Hedge Fund's objective was to "...generate consistently positive annual returns regardless of the directional movement in equity, interest rates or currency markets"<sup>12</sup>.
- 46 As at April 20, 2017, the Hedge Fund held Cash of \$531,692 and the following investments:
- a) On-Book Assets:
    - i. one (1) USD, and three (3) CAD Equities, as well as two (2) Warrants, with a cumulative Recorded Value of \$272,508;
    - ii. four (4) Gold Contracts with a cumulative Recorded Value of \$1,235,773; and
    - iii. one (1) External Mutual Fund with a Recorded Value of \$52,990;
  - b) Off-Book Assets:
    - i. three (3) Factoring Contracts with principal and related accrued interest with Recorded Values of \$2,992,362 and \$568,797, respectively;
    - ii. a 68.45% ownership in 107 LP with a Recorded Cost and Recorded Value of \$7,751,575 (US \$5,750,000) and accrued interest with a Recorded Value of \$503,909 (US \$373,800); and
    - iii. a non-interest bearing promissory note with a face value of \$46,000 issued from the 107 LP due December 31, 2017.

## Conscious Capital Fund

- 47 The Conscious Capital Fund was launched on or about May 27, 2016. The Conscious Capital Fund's objective was "...long term capital growth through investment in companies

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<sup>12</sup> <http://crystalwealth.com/sapphire-funds/crystal-wealth-enlightened-hedge-fund/>, Hedge Fund OM, Nov. 21, 2016

*that are making a positive change in the world”<sup>13</sup>.*

48 As at April 20, 2017, the Conscious Capital Fund held Cash of \$27,905 and the following investments:

a) On-Book Assets:

- i. 336,571 common shares in Pond (Private Equities) with a Recorded Value of \$632,753; and
- ii. 212,040 warrants (Private Warrants) in Pond with the right to purchase shares (one share per warrant) at a strike price of \$2.50/share, expiring November 21, 2018 with a Recorded Value of \$25,445.

b) Off-Book Assets (Liabilities):

- i. an inter-fund loan owing to the High Yield Mortgage Fund with a principal balance of \$274,000.

### **ACM Income Fund**

49 The ACM Income Fund was launched on or about July 4, 2014. The ACM Income Fund’s objective was to *“...provide a consistent level of current income while protecting against loss of capital”<sup>14</sup>.*

50 As at April 20, 2017, the ACM Income Fund held Cash of \$371,053 and the following investments:

a) On-Book Assets:

- ii. Manulife Yield Opportunities Fund (External Mutual Fund) with a Recorded Value of \$560,025; and
- iii. Inter-fund Investments with a total Recorded Value of \$9,898,493 in the following four Funds with the respective Recorded Values:

<sup>13</sup> <http://crystalwealth.com/quartz-strategies/conscious-capital-strategy/>, Conscious Capital Fund OM, Nov. 28, 2016

<sup>14</sup> <http://crystalwealth.com/sapphire-funds/acm-income-fund/>, ACM Income Fund and ACM Growth Fund OM, May 6, 2016

1. Media Fund – \$6,594,529;
2. Factoring Fund – \$2,426,339;
3. Medical Fund – \$560,297; and
4. Hedge Fund – \$317,328.

### **ACM Growth Fund**

51 The ACM Growth Fund was launched on or about July 4, 2014. The ACM Growth Fund's objective was to "...provide long term capital appreciation while minimizing the risk of loss of capital"<sup>15</sup>.

52 As at April 20, 2017, the ACM Growth Fund had a margin balance (negative Cash) of \$2,040,779 and held the following investments:

a) On-Book Assets:

- i. fourteen (14) Equities in publicly traded entities with a Recorded Value of \$5,452,400;
- ii. four (4) External Mutual Funds with a Recorded Value of \$3,482,518; and
- iii. Inter-fund Investments with a total Recorded Value of \$4,739,753 in the following four Funds with the respective Recorded Values of:
  1. Factoring Fund – \$2,511,933;
  2. Mortgage Fund - \$1;
  3. Hedge Fund – \$1,655,059; and
  4. Media Fund – \$572,761.

b) Off-Book Assets:

- i. accrued interest and dividends related to investments with a Recorded

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<sup>15</sup> Ibid.

Value of \$3,475.

### **Sustainable Dividend Fund**

53 The Sustainable Dividend Fund was launched on or about February 5, 2016. The Sustainable Dividend Fund's objective was to "...generate long term capital appreciation while focusing on preservation of capital by combining sustainable, responsible and values-based investing principles"<sup>16</sup>.

54 As at April 20, 2017, the Sustainable Dividend Fund held Cash of \$121,340 and the following investments:

a) On-Book Assets:

- i. nine (9) CAD Equities with a Recorded Value of \$1,440,897;
- ii. twenty Five (25) USD Equities with a Recorded Value of \$5,008,397 (US \$3,715,153); with accrued dividends with a Recorded Value of \$3,475 (classified as an Off-Book Asset); and
- iii. Inter-fund Investment in the Sustainable Property Fund with a Recorded Value of \$75,693.

### **Sustainable Property Fund**

55 The Sustainable Property Fund was launched on or about February 5, 2016. The Sustainable Property Fund's objective was to "...generate a consistently reasonable level of income while focusing on preservation of capital by investing primarily in a diversified portfolio of alternative financing vehicles on real properties, within the residential and commercial sectors while adhering to Responsible, Equitable and Values-Based principles"<sup>17</sup>. The exclusive partner in executing this strategy, was and continues to be Spectrum.

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<sup>16</sup> <http://crystalwealth.com/sapphire-funds/absolute-sustainable-dividend-fund/>, Sustainable Dividend Fund OM, Nov. 21, 2016

<sup>17</sup> <http://crystalwealth.com/sapphire-funds/absolute-sustainable-property/>, Sustainable Property Fund OM, Nov. 21, 2016

56 As at April 20, 2017, the Sustainable Property Fund held Cash of \$245,796 and the following investments:

a) Off-Book Assets:

- i. six (6) individual Residential Mortgages with a principal balance of \$2,219,879 administered by Spectrum; and
- ii. a Commercial Loan to MCSAB10 Inc. ("MCSAB") with a principal balance of \$2,000,000 plus accrued user fees with a Recorded Value of \$94,740.

**Retirement Fund**

57 The Retirement Fund was originally launched on or about January 2015 and was discontinued in March 2017. The Unit Holder Listing (defined later in this First Report) provided by International Financial Data Services (Canada) Limited ("IFDS") (a third-party that maintained the listing of investors) indicated that there were zero investors in the Retirement Fund and it had a NAV of \$0.

**ON-BOOK ASSETS – SPECIFIC DETAILS**

**Inter-Fund Investments**

58 Upon review of the April 20<sup>th</sup> Package, the Receiver noted that there were significant Inter-fund Investments between the Crystal Wealth Funds. The Media Fund is the single largest recipient of Inter-fund Investments with a Recorded Cost of \$11,349,768. The Recorded Costs noted for the following Crystal Wealth Funds represent the Inter-fund Investment balance in the Media Fund as at April 20, 2017:

- a) ACM Income Fund – \$6,641,115;
- b) Mortgage Fund – \$2,072,643;
- c) Medical Fund – \$1,537,291;
- d) ACM Growth Fund – \$576,764;
- e) High Yield Mortgage Fund – \$521,098; and

f) Factoring Fund – \$857.

The Receiver has prepared a diagram outlining the Inter-fund Investments between the Crystal Wealth Funds, with the noted Recorded Costs, which is attached as **Appendix "10"**.

- 59 When questioned, Smith advised the Receiver that Inter-fund Investments are common in the mutual fund industry and were utilized to manage cash flow requirements between the Crystal Wealth Funds, specifically for requested redemptions from investors. Based on the transaction data obtained from NBCN for the 12 months ending April 26, 2017, it appears the inter-fund transfers are largely one sided, meaning that the Media Fund is the largest recipient of proceeds from other funds to create liquidity in the Media Fund for redemptions.
- 60 The Receiver intends to conduct a more thorough review of the inter-fund transfers and will report the results of such review in a future report to the Court.

### **Equities and Warrants**

- 61 Certain Equities in the Funds are traded in the following active markets:
- a) Toronto Stock Exchange;
  - b) TSX – Venture Exchange;
  - c) New York Stock Exchange;
  - d) National Association of Securities Dealers Automated Quotations ("NASDAQ");
  - e) Australian Stock Exchange; and
  - f) Over-The-Counter Markets Exchange in the United States.

As a result, Equities quoted on these exchanges **should be** relatively liquid.

- 62 Based on a preliminary review of supporting documentation, some of the Warrants contain restrictions on their assignability and ultimately their saleability. Therefore, these warrants may not be readily liquid. The Receiver will continue to review the supporting documentation regarding these warrants to determine if and when they may be turned into

cash.

### **Private Equities and Private Warrants**

- 63 Private Equities held in the Crystal Wealth Funds are obtained primarily through private placements or through direct purchases from persons who independently hold same. These investments are not actively traded in external markets. Therefore, they are not easily valued or realizable. The Receiver continues to review documentation and correspond and/or meet with the issuers with respect to these investments to develop a monetization strategy.
- 64 Similar to the Warrants, the Receiver continues to review the documentation with respect to each of the Private Warrants.

### **Gold Contracts**

- 65 The Bullion Fund, Factoring Fund, and Hedge Fund collectively have a total of eleven (11) Gold Contracts:
- a) Onstar Exploration Ltd. ("Onstar") – 4 Gold Contracts with a combined Recorded Value of approximately \$6,447,484 (the "Onstar Contracts");
  - b) 611802 B.C. Ltd. ("611 BC") – 4 Gold Contracts with a combined Recorded Value of approximately \$1,255,819 (the "611 Contracts");
  - c) Inca One Gold Corp. ("Inca") – 2 Gold Contracts with a combined Recorded Value of approximately \$958,797 (the "Inca Contracts"); and
  - d) Solid Holdings Ltd. ("Solid Holdings") – 1 Gold Contract with a Recorded Value of \$333,332 (the "Solid Contract").

(Onstar, 611 BC, Inca, and Solid Holdings are referred to as the "Gold Sellers"). A summary of the Gold Contracts is attached hereto as **Appendix "11"**.

### Onstar Contracts, 611 Contracts, Inca Contracts, and Solid Contract

- 66 The 611 Contracts, the Inca Contracts and the Solid Contract (collectively, the "Settlement Contracts") are similar in nature in that upon expiry, the contract is

completed either through: (i) the delivery of the Gold; or (ii) a cash settlement.

67 In general, the commercial arrangement for the Settlement Contracts is as follows:

- a) the Crystal Wealth Fund enters into a monthly Settlement Contract whereby it becomes entitled to purchase a certain amount of Gold at the current quoted spot price per ounce (the "**Spot Price**"), less a stated discount (between 1% to 5%) (the "**Purchase Price**") for a stated period of time until the contract matures (the "**Maturity Date**");
- b) on the anniversary date of each month (the commencement date of the Settlement Contract), there is a settlement in cash between the Gold Seller and the Crystal Wealth Fund whereby the Fund "sells" the Gold to the Seller at the Spot Price and then "re-purchases" the Gold at the Purchase Price (no actual transfer of physical Gold occurs);
- c) at the Maturity Date, a final settlement occurs either through the delivery of Gold to an agreed upon location or through a cash settlement whereby the Gold Seller remits payment to the Crystal Wealth Fund for the current market value of the Gold.

An example of a Settlement Contract under increasing and decreasing Gold prices along with an example of the appendices of such a contract (with financial terms redacted) is attached to this First Report as **Appendix "12"**.

68 Based on the contact information provided by the Company, the Receiver corresponded with the Gold Sellers advising them of the Appointment Order and requested a discussion to be scheduled with the Receiver. A summary of the various correspondence and discussions with each of the Gold Sellers is included below:

- a) 611 BC
  - i. 611 BC explained the nature of the Settlement Contract and 611 BC's role in same. The 611 Contracts begin to expire in November 2017.
  - ii. The Receiver inquired into the potential for an early exit from the 611 Contracts. 611 BC indicated that since it does not have to settle the 611 Contract until November 2017, the potential for an early exit would not be

possible as 611 BC does not have the funds required to buyout the contract at this time or to deliver the Gold. Mining of the Gold under this contract has not yet commenced.

b) Inca

- i. There are currently two Inca Contracts ("Inca 1" and "Inca 2"). The third and final tranche of Inca 1 expired on June 1, 2017 while Inca 2 expires December 1, 2017.
- ii. The Receiver conducted a call with Inca on May 24, 2017. Inca indicated that it did not have the funds available to settle the third and final tranche of Inca 1 and that it would prepare a re-payment proposal for the Receiver to review.
- iii. On June 7, 2017, Inca provided a proposal to the Receiver which proposed that Inca settle the Inca Contracts for a cumulative value of \$1,000,000 over the course of 52 weeks beginning June 26, 2017. The proposal also included an alternative for Inca to repay the original face value (i.e. the acquisition cost) of the Inca Contracts plus a 2.5% annual interest rate, for total proceeds of approximately \$725,000 within 60 days. The Receiver has acknowledged receipt of this proposal but has not provided a response to Inca.

c) Solid Holdings

- i. On May 20, 2017, the Receiver obtained a response from a representative from Solid Holdings stating that the president of the company (the contact for the Solid Contract) was very ill, and, therefore, was unable to respond to questions. The Receiver advised the representative to have the president of Solid Holdings contact the Receiver once available. The Solid Contract does not expire until February 2018.
- ii. On June 20, 2017, the Receiver had a discussion with the president of Solid Holdings who indicated the company was undergoing significant financial and operational challenges. The Receiver has requested certain information to better understand this situation.

d) Onstar

- i. The nature of the Onstar Contracts differs slightly from the Settlement Contracts. The Factoring Fund and Hedge Fund entered into Gold Certificate Subscription Agreements whereby the Hedge/Factoring Fund purchased gold certificates for 1,000 ounces of gold per certificate (the "Gold Certificates"). The Receiver was able to locate unsigned Gold Certificates in the Company's books and records which included the following:
  - 1. *Gold deliveries to the Owner [the Hedge/Factoring Fund] shall commence on April 30, 2017 F.O.B. Juneau, Alaska and shall occur monthly, until the entire 1,000 ounces of gold due under this Certificate has been delivered to the Owner. It is expected that all gold payments will be completed no later than April 30, 2019.*

The Receiver has confirmed with Onstar that no Gold has been delivered to either the Factoring Fund or the Hedge Fund.

- ii. The Receiver is unable to locate executed versions of the Gold Certificates in the Company's books and records.
- iii. The Receiver conducted a call with Onstar on May 24, 2017. On this call, Onstar claimed that one of the Company's former independent investment advisors, Al Housego ("Housego"), had verbally agreed to provide a total of US \$10M of funding to Onstar for the development of a mine in Juneau, Alaska. However, to date, the Hedge Fund and Factoring Fund had only provided USD \$4M. As a result, Onstar has had to seek external financing to complete the development of such mine.
- iv. The Receiver had requested that Onstar provide copies of the executed Onstar Contracts which, as at the date of this Report, have not been provided to the Receiver.

#### **External Mutual Funds**

69      External Mutual Funds include units in mutual funds managed by large asset management

firms, including: Hollis Canadian Bank, Sentry Investments, National Bank Mutual Funds, Manulife Asset Management Limited, and Sprott Asset Management LP. It is the Receiver's understanding that the units in these External Mutual Funds should be reasonably redeemable.

## OFF-BOOK ASSETS – SPECIFIC DETAILS

### Residential Mortgages

- 70 The Mortgage Fund, High Yield Mortgage Fund, and Sustainable Property Fund contain a total of 191 Residential Mortgages with a cumulative principal balance owing to the said Funds of \$19,009,884.
- 71 Of the 191 Residential Mortgages, 189 (\$18,813,884) are administered by a third-party, Spectrum, while the remaining two Residential Mortgages (\$196,000) are administered by Squire (the "**Squire Mortgages**"). Spectrum and Squire are both licensed financial intermediaries involved in originating, underwriting, and managing non-conventional first and second Residential Mortgages. Spectrum and Squire both have Mortgage Procurement and Administration Agreements ("**MPAAs**") with the Company, the Mortgage Fund, the High Yield Mortgage Fund, and the Sustainable Property Fund (collectively the "**Mortgage Related Funds**") outlining their respective roles in administering Residential Mortgages on behalf of the Mortgage Related Funds.
- 72 Spectrum and Squire evaluate and underwrite Residential Mortgages which are then presented to the Mortgage Related Funds for purchase. Once purchased, Spectrum and Squire administer the Residential Mortgages by performing duties, including, but not limited to:
- a) collecting and remitting principal and interest payments by the mortgagors on a monthly basis;
  - b) negotiating and settlement of, and collecting payments in arrears;
  - c) the management of any legal actions require to enforce on a Residential Mortgage; and
  - d) administering a trust account(s) on behalf of the Company and Mortgage Related

Funds and remitting monies to same as requested by the Company.

- 73 Shortly after the commencement of the Receivership Proceedings, the Receiver instructed Spectrum to continue to perform its obligations under the MPAA with the Company and remit balances collected in the trust account administered by Spectrum on behalf of the Mortgage Related Funds on a weekly basis to NBCN. The Receiver remains in regular contact with Spectrum with respect to the administration of the Mortgage Related Funds.
- 74 On June 19, 2017, Squire offered to acquire the Squire Mortgages, with an effective date of June 23, 2017, for proceeds of \$197,526 (proceeds include the entire principal value of the Squire Mortgages (\$196,000) plus accrued interest of \$1,526 to June 23, 2017). The Receiver subsequently accepted the offer and intends to close the transaction on June 23, 2017 as permitted by the Appointment Order.

#### **Term Loans & Promissory Notes**

- 75 The Funds have a total of fourteen (14) individually issued Commercial Loans with a cumulative principal balance of \$16,416,584 issued to:
- a) Pond;
  - b) MCSnox, Magnitude, 1472, 2445958 Ontario Inc. ("5958 Ontario"), MCSAB (each of these entities are under the control of a common individual, Craig Clydesdale ("Clydesdale")), and are collectively referred to as the "OOM Energy Group");
  - c) Kanwal; and
  - d) 109 BC.

#### Pond Loan

- 76 A term-loan in the amount of \$4,500,000 was advanced to Pond by the Company on December 15, 2015 (the "Pond Loan"). Subsequent to its advance, the Company executed various participation agreements assigning the rights to a stated portion of the Pond Loan to the Mortgage Fund, High Yield Mortgage Fund, and an individual, Suzanne West, resulting in the following participation amounts of the Pond Loan:
- a) Mortgage Fund – \$2,950,000;

b) High Yield Mortgage Fund – \$550,000; and

c) Suzanne West - \$1,000,000.

77 Shortly after the Receiver's appointment, the Receiver contacted Pond to notify it of the Receivership Proceedings at which time Pond acknowledged the outstanding amount of \$4,500,000. Subject to the review of all documentation related to these loans, it appears that the Company is the first secured creditor over all of the assets of Pond.

78 Pond was incorporated on May 27, 2008 under the laws of Canada, with the purpose of pursuing microalgal biomass production using raw stack gas emissions from industrial emitters. Pond remains in the development stage, has not yet reached profitably, and has relied on non-conventional sources of financing to fund operations.

79 The Receiver has continued discussions with Pond and reviewed certain documentation, but is currently not in a position to advise the Court regarding monetization of these loans for the benefit of the investors. The Receiver will update the Court in a future report.

#### OOM Energy Group

80 The following term loans and promissory notes with a cumulative principal sum of \$12,090,607 were advanced to the entities under the OOM Energy Group as follows:

- a) MCSnox – a ten year term-loan with a principal value of \$2,000,000 issued on November 2, 2016 held by the Mortgage Fund (the "**MCSnox Loan**");
- b) 5958 Ontario – advances reflected by four (4) promissory notes totaling \$967,107 issued between May 26, 2016 and August 4, 2016 all held by the Infrastructure Fund and all of which are repayable on demand (the "**5958 Ontario Notes**");
- c) MCSAB – a three year term-loan with a principal value of \$2,000,000 advanced on December 9, 2016 held by the Infrastructure Fund (the "**MCSAB Loan**");
- d) Magnitude – a five year term-loan with a principal value of \$3,000,000 advanced on July 6, 2016 held by the Infrastructure Fund (the "**Magnitude Loan**"), further advances reflected by two (2) promissory notes with a cumulative value of \$1,190,000 issued on July 8, 2016 and January 12, 2017 (the "**Magnitude Notes**"), and a \$1,133,500 loan advanced on April 28, 2016 administered by Spectrum (the

"Magnitude Spectrum Loan"); and

- e) 1472 – a fifteen year term-loan with a principal value of \$1,800,000 advanced on December 4, 2014 held by the Mortgage Fund (the "1472 Ontario Loan")

(collectively the "OOM Energy Loans").

- 81 On May 9, 2017, Smith provided the Receiver with the contact information for Clydesdale. Subsequent to obtaining the information, the Receiver immediately contacted Clydesdale advising him of the Appointment Order along with a request to discuss the OOM Energy Loans.
- 82 On May 11, 2017, the Receiver received a response from Bill McKenzie ("McKenzie") from KWM Law Professional Corporation advising that he had been retained to represent the OOM Energy Group and Clydesdale with respect to these matters.
- 83 On May 18, 2017, the Receiver conducted a call with McKenzie; Clydesdale did not attend the call. During the call, McKenzie had little knowledge of the specifics surrounding the OOM Energy Group and the loans issued to same. Upon request for Clydesdale to provide documents related to the OOM Energy Loans, McKenzie advised that such documents would be provided after a written request was issued, outlining the specific documents required by the Receiver. The Receiver issued a document request list for the MCSnox Loan and the 1472 Ontario Loan on June 7, 2017 but, as at the date of this First Report, neither McKenzie nor Clydesdale have provided the documents requested.
- 84 The Receiver continues to work with A&B to determine the outstanding documents required to fully understand the status of the remaining OOM Energy Loans.

### **Media Loans**

#### MHC and the Bron Companies

- 85 All of the Media Loans are administered by a third-party, MHC, and are held in the Media Fund. MHC was originally incorporated in the Province of Alberta on December 22, 2010 and continued out of Alberta on January 11, 2011 to be a federal corporation, with a registered office in Vancouver, British Columbia specializing in the structuring, sourcing and administration of loans for the independent film and television market. MHC's

President, CEO, Chairman, and sole director is Aaron Gilbert ("Gilbert"). In addition, Bron Studios Inc. and Bron Animation Inc. are both entities related to MHC of which Gilbert is listed as a director.

- 86 From December 22, 2010 to July 13, 2015, MHC operated under Media House Capital (Canada) Corp. Beginning July 13, 2015, MHC operated under Bron Capital Partners Corp. until April 7, 2016 when it reverted to and continued to operate under MHC.
- 87 Gilbert has some involvement in the films which are investments of the Media Fund. Gilbert is listed as a producer or executive producer on 19 of the 25 film productions for which Media Loans have been purchased by the Media Fund. For five of the productions, he is a director or officer of the production company (the underlying borrower)<sup>18</sup>. A detailed account of the Receiver's interactions with MHC are included below in this section.
- 88 Media Loans are made to production companies who require financing in excess of the funds raised through other sources (e.g. equity and financing tax credits) (this shortfall is referred to as the "**Gap Financing**" or "**Gap Loans**") required to develop films or television productions ("**Production**").
- 89 The Media Fund OM states that: *The [Media] Fund will not be in the business of making loans, but rather purchasing already existing securities such as notes and other debt obligations*. However, a preliminary review of the documentation supporting the Media Loans indicates that in many cases, the loans were made directly by the Media Fund to the production companies (this is discussed in greater detail in the Commission Affidavits). A schedule of the Media Loans provided by Smith on May 9, 2017 ("**Media Loan Schedule**"), is attached hereto as **Appendix "13"**.
- 90 The purported process for acquiring Media Loans was as follows:
- a) MHC sourced potential Gap Loans and conducted initial underwriting and lending (i.e. MHC advanced the funds to the production company);
  - b) the Company conducted secondary underwriting and analyzed how/if the loans fit into the Media Fund's portfolio;

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<sup>18</sup> Paragraph 39 of the Tillie Affidavit attached to this First Report as Appendix "2".

- c) the Media Fund would buy the pre-existing loans from MHC and all loan rights would be transferred to the Media Fund;
- d) the Company would hire MHC to provide Management Services (defined below); and
- e) Smith, the sole individual responsible for valuing the Media Loans, would monitor and determine the weekly value of the Media Loans (i.e. ensuring Media Loans were performing and recording loss reserves as needed).

91 The process for Production and the collection of proceeds was as follows:

- a) as the Production was produced, interest on the Media Loan would accrue in accordance with the original loan documents between MHC and the Production;
- b) during production, a sales agent would be hired to promote the Production to different geographical distributors;
- c) MHC would set up an account with a collection account manager (a "CAM") and execute a Collection Account Management Agreement (a "CAMA") with the CAM and any other parties who had a financial interest in the Production (e.g. equity owners, lenders, the actors', directors', and producers' guilds (unions) etc.) (the "**Production Interests**");
- d) the CAM would be a third-party responsible for collecting all revenues earned from the Production (i.e. revenue from distributors, broadcasters, merchandising, and other revenues); and
- e) the CAMA between all of the Production Interests outlines, among other things, the fees earned by the CAM, the ranking of Production Interests, and the "waterfall" payment structure for the film's receipts to the various Production Interests (the "**CAMA Waterfall**").

92 Based on a preliminary review of the CAMAs obtained thus far from MHC, the principal and interest of a sample of Media Loans appear after payment to other interests in the CAMA Waterfall, such as: the CAM expenses and fees, the actors', directors', and producer's guilds and the entitlement to a portion of the sales agents fees/expense.

Documentation of Media Loans

- 93 In addition to the Media Loan Schedule, Smith provided documentation relating to the Media Loans and Media Fund's payment relationship with MHC but did not provide documentation to support the value, security, status of collections, and the position of the Media Fund in the respective CAMA Waterfalls.
- 94 Upon reviewing fully the Company's books and records, the Receiver was unable to obtain the information required to fully understand and support the value of the Media Loans. Aside from the Media Loan Schedule, it appears that there was no documentation used by Smith or the Company to understand the performance of the Media Loans. As a result, the Receiver and its counsel have spent significant time contacting and conducting discussions with various third parties with respect to the Media Loans to gather sufficient documentation to understand the entirety of the Media Fund and its holdings and their structure.

Dealings with MHC

- 95 MHC and the Media Fund entered into a Master Assignment Agreement (the "**Media Master Assignment Agreement**"), dated October 6, 2011 which, among other things, outlined the terms in which the Media Fund would purchase Media Loans from MHC.
- 96 On August 12, 2011, MHC and the Media Fund entered into a Production Loan Administration Agreement (the "**Media Production Loan Administration Agreement**") which, among other things, outlined MHC's role in sourcing and presenting potential Media Loans to the Media Fund for purchase and administration of same. Under the Media Production Loan Administration Agreement, MHC was to manage and service each Media Loan by performing duties, including, but not limited to:
- a) the collection and remittance of all prescribed payments of principal and interest and any profit or other participations (exclusive only of the 10% facility fee that is retained by MHC but deferred in part during the term) generated by the Production, as required under each Media Loan;
  - b) the collection of any penalties or miscellaneous fees, including any shared sales agent fee;

- c) the provision of information to the Production and any other parties for the maintenance or discharge of the loan;
- d) the negotiation and settlement, subject to the Company's approval, of any payments in arrears;
- e) the management of any legal actions required to enforce the Media Loans;
- f) the negotiation and management of any actions with the completion bond company, sales agent(s), distributor(s) or other third parties, if any;
- g) the negotiation and management of any actions required with the producers or production company; and
- h) the takeover, management, and oversight of all of or part of the film production, if necessary.

(collectively referred to as the "**Management Services**").

- 97 On May 9, 2017, Smith provided the Receiver with the contact information for MHC. Subsequent to obtaining the information, the Receiver contacted Gilbert advising him of the Appointment Order along with a request to discuss the Media Loans and MHC's involvement in same.
- 98 On May 10, 2017, the Receiver obtained a response from Gilbert who advised that MHC would be available for a discussion along with MHC's US counsel, Adam Davids from Davoli Davids, LLP ("**Davids**"), and MHC's Toronto counsel, Fasken Martineau DuMoulin LLP ("**Faskens**").
- 99 On May 16, 2017, the Receiver and A&B attended a conference call with MHC, Davids, and Faskens. During the call, the Receiver inquired into MHC's role in administering the Media Loans whereby MHC indicated that activities related to the tracking, monitoring, and valuation of same was performed by Smith. The Receiver also requested that MHC provide all of the necessary documentation and supporting schedules with respect to the Media Loans.
- 100 On May 23, 2017, MHC provided an email response (the "**May 23 MHC Email**") which, among other things:

- a) included the executed Media Master Assignment Agreement and Media Production Loan Administration Agreement;
  - b) provided background information on the Management Services MHC performed;
  - c) notified the Receiver that in the second quarter of 2016, the Media Fund retained an individual named Paco Alvarez ("Paco") to assist in administering and managing the Media Loans on behalf of the Media Fund;
  - d) provided status updates on specific Media Loans and the Management Services provided by MHC with respect to same; and
  - e) provided the Receiver with access to a Dropbox account containing documentation for two Media Loans.
- 101 Based on the status updates contained in the May 23 MHC Email, it is apparent that a significant number of the films underlying the Media Loans appear to be experiencing significant issues and/or delays. The status updates included in the May 23 MHC Email are included in the Media Loan Schedule.
- 102 On May 24, 2017, A&B, on the Receiver's behalf, requested that Davids direct MHC to provide all of the closing/security documents for all of the Media Loans. On May 30, 2017, MHC began providing same. As of the date of this First Report, the Receiver has been provided with certain documents requested for only 20 Media Loans. With respect to 6 of these loans, critical documentation, including distribution agreements, collection agreements, and sales agent agreements, remain outstanding.
- 103 On May 26, 2017, A&B, on the Receiver's behalf, requested that MHC provide current contact information for all individuals and entities who are currently involved or associated with the sale, distribution, collection, and remittance of payments (whether on account of principal, interest, profit, or otherwise) in connection with each of the Media Loans. On May 31, 2017, MHC provided a spreadsheet that identified the aforementioned contact information.

Paco Alvarez

- 104 Subsequent to advising Paco of the Receivership Proceedings on May 31, 2017, the

Receiver attended a call with Paco on June 1, 2017.

- 105 Paco advised the Receiver that he and his company, Forward Motion Entertainment Corp. ("Forward Motion"), were retained in December 2016 to administer the Media Loans on behalf of the Media Fund which included but was not limited to: assisting in collecting amounts from distributors and agents, obtaining reports from CAMs, conducting discussions with sales agents, and providing updates to Smith. Paco advised that he was retained by the Media Fund as MHC began to focus more on producing its own movies through Bron and wanted to reduce its involvement in administering the Media Loans.
- 106 Smith, in an earlier email, advised the Receiver that Forward Motion was paid a monthly fee for its services plus expenses to attend film sale festivals; Paco confirmed this arrangement. There is no written contract between the Company or Media Fund and Paco/Forward Motion.
- 107 The Receiver requested that Paco provide any documentation with respect to the Media Loans, including but not limited to, agreements, supporting schedules, notes from conversations with sales agents, contacts of individuals and companies involved in the Media Loans, and status updates on the Productions. Paco advised that he would not provide the Receiver with the requested information until he was paid his arrears (including expenses) up to and including May 2017.
- 108 The Receiver is currently assessing all of the issues regarding the Media Fund before any commitment is made to any party relating to on-going services to the Media Fund.

#### Receiver's Potential Engagement of an Advisor

- 109 Given the complex and unique nature of the Media Fund, the Receiver has sought out and discussed the potential of engaging an independent advisor to assist with the management of the Media Fund.
- 110 On June 13, 2017, after initial discussions, the Receiver and A&B attended a meeting with Quiver Capital Inc. ("Quiver") to discuss the potential engagement of Quiver as an independent expert to assist in recapturing as much value as possible from the Media Loans.
- 111 Quiver is involved in financing and distributing films and television productions throughout

the world. Quiver's management team consists of three individuals who have had lengthy careers in all facets of the film and television entertainment industry including but not limited to producing, financing, and distributing of a wide variety of content. Prior to starting Quiver, its management team founded and sold companies such as Hollywood Suite, ThinkFilm, Phase 4 Films, and KaBOOM! Entertainment in addition to holding executive level positions at companies such as Lions Gate Films, Momentum Pictures (an Entertainment One Company), and Peace Arch Home Entertainment.

- 112 On June 14, 2017, Quiver delivered a proposal to the Receiver which outlined the scope of the potential engagement along with a proposed fee structure. More specifically, the proposal outlined Quiver's mandate as follows:
- a) engage with all third party sales agents and domestic distributors to review the status of each film, including but not limited to interest and results from international distributors, timing of such interest, exposure and interest at film markets and festivals, and identification of unpaid, current and long-term accounts receivable;
  - b) identify the unsold rights by film, by media (e.g. video on demand, television, etc.), and determine the best course of action to extract value from said rights and provide recommendations on the best course of action moving forward; and
  - c) utilize relationships with the distributors and customers (e.g. Netflix, Amazon, Walmart, etc.) to influence collection of accounts receivable, and assist to generate further revenue to maximize value to the unit holders of the fund.
- 113 Subject to negotiations on the proposed fee structure, the Receiver is of the view that engaging Quiver as an advisor to the Receiver with respect to the Media Fund is the most efficient way to:
- a) obtain all of the relevant Media Loan documentation directly from third-parties (other than MHC);
  - b) determine the current underlying value of the Media Loans; and
  - c) develop and execute a strategy to create additional value through unpursued markets and revenue streams.

## Factoring Contracts

- 114 All of the Factoring Contracts are administered by Frontline, which is a corporation based in Alberta that sources and administers contracts that the Factoring Fund and Hedge Fund enter into to purchase invoices (after purchase, invoices are referred to as "**Purchased Receivables**") from operating businesses ("**MERCHANTS**") for a discount (typically 70% - 95% of the invoice value) and a service fee. Each of the Purchased Receivables are then assigned to Frontline who ultimately collects the invoice value. Any amounts collected over the purchase price, less applicable fees, are remitted to the company that sold the invoice.
- 115 The Factoring Fund and Hedge Fund entered into a Factoring Procurement and Administration Agreement ("FPAA") with Frontline on November 25, 2014. The FPAA outlines that Frontline is responsible for evaluating and presenting potential Factoring Contracts to the Factoring Fund/Hedge Fund for purchase (i.e. the rights of the Factoring Contract(s) are assigned) and administering same. Once purchased, Frontline, under the FPAA, administers the Factoring Contracts by performing duties, including, but not limited to:
- a) the registration and assignment of, or transfer into the name of the Factoring/Hedge Fund of all Purchased Receivables pursuant to the Factoring Contracts entered into between the Factoring/Hedge Fund and the Merchants;
  - b) the provision of assurances, as required by the Factoring/Hedge Fund, for enforcing its rights, benefits, title, interest, and vesting of the Purchased Receivables;
  - c) the collection and remittance to the Factoring/Hedge Fund of all Purchased Receivables (less any fees under the FPAA) received from the Merchants as well as any fees, commissions, or penalties, if any;
  - d) the negotiation and settlement of any payments in arrears;
  - e) the management of any legal actions required to enforce the Factoring/Hedge Fund's rights with respect to Purchased Receivables, the Merchants or the Factoring Contracts;

- f) the provision of weekly reporting to the Factoring/Hedge Fund; and
  - g) the administration of a bank account on behalf of the Factoring/Hedge Fund and remittance of monies to same as requested by the Company.
- 116 Under the section 4.4 of the FPAA, "*the [Factoring/Hedge] Fund hereby authorizes and empowers Frontline, without the requirement of further authorization or direction from the [Factoring/Hedge] Fund to:*
- a) *Make, or cause to be made, advances out of the fund provided by the [Factoring/Hedge] Fund in accordance with a Factoring Agreement;*
  - b) *Make any emergency type advances to preserve and protect the property and assets which are the subject matter of a Factoring Agreement."*
- Specific to item (a) above, except where the Merchant is in default under the applicable Factoring Contract, the Factoring/Hedge Fund is required to purchase all of the approved receivables from the Merchant (i.e. the Factoring/Hedge Fund was obligated to continue to purchase invoices after the Receivership Date) under and pursuant to the terms of the operative Factoring Contract.
- 117 Subsequent to advising Frontline of the Receivership Proceedings, the Receiver conducted a call with representatives from Frontline on May 12, 2017. Frontline advised that it had not and would not purchase approved receivables from the various Merchants after the Receivership Date but it has been collecting proceeds from Purchased Receivables on behalf of the Factoring/Hedge Fund.
- 118 The Receiver remains in regular contact with Frontline with respect to the administration of the Factoring/Hedge Fund. The Receiver has instructed Frontline to send available cash balances to the Factoring/Hedge Fund's NBCN accounts, and to provide a full accounting and reconciliation of all amounts currently outstanding to the Receiver. As of the date of this Report, the Receiver has yet to receive any cash currently being held by Frontline on the Factoring/Hedge Fund's behalf or a reconciliation of same.

#### **Medical Factoring Contracts**

- 119 Similar to the Factoring/Hedge Fund's contractual arrangement with Frontline, the Medical

Fund holds investments in medical factoring receivables which are sourced and administered by Xynergy.

- 120 Xynergy is a corporation based in Florida that enters into contracts to purchase healthcare receivables (after purchase, invoices are referred to as "**Purchased Medical Receivables**") from operating businesses in the United States ("**Clients**") for a discount and service fees pursuant to which the invoice is assigned to Xynergy who ultimately collects the invoice value. Unlike Factoring Contracts, the Medical Factoring Contracts are not entered into between the Clients and the Medical Fund but rather a participation in the relationship is purchased by the Medical Fund.
- 121 Xynergy and the Medical Fund entered into a Master Medical Receivables Purchase and Administration Agreement on March 31, 2016 (the "**MMRPAA**") which essentially gives the Medical Fund the opportunity to purchase participations in Xynergy's Medical Factoring Contracts with various Clients (defined therein). For active participations, Xynergy, under the MMRPAA, administers the Medical Factoring Contracts by performing duties, including, but not limited to:
- a) bearing all costs and expenses of managing and servicing the Medical Factoring Contracts;
  - b) providing weekly reporting to the Medical Fund; and
  - c) administering a trust account on behalf of the Medical Fund and remitting monies to same as requested by the Company.
- 122 Subsequent to advising Xynergy of the Receivership Proceedings, the Receiver conducted a call with representatives from Xynergy on May 10, 2017. Xynergy made the Receiver aware that Xynergy is obligated to the Clients to continue purchasing healthcare invoices as they depend on the financing to operate their business.
- 123 Xynergy has continued to administer the Medical Factoring Contracts that the Medical Fund has an interest in and remains in regular communication with the Receiver. Xynergy also provides the Receiver with weekly reports outlining the activity (i.e. purchases and collections) of the Medical Factoring Contracts and provides a trust account statement outlining the cash held on behalf of the Medical Fund.

Potential Sale of Geodata Balance

- 124 Included in the Medical Fund is Medical Factoring Contracts with GeodataPR International, Inc. ("Geodata") and Servicios de Salud Integrada, CSP ("SSI") who both operate out of Puerto Rico. The most recent weekly report received from Xynergy (June 15, 2017) indicated that Geodata and SSI have net outstanding funds employed (i.e. the principal balance) of \$684,313 (the "Geodata Balance").
- 125 On June 20, 2017, Xynergy put forth a revised offer to acquire only the Medical Fund's participation in the Geodata Balance in full for \$684,313 (the "Geodata Offer"). The Receiver has verbally indicated to Xynergy that it is interested in the Geodata Offer. The Geodata Offer is for 100% of the Geodata Balance and as such represents its fair market value. Furthermore, the Geodata Medical Factoring Contract is a unique and specialized investment, and would likely result in a limited number of potential purchasers willing to pay greater than 100% of the balance outstanding.

**US Real Estate LP**

- 126 Based on a review of the Provided Documents and additional documents located in the Company's books and records, the Hedge Fund and Factoring Fund cumulatively own 99.99% of 107 LP, an entity that has an indirect ownership interest in a number of rental properties located in the United States together with corporate and individual partners (collectively the structure is referred to as the "US Real Estate LP"). The Hedge Fund and Factoring Fund act as limited partners in the US Real Estate LP (the "Limited Partners").
- 127 The remaining 0.01% ownership of 107 LP is held by 1076874 B.C. Ltd., an entity listed as the general partner which is owned by the following individuals:
- a) Alberto Storelli (Canadian) ("Storelli") – 51.0%;
  - b) Brian Peoples (USA) ("Peoples") – 24.5%; and
  - c) Joe Harker (USA) ("Harker") – 24.5%.

All or one of Storelli, Peoples, and Harker (collectively the "General Partners") are listed as directors or officers in a majority of the entities included in the US Real Estate LP.

- 128 The US Real Estate LP is a cross-border operation through a Nevada based corporation, DaVinci Capital Property, Inc. ("DVCP") which is an indirect wholly owned subsidiary of 107 LP.
- 129 The purpose of the US Real Estate LP is to acquire and develop real estate properties in the United States to subsequently earn rental income and proceeds from the possible and/or eventual sale of such properties. Through its investment in 107 LP, the Receiver understands that the Factoring Fund and Hedge Fund have an indirect minority ownership interest in the following properties in the US Real Estate LP:
- a) 3961 Covington Highway, Decatur, Dekalb County, Georgia;
  - b) 3859 Austin Circle, Decatur, Dekalb County, Georgia;
  - c) 325 - 3rd Avenue SW, Birmingham, Alabama;
  - d) 201 - 3rd Avenue SW, Birmingham, Alabama;
  - e) 922 Lawndale Drive, Tupelo, Mississippi; and
  - f) 619 E. Groveland Parkway, Chicago, Illinois.
- (collectively referred to as the "**US Properties**").

- 130 The Receiver has prepared a detailed organizational chart demonstrating the structure of the US Real Estate LP which is attached to this First Report as **Appendix "14"**.

#### Subscription Agreements

- 131 From June 6, 2016 to March 14, 2017, the Limited Partners invested US \$7,500,000 in the US Real Estate LP by way of unit purchases in 107 LP through subscription agreements (the "**Subscription Agreements**"). Based on a preliminary review of the Subscription Agreements, the Receiver understands that the investment structure to be as follows:
- a) the Limited Partners would purchase units in 107 LP (the "**Subscription Amount**");
  - b) a portion of the Subscription Amounts would be advanced to DVCP by way of a

- 12% loans (the "DVCP Loans") while the remaining Subscription Amounts would be advanced to DVCP by way of a share purchases in same (the "DVCP Equity");
- c) in almost all cases, the entire Subscription Amounts received by DVCP would then be advanced to the various special purpose entities by way of interest bearing loans (the "SPE Loans"); and
  - d) the proceeds from the SPE Loans would then be used to purchase and/or develop the US Properties.
- 132 The Receiver and A&B continue to review the Subscription Agreements and other related documents with respect to the US Real Estate LP to gain a more fulsome understanding of same.

#### Contact with General Partners

- 133 On June 4, 2017, the Receiver notified the General Partners of the Appointment Order along with a request to discuss the US Real Estate LP. On June 7, 2017, the Receiver delivered a follow-up email to the General Partners. Despite repeated follow-up communications, the Receiver has yet to have a discussion with the General Partners.

#### **PRELIMINARY CONCLUSION REGARDING MONETIZATION OF THE CRYSTAL WEALTH FUNDS**

- 134 Since the beginning of the Receivership Proceedings, the Receiver has issued and posted on its Case Website notices to all investors dated May 1, 2017, May 10, 2017, May 17, 2017, and June 9, 2017.
- 135 In its May 17, 2017 notice to investors, the Receiver stated that it was very mindful of the needs of the investors, and, accordingly, was conducting a review of the Company's books and records on an accelerated basis to devise a plan that would ultimately lead to realization of the assets and distribution of the proceeds. Moreover, the Receiver determined that there were certain Crystal Wealth Funds which could be monetized on an urgent basis as they were largely comprised of marketable securities and cash holdings.
- 136 As a result of the foregoing review, the Receiver, in consultation with colleagues in Canada and the US with extensive investment and portfolio expertise, is carefully monetizing all

marketable securities, including Equities and Warrants, where possible, which are traded on the various public stock exchanges. The Receiver anticipates that this realization process will be complete by the end of June 2017.

- 137 As a result of its appointment by the Court, the Receiver holds an obligation to the investors. As such, the over-arching investment objective is to minimize the downside risk of uncontrollable domestic and global factors, by monetizing Crystal Wealth Funds in the short term for ultimate distribution to the investors rather than earning longer term higher returns.
- 138 Once this monetization process is complete, the Receiver will be issuing a notice to the investors advising them of the results of same.

#### **PROPOSED SALE PROCESS**

- 139 A significant portion of the total AUM of the Crystal Wealth Funds, particularly, the Off-Book Assets, have long maturities and appear to be difficult to value individually as they are not actively traded. Therefore, the Receiver is of the view that monitoring and the eventual realization of these assets individually will present significant effort and costs to the Crystal Wealth Funds and ultimately the investors.
- 140 In addition, the Receiver has also received expressions of interest from a number of parties with respect to purchasing and/or assuming the management of one or more of the Crystal Wealth Funds.
- 141 Given the above, the Receiver proposes that it conduct a sales process (the "**Sales Process**") for certain Crystal Wealth Funds in a manner in which:
  - a) potential bidders may make an offer to purchase the investments from one or more of the Crystal Wealth Funds (the "**Potential Bidders**"); and/or
  - b) potential managers may present an offer to assume the management of one or more of the Crystal Wealth Funds' investment activities and assume Crystal Wealth's position and duties to investors (the "**Potential Managers**").
- 142 The proposed Sales Process comprises the following:
  - a) The Receiver has begun and will continue to prepare a list of Potential Bidders and

Potential Managers for certain Crystal Wealth Funds. Potential Bidders will have the opportunity to bid for some or all of certain Crystal Wealth Funds' investments. Potential Managers will have the opportunity to present their proposal for assuming the entirety of the assets and management of certain Crystal Wealth Funds.

- b) The Sales Process will be advertised in publication(s) as determined by the Receiver.
- c) The Receiver will provide Potential Bidders and Potential Managers with a solicitation letter summarizing the acquisition and opportunity (the "**Solicitation Letter**") and a form of confidentiality agreement (the "**CA**") to be executed for further participation in the Sales Process.
- d) Any Potential Bidders and/or Potential Managers who execute a CA (a "**Prospective Bidder**" and a "**Prospective Manager**" respectively), will receive a confidential information memorandum ("**CIM**") describing the purchase and/or management opportunity and will gain access to an electronic data room, containing confidential information to perform due diligence.
- e) Prospective Bidders will be required to submit a binding offer to purchase the investment(s) contained within certain Crystal Wealth Funds (a "**Purchase Offer**") by 5:00 p.m. Eastern Standard Time ("**EST**") on August 10, 2017 (the "**Offer Deadline**"), which must include:
  - i. the identity, contact information, and disclosure of the principal(s) of the Prospective Bidder;
  - ii. a list and description of the Crystal Wealth Fund(s) and investments to be included in a purchase;
  - iii. an indication of the proposed purchase price or financial terms of such sale;
  - iv. an acknowledgement that the sale will be made on an "as is, where is" basis and that the Prospective Bidder will be bound by the terms of the Sales Process;
  - v. a description of any liabilities to be assumed by the Prospective Bidder;

- vi. details related to any regulatory approvals required to close the proposed transaction;
  - vii. a proposed timeline to the date of closing the transaction, along with critical milestones; and
  - viii. such other information requested by the Receiver.
- f) Prospective Managers will be required to submit a binding offer to assume and manage certain Crystal Wealth Funds (a "**Management Offer**") by the Offer Deadline, which must include:
- i. the identity, contact information, and disclosure of principal(s) of the Prospective Manager;
  - ii. a list and description of the Crystal Wealth Fund(s) and the investments which the Prospective Manager has an interest in assuming;
  - iii. a list of the qualifications and experience in managing mutual funds and investments and a listing of the portfolio manager(s), proposed for the applicable Crystal Wealth Fund(s);
  - iv. a description of the proposed fees to be imposed on the investors of the applicable Crystal Wealth Funds;
  - v. a copy of the most recent audited financial statements of the Prospective Manager;
  - vi. an acknowledgement that the transfer will be made on an "as is, where is" basis and that the Prospective Manager will be bound by the terms of the Sales Process;
  - vii. a description of any liabilities to be assumed by the Prospective Manager;
  - viii. details related to any regulatory approvals required to close the proposed transaction;
  - ix. a proposed timeline to the date of closing the transaction, along with critical

milestones; and

- x. such other information requested by the Receiver.
- g) The Receiver may also request information to demonstrate that the Prospective Bidder / Prospective Manager has the resources to close the transaction.
- h) A Purchase Offer and/or Management Offer will be considered a "Qualified Offer" if it meets the following criteria:
  - i. The offer is received by the Offer Deadline;
  - ii. The offer contains a letter stating that the Purchase/Management Offer is irrevocable and open for acceptance until at least five business days after the Offer Deadline;
  - iii. The Purchase/Management Offer includes proof of the Prospective Bidder's/Manager's ability to close the transaction and is not conditional upon financing;
  - iv. The Purchase/Management Offer includes proof of the Prospective Bidder's/Manager's financial stability;
  - v. The Purchase/Management Offer includes an acknowledgement that the Prospective Bidder/Manager has (a) relied solely upon its own independent review of any documents and assets to be acquired and/or assumed in making its offer; and (b) not relied upon any representations or warranties whatsoever regarding the property of the Crystal Wealth Group, except as expressly stated in the agreement of purchase and sale and/or the transfer of ownership agreement;
  - vi. The Purchase/Management Offer shall not contain any material conditions to closing other than Court approval;
  - vii. The Purchase/Management Offer should include a completed form of agreement of purchase and sale and/or ownership transfer agreement, in a form prepared by the Receiver;

- viii. The Purchase/Management Offer shall not contain a break-fee or any type of compensation to the Prospective Bidder/Manager;
  - ix. The Receiver must believe the transaction will close on or prior to five days after Court approval of the transaction; and
  - x. As appropriate, the Purchase Offer shall include a deposit equal to 10% of the purchase price of the assets(s), and in the case of a Management Offer, a deposit per the Receiver's discretion;
- i) Upon review of the Qualified Offers, the Receiver, may:
    - i. accept a Qualified Offer (a "**Successful Offer**") and complete an agreement for a Successful Offer;
    - ii. accept two or more non-overlapping Qualified Offers and complete agreements for same;
    - iii. continue negotiations with a selected number of Prospective Bidders and/or Prospective Managers; or
    - iv. terminate the Sales Process.
  - j) The Receiver shall be under no obligation to accept the highest offer, and shall be under no obligation to accept any offer if the Receiver determines that no suitable offers have been received.
  - k) If no acceptable Purchase Offers and/or Management Offers are received, the Receiver may consider other options for dealing with the Crystal Wealth Funds' assets.
  - l) A Successful Offer must be approved by the Court.

143 The following chart summarizes the relevant milestones for the proposed Sales Process:

Milestone	Approximate Date
(i) Court Approval of Proposed Sales Process	July 3, 2017
(ii) Solicitation Letter Distribution	July 10, 2017
(iii) Purchaser/Management Offer Deadline	August 10, 2017
(iv) Selection of a Successful Offer(s)	August 17, 2017
(v) Issuance of an Approval and Vesting Order	August 31, 2017
(vi) Closing Date	5 days after (v)

144 It is proposed that the Sales Process will be carried out by the Receiver as it is qualified to administer the proposed Sales Process for the following reasons:

- i. the Receiver has considerable experience conducting a sale process for investment assets and investment portfolios and will utilize the expertise of its corporate finance professionals, as necessary, in carrying out its duties;
- ii. the Receiver has extensive contacts in the industry who it will ensure are made aware of the Sales Process;
- iii. if a party other than the Receiver were to be engaged to run the Sales Process, the Receiver would be required to maintain oversight of the third party, thus duplicating certain efforts and costs;
- iv. the proposed Sales Process has been designed to be a thorough and efficient process, which will reduce professional fees associated with administering same, if it is administered by the Receiver; and
- v. the Receiver will not charge a success fee, but instead will charge its standard hourly rates based on actual hours spent in administering and processing the Sales Process. It is anticipated, given the nature of the Crystal Wealth Funds, that the Receiver's fees, based on its standard hourly rates, will be significantly less than a success fee.

## PROPOSED CREDITOR CLAIMS PROCEDURE ORDER

145 The Receiver is of the view that a Creditor Claims Procedure (as defined in the proposed Creditor Claims Procedure Order) is warranted for non-investor creditor claims against the Crystal Wealth Group. With respect to investor distributions, the Receiver requests approval to rely on the IFDS Unit Holder Listing, as is outlined in paragraphs 167 to 175 below.

146 The books and records of the Company indicate the following liabilities:

- a. trade payables totaling \$169,964;
- b. income tax and HST payable of \$34,200;
- c. loans from shareholders and employees totaling \$9,952;
- d. loans from Smith of \$202,648; and
- e. loans from CLJ Everest of \$286,879.

(collectively referred to as the "Recorded Liabilities")

147 Since the Appointment Order, the Receiver has been contacted by several parties claiming that there are monies owing to them from either the Company or Crystal Wealth Funds which liabilities were not identified in the Recorded Liabilities.

148 As a result of these claims, it appears that the liabilities recorded on the books and records of the Company and the Crystal Wealth Funds are inaccurate and unreliable for the Receiver to establish a complete creditor listing for the Crystal Wealth Group. As a result, the Receiver is seeking approval of a Creditor Claims Procedure, according to which the Receiver would call for all claims against the Crystal Wealth Group, and bar any claims against the Crystal Wealth Group not submitted by the Claims Bar Date (as defined in the proposed Creditor Claims Procedure Order).

149 The proposed Creditor Claims Procedure provides the Receiver with a mechanism to determine the amounts of claims against the Crystal Wealth Group. The proposed Creditor Claims Procedure Order will permit the Receiver to instruct creditors of the Crystal Wealth Group to file proofs of claim since the Receiver is not confident in the completeness

and accuracy of the Crystal Wealth Group's books and records with regard to non-investor creditor claims.

- 150 The proposed Creditor Claims Procedure Order provides for a package of information (each a "**Claims Package**") to be sent to each known creditor.
- 151 The complete details of the proposed Creditor Claims Procedure are set out in the draft Creditor Claims Procedure Order, which is attached hereto as **Appendix "15"**, and are summarized here as follows.

#### **Summary of Proposed Creditor Claims Procedure**

- 152 Under the proposed Creditor Claims Procedure, the Receiver intends to send a Claims Package to known creditors of the Crystal Wealth Group and potential creditors that request such a mailing prior to the Claims Bar Date, which will also include an instruction letter and Proof of Claim, by ordinary mail no later than July 10, 2017.
- 153 As soon as reasonably practicable upon receiving a request from a potential creditor (provided such request is made prior to the Claims Bar Date), the Receiver would send such creditor a Claims Package by ordinary mail, courier, facsimile or electronic mail.
- 154 In addition, the Receiver would cause notice of the proposed Creditor Claims Procedure to be published for one day in the Globe and Mail by no later than July 10, 2017 and would make the Claims Package available on its website at [www.GrantThornton.ca/crystalwealth](http://www.GrantThornton.ca/crystalwealth).

#### **Claims Bar Date**

- 155 The draft Creditor Claims Procedure Order provides that the **Claims Bar Date for all claims will be 5:00 p.m. (Toronto time) on August 3, 2017** (the "Claims Bar Date").
- 156 All creditors are required to file a Proof of Claim such that it is **received** by the Receiver prior to the Claims Bar Date. Failure to submit a Proof of Claim by the Claims Bar Date would result in such creditor's claim being forever barred and extinguished, released and discharged.

**Review of Proofs of Claim**

- 157 As part of proposed Creditor Claims Procedure Order, the Receiver would review all Proofs of Claim that are received on or before the Claims Bar Date to determine the adequacy of the manner in which Proofs of Claim have been completed and executed.

**Notice of Revision or Disallowance**

- 158 The Receiver would accept or, by way of Notice of Revision or Disallowance (as defined in the proposed Creditor Claims Procedure Order), revise or disallow, in whole or in part, the amount and/or status of the claim set out in any Proof of Claim.
- 159 At any time, the Receiver would be entitled to request additional information with respect to any claim and would be entitled to request that the creditor file a revised Proof of Claim. The Receiver would send a form of Notice of Dispute (as defined in the proposed Creditor Claims Procedure Order) to any creditor whose claim has been revised or disallowed at the time the Notice of Revision or Disallowance of Claim is sent to that creditor.
- 160 Where a claim has been revised or disallowed, in whole or in part, by a Notice of Revision or Disallowance, the revised or disallowed portion of that claim would be determinative unless the creditor disputes the revision or disallowance and proves the revised or disallowed claim, or portion thereof, in accordance with the proposed Creditor Claims Procedure Order.

**Disputed Notices of Revision or Disallowance**

- 161 Any creditor that receives a Notice of Revision or Disallowance and intends to dispute such Notice of Revision or Disallowance would be required to deliver a Notice of Dispute to the Receiver by no later than 5:00 p.m. (Toronto time) on the day that is ten business days after the Receiver sends the Notice of Revision or Disallowance. The filing of a Notice of Dispute with the Receiver within the time limit would constitute an application to have the amount or status of such claim resolved as set out below.
- 162 Where a creditor that receives a Notice of Revision or Disallowance fails to file a Notice of Dispute with the Receiver within the time limit, the amount and status of such creditor's claim would be deemed to be as set forth in the Notice of Revision or Disallowance and such amount and status, if any, would constitute such creditor's proven claim.

**Resolution of Claim**

- 163 Upon receipt by the Receiver of a Notice of Dispute from a creditor, the proposed Creditor Claims Procedure Order provides for the resolution of claims by the creditor and the Receiver by first attempting to resolve and settle the creditor's claim on consent of the parties. If it is not possible to resolve and settle the creditor's claim consensually, the Receiver or the creditor would be entitled to make a motion to the Court for a final determination of the creditor's claim.
- 164 In addition, the Receiver would be entitled to make a motion to the Court for the final determination of any claim at any time, whether or not the Receiver has sent the creditor a Notice of Revision or Disallowance.

**Distribution to Creditors**

- 165 The proposed Creditor Claims Procedure Order addresses only the identification of claims. It does not address entitlement to a distribution, or the priority of such claims. The matter of distributions to non-investor creditors of the Crystal Wealth Group will be the subject matter of a separate motion.
- 166 After the conclusion of the proposed Claim Procedure, the Receiver will report to the Court in respect of any proposed interim distribution to non-investor creditors of the Crystal Wealth Group, and would seek Court approval of same.

**PROPOSED RELIANCE ON IFDS UNIT HOLDER LISTING FOR THE PURPOSE OF MAKING DISTRIBUTIONS TO INVESTORS**

- 167 On April 26, 2017, the Receiver requested that Smith provide the most recent investor listing/database showing all of the investors in each of the Crystal Wealth Funds and their respective holdings. In response to this request, Smith advised that neither he nor the Company maintained the listing of investors but rather this function was performed by an external entity, IFDS. Smith advised the Receiver that when T3's were to be prepared or if the information was required for any correspondence with investors, the Company would obtain this list directly from IFDS for a fee.
- 168 On April 27, 2017, the Receiver contacted IFDS to advise them of the Receivership Proceedings and to request relevant information as it related to the Crystal Wealth Funds

and the investors therein. Subsequent to initial contact, the Receiver requested the following items from IFDS:

- a) a current listing of Crystal Wealth Funds, with details of composition in each fund;
- b) a current listing of investors in each of the Crystal Wealth Funds, indicating the holdings of each investor in each fund;
- c) a current listing of the investors with individually managed funds on hand with National Bank; and
- d) all of the available contact information (including mailing addresses, email addresses, and telephone and fax numbers) for each of the investors in each of the Crystal Wealth Funds, as well as for each of Company's portfolio management clients who have their managed accounts at NBCN.

- 169 On May 4, 2017, IFDS, through its counsel, provided the Receiver with a document addressing items (b) to (d) noted above (the "**Unit Holder Listing**"). It is the Receiver's understanding that the Unit Holder Listing encompasses all of the individuals invested in a particular Crystal Wealth Fund (i.e. the Unit Holder Listing contains a complete picture of the unit holdings in each of the Funds). In regards to item (a), the Receiver obtained same from NBCN.
- 170 On May 11, 2017, IFDS, through its counsel, provided the Receiver with the executed Securityholder Services Agreement between IFDS and the Company dated February 17, 2004 as well as a similar unsigned Securityholder Services Agreement between IFDS and the Company dated May, 2009 and an Amending Agreement dated November 30, 2016. All three of these documents are attached hereto as **Confidential Appendix "1"**.
- 171 IFDS is the central repository of all investor data, including names, addresses, personal information, Crystal Wealth Funds holdings, etc. Moreover, discussions with NBCN, recent discussions with BDO Canada LLP ("**BDO**"), the Company's auditors, and discussions with Smith corroborate the fact that IFDS independently maintains its records based on instructions from NBCN or the Company.
- 172 Accordingly, based on the fact that the Unit Holder Listing is maintained solely by IFDS, with Smith or the Company having limited involvement in same, the Receiver is of the view

that the Unit Holder Listing accurately reflects the units held by each investor and that a separate process for investors to validate such holdings would not present a result materially different than the Unit Holder Listing. As a result, the Receiver will not be conducting a separate investor claims process as it will be relying on the investor information contained in the Unit Holder Listing.

- 173 On June 15, 2017, the Receiver attended a meeting with BDO and its counsel. During the meeting, the Receiver inquired into BDO's understanding of the Unit Holder Listing, the processes for maintaining and updating same, and the work performed on the Unit Holder Listing during the scheduled audits. BDO advised that the Unit Holder Listing was maintained and updated by IFDS with information provided by an additional third-party, Fundserv Inc., who was responsible for processing investor subscriptions and redemptions within the Funds.
- 174 BDO advised that an annual external audit is performed by a third-party on IFDS' processes and controls with respect to its business through the issuance of a Canadian Standard on Assurance Engagements 3416 (CSAE 3416) Report. BDO indicated that during the audit of the Company it would obtain copies of the annual CASE 3416 Report to confirm that the conclusions contained within the Report outlined that the controls and processes used by IFDS were sufficient to ensure the Unit Holder Listing was not materially misstated.
- 175 The Receiver seeks Court approval of its proposed reliance on the IFDS Unit Holder Listing to make distributions to investors in the Crystal Wealth Funds, where possible, without the necessity of seeking further approval from the Court.

#### **RECEIPTS AND DISBURSEMENTS OF THE RECEIVERSHIP**

- 176 Attached hereto as **Appendix "6"** is the Receiver's Interim Statement of Receipts and Disbursements for the period April 26, 2017 to May 31, 2017 which outlines the cash balances of the Company and the Crystal Wealth Funds.
- 177 The deposits to the Crystal Wealth Funds primarily relate to Off-Book Assets, such as regular payments from Spectrum or Squire for on-going maintenance of the Residential Mortgages. Disbursement from the Crystal Wealth Funds primarily relate to bank charges.

**SPECIFIC ACTIVITIES OF THE RECEIVER SINCE THE APPOINTMENT ORDER**

178 Upon its appointment, the Receiver took immediate steps to secure and preserve the Property of the Crystal Wealth Group, communicate with stakeholders, and deal with other operational and administrative tasks. The Receiver has conducted the following key activities in relation to its appointment:

**Taking Possession**

- a) Attended the Premises immediately upon being appointed and changed the locks to secure the assets and books and records contained therein, notified various service providers and transferred billing arrangements into the Receiver's name for the period post-Appointment Order.
- b) Attended the Mount Nemo Property shortly after the Appointment Order and changed the locks to secure the Mount Nemo Property and its contents. The Receiver transferred utilities for the Mount Nemo Property for the period post Appointment Order into the Receiver's name as well as arranged for on-going maintenance of the Mount Nemo Property.
- c) Corresponded with the landlord of the Premises to notify it of the Appointment Order and make arrangements for payment of rent during the Receiver's occupancy.
- d) Secured the books and records of the Crystal Wealth Group, located at the Premises, disabled external access to the computer system and performed a forensic backup of all data contained on the Company's Dropbox account and GoDaddy email systems. During this process, the Receiver identified that the emails contained in the inbox and sent items of the email accounts of Smith, Housego and Bentley were either deleted in their entirety, or it was apparent that individual emails had been removed.
- e) Contacted the third party cloud server company to restore email data with respect to the deleted emails. This process is still underway.
- f) Corresponded with the Crystal Wealth Group's contract accountant and received copies of certain records of the Crystal Wealth Group.

- g) Secured the Crystal Wealth Group's bank accounts and transferred the funds therein to the Receiver's trust accounts. Specifically, the Receiver has maintained separate trust accounts consistent with the origin of funds transferred from the Crystal Wealth Funds.

### **Employee Matters**

- a) Permitted the Company to continue to actively employ three (3) employees for a brief period post Appointment Order (including Smith and Bentley) to assist the Receiver in understanding the business and operations of the Crystal Wealth Group and to facilitate the initial mailing to all investors.
- b) Terminated these employees on behalf of the Company effective May 10, 2017 and arranged for all Records of Employment ("ROEs") to be issued to same. A fourth employee, who was subsequently discovered by the Receiver to be on maternity leave, was terminated effective May 24, 2017.
- c) Engaged the Company's contracted accountant to prepare
  - i. bi-weekly payroll for Smith and the other employees;
  - ii. ROEs; and
  - iii. T4's.

### **Investor Matters**

- a) Established a Crystal Wealth Funds toll free number and email account.
- b) Responded to numerous calls and emails from Crystal Wealth Group investors and other stakeholders.
- c) Published the Receivership Proceedings in the national editions of the Globe and Mail and the National Post on May 4, 2017.
- d) Distributed four (4) notices from the Receiver to all investors, which were also posted to the Receiver's Case Website, on May 1, 2017, May 10, 2017, May 17, 2017, and June 9, 2017 updating them on the receivership as events unfolded.

- e) Created and maintained a listing of investors with holdings, accounts, and contact information including email addresses.

#### **Administration of the Funds**

- a) The Receiver's activities with respect to the administration of the Crystal Wealth Funds include:
  - i. meeting and corresponding with NBCN on a number of investor matters, including the on-going management of the securities, records and monetization of assets within the Crystal Wealth Funds;
  - ii. corresponding with various third-parties involved in administering certain Crystal Wealth Funds, and, in some cases, their legal counsel and financial advisors;
  - iii. collecting monthly payments and funds held by third-parties administering certain Crystal Wealth Funds and/or their assets;
  - iv. corresponding with borrowers of the Crystal Wealth Funds, and, in some cases, their legal counsel and financial advisors;
  - v. conducting meetings with certain third-parties and borrowers, as appropriate; and
  - vi. negotiating the sale of two Residential Mortgages to a third party as discussed further below.

#### **Other Activities**

- a) Corresponded and held numerous discussions with Smith, employees, and contractors of the Crystal Wealth Group.
- b) Corresponded and held numerous discussions with various stakeholders, providers and/or their legal counsels.
- c) Corresponded and held various discussions with the Company's auditor, BDO.
- d) Corresponded and held various discussions and meetings with parties expressing

interest in either purchasing or managing certain Crystal Wealth Funds.

- e) Maintained a public website for the Receivership Proceedings in accordance with the Commercial List E-Service Protocol.
- f) Arranged for the redirection of the Company's and CLJ Everest's mail to the Receiver's office.
- g) Made arrangements with insurance providers to ensure that continued coverage remains in place with respect to both the Premises and Mount Nemo Property.

#### MOUNT NEMO PROPERTY

- 179 Pursuant to the Vesting Order, the Receiver was authorized by the Court to complete, on behalf of CLJ Everest, the sale transaction contemplated by the Mount Nemo Sale Agreement.
- 180 CLJ Everest is the registered owner of Mount Nemo Property. At the date of the Receivership Proceedings, this property was vacant.
- 181 Prior to the Appointment Order, the Mount Nemo Sale Agreement was entered into by CLJ Everest and the Purchaser with a completion date for the underlying transaction of April 28, 2017.
- 182 On April 27, 2017, Jo-Anne Smith ("Ms. Smith"), Smith's sister and the listing agent for the Mount Nemo Property, informed the Receiver that the Purchaser had advised her on April 27, 2017, that the Purchaser would not be completing the purchase transaction.
- 183 At 9:20 a.m. and 9:21 a.m. on April 28, 2017, the Receiver attempted to contact the Purchaser by telephone at the number which Ms. Smith advised was the Purchaser's cell phone number. On both occasions, the message "Call cannot be completed as dialed" was received.
- 184 Accordingly, by letter to the Purchaser dated April 28, 2017, A&B advised the Purchaser that the Receiver was treating his anticipatory breaches as a repudiation of the Mount Nemo Sale Agreement, thereby discharging the Receiver from proceeding with the Mount Nemo Sale Agreement while reserving the Receiver's right to pursue damages from the Purchaser. A&B's letter to the Purchaser is attached to this Report as Appendix "16".

- 185 To date, no response has been provided by the Purchaser, and the transaction did not proceed as contemplated by the Vesting Order.
- 186 The Receiver obtained the listing agreement from Ms. Smith which was in place at the time of the Appointment Order.
- 187 After the transaction contemplated by the Mount Nemo Sale Agreement failed to close, the Receiver corresponded with Ms. Smith, providing information with respect to the Receivership Proceedings and the Receiver's intention to conduct a formal sales process for the listing of the Mount Nemo Property (the "**Mount Nemo Listing Process**"). The Receiver invited Ms. Smith to participate in that process. On May 10, 2017, the Receiver received an executed Listing Cancellation from Ms. Smith to allow the Receiver to conduct the Mount Nemo Listing Process.
- 188 Between April 28, 2017 and May 1, 2017, the Receiver researched and compiled a short-list of seven (7) real estate agents/brokers with extensive experience in marketing and selling rural estate properties in the Burlington and surrounding areas, including Ms. Smith (the "**Prospective Brokers**").
- 189 On May 2, 2017, the Receiver distributed a request for proposals (the "**Request for Proposals**" or "**RFP**") via email to the Prospective Brokers outlining: the appointment of the Receiver, the contents of the Mount Nemo Listing Process, and the request for each Prospective Broker to submit a proposal outlining, among other things, such Brokers' experience in the related market, a strategic marketing plan with timelines, as well as indications of value of the Mount Nemo Property, by 5:00 PM EST on May 9, 2017. The Receiver also included a confidentiality agreement, to be executed by the Prospective Brokers, along with preliminary information with respect to the Mount Nemo Property in the RFP. On May 6, 2017, a copy of the RFP was provided to Ms. Smith, inviting her to participate in the RFP conducted by the Receiver. A copy of the RFP is attached hereto as **Appendix "17"**.
- 190 Between May 2, 2017 and May 9, 2017, the Receiver received expressions of interest from four (4) Prospective Brokers (the "**Interested Brokers**"), one (1) response indicating a proposal would not be submitted, and two (2) Prospective Brokers did not respond. Of the four Interested Brokers, the Receiver obtained three executed confidentiality agreements.

- 191 On May 8, 2017, the Receiver provided on-site access to the Mount Nemo Property to the three Interested Brokers who submitted confidentiality agreements. During the on-site visit, the Receiver gave tours of the Mount Nemo Property and responded to questions with respect to the Receivership Proceedings and the Mount Nemo Sale Process.
- 192 On May 9, 2017, RFP submissions from the Interested Brokers were received. A proposal was not received from Ms. Smith. After review of the proposals received from the Interested Brokers, the Receiver selected and notified the successful broker on May 18, 2017, being RE/MAX Aboutowne Realty Corp., Brokerage (the "**Broker**"). A summary of the proposals received is attached to this First Report as **Confidential Appendix "2"**. The Receiver selected the Broker due to its extensive experience selling similar real estate in the Burlington and surrounding area, its competitive commission structure, and its detailed marketing plan to prepare and execute the sale of the Mount Nemo Property.
- 193 On June 8, 2017, the Receiver entered into an MLS listing agreement with the Broker (the "**Listing Agreement**") which is attached to this First Report as **Confidential Appendix "3"**. The Mount Nemo Property is currently listed for \$3,399,000.

#### **COMMUNICATIONS WITH INVESTMENT ADVISORS**

- 194 On May 1, 2017, the Receiver obtained a listing of eight (8) individuals, including Smith, then registered and/or acting for the Crystal Wealth Funds as investment advisors, consultants, referral sources, and/or portfolio managers (the "**Investment Advisors**"). Of the Investment Advisors, the following seven (7) individuals were determined to be registered representatives of Crystal Wealth:
- a) Smith;
  - b) Bentley;
  - c) Housego;
  - d) Scott Whale ("**Whale**");
  - e) Tim Johnston ("**Johnston**");
  - f) Sameer Azam ("**Azam**"); and

g) Geoff Reiner ("Reiner").

(collectively referred to as the "Registered Representatives").

- 195 The remaining Investment Advisor, Jeffrey Mushaluk, was confirmed to not be a Registered Representative of the Company and was independently contracted by the Company as a referral source.
- 196 On May 2, 2017, the Receiver delivered a letter via email to Housego, Whale, Johnston, and Azam, (the "May 2<sup>nd</sup> Letter") advising them, among other things:
- a) of the Appointment Order;
  - b) of the Receiver's intention not to execute trades or manage client accounts with NBCN over which the Company had been authorized to make and implement investment decisions (the "Managed Accounts");
  - c) not to undertake or effect any activity in the Managed Accounts;
  - d) of the Receiver's intention to honour written directions provided by the Managed Accounts clients to transfer the same to another registered dealer and/or advisor; and
  - e) that, at their request and upon releasing the Company from any claims related to their respective business arrangements with the Company, the Receiver would terminate the Registered Representative's relationship with the Company, and would file an online Form 33-109F1 Notice of Termination of Registered Individuals and Permitted Individuals (the "Notice of Termination") via the National Registration Database ("NRD"), enabling them to register with another firm.
- 197 Subsequent to sending the May 2<sup>nd</sup> Letter, the Receiver did not receive a response from any of Housego, Whale, Johnston, or Azam instructing the Receiver to terminate their relationship with the Company. On May 17, 2017, the Receiver delivered another letter via email to Housego, Whale, Johnston and Azam (the "May 17<sup>th</sup> Letter") notifying them that the Receiver intended to file the Notice of Termination and that if they wanted for same to reflect a voluntary resignation, they were to notify the Receiver of such a request in writing by the end of the week.

- 198 When no affirmative response was received from Housego, Whale, Johnston or Azam, the Receiver delivered a further letter dated May 26, 2017 to each of them terminating each of their relationships with the Company, and advising each of them that a Notice of Termination would be filed.
- 199 On May 30, 2017, the Receiver sent a letter to Reiner similarly advising him that the Receiver was terminating his relationship with the Company effective as of that date, and advising him that a Notice of Termination would be filed.
- 200 The Receiver completed the relevant NRD forms to effect the filing of the Notices of Termination, and on May 30, 2017, executed Notices of Termination for all Registered Representatives. The Notices of Termination were filed with NRD on June 7, 2017.

## THE RECEIVER'S DEALINGS WITH SMITH

### Investor and Other Correspondence

- 201 On May 8, 2017, the OSC and Receiver were made aware of an email communication made by Smith on May 1, 2017 to an unknown group of apparent investors in the Crystal Wealth Funds (the "**Smith Email**"). In the Smith Email, Smith made many false and/or erroneous statements ultimately misinforming the investors who had received same. A copy of the Smith Email is attached to this First Report as **Appendix "18"**.
- 202 On May 10, 2017, the Receiver sent an email to Smith (the "**Smith Response**") advising him that the Smith Email contained certain false and misleading statements that interfered with the steps and actions taken by the Receiver and that it was in breach of the Appointment Order. The Receiver demanded that Smith cease all communications with investors in the Crystal Wealth Funds, and the Company's Managed Account clients, unless expressly authorized by the Receiver in writing. In addition, the Receiver demanded that it be provided with copies of any and all communications sent by Smith to any one or more investors in the Crystal Wealth Funds, or to Managed Account clients. As of the date of this First Report no such communications have been provided to the Receiver by Smith. A copy of the Smith Response is attached to this First Report as **Appendix "19"**.
- 203 As of the date of this First Report, the Receiver has corresponded with numerous investors who have received the Smith Email. The Receiver understands the confusion that these

proceedings can cause to investors, which confusion is exacerbated by the Smith Email and the conflicting messages it creates. Through its Notices to Investors, the Receiver has tried to clarify to investors that the Receiver's communications should be the sole source of information relied upon for information and updates concerning the status of the Crystal Wealth Group.

- 204 On May 18, 2017, the Receiver was made aware that Smith had sent an email to Paco advising him that he should continue his services and that he would be compensated by the Receiver. In so doing, it came to the Receiver's attention that Smith had used the email address "[crystalwealthceo@gmail.com](mailto:crystalwealthceo@gmail.com)". A copy of Smith's email is attached to this First Report as **Appendix "20"**.
- 205 On May 20, 2017, the Receiver sent an email response to Smith reiterating that he has no authority to represent or speak on behalf of the Receiver, including with respect to whom will be compensated under the Appointment Order. In addition, the Receiver demanded that Smith refrain from using any email address containing the words "crystal wealth", and cease all communications under same. A copy of the Receiver's response to Smith is attached to this First Report as **Appendix "21"**.

#### **Removal of RV & Moving Trailer**

- 206 On April 28, 2017, upon taking possession of the Mount Nemo Property, the Receiver documented a trailer with the license plate L52 87V (the "**Moving Trailer**") and a recreational vehicle with the license plate BVCD 847 (the "**RV**") on the Mount Nemo Property. The Receiver ensured that both the Moving Trailer and RV were both locked and secured prior to leaving.
- 207 On May 7, 2017, the Receiver returned to the Mount Nemo Property and noted that both the Moving Trailer and RV were not present. On May 11, 2017, the Receiver obtained information through the Government of Ontario database, dated May 8, 2017, indicating that Smith was the owner of both the Moving Trailer and RV.
- 208 In Smith's termination letter, dated May 16, 2017 (delivered via registered mail and email, a copy of which is attached to this First Report as **Appendix "22"**), the Receiver notified Smith of the removal of the RV and Moving Trailer and requested that Smith preserve the RV and Moving Trailer, at a location of his choice until such time that the Receiver provided

further direction. The Receiver also requested that Smith notify the Receiver of the location where the RV and Moving Trailer would be located; the Receiver has yet to obtain a response from Smith.

#### **Smith's Proposed Motion & Failure to Deliver Statutory Declaration**

- 209 As a result of the Appointment Order, all of Smith's known assets, including bank accounts, continue to be frozen, and all of the Property (as defined in the Appointment Order) of the Crystal Wealth Group was vested in the Receiver.
- 210 At the hearing of the Receivership Application on April 26, 2017, and subsequent to granting the Appointment Order which was unopposed by the Crystal Wealth Group, the Honourable Justice Newbould scheduled a motion date of May 24, 2017 (the "**Comeback Date**"), at which time, Smith was to bring a motion, if he wished, to vary certain terms of the Appointment Order, including any request to access funds for the purpose of retaining counsel and for personal living expenses. The Receiver has received correspondence from investors communicating their opposition to Smith gaining access to such funds.
- 211 On May 18, 2017, the Receiver delivered a blank form of statutory declaration (the "**Statutory Declaration**") to Smith requesting that he provide information concerning, among other things, his assets, liabilities, income, and expenses. A copy of the statutory declaration sent to Smith by the Receiver is attached as **Appendix "23"** to this First Report.
- 212 On May 24, 2017 and June 6, 2017, A&B, on behalf of the Receiver, sent follow-up correspondence to Smith reiterating the Receiver's request that Smith complete the Statutory Declaration. As at the date of the First Report, the Receiver has not received the completed Statutory Declaration from Smith.
- 213 No motion materials were served by Smith prior to the May 24<sup>th</sup> Comeback Date. On the Comeback Date, Smith advised the Court that his previously retained counsel had resigned on May 18, 2017 and that he therefore required additional time to prepare the necessary materials himself in support of a motion to vary certain terms of the Appointment Order, and more specifically, to access funds for retaining counsel and for personal living expenses (despite not having completed the Statutory Declaration). The Honourable Justice Morawetz directed Smith to serve and file his materials in support of any such

motion with the Court by the close of business on June 1, 2017. Justice Morawetz further directed the Receiver and Smith to re-attend Court with counsel for the OSC on June 2, 2017 to review the status and to set a schedule for the hearing of Smith's motion, if necessary. A copy of the endorsement of the Honourable Justice Morawetz issued on May 24, 2017 is attached as **Appendix "24"** to this First Report.

- 214 On June 1, 2017, Smith, representing himself, served a notice of motion, legal brief, and motion record which failed to include any evidence (the "**June 1 Materials**"). The relief sought in the notice of motion was substantially different than that to which Smith advised the Court he would be seeking on the Comeback Date before Justice Morawetz, and included a request that the Appointment Order, Vesting Order, and OSC Freeze Directions be rescinded in their entirety. A copy of the notice of motion included in the June 1 Materials is attached hereto as **Appendix "25"**.
- 215 On June 2, 2017, the Receiver, A&B, Smith, and OSC lawyers attended the scheduled 9:30 a.m. Court appointment. During the appointment, the Honourable Justice Hainey advised Smith that the June 1 Materials were insufficient to allow the Court to consider the relief sought, and accordingly, the Court declined to schedule Smith's motion. Furthermore, the Honourable Justice Hainey advised that the relief sought by Smith in the June 1 Materials was far different and greater in scope than Smith had communicated to Justice Morawetz at the May 24, 2017 Comeback Date. The Honourable Justice Hainey issued an endorsement on June 2, 2017 scheduling a further 9:30 appearance for June 23, 2017, and directed counsel to provide a progress report to the Court at that time. A copy of the endorsement of the Honourable Justice Hainey issued on June 2, 2017 is attached as **Appendix "26"** to this First Report.

## **ISSUES CONCERNING REPRESENTATIVE COUNSEL**

### **Housego's Support for the Appointment of CMB as Representative Counsel**

- 216 On May 17, 2017, the Receiver was made aware of an email sent by Housego on the same date to a group of investors in the Crystal Wealth Funds using the email address [crystalwealthupdates@gmail.com](mailto:crystalwealthupdates@gmail.com) (the "**Housego Email**"). The Housego Email, among other things, "*strongly recommended*" that investors endorse the appointment of Alistair Crawley ("**Crawley**") and Crawley MacKewn Brush LLP ("**CMB**") as representative counsel for investors. Housego's recommendation supporting Crawley and CMB was

done utilizing false and/or erroneous statements regarding the Receivership Proceedings as well as past and future actions to be taken by the Receiver. Most notably, Housego asserted that the cost of CMB's services to the investors would be covered by the Receiver, rather than from the Property of the Crystal Wealth Group. The Housego Email contained a hyperlink which investors could click on to support CMB's appointment as Representative Counsel. A copy of the Housego Email is attached to this First Report as **Appendix "27"**.

- 217 On May 18, 2017, the Receiver delivered an email to Housego (the "**Housego Response**"), attached as **Appendix "28"**, advising him that although the Receiver is supportive of investors seeking independent legal advice, it was concerned about the numerous inaccurate statements which were communicated in the Housego Email, which had given rise to confusion within the investor body.
- 218 On May 24, 2017, the Receiver distributed an email to the email addresses provided by Housego that attached the Housego Email, the Housego Response, and directed these investors to monitor the Receiver's case website for reliable updates concerning the status of the Receivership Proceedings. A copy of the Receiver's communication in this regard is attached to this First Report as **Appendix "29"**.

#### **CMB's Motion to be Appointed as Representative Counsel**

- 219 At the June 2, 2017 Court hearing, Crawley, on behalf of CMB, attended to advise the Court of CMB's intention to bring a motion to be appointed as representative counsel for the investors in the Crystal Wealth Funds. On June 9, 2017, CMB served the Receiver with a motion record in support of a motion to appoint CMB as representative counsel to the investors in the Crystal Wealth Funds. A date for the motion has yet to be scheduled.
- 220 At the time of the Appointment Order, CMB acted as counsel for one of the named Respondents, Chrysalis Yoga, and appeared on Chrysalis Yoga's behalf at the hearing before the Honourable Justice Newbould on April 26, 2017.
- 221 Shortly following the Application hearing on April 26, 2017, A&B was contacted by Crawley. During a conference call between A&B and Crawley on May 8, 2017, Crawley indicated that he had been informally speaking with an investor named Tony Murphy, as well as Johnston, one of the Registered Representatives, but had not been retained. On

May 10, 2017, Crawley advised A&B of his view that this case would benefit from representative counsel to represent the interests of investors, and that CMB would be interested in seeking an appointment for this role.

- 222 On May 11, 2017, A&B and the Receiver participated in a conference call with Crawley and Melissa MacKewn of CMB to discuss CMB's interest in the appointment. Crawley advised that he was introduced to the Crystal Wealth situation by Housego and Johnston. The Receiver inquired as to Crawley's experience acting as representative counsel on similar files to which Crawley responded that neither he nor CMB had acted in such capacity. The Receiver advised Crawley that it has had extensive experience interacting with representative counsel in its capacity as Court-appointed Receiver and acknowledged the importance of the role in certain of these mandates. Notwithstanding the above, the Receiver indicated to Crawley that the appointment of representative counsel at that stage was premature.
- 223 On May 16, 2017, Crawley sent a letter via email to A&B reiterating CMB's interest in being appointed representative counsel (the "**May 16<sup>th</sup> Crawley Letter**"). A copy of the Crawley Letter is attached hereto as **Appendix "30"**. On May 17, 2017, A&B, on behalf of the Receiver, sent a letter in response to the May 16<sup>th</sup> Crawley Letter reiterating the Receiver's view, and rationale for it, that it was premature for representative counsel to be appointed at that juncture. A&B's response sent to CMB on May 17<sup>th</sup> is attached to this First Report as **Appendix "31"**.
- 224 On May 19, 2017, (two days after the Housego Email was sent) Crawley sent additional correspondence via email to A&B (the "**May 19<sup>th</sup> Crawley Letter**") which is attached hereto as **Appendix "32"**. The May 19<sup>th</sup> Crawley Letter, among other things, contained a critical and aggressive tone towards the Receiver and its actions taken to date and made many incorrect assumptions regarding same. In the letter, Crawley took issue with the fact that the Receiver had not contacted Housego with respect to the management of certain Crystal Wealth Funds. On behalf of the Receiver, A&B provided a response to the May 19<sup>th</sup> Crawley Letter via letter sent to CMB on May 19, 2017. In its response, A&B advised Crawley, among other things, that it was "surprised by the aggressive tone of your letter" while reiterating once again that the Receiver believed it to be premature to introduce representative counsel at that stage, and to unnecessarily levy the cost of representative counsel to investors at this time. A&B further advised CMB in its letter that

the Receiver had intentionally not consulted with Housego, given the Receiver's view that it was neither necessary nor desirable to seek Housego's consultation in order for the Receiver to review and make appropriate decisions in connection with the Crystal Wealth Funds. A copy of A&B's May 19<sup>th</sup> letter to CMB is attached to this Report as **Appendix "33"**.

- 225 As is set out in A&B's letters to Crawley sent on May 17<sup>th</sup> and May 19<sup>th</sup>, the Receiver has not foreclosed the option of recommending representative counsel to investors. However, the Receiver still believes it is premature to engage representative counsel for the following reasons:
- a) The Receiver is acting as independent court officer, with legal representation from A&B, and is taking steps to advance the interests of all investors;
  - b) An omnibus representative counsel will likely not have a meaningful role. The Receiver believes that there are divergent interests among the investor group, given the differences between the Crystal Wealth Funds, and accordingly, many investors may opt out, or multiple representative counsel roles may be required;
  - c) The Receiver believes that the monetization of certain Crystal Wealth Funds is straight forward and as previously mentioned, is currently underway. Accordingly, it seems counter-productive to burden investors in such Crystal Wealth Funds with the cost of representative counsel at this stage; and
  - d) Certain Crystal Wealth Funds may require individual and protracted realization strategies, unique to each Crystal Wealth Fund, during which time the cost of representative counsel could unnecessarily be significant while adding questionable value. As previously discussed in this First Report, the Receiver has expended considerable effort to obtain documentation to fully understand the Off-Book Assets, is continuing the process to do so and will very shortly be in a position to conduct the Sales Process as described in this First Report. In addition, the Receiver will be engaging an expert to assist the Receiver in the management and development of realization strategies of the Media Fund, arguably one of the most complex investments of the Crystal Wealth Funds, and will consider the need for such a specialized advisor in respect of any other fund if the circumstances warrant it.

226 The Receiver is of the view that in the event that this Honourable Court nevertheless believes that representative counsel should be appointed, such role should not be fulfilled by Crawley or CMB for the following reasons:

- a) CMB: (i) acted for one of the Respondents, Chrysalis Yoga, an entity which is subject to the Receiver's investigation; (ii) made representations to the Court in that capacity at the time of the Appointment Order; and (iii) is, in the Receiver's view, conflicted from acting in an impartial role;
- b) Crawley and CMB admitted that they were introduced to the Crystal Wealth situation, in part, by Housego and Johnston. Both of these individuals were actively working with Smith, were Registered Representatives of the Company prior to being terminated by the Receiver, were subject to the OSC's Temporary Order and Extension Order, and are the subject of the Receiver's continued investigation;
- c) Housego circulated false and misleading information to investors vehemently advocating for CMB to be appointed as representative counsel;
- d) CMB's correspondence to the Receiver has been inflammatory, accusatory, and misleading, based, at least in part, on knowledge and information provided to CMB by Housego and Johnston; and,
- e) CMB's alleged proxies from investors, through the hyperlink referenced in the Housego Email, were obtained under false pretenses from Housego.

227 If this Honourable Court believes that representative counsel should be appointed, the Receiver respectfully suggests that such role be fulfilled by Cassels, Brock & Blackwell LLP ("Cassels"), a firm with significant experience in acting as representative counsel and a firm well versed in the mutual fund industry and the financial services sector. Cassels is one of the various experienced firms who have contacted the Receiver to communicate an interest in acting in the representative counsel capacity, and has confirmed to the Receiver that it is free of conflicts in acting in such capacity.

#### **RECEIVER'S FEES AND DISBURSEMENTS**

228 Pursuant to paragraph 23 of the Appointment Order, the Receiver and its counsel are to

be paid their reasonable fees and disbursements at their standard rates and charges, incurred both before and after the making of the Appointment Order. Pursuant to paragraph 24 of the Appointment Order, the Receiver and its counsel shall pass their accounts.

- 229 The Receiver seeks to have its fees and disbursements, including those of its legal counsel, approved by the Court. The Receiver and its counsel have maintained detailed records of their professional time and costs.
- 230 The total fees for the Receiver for the period April 25, 2017 to May 31, 2017, were \$214,276.91, plus disbursements of \$1,566.00, plus HST of \$28,058.28, for a total of \$243,891.19. The time spent by the Receiver is more particularly described in the Affidavit of Jonathan Krieger sworn June 21, 2017 (the "**Krieger Affidavit**"), which is attached hereto as **Appendix "34"** and contains copies of invoices that set out the services provided during this time period.
- 231 The total fees of A&B, as counsel to the Receiver, for the period of April 24, 2017 to May 31, 2017, were \$160,293.50, plus disbursements of \$5,069.55, plus HST of \$21,237.34, for a total of \$186,600.39. The time spent by A&B is more particularly described in the Affidavit of Steven L. Graff sworn June 22, 2017 (the "**Graff Affidavit**"), which is attached as **Appendix "35"** and contains, among other things, copies of invoices that set out the services provided during this period of time.
- 232 It is the Receiver's opinion that the fees and disbursements of the Receiver and A&B accurately reflect the work done by the Receiver and on behalf of the Receiver by A&B in connection with the receivership and the administration of the property of the Crystal Wealth Group from April 24, 2017 to May 31, 2017.
- 233 It is the Receiver's opinion that the fees and disbursements of A&B are fair and reasonable and justified in the circumstances. The Receiver recommends approval of A&B's accounts by this Honourable Court. While the Receiver is seeking approval of its fees and disbursements at this time, the Receiver intends to make a recommendation and seek approval of an allocation of its fees and disbursements among the Crystal Wealth Funds in a further motion before this Court.

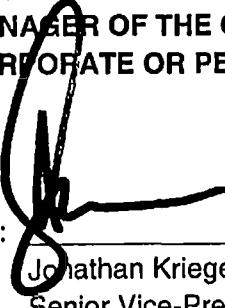
**CONCLUSION**

234 For the reasons set out in this First Report, the Receiver respectfully requests the relief and approval as set out in the Receiver's Notice of Motion dated June 22, 2017.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED this 22 day of June, 2017.**

**GRANT THORNTON LIMITED,  
IN ITS CAPACITY AS THE COURT-APPOINTED RECEIVER AND  
MANAGER OF THE CRYSTAL WEALTH GROUP, AND NOT IN ITS  
CORPORATE OR PERSONAL CAPACITY**

Per:

  
Jonathan Krieger, CPA, CA, CIRP, LIT  
Senior Vice-President

4302

# TAB 4

4303

Court File Number: CV-17-11779-00CLSuperior Court of Justice  
Commercial List

## FILE/DIRECTION/ORDER

Osc

Plaintiff(s)

AND

CRYSTAL WEALTH. MGT

Defendant(s)

Case Management  Yes  No by Judge: \_\_\_\_\_

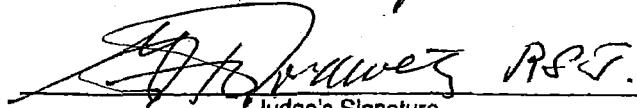
Counsel	Telephone No:	Facsimile No:
M. van Zandvoort C. Wechter (osc)	416 - 865 - 4742 416 204 - 8885 -	
Clayton Smith (scy-rep)	905 - 517-6172	

- Order     Direction for Registrar (No formal order need be taken out)  
 Above action transferred to the Commercial List at Toronto (No formal order need be taken out)
- Adjourned to: \_\_\_\_\_
- Time Table approved (as follows):

On April 26, 2017 Newbold J. appointed Grant Thornton as Receiver of the ~~Delta Health~~ company. Mr. Smith is the majority shareholder of the ~~Delta Health~~. Mr. Smith advises that his counsel has resigned and that he has been unable, to date, to retain new counsel. Mr. Smith has indicated an intention to bring a motion to vary certain terms of the receiver's order, specifically to access funds for retaining counsel and for

May 24/17

Date



Judge's Signature

Additional Pages 192

Court File Number: \_\_\_\_\_

**Superior Court of Justice  
Commercial List****FILE/DIRECTION/ORDER****Judges Endorsement Continued**

personal living expenses.

Now would I had set May 24, 2017 as the date for such a motion. However, Mr. Smith was advised on May 18, 2017 that his counsel was resigning and he is not in a position to proceed today (no materials have been filed).

Mr. Smith has indicated that he will prepare his own ~~materials~~ with <sup>motion</sup> materials.

The new materials are to be served and filed with the Court by close of business on Thursday June 1, 2017. Parties to be attended a 9:30 appointment on Friday June 2, 2017 to review statements and to set a schedule for the hearing of the motion, if necessary.

No judge is seized of this matter.

\* Counsel advised that newwchys order affects the Crystal Wealth Group of Companies and Mr. Smith personally.

# TAB 5

June 2, 2012

Trips to my specimen mount

In accordance to

June 23/12 at 9:30 AM  
Left about time dinner  
would have had a  
progress report.

Haney

4307

# TAB 6

Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

BETWEEN:

**ONTARIO SECURITIES COMMISSION**

Applicant

- and -

**CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE AND PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE FUND, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.**

Respondents

**APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT R.S.O. 1990,  
c. S.5, AS AMENDED**

**SUPPLEMENT TO THE FIRST REPORT TO THE COURT  
SUBMITTED BY GRANT THORNTON LIMITED  
IN ITS CAPACITY AS RECEIVER**

**JUNE 29, 2017**



**Grant Thornton Limited  
200 King Street West, 11<sup>th</sup> Floor  
Toronto, Ontario, M5H 3T4**

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## CONFIDENTIAL APPENDIX

Appendix 1      Memorandum of Understanding dated June 27, 2017

Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**B E T W E E N:**

**ONTARIO SECURITIES COMMISSION**

Applicant

- and -

**CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE AND PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE FUND, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.**

Respondents

**APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT R.S.O. 1990,  
c. S.5, AS AMENDED**

**SUPPLEMENT TO THE FIRST REPORT TO THE COURT  
SUBMITTED BY GRANT THORNTON LIMITED  
IN ITS CAPACITY AS RECEIVER**

**JUNE 29, 2017**

## INTRODUCTION AND PURPOSE OF THE FIRST REPORT SUPPLEMENT

- 1 This supplement (this "First Report Supplement") is filed by Grant Thornton Limited in its capacity as Court-appointed receiver (the "Receiver") of the Crystal Wealth Group and of the Chrysalis Account. This First Report Supplement is filed by the Receiver as a supplement to its first report dated June 22, 2017 (the "First Report").
- 2 Unless otherwise defined, all capitalized terms in this First Report Supplement are defined as they are in the First Report. Any and all disclaimers provided in the First Report also apply to this First Report Supplement.
- 3 Background information in respect of the Respondents and the Receivers' appointment is provided in the First Report.
- 4 Copies of materials filed in these proceedings generally are available on the Receiver's Case Website at [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth).
- 5 The purpose of this First Report Supplement is to inform and update the Court on:
  - a) the Receiver's efforts thus far in monetizing certain On-Book Assets, more specifically, Equities and External Mutual Funds;
  - b) the Receiver's efforts thus far in monetizing certain Off-Book Assets, more specifically, the Squire mortgages; and
  - c) the engagement of Quiver Capital Inc. ("Quiver") as an advisor to the Receiver in managing the Media Fund.

## MONETIZATION OF ON-BOOK ASSETS

- 6 As mentioned in the First Report, the Receiver, in consultation with colleagues in Canada and the US with extensive investment and portfolio expertise, is carefully monetizing all marketable securities, including Equities and External Mutual Funds, where possible, which are traded on the various public stock exchanges. The Receiver estimates that this process is over 90% complete, covering the ACM Growth Fund, ACM Income Fund, Factoring Fund, Medical Fund, Media Fund, Resource Fund and the Sustainable Dividend Fund. The Receiver anticipates that this realization process will be completed shortly.

**MONETIZATION OF OFF-BOOK ASSETS**

- 7 As mentioned in the First Report, Squire had offered to acquire the remaining two Squire Mortgages, with an effective date of June 23, 2017, for proceeds of \$197,526 (proceeds include the entire principal value of the Squire Mortgages (\$196,000) plus accrued interest of \$1,526 to June 23, 2017). The Receiver accepted the offer and the transaction closed on June 23, 2017.

**PRESERVATION OF CRYSTAL WEALTH FUNDS**

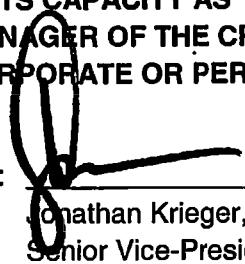
- 8 The Receiver notes that the monetization of individual On-Book Assets and Off-Book Assets will be preserved in each Crystal Wealth Fund to which they pertain and cash proceeds will not be intermingled among other Crystal Wealth Funds.

**ENGAGEMENT OF QUIVER AS ADVISOR**

- 9 The First Report describes the Receiver's potential engagement of Quiver as an advisor to assist with the management of the Media Fund, due to the uniqueness of the Media Fund and Quiver's expertise in this area.
- 10 On June 27, 2017, the Receiver and Quiver entered into a Memorandum of Understanding ("MOU") which outlines the roles and responsibilities of Quiver and compensation in so acting. A copy of the MOU is attached as **Confidential Appendix "1"** which the Receiver respectfully requests be subject to the sealing order as requested in the First Report.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED** this 29 day of June, 2017.

**GRANT THORNTON LIMITED,  
IN ITS CAPACITY AS THE COURT-APPOINTED RECEIVER AND  
MANAGER OF THE CRYSTAL WEALTH GROUP, AND NOT IN ITS  
CORPORATE OR PERSONAL CAPACITY**

Per: 

Jonathan Krieger, CPA, CA, CIRP, LIT  
Senior Vice-President

4313

# TAB 7

R. Smith

The following is a brief description  
of Express 2" copper  
cable used at Cudahy  
for position 102 1/2 yards  
post about one mile ~~south~~  
from end of road  
between two ~~rocks~~ stones  
and ~~one~~ hole in a  
rock about 448.  
to take up no more  
than ~~one~~ second  
time ~~one~~ hour  
1/1/62

4315

# TAB 8

4316

## ONTARIO SECURITIES COMMISSION

Short Title of Proceedings

Applicant

and CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, ET AL.

Respondents  
Court File No. CV-17-11779-00CL

June 23, 2017

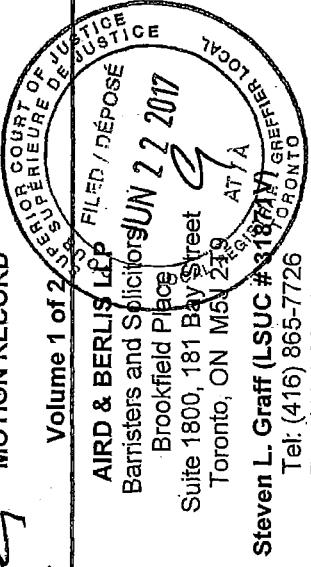
June 30, 2017

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST  
Proceedings commenced at TORONTO

I now so stipify & this  
 Note shall be signed by  
 the Court or the  
 Order and the  
 Party proceeded order.

This shall be a sealing  
 order with respect to  
 the supplemental Appendix  
 to the  
 order.

Hairing J



Kyle Plunkett (LSUC # 61044N)

Tel: (416) 865-4742  
Fax: (416) 863-1515  
E-mail: kplunkett@airdbertilis.com

Lawyers for Grant Thornton Limited, in its capacity as Receiver and Manager of Crystal Wealth Management System Limited, Clayton Smith, Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund, CLJ Everest Ltd., and 1150732 Ontario Limited

4317

Court File No. CV- 17-11779-00CL

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST

THE HONOURABLE	)	FRIDAY, THE 30 <sup>th</sup> DAY
JUSTICE HAINEY	)	OF JUNE, 2017
	)	
	)	



ONTARIO SECURITIES COMMISSION

Applicant

- and -

**CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND and CHRYSALIS YOGA INC.**

Respondents

APPLICATION UNDER SECTION 129 OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED

ORDER

THIS MOTION, made by Grant Thornton Limited ("GTL"), in its capacity as the Court-appointed receiver and manager (in such capacity, the "Receiver") ), without security, of all of the assets, undertakings and properties of each of the Respondents except the Respondent, Chrysalis Yoga Inc. ("Chrysalis Yoga") (each of the Respondents except for Chrysalis Yoga being individually and collectively, the "Crystal Wealth Group"), for an Order, *inter alia*: (i) approving the First Report of the Receiver dated June 22, 2017 (the "First Report") and the activities of the Receiver set out in the First Report; (ii) approving the Supplement to the First Report of the Receiver dated June 29, 2017 (the "Supplement to the First Report") and the

- 2 -

activities of the Receiver set out in the Supplement to the First Report; (iii) sealing certain appendices to the First Report and the Supplement to the First Report (the "**Confidential Appendices**") until further Order of the Court; (iv) approving the Receiver's reliance on the Unit Holder Listing (as defined in the First Report) to make interim distributions of the proceeds obtained from the divestiture of certain assets of Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, and Crystal Wealth Retirement One Fund (collectively, the "**Crystal Wealth Funds**"), where possible, to investors in the Crystal Wealth Funds; (v) approving the Sales Process (the "**Sales Process**") as defined and described in the First Report and authorizing the Receiver to carry out its functions in accordance with the Sales Process; (vi) approving the Receiver's interim statement of receipts and disbursements for the period from April 26, 2017 to May 31, 2017 (the "**Receiver's Interim R&D**"); and (vii) approving the fees and disbursements of the Receiver and its counsel, Aird & Berlis LLP, was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the First Report, including the affidavit of Jonathan Krieger sworn June 21, 2017 (the "**Krieger Affidavit**"), and the affidavit of Steven L. Graff sworn June 22, 2017 (the "**Graff Affidavit**"), the Supplement to the First Report, and on hearing the submissions of counsel for the Receiver, counsel for the Ontario Securities Commission, and of the Respondent, Clayton Smith, no one appearing for any other person on the service list, although duly served as appears from the affidavit of service of Diana Saturno sworn June 22, 2017, filed,

1. **THIS COURT ORDERS** that the time for service and filing of the notice of motion and the motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.
2. **THIS COURT ORDERS** that the First Report and the Supplement to the First Report, and the activities of the Receiver described therein be and are hereby approved.

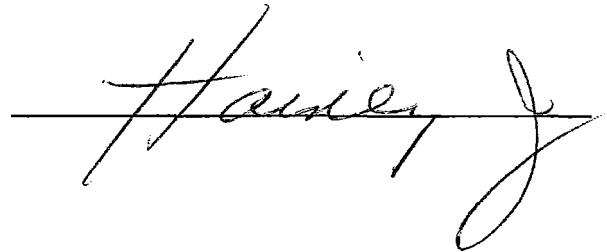
- 3 -

3. **THIS COURT ORDERS** that the Confidential Appendices be and are hereby sealed until further Order of the Court.
4. **THIS COURT ORDERS** that the Sales Process, as defined and described in the First Report, be and is hereby approved.
5. **THIS COURT ORDERS** that the Receiver may rely on the Unit Holder Listing (as defined in the First Report) to make distributions, without further approval of the Court, of the proceeds obtained from the divestiture of certain assets of the Crystal Wealth Funds to investors of the Crystal Wealth Funds.
6. **THIS COURT ORDERS** that the Receiver's Interim R&D, as described in the First Report, be and is hereby approved.
7. **THIS COURT ORDERS** that the fees and disbursements of the Receiver, as described in the First Report and as set out in the Krieger Affidavit, be and are hereby approved.
8. **THIS COURT ORDERS** that the fees and disbursements of Aird & Berlis LLP, counsel to the Receiver, as described in the First Report and as set out in the Graff Affidavit, be and are hereby approved.
9. **THIS COURT ORDERS** that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.
10. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.
11. **THIS COURT ORDERS** that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the

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- 4 -

within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.



ENTERED AT / INSCRIT À TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO:

JUN 30 2017

PER / PAR: 

ONTARIO SECURITIES COMMISSION

-and-

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED et al.

Applicant  
*Short Title of Proceedings*

Respondents

Court File No. CV-17-11779-00CL

**ONTARIO  
 SUPERIOR COURT OF JUSTICE  
 COMMERCIAL LIST**

**Proceedings commenced at Toronto****ORDER**

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*Lawyers for Grant Thornton Limited, in its capacity as Receiver and Manager of Crystal Wealth Management System Limited, Clayton Smith, Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund, CLJ Everest Ltd., and 1150752 Ontario Limited*

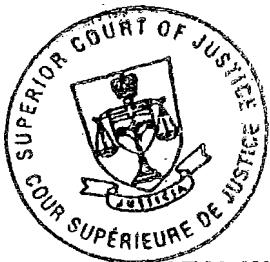
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# TAB 9

Court File No. CV-17-11779-00CL

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST

THE HONOURABLE	)	FRIDAY, THE 30 <sup>th</sup> DAY
JUSTICE HAINY	)	OF JUNE, 2017
	)	



ONTARIO SECURITIES COMMISSION

Applicant

- and -

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CLJ EVEREST LTD., 1150752 ONTARIO LIMITED, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, and CHRYSALIS YOGA INC.

Respondents

**Application under Section 129 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended**

**CREDITOR CLAIMS PROCEDURE ORDER**

**THIS MOTION**, made by Grant Thornton Limited ("GTL"), in its capacity as the Court-appointed receiver and manager (in such capacities, the "Receiver"), without security, of all of the assets, undertakings and properties of each of the Respondents except the Respondent, Chrysalis Yoga Inc. ("Chrysalis Yoga") (each of the Respondents except for Chrysalis Yoga being individually and collectively, the "Crystal Wealth Group"), for an order approving a procedure for the determination and resolution of claims filed by non-investor creditors against

the Crystal Wealth Group and authorizing the Receiver to administer the claims process in accordance with its terms, was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the First Report of the Receiver dated June 22, 2017 and the appendices thereto (collectively, the "First Report"), the Supplement to the First Report dated June 29, 2017, and on hearing the submissions of counsel for the Receiver, and such other counsel as were present, no one appearing for any other person on the service list, although properly served as appears from the affidavit of service of Diana Saturno sworn June 22, 2017, filed,

#### **SERVICE**

1. **THIS COURT ORDERS** that the time for service of the notice of motion and the motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

#### **DEFINITIONS**

2. **THIS COURT ORDERS** that for the purposes of this Order, the following terms shall have the following meanings:

- (a) "**Appointment Date**" means April 26, 2017;
- (b) "**Appointment Order**" means the Appointment Order made by the Honourable Justice Newbould dated April 26, 2017 in the within proceeding;
- (c) "**Business Day**" means a day, other than a Saturday, Sunday or a statutory holiday, on which banks are generally open for business in Toronto, Ontario;
- (d) "**Claim**" means any right of any Person against the Crystal Wealth Group in connection with any indebtedness, liability or obligation of any kind of the Crystal Wealth Group, whether liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety or otherwise and whether or not such right is executory in nature, including the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future that could be asserted by way of set-off, counterclaim

or otherwise, which indebtedness, liability or obligation is based in whole or in part on facts existing on or prior to the Appointment Date or which would have been claims provable in bankruptcy had the Crystal Wealth Group, or any individual entity included therein, as the case may be, become bankrupt on the Appointment Date (each, a "**Creditor Claim**" and, collectively, the "**Creditor Claims**"), provided, however, that "Claim" shall not include an Excluded Claim. For greater certainty, a claim of a Known Creditor arising from a lease, contract, employment agreement or other agreement which was terminated or disclaimed by the Receiver between the Appointment Date and the date of this Order, is included in the definition of a "Claim" and "**Creditor Claim**";

- (e) "**Claims Bar Date**" means 5:00 p.m. (Toronto time) on August 3, 2017, or any later date ordered by the Court;
- (f) "**Claims Package**" means a package of information to be provided by the Receiver, which package shall include a copy of this Order without attachments, an Instruction Letter, a Proof of Claim, and such other materials as the Receiver may consider appropriate or desirable;
- (g) "**Claims Procedure**" means the procedures outlined in this Order, including the Schedules;
- (h) "**Claims Procedure Order**" means this Order;
- (i) "**Court**" means the Ontario Superior Court of Justice (Commercial List);
- (j) "**Creditor**" means any Person having a Claim;
- (k) "**Excluded Claim**" means any claims of an investor in any entity comprising the Crystal Wealth Group (each, an "**Investor**") with respect to such Investor's investment;
- (l) "**Instruction Letter**" means a letter to Creditors regarding the Claims Procedure containing instructions regarding the completion and return of a Proof of Claim, substantially in the form attached as **Schedule "B"** hereto;

- (m) "**Investor**" has the meaning ascribed to that term in paragraph 2(k) of the Claims Procedure Order;
- (n) "**Known Creditors**" means:
  - (i) those Creditors which the books and records of the Crystal Wealth Group disclose were owed monies by the Crystal Wealth Group as of the Appointment Date and which monies remain unpaid in whole or in part, excluding Investors;
  - (ii) any Person which commenced a legal proceeding against the Crystal Wealth Group which legal proceeding was commenced and served upon the Crystal Wealth Group prior to the Appointment Date;
  - (iii) any Person which is party to a lease, contract, employment agreement or other agreement of the Crystal Wealth Group which was terminated or disclaimed by the Receiver between the Appointment Date and the date of this Order; and
  - (iv) any other Creditor actually known to the Receiver as of the date of this Order;
- (o) "**Notice of Dispute**" means a notice delivered to the Receiver by a Creditor disputing a Notice of Revision or Disallowance, which notice shall be substantially in the form attached hereto as **Schedule "E"** and shall set out the reasons for the dispute;
- (p) "**Notice of Revision or Disallowance**" means a notice informing a Creditor that the Receiver has revised or disallowed all or any part of such Creditor's Claim, which notice shall be substantially in the form attached hereto as **Schedule "D"** and shall set out the reasons for such revision and/or disallowance;
- (q) "**Notice to Creditors**" means the notice publicizing this Claims Procedure to be published in accordance with this Order, substantially in the form of the notice attached as **Schedule "A"**;

- (r) "**Person**" means any individual, general or limited partnership, firm, association, joint venture, trust, entity, corporation, limited or unlimited liability company, unincorporated organization, trade union, pension plan administrator, pension plan regulator, governmental authority or agency, employee or other association, or any other juridical entity howsoever designated or constituted;
- (s) "**Proof of Claim**" means the form of Proof of Claim to be completed and filed by a Creditor setting forth its purported Claim, substantially in the form attached as **Schedule "C"**;
- (t) "**Proven Claim**" means the amount and classification of any Creditor's Claim as finally determined in accordance with this Claims Procedure;
- (u) "**Receivership Proceedings**" means the receivership proceedings commenced in respect of the Crystal Wealth Group by way of the Appointment Order; and
- (v) "**Receiver's Website**" means <http://www.grantthornton.ca/crystalwealth>.

#### **NOTICE TO CREDITORS AND OTHERS**

##### **3. THIS COURT ORDERS** that:

- (a) the Receiver shall, no later than five Business Days following the making of this Order, post a copy of this Order (together with all Schedules) on the Receiver's Website;
- (b) the Receiver shall send to each of the Known Creditors (in each case, for which it has an address) a copy of the Claims Package by July 10, 2017;
- (c) the Receiver shall, no later than July 10, 2017, cause to be published the Notice to Creditors in The Globe and Mail; and
- (d) the Receiver shall, provided such request is received prior to the Claims Bar Date, deliver as soon as reasonably possible following receipt of a request therefore a copy of the Claims Package to any Person claiming to be a Creditor and requesting such material.

**PROOFS OF CLAIM**

4. **THIS COURT ORDERS** that all Creditors shall file with the Receiver a Proof of Claim within the time periods herein stipulated.

**DEADLINE FOR FILING OR PROOF OF CLAIM**

5. **THIS COURT ORDERS** that all Proofs of Claim, together with supporting documentation in respect of such Claim, must be filed with the Receiver by prepaid ordinary mail, courier, personal delivery or electronic or digital transmission, so that such Proof of Claim is received by the Receiver by no later than the Claims Bar Date.

6. **THIS COURT ORDERS** that any Creditor that does not file a Proof of Claim, together with supporting documentation in respect of such Claim,

- (a) shall be and is hereby forever barred from asserting or enforcing any Claim against the Crystal Wealth Group;
- (b) shall not be entitled to receive any distributions from any of the Crystal Wealth Group's estates; and
- (c) shall not be entitled to any further notice in, and shall not be entitled to participate as a creditor in, the Receivership Proceedings.

**DETERMINATION OF CLAIMS AGAINST THE CRYSTAL WEALTH GROUP**

7. **THIS COURT ORDERS** that the Receiver shall review all Proofs of Claim filed on or before the Claims Bar Date and may accept, revise or disallow (in whole or in part) the amount and/or status of a Claim set out in any Proof of Claim. If the Receiver determines to revise or disallow a Claim, the Receiver shall send a Notice of Revision or Disallowance to the Creditor. At any time, the Receiver may request additional information with respect to any Claim, and may request that the Creditor file a revised Proof of Claim, as the case may be.

8. **THIS COURT ORDERS** that the Receiver may attempt to consensually resolve the classification and amount of any Claim with the Creditor prior to accepting, revising or disallowing such Claim.

9. **THIS COURT ORDERS** that where a Proof of Claim has been revised or disallowed (in whole or in part) by a Notice of Revision or Disallowance, the revised or disallowed portion of

that Claim shall not establish a Proven Claim unless the Creditor has disputed the revision or disallowance and proven the revised or disallowed Claim (or portion thereof) in accordance with paragraphs 12-14 of this Order.

#### **NOTICES OF DISPUTE**

10. **THIS COURT ORDERS** that if a Creditor disputes the Notice of Revision or Disallowance and intends to contest the Notice of Revision or Disallowance then such Creditor shall deliver a Notice of Dispute by prepaid ordinary mail, courier, personal delivery or electronic or digital transmission so that such Notice of Dispute is received by the Receiver by no later than 5:00 p.m. (Toronto time) on the day which is ten (10) Business Days after the Receiver delivered the Notice of Revision or Disallowance or such later date as the Receiver may agree in writing or the Court may order. The filing of a Notice of Dispute with the Receiver within the time limited therefore shall constitute an application to have the amount or status of such Claim determined as set out in paragraphs 12-14 hereof.

11. **THIS COURT ORDERS** that where a Creditor that receives a Notice of Revision or Disallowance fails to file a Notice of Dispute with the Receiver within the time frame required by paragraph 10 above, the amount and status of such Creditor's Claim shall be deemed to be as set out in the Notice of Revision or Disallowance and such amount and status, if any, shall constitute such Creditor's Proven Claim.

#### **RESOLUTION OF CLAIMS**

12. **THIS COURT ORDERS** that as soon as practicable after the delivery of the Notice of Dispute to the Receiver, the Receiver may:

- (a) attempt to consensually resolve the classification and amount of the Claim with the Creditor; and/or
- (b) schedule an appointment with the Court for the purpose of scheduling a motion to have the classification and/or amount of the Claim determined by the Court, and at such motion the Creditor shall be deemed to be the applicant and the Receiver shall be deemed to be the respondent.

13. **THIS COURT ORDERS** that notwithstanding the other provisions of this Order, the Receiver may make a motion to the Court for a final determination of a Claim at any time, whether or not a Notice of Revision or Disallowance has been sent by the Receiver.

14. **THIS COURT ORDERS** that in the event that the dispute between the Creditor and the Receiver is not settled within a time period or in a manner satisfactory to the Receiver or the Creditor, the Receiver or the Creditor may make a motion to the Court for the final determination of the Creditor's Claim.

#### **ADEQUACY OF INFORMATION/CURRENCY**

15. **THIS COURT ORDERS** that:

- (a) the Receiver may, where it is satisfied that a Claim has been adequately proven, waive strict compliance with the requirements of this Order as to completion and execution of Proofs of Claim; and
- (b) any Creditor Claims denominated in a currency other than Canadian dollars shall, for the purposes of this Order, be converted to, and constitute obligations in, Canadian dollars, such calculation to be effected by the Receiver using the Bank of Canada noon spot rate on the Appointment Date.

#### **NOTICE OF TRANSFEREES**

16. **THIS COURT ORDERS** that the Receiver shall not be obligated to give notice to or otherwise deal with a transferee or assignee of a Claim as the Creditor in respect thereof unless:

- (a) actual written notice of transfer or assignment, together with satisfactory evidence of such transfer or assignment, shall have been received by the Receiver; and
- (b) the Receiver shall have acknowledged in writing such transfer or assignment, and thereafter such transferee or assignee shall for the purposes hereof constitute the "Creditor" in respect of such Claim.

Any such transferee or assignee of a Claim, and such Claim, shall be bound by any notices given or steps taken in respect of such Claim in accordance with this Order prior to the written acknowledgement by the Receiver of such transfer or assignment.

17. **THIS COURT ORDERS** that if the holder of a Claim has transferred or assigned the whole of such Claim to more than one Person or part of such Claim to another Person or

Persons, such transfer or assignment shall not create a separate Claim or Claims and such Claim shall continue to constitute and be dealt with as a single Claim notwithstanding such transfer or assignment, and the Receiver shall in each such case not be bound to acknowledge or recognize any such transfer or assignment and shall be entitled to give notices to and to otherwise deal with such Claim only as a whole and then only to and with the Person last holding such Claim in whole as the Creditor in respect of such Claim. Provided that a transfer or assignment of the Claim has taken place in accordance with paragraph 16 of this Order and the Receiver has acknowledged in writing such transfer or assignment, the person last holding such Claim in whole as the Creditor in respect of such Claim may by notice in writing to the Receiver direct that subsequent dealings in respect of such Claim, but only as a whole, shall be with a specified Person and, in such event, such Creditor, such transferee, or assignee of the Claim and the whole of such Claim shall be bound by any notices given or steps taken in respect of such Claim by or with respect to such Person in accordance with this Order.

18. **THIS COURT ORDERS** that the Receiver is under no obligation to give notice to any Person other than the Creditor holding the Claim and shall, without limitation, have no obligation to give notice to any Person holding a security interest, lien, or charge in, or a pledge or assignment by way of security in, a Claim.

19. **THIS COURT ORDERS** that the transferee or assignee of any Claim:

- (a) shall take the Claim subject to the rights and obligations of the transferor/assignor of the Claim, and subject to the rights of any Crystal Wealth Group entity against any such transferor or assignor, including any rights of set-off which any Crystal Wealth Group entity had against such transferor or assignor; and
- (b) cannot use any transferred or assigned claim to reduce any amount owing by the transferee or assignee to any Crystal Wealth Group entity, whether by way of set-off, application, merger, consolidation or otherwise.

#### **PROTECTIONS FOR RECEIVER**

20. **THIS COURT ORDERS** that in carrying out the terms of this Order:

- (a) the Receiver shall have all of the protections given to it by the Appointment Order or as an officer of this Court, including the stay of proceedings in its favour;

- (b) the Receiver shall incur no liability or obligation as a result of the carrying out of the provisions of this Order;
- (c) the Receiver shall be entitled to rely on the Crystal Wealth Group's books and records, and any information provided by the Crystal Wealth Group, all without independent investigation; and
- (d) the Receiver shall not be liable for any claims or damages resulting from any errors or omissions in such books or records.

## DIRECTIONS

21. **THIS COURT ORDERS** that the Receiver may, at any time, and with such notice as this Court may require, seek directions from this Court with respect to this Order, the Claims Procedure set out herein and the forms attached as Schedules hereto, including with respect to the appointment of a claims officer if the Receiver deems it necessary or appropriate.

## SERVICE AND NOTICE

22. **THIS COURT ORDERS** that the Receiver be at liberty to deliver the Claims Package, and any letters, notices or other documents to Creditors or other interested Persons, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic or digital transmission to such Persons at the address as last shown on the records of the Crystal Wealth Group and that any such service or notice by courier, personal delivery or electronic or digital transmission shall be deemed to be received on the next Business Day following the date of forwarding thereof, or if sent by prepaid ordinary mail, on the fourth (4th) Business Day after mailing.

23. **THIS COURT ORDERS** that any notice or other communication (including, without limitation, Proofs of Claim and Notices of Dispute) to be given under this Order by a Creditor to the Receiver shall be in writing substantially in the form, if any, provided for in this Order and will be sufficiently given only if given by prepaid ordinary mail, courier, personal delivery or electronic or digital transmission addressed to:

Grant Thornton Limited  
in its capacity as Receiver and Manager of the Crystal Wealth Group

200 King Street West, 11<sup>th</sup> Floor  
Toronto, Ontario M5H 3T4

Attention: Jason Knight  
E-mail: jason.knight@ca.gt.com or crystalwealth@grantthornton.ca

Any such notice or other communication by a Creditor shall be deemed received only upon actual receipt thereof by the Receiver during normal business hours on a Business Day.

#### MISCELLANEOUS

24. **THIS COURT ORDERS** that this Claims Procedure Order does not and is not intended to provide for the calculation or methodology of determining distributions but solely for providing a process for submitting and adjudicating Claims. The Receiver will request additional relief from this Court with respect to determining a final basis for calculating and determining ultimate distributions, if any, to Creditors.
25. **THIS COURT ORDERS** that Claims on behalf of any of the Crystal Wealth Group entities against any other of the Crystal Wealth Group entities shall be deemed filed and accepted by the Receiver in amounts determined by the Receiver on the basis of the books and records of the Crystal Wealth Group, without the need for the Receiver to file Proofs of Claim with respect to such Claims.
26. **THIS COURT ORDERS** that the Receiver may set off (whether by way of legal, equitable or contractual set-off) against the Claims of any Creditor, any claims of any nature whatsoever that any of the Crystal Wealth Group entities may have against such Creditor arising prior to the entry of this Claims Procedure Order, provided that such set-off satisfies the requirements for legal, equitable or contractual set-off to the extent permitted by applicable law as may be determined by the Court. If there is any dispute between the Receiver and the applicable Creditor, however, neither the failure to assert set-off nor the allowance of any Claim hereunder shall constitute a waiver or release by the Receiver of any such claim that the Receiver may have against such Creditor.
27. **THIS COURT ORDERS AND REQUESTS** the aid and recognition of any court of any judicial, regulatory or administrative body in any province or territory of Canada (including the assistance of any court in Canada) and the Federal Court of Canada and any judicial, regulatory or administrative tribunal or other court constituted pursuant to the Parliament of Canada or the legislature of any province and any court or any judicial, regulatory or administrative body of the

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United States of America, and of any other nation or state, to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

Hamer J

ENTERED AT / INSCRIT À TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO:

JUN 30 2017

PER / PAR: M

**SCHEDULE "A"****NOTICE TO CREDITORS**

IN THE MATTER OF THE RECEIVERSHIP OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, CLJ EVEREST LTD., AND 1150752 ONTARIO LIMITED

AND IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 129 OF THE SECURITIES ACT, R.S.O. 1990, C. S.5, AS AMENDED

**RE: NOTICE OF CLAIMS PROCEDURE**

**PLEASE TAKE NOTICE** that this notice is being published pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) made June 30, 2017 (the "Claims Procedure Order"). All the creditors of Crystal Wealth Management System Limited, Clayton Smith, Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund, CLJ Everest Ltd., and 1150752 Ontario Limited (individually and collectively, the "Crystal Wealth Group") should have received a claims package by mail from Grant Thornton Limited, Court-appointed receiver and manager (in such capacity, the "Receiver") of the Crystal Wealth Group. Creditors may also obtain the Claims Procedure Order and a claims package from the Receiver's website at [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth) or by contacting the Receiver by telephone at (866) 448-5867 or by email at [crystalwealth@grantthornton.ca](mailto:crystalwealth@grantthornton.ca).

Completed documents must be received by the Receiver by 5:00 p.m. (Toronto time) on August 3, 2017 (the "Claims Bar Date"). It is your responsibility to complete the appropriate documents and ensure that the Receiver receives your completed documents by the Claims Bar Date.

Among those creditors who do not need to file a Proof of Claim are investors in the Crystal Wealth Group and whose claim derives from such investor's investment in the Crystal Wealth Group. Please consult the Claims Procedure Order made on June 30, 2017 for details with respect to this and other exemptions.

**CLAIMS WHICH ARE NOT RECEIVED BY THE CLAIMS BAR DATE WILL BE BARRED AND EXTINGUISHED FOREVER.**

DATED at Toronto this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

**SCHEDULE "B"****INSTRUCTION LETTER FOR THE CLAIMS PROCEDURE**

IN THE MATTER OF THE RECEIVERSHIP OF CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, CLAYTON SMITH, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND, ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY, CRYSTAL WEALTH RETIREMENT ONE FUND, CLJ EVEREST LTD., AND 1150752 ONTARIO LIMITED

AND IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 129 OF THE  
*SECURITIES ACT, R.S.O. 1990, C. S.5, AS AMENDED*

**A. CLAIMS PROCEDURE**

By Order of the Ontario Superior Court of Justice (Commercial List) made June 30, 2017 (the "**Claims Procedure Order**"), Grant Thornton Limited, the Court-appointed receiver and manager (in such capacity, the "**Receiver**") of Crystal Wealth Management System Limited, Clayton Smith, Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund, CLJ Everest Ltd., and 1150752 Ontario Limited (individually and collectively, the "**Crystal Wealth Group**"), has been authorized to conduct a claims procedure (the "**Claims Procedure**") for the determination of certain claims against the Crystal Wealth Group.

This letter provides instructions for understanding and completing a Proof of Claim. Please note that capitalized terms which are not defined in this Instruction Letter shall have the meanings ascribed to them in the Claims Procedure Order.

The Claims Procedure is intended for any Person with any Claim (as defined in the Claims Procedure Order) of any kind or nature whatsoever, other than an Excluded Claim, whether unliquidated, contingent or otherwise against one or more of the entities within the Crystal Wealth Group (collectively, the "**Claims**"). Please review the Claims Procedure Order on the Receiver's Website ([www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth)) for the complete definition of Claim and Excluded Claim.

If you have any questions regarding the Claims Procedure, please consult the Receiver's Website or contact the Receiver at the address provided below.

All notice and enquiries with respect to the Claims Procedure should be addressed to

Grant Thornton Limited  
in its capacity as Receiver and Manager of the Crystal Wealth Group

200 King Street West, 11<sup>th</sup> Floor  
Toronto, Ontario M5H 3T4

Attention: Jason Knight  
E-mail: jason.knight@ca.gt.com or [crystalwealth@grantthornton.ca](mailto:crystalwealth@grantthornton.ca)  
Toll-Free Telephone Number: 1-866-448-5867

**B. FOR CREDITORS SUBMITTING A PROOF OF CLAIM**

If you believe that you have a Claim against the Crystal Wealth Group, you will have to file a Proof of Claim with the Receiver. **Your Proof(s) of Claim must be received by 5:00 p.m. (Toronto time) on August 3, 2017, the Claims Bar Date. Pursuant to the Claims Procedure Order, failure to submit a Proof of Claim by the Claims Bar Date will result in such Claim being barred and extinguished, released and discharged forever.**

Additional Proof of Claim forms and other information, including the Claims Procedure Order, can be obtained from the Receiver's Website at [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth), or by contacting the Receiver at the telephone number indicated above and providing particulars as to your name, address and contact information.

**It is your responsibility to ensure that the Receiver receives your Proof of Claim by the Claims Bar Date.**

**SCHEDULE "C"**

**PROOF OF CLAIM AGAINST CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED,  
CLAYTON SMITH, CRYSTAL WEALTH MEDIA STRATEGY, CRYSTAL WEALTH  
MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED RESOURCE & PRECIOUS METALS  
FUND, CRYSTAL WEALTH MEDICAL STRATEGY, CRYSTAL WEALTH ENLIGHTENED  
FACTORING STRATEGY, ACM GROWTH FUND, ACM INCOME FUND, CRYSTAL WEALTH  
HIGH YIELD MORTGAGE STRATEGY, CRYSTAL ENLIGHTENED BULLION FUND,  
ABSOLUTE SUSTAINABLE DIVIDEND FUND, ABSOLUTE SUSTAINABLE PROPERTY  
FUND, CRYSTAL WEALTH ENLIGHTENED HEDGE FUND, CRYSTAL WEALTH  
INFRASTRUCTURE STRATEGY, CRYSTAL WEALTH CONSCIOUS CAPITAL STRATEGY,  
CRYSTAL WEALTH RETIREMENT ONE FUND, CLJ EVEREST LTD., AND 1150752  
ONTARIO LIMITED (INDIVIDUALLY AND COLLECTIVELY, THE "CRYSTAL WEALTH  
GROUP") PURSUANT TO THE CLAIMS PROCEDURE ORDER DATED JUNE 30, 2017**

**A. PARTICULARS OF CREDITOR:**

1. Full Legal Name of Creditor: \_\_\_\_\_
2. Full Mailing Address of the Creditor (the original Creditor and not the Assignee):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. Telephone number: \_\_\_\_\_
4. E-mail address: \_\_\_\_\_
5. Facsimile number: \_\_\_\_\_
6. Attention (Contact Person): \_\_\_\_\_
7. Has the Claim been sold or assigned by the Creditor to another party [check (✓) one]?  
Yes: \_\_\_\_\_ No: \_\_\_\_\_
8. **B. PARTICULARS OF ASSIGNEE(S) (IF ANSWER TO QUESTION 7 IS YES):**  
Full Legal Name of Assignee(s): \_\_\_\_\_  
(If Claim has been assigned, insert full legal name of assignee(s) of Claim (if all or a portion of the Claim has been sold). If there is more than one assignee, please attach a separate sheet with the require information)
9. Full Mailing Address of Assignee(s):  
\_\_\_\_\_

- 
- 
- 
- 
10. Telephone number of Assignee(s): \_\_\_\_\_
  11. E-mail address: \_\_\_\_\_
  12. Facsimile number: \_\_\_\_\_
  13. Attention (Contact Person): \_\_\_\_\_

**C. PROOF OF CLAIM:**

I, \_\_\_\_\_  
[name of Creditor or Representative of the Creditor],

of \_\_\_\_\_ do hereby certify that:  
[City or Province]

(a) I [check (✓) one]

am the Creditor of the Crystal Wealth Group; OR

am \_\_\_\_\_ (state position or title) of  
\_\_\_\_\_ (name of creditor);

(b) I have knowledge of all the circumstances connected with the Claim referred to  
below;

(c) \_\_\_\_\_ [Insert the  
name(s) of the specific Crystal Wealth Group entity(ies) to which the Claim  
relates] was and still is indebted to the Creditor as follows:

(i) TOTAL CLAIM: \$ \_\_\_\_\_ CAD

(Claims in a foreign currency are to be converted to Canadian Dollars at  
the Bank of Canada noon spot rate as at April 26, 2017. The Canadian  
Dollar/U.S. Dollar rate of exchange on that date was  
CDN\$1.3592/US\$1.00); and

**D. NATURE OF CLAIM:**

(check (✓) one and complete appropriate category)

A. UNSECURED CLAIM OF \$ \_\_\_\_\_

That in respect of this debt, I do not hold any security and

(Check (✓) appropriate description)

- Regarding the amount of \$ \_\_\_\_\_, I do not claim a right to a priority.
- Regarding the amount of \$ \_\_\_\_\_, I claim a right to a priority under section 136 of the Bankruptcy and Insolvency Act (Canada) (the "BIA") or would claim such a priority if this Proof of Claim were being filed in accordance with that Act.

(Set out on an attached sheet details to support priority claim.)

- B. SECURED CLAIM OF \$ \_\_\_\_\_

That in respect of this debt, I hold security valued at \$ \_\_\_\_\_ particulars of which are as follows:

(Give full particulars of the security, including the date on which the security was given and the value at which you assess the security, and attach a copy of the security documents.)

#### E. PARTICULARS OF CLAIM:

Other than as already set out herein the particulars of the undersigned's total Claim are attached.

(Provide all particulars of the Claim and supporting documentation, including amount, description of transaction(s) or agreement(s) giving rise to the Claim, name of Crystal Wealth Group entity/entities involved, name of any guarantor which has guaranteed the Claim, and amount of invoices, particulars of all credits, discounts, etc. claimed, description of the security, if any, granted by the Crystal Wealth Group to the Creditor and estimated value of such security, and particulars of any interim period claim.)

**This Proof of Claim must be received by the Receiver by no later than 5:00 p.m. (Toronto time) on August 3, 2017 ("Claims Bar Date"), by prepaid ordinary mail, courier, personal delivery or electronic or digital transmission at the following address:**

Grant Thornton Limited  
in its capacity as Receiver and Manager of the Crystal Wealth Group

200 King Street West, 11<sup>th</sup> Floor  
Toronto, Ontario M5H 3T4

Attention: Jason Knight  
E-mail: jason.knight@ca.gt.com or [crystalwealth@grantthornton.ca](mailto:crystalwealth@grantthornton.ca)

**F. FILING OF CLAIM:**

**Failure to file your Proof of Claim as directed by the Claims Bar Date will result in your Claim being barred and in you being prevented from making or enforcing a Claim against the Crystal Wealth Group. In addition, you shall not be entitled to further notice in, and shall not be entitled to participate as a creditor in these proceedings.**

**G. EXCLUDED CLAIMS**

Claims by creditors who are investors in the Crystal Wealth Group and whose claim derives from such investor's investment in the Crystal Wealth Group are Excluded Claims and no such person or entity needs to file any claim in respect thereof at this time. Please consult the Claims Procedure Order made on June 30, 2017 for details with respect to this and other exemptions.

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

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Signature of Creditor

**SCHEDULE "D"****NOTICE OF REVISION OR DISALLOWANCE OF CLAIM  
REFERENCE NUMBER \_\_\_\_\_**

TO: [insert name of creditor]

Grant Thornton Limited, in its capacity as receiver and manager (in this capacity, the "Receiver") of Crystal Wealth Management System Limited, Clayton Smith, Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund, CLJ Everest Ltd., and 1150752 Ontario Limited (individually and collectively, the "Crystal Wealth Group"), hereby gives you notice that the Receiver has reviewed your Proof of Claim, as the case may be, and has revised or rejected your Claim or any part thereof or any information relating thereto, as follows:

The Proof of Claim as Submitted	The Claim as Accepted

**Reasons for Revision or Disallowance:**

[insert explanation]

If you do not agree with this Notice of Revision or Disallowance, please take notice of the following:

1. If you dispute this Notice of Revision or Disallowance, you must, no later than 5:00 p.m. (Toronto time) on [      ], being the day which is ten Business Days after the Notice of Revision or Disallowance is sent by the Receiver (see paragraph 10 of the Claims Procedure Order), notify the Receiver by delivery of a Notice of Dispute in accordance with the Claims Procedure Order made on June 30, 2017 (which Order can be found on the Receiver's Website at [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth)). The form of Notice of Dispute is enclosed.
2. IF YOU DO NOT DELIVER A NOTICE OF DISPUTE WITHIN THE PRESCRIBED TIME PERIOD, THIS NOTICE OF REVISION OR DISALLOWANCE WILL BE BINDING UPON YOU AND YOUR CLAIM SHALL BE DEEMED TO BE AS SET OUT IN THIS NOTICE OF REVISION OR DISALLOWANCE.

DATED at Toronto, this \_\_\_\_\_, day of \_\_\_\_\_, 2017.

**GRANT THORNTON LIMITED,  
IN ITS CAPACITY AS THE COURT-APPOINTED RECEIVER OF THE CRYSTAL WEALTH  
GROUP**

**SCHEDULE "E"****NOTICE OF DISPUTE**

We hereby give you notice of our intention to dispute the Notice of Revision or Disallowance bearing Reference Number \_\_\_\_\_ and dated \_\_\_\_\_ issued in respect of our claim.

**Reasons for Dispute** (attach additional sheet and copies of all supporting documentation if necessary):

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Name of Creditor: \_\_\_\_\_

(Signature of individual completing this Dispute) \_\_\_\_\_ Date \_\_\_\_\_

(Please print name) \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Email address: \_\_\_\_\_

Facsimile Number: \_\_\_\_\_

Full Mailing Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**THIS FORM IS TO BE RETURNED BY PREPAID ORDINARY MAIL, COURIER, PERSONAL DELIVERY OR ELECTRONIC OR DIGITAL TRANSMISSION AND MUST BE RECEIVED NO LATER THAN 5:00 P.M. (TORONTO TIME) ON \_\_\_\_\_, BEING THE DAY WHICH IS TEN BUSINESS DAYS AFTER THE NOTICE OF REVISION OR DISALLOWANCE IS SENT BY THE RECEIVER (PURSUANT TO PARAGRAPH 10 OF THE CLAIMS PROCEDURE ORDER WHICH IS POSTED ONLINE AT [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth)) TO:**

Grant Thornton Limited  
in its capacity as Receiver and Manager of the Crystal Wealth Group

200 King Street West, 11<sup>th</sup> Floor  
Toronto, Ontario M5H 3T4

Attention: Jason Knight  
E-mail: [jason.knight@ca.gt.com](mailto:jason.knight@ca.gt.com) or [crystalwealth@grantthornton.ca](mailto:crystalwealth@grantthornton.ca)

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**ONTARIO SECURITIES COMMISSION**

Applicant

and

**CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, ET AL.***Short Title of Proceedings*Respondents  
Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST  
Proceedings commenced at TORONTO**

**CLAIMS PROCEDURE ORDER**

**AIRD & BERLIS LLP**  
Barristers and Solicitors  
Brookfield Place

Suite 1800, 181 Bay Street  
Toronto, ON M5J 2T9

**Steven L. Graff (LSUC # 31871V)**

Tel: (416) 865-7726  
Fax: (416) 863-1515  
E-mail: [sgraff@airdbberlis.com](mailto:sgraff@airdbberlis.com)

**Mark van Zandvoort (LSUC # 59120U)**

Tel: (416) 865-4742  
Fax: (416) 863-1515  
E-mail: [mvanzandvoort@airdbberlis.com](mailto:mvanzandvoort@airdbberlis.com)

**Kyle Plunkett (LSUC # 61044N)**

Tel: (416) 865-3406  
Fax: (416) 863-1515  
E-mail: [kplunkett@airdbberlis.com](mailto:kplunkett@airdbberlis.com)

Lawyers for Grant Thornton Limited, in its capacity as Receiver and Manager of Crystal Wealth Management System Limited, Clayton Smith, Crystal Wealth Media Strategy, Crystal Wealth Mortgage Strategy, Crystal Enlightened Resource & Precious Metals Fund, Crystal Wealth Medical Strategy, Crystal Wealth Enlightened Factoring Strategy, ACM Growth Fund, ACM Income Fund, Crystal Wealth High Yield Mortgage Strategy, Crystal Enlightened Bullion Fund, Absolute Sustainable Dividend Fund, Absolute Sustainable Property Fund, Crystal Wealth Enlightened Hedge Fund, Crystal Wealth Infrastructure Strategy, Crystal Wealth Conscious Capital Strategy, Crystal Wealth Retirement One Fund, CLJ Everest Ltd., and 1150752 Ontario Limited

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# TAB 10

CITATION: Ontario Securities Commission v. Crystal Wealth Management System Limited, 2017 ONSC 4160  
COURT FILE NO.: CV-17-11779-00CL  
DATE: 20170705

**SUPERIOR COURT OF JUSTICE – ONTARIO  
COMMERCIAL LIST**

**IN THE MATTER OF THE *SECURITIES ACT*, R.S.O. 1990, c. S.5, AS AMENDED**

**RE:**           ONTARIO SECURITIES COMMISSION, Applicant

**AND:**

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, et al.,  
Respondents

**BEFORE:**     HAINES J.

**COUNSEL:**    *Catherine Weiler*, for the Applicant, Ontario Securities Commission

*Steven K. Graff and Mark van Zandvoort*, for Grant Thornton Limited, in its capacity as Court-Appointed Receiver

*Michael Finley*, for Tony Whitehouse

*Alistair Crawley, Melissa MacKewn and Kate McGrann*, Proposed Representative Counsel

Clayton Smith, Respondent In Person

**HEARD:**      June 30, 2017

**ENDORSEMENT**

**Overview**

[1]       The law firm of Crawley MacKewn Brush LLP (“CMB”) brings this motion for an order appointing it as representative counsel to the approximately 3,000 investors (“Investors”) in the proprietary funds offered by Crystal Wealth Management Systems Inc. (“Crystal Wealth”) in the receivership of Crystal Wealth.

[2]       Crystal Wealth’s receiver, Grant Thornton Limited (“Receiver”) opposes CMB’s motion to be appointed representative counsel of Crystal Wealth’s Investors.

[3]       On April 26, 2017, on an application brought by the Ontario Securities Commission (“OSC”), the Receiver was appointed as receiver and manager of all of the assets, undertakings and property of all of the respondents. The appointment of the Receiver was based, in part, on

the OSC's concerns regarding potential breaches of the *Securities Act*, R.S.O. 1990, c. S.5, as amended ("Act") by Crystal Wealth and its principal, Clayton Smith ("Smith").

### **Analysis**

[4] The Receiver's role is to protect and enhance the interests of the Investors. Since its appointment, I am satisfied that the Receiver has maintained regular communications with the Investors while investigating and evaluating the Crystal Wealth funds to determine the appropriate approach to maximize Investors' returns.

[5] The Receiver, as a court-appointed officer, has as its primary objective the interests and needs of the Investors. I am satisfied, based upon the Receiver's actions to date, that it has and will continue to advance the interests of the Investors in an objective and impartial manner with a view to recognizing the unique interests of the Investors in each of Crystal Wealth's different and unique funds.

[6] The Receiver has begun monetizing certain of Crystal Wealth's funds to make interim distributions to some Investors. Further, a sales process has been proposed by the Receiver to accomplish either a purchase or a management takeover of certain of Crystal Wealth's funds.

[7] The OSC and certain of the Investors oppose the appointment of CMB as representative counsel on the grounds that it would be duplicative of the Receiver's role and will result in unnecessary professional fees that will be incurred by all Investors. Smith supports the appointment of CMB as representative counsel.

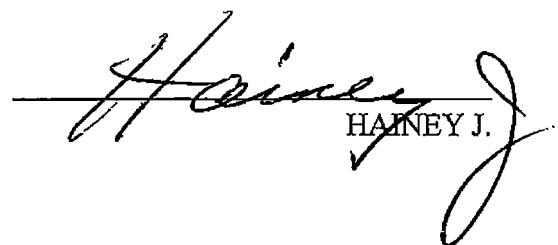
[8] Having considered the balance of convenience, I have concluded that the appointment of representative counsel is not necessary for the following reasons:

- (a) The Investors' interests are being protected and advanced by the Receiver which is why the appointment was made by Newbould J. in the first instance;
- (b) Although the Investors may be vulnerable, their vulnerability will be protected by the Receiver, who has been appointed by the Court for the sole purpose of acting in their best interest;
- (c) The appointment of representative counsel will add unnecessary expense to the receivership which will adversely affect Investors; and
- (d) There is no good reason to appoint representative counsel to effectively duplicate the Receiver's role.

[9] I have, therefore, concluded for these reasons that CMB's motion should be dismissed. In view of this conclusion, it is not necessary for me to determine whether CMB is conflicted from acting as representative counsel due to a previous related retainer.

- Page 3 -

[10] CMB's motion is dismissed. If counsel cannot settle the costs of the motion they may schedule a 9:30 a.m. attendance with me to deal with costs.



Hainey J.  
HAINY J.

Date: July 5, 2017

# TAB 11

IN THE MATTER OF THE RECEIVERSHIP OF  
CRYSTAL WEALTH MANAGEMENT SYSTEMS LIMITED AND THE CRYSTAL WEALTH FUNDS  
RECEIVER'S INTERIM STATEMENT OF RECEIPTS AND DISBURSEMENTS  
FOR THE PERIOD ENDING OCTOBER 31, 2017

	Receiver Trust Accounts	NBCN Accounts	CAD Interactive Brokers Accounts	USD Interactive Brokers Accounts	Combined
<b>OPENING BALANCE</b>	\$ 193,259.96	\$ 4,426,035.04	\$ 656,289.43	\$ 224,991.14	\$ (17,147.98) \$ (242,139.12)
<b>CASH RECEIPTS</b>					
Sale of Equities					
Principal Payments & Collections - Media Loans	6,640,123.70	7,564,859.30	214,321.39	7,779,180.69	4,207,608.70
Residential Mortgage Interest & Principal Payments	-	219,064.33	-	6,859,188.03	153,591.39
Sale of External Mutual Funds	-	5,652,372.84	-	5,652,372.84	-
Sale of Squire Mortgages	-	5,051,937.03	-	5,051,937.03	-
NFL Participation Agreement Settlements	-	266,917.92	-	266,917.92	-
Sale of Geodata Balance	-	-	-	-	-
Settlement of Foreign Currency Options	-	-	134,175.77	134,175.77	714,687.21
Dividend Income	286.10	6,985.73	197.98	6,985.73	684,312.79
Interest	-	4,949.17	-	5,433.25	307,031.00
Commercial Loan Payments	-	23,935.14	-	23,935.14	13,495.91
USD Account to CAD Account Transfers	-	5,056,159.09	-	5,056,159.09	51.85
Account Transfers	900,000.00	(900,000.00)	-	(3,842,066.18)	(3,842,066.18)
<b>TOTAL CASH RECEIPTS</b>	7,540,409.80	22,947,180.55	348,695.14	30,836,285.49	1,935,074.14
<b>CASH DISBURSEMENTS</b>					
Outside Consulting	103,182.74	-	-	103,182.74	-
Mount Nemo Property Insurance	25,977.76	-	-	25,977.76	-
Custodial & Bank Charges	51.00	19,204.41	1,044.89	20,300.30	449.28
HST Paid on Expenses	19,796.51	-	-	19,796.51	-
Wages & Payroll	18,118.12	-	-	18,118.12	-
Advertising and Notices	12,474.65	-	-	12,474.65	-
Mount Nemo Property Maintenance	12,337.25	-	-	12,337.25	-
Rent Expense	10,831.51	-	-	10,831.51	-
Computer Services	10,055.00	-	-	10,055.00	-
Security	4,072.50	-	-	4,072.50	-
Source Deductions	4,005.50	-	-	4,005.50	-
Storage & Moving	3,175.02	-	-	3,175.02	-
Utilities	1,411.25	-	-	1,411.25	-
Wire Transfer Fees	-	820.00	-	820.00	-
Ascend License Fee	170.00	-	-	170.00	-
Other Administrative	150.00	-	-	150.00	-
Exercising Warrants	-	76,928.00	-	76,928.00	-
Receiver Fees	551,378.66	-	-	551,378.66	-
HST Paid on Receiver Fees	71,679.23	-	-	71,679.23	-
Legal Fees	165,363.05	-	-	165,363.05	-
HST Paid on Legal Fees	21,237.34	-	-	21,237.34	-
<b>TOTAL CASH DISBURSEMENTS</b>	1,035,467.09	96,952.41	1,044.89	1,133,464.39	509.28
<b>ENDING BALANCE</b>	\$ 6,698,202.67	\$ 27,276,263.18	\$ 1,003,939.68	\$ 34,978,405.53	\$ 1,709,573.72
<b>ACCRAUALS</b>					
Receiver Fees - September 30, 2017	53,646.33	-	-	53,646.33	-
HST Accruals on Receiver Fees	6,997.07	-	-	6,997.07	-
Legal Fees - September 30, 2017	322,818.38	-	-	322,818.38	-
HST Accruals on Legal Fees	41,696.37	-	-	41,696.37	-
<b>TOTAL ACCRUALS</b>	425,158.15	-	-	425,158.15	-
<b>ADJUSTED ENDING BALANCE</b>	\$ 6,273,044.52	\$ 27,276,263.18	\$ 1,003,939.68	\$ 34,553,247.38	\$ 1,709,573.72
					\$ 289,479.77
					\$ 1,999,053.49

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# TAB 12

**Crystal Wealth Funds**  
**Summary of April 20th Package**  
**As at April 20, 2017**

Fund	Cash & MM (CAD)	On-Book Assets					Off-Book Assets							Accruals	Total	
		Inter-fund Investments	Gold Contracts	Equities & Warrants	Private Equities & Warrants	External Mutual Funds	Residential Mortgages	Commercial Loans	Factoring Contracts	Medical Factoring Contracts	NFL Claims	US Real Estate LP Units	Media Loans	Other Loans		
Mortgage Fund	\$ 1,217,989	\$ 2,055,599	\$ -	\$ -	\$ -	\$ 522,765	\$ 14,262,107	\$ 8,979,873	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,603	\$ 27,082,935
Resource Fund	185,489	262,171	-	1,650,698	-	-	-	-	-	-	-	-	-	-	(10,551)	2,087,807
Factoring Fund	411,706	2,952,804	6,996,654	1,085,432	-	-	-	209,649	24,462,473	-	-	3,099,566	-	-	(1,094,115)	38,124,169
Medical Fund	449,770	1,526,605	-	7,846	-	25,288	-	-	-	1,804,896	5,472,656	-	-	-	(16,971)	9,270,090
Bullion Fund	268,830	-	763,006	-	-	-	-	-	-	-	-	-	-	-	(2,280)	1,029,555
Media Fund	731,305	1	-	-	-	1,042,228	-	-	-	-	-	53,520,539	-	-	(827,229)	54,466,843
High Yield Mortgage Fund	760,006	1,378,897	-	-	-	-	2,467,582	603,238	-	-	-	-	274,000	-	(41,557)	5,442,165
Infrastructure Fund	2,087,302	-	-	-	-	-	-	5,677,299	-	-	-	-	-	-	-	7,764,601
Hedge Fund	531,692	-	1,235,773	272,508	-	52,991	-	-	3,561,159	-	-	8,301,484	-	-	(36,657)	13,918,950
Conscious Capital Fund	27,905	-	-	-	658,198	-	-	-	-	-	-	-	(274,000)	(2,897)	409,206	
ACM Income Fund	371,053	9,898,493	-	-	-	560,025	-	-	-	-	-	-	-	-	(14,153)	10,815,417
ACM Growth Fund	(2,040,779)	4,739,753	-	5,452,400	-	3,482,518	-	-	-	-	-	-	-	-	(24,828)	11,609,064
Sustainable Dividend Fund	121,340	75,693	-	6,449,294	-	-	-	-	-	-	-	-	-	-	(16,152)	6,630,175
Sustainable Property Fund	245,796	-	-	-	-	-	2,219,879	2,094,740	-	-	-	-	-	-	(12,480)	4,547,935
	\$ 5,369,403	\$ 22,890,015	\$ 8,995,432	\$ 14,918,179	\$ 658,198	\$ 5,685,814	\$ 18,949,567	\$ 17,564,799	\$ 28,023,632	\$ 1,804,896	\$ 5,472,656	\$ 11,401,050	\$ 53,520,539	\$ -	\$ (2,055,269)	\$ 193,198,913

USD to CAD Rate: 1.3481001

**Crystal Wealth Funds**  
**Summary of April 20th Package**  
**As at April 20, 2017**

Fund	Cash & MM (CAD)	On-Book Assets					Off-Book Assets								Accruals	Total
		Inter-fund Investments	Gold Contracts	Equities & Warrants	Private Equities & Warrants	External Mutual Funds	Residential Mortgages	Commercial Loans	Factoring Contracts	Medical Factoring Contracts	NFL Claims	US Real Estate LP Units	Media Loans	Other Loans		
Mortgage Fund	4.5%	7.6%	-	-	-	1.9%	52.7%	33.2%	-	-	-	-	-	-	0.2%	100.0%
Resource Fund	8.9%	12.6%	-	79.1%	-	-	-	-	-	-	-	-	-	-	-0.5%	100.0%
Factoring Fund	1.1%	7.7%	18.4%	2.8%	-	-	-	0.5%	64.2%	-	-	8.1%	-	-	-2.9%	100.0%
Medical Fund	4.9%	16.5%	-	0.1%	-	0.3%	-	-	-	19.5%	59.0%	-	-	-	-0.2%	100.0%
Bullion Fund	26.1%	-	74.1%	-	-	-	-	-	-	-	-	-	-	-	-0.2%	100.0%
Media Fund	1.3%	0.0%	-	-	-	1.9%	-	-	-	-	-	-	98.3%	-	-1.5%	100.0%
High Yield Mortgage Fund	14.0%	25.3%	-	-	-	-	45.3%	11.1%	-	-	-	-	-	5.0%	-0.8%	100.0%
Infrastructure Fund	26.9%	-	-	-	-	-	-	73.1%	-	-	-	-	-	-	-	100.0%
Hedge Fund	3.8%	-	8.9%	2.0%	-	0.4%	-	-	25.6%	-	-	59.6%	-	-	-0.3%	100.0%
Conscious Capital Fund	6.8%	-	-	-	160.8%	-	-	-	-	-	-	-	-	-67.0%	-0.7%	100.0%
ACM Income Fund	3.4%	91.5%	-	-	-	5.2%	-	-	-	-	-	-	-	-	-0.1%	100.0%
ACM Growth Fund	-17.6%	40.8%	-	47.0%	-	30.0%	-	-	-	-	-	-	-	-	-0.2%	100.0%
Sustainable Dividend Fund	1.8%	1.1%	-	97.3%	-	-	-	-	-	-	-	-	-	-	-0.2%	100.0%
Sustainable Property Fund	5.4%	-	-	-	-	-	48.8%	46.1%	-	-	-	-	-	-	-0.3%	100.0%
	2.8%	11.8%	4.7%	7.7%	0.3%	2.9%	9.8%	9.1%	14.5%	0.9%	2.8%	5.9%	27.7%	0.0%	-1.1%	100.0%

USD to CAD Rate: 1.3481001

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# TAB 13

## Crystal Wealth Management System Limited

### Warrant Expiry Schedule

Fund	Warrant Description	Stock	Qty	Expiry Date	Strike Price
Hedge Fund	WTS-3D SIGNATURE 16DEC18	DXD	134,300	December 16, 2018	0.920
Hedge Fund	WTS-APPIA ENERGY CORP 31JAN22	API	125,000	January 31, 2022	0.300
Factoring Fund	WTS-WTS-OAXACA RES CORP16MY18	GRMX	10,000	May 16, 2018	7.500
Factoring Fund	WTS-URBAN COMMS 24AUG18	UBN	250,000	August 24, 2018	0.200
Resource Fund	WTS-HEMPCO FD&FBR 30NOV17	HEMP	25,000	November 30, 2017	0.650
Resource Fund	WTS-ROCKHAVEN RES 23DEC17	RK	75,000	December 23, 2017	0.250
Resource Fund	WTS-NOVO RES CORP 8MAR18	NVO	333,333	March 8, 2018	0.850
Resource Fund	WTS-NOVO RES CORP 8MAR18	NVO	166,667	March 8, 2018	0.850
Resource Fund	WTS-NULEGACY GOLD 17MAY18	NUG	56,000	May 17, 2018	0.650
Resource Fund	WTS-COLORADO RES 18MAY18	CXO	71,429	May 18, 2018	0.500
Resource Fund	WTS-LATIN AMER MNLS10JN18	LAT	250,000	June 10, 2018	0.150
Resource Fund	WTS-ANGKOR GOLD CORP 29JUL18	ANK	31,250	July 29, 2018	0.600
Resource Fund	WTS-MONTAN MNG CRP 25AG18	MNY	500,000	August 25, 2018	0.150
Resource Fund	WTS-CENTURION MN 31AUG17	CTN	357,143	August 31, 2018	0.150
Resource Fund	WTS-GOLDCLIFF RES 16SEP18	GCN	65,800	September 16, 2018	0.250
Resource Fund	WTS-SOURCE EXPLORATION CORP 3MAR19	MEX	166,665	March 3, 2019	0.250
Resource Fund	WTS-GREATBANKS RES 22MR19	GTB	363,637	March 22, 2019	0.080
Resource Fund	WTS-MONTAN MNG CRP 13AP19	MNY	181,820	April 13, 2019	0.100
Resource Fund	WTS-MX GOLD CORP 12AUG19	MXL	100,000	August 12, 2019	0.750
Resource Fund	WTS-88 CAPITAL CORP 17AUG19	EEC	125,000	August 17, 2019	0.250
Resource Fund	WTS-INCA ONE GOLD 30AUG19	IO	354,748	August 30, 2019	0.400
Resource Fund	WTS-WALLBRIDGE MNG 4OCT19	WM	400,000	October 4, 2019	0.100
Resource Fund	WTS-KLONDIKE GOLD 4APR20	KG	100,000	April 4, 2020	0.300
Resource Fund	WTS-NORTHERN FREE 9NOV20	TIG	100,000	November 9, 2020	0.350
Resource Fund	WTS-INCA ONE GOLD 22DEC20	IO	28,571	December 22, 2020	1.265
Resource Fund	WTS-MONTAN MNG CRP 27OCT21	MNY	500,000	October 27, 2021	0.100

# TAB 14

## FACTORING PROCUREMENT AND ADMINISTRATION AGREEMENT

THIS AGREEMENT made effective as of the 25<sup>th</sup> day of November, 2014.

BETWEEN:

- CRYSTAL ENLIGHTENED INCOME FUND,  
a mutual fund trust established under the laws of Ontario  
and having its registered office at  
3385 Harvester Road, Suite 200, Burlington, ON L7N 3N2  
(the "Fund")

- and -

FRONTLINE FACTORING INC.,  
a corporation incorporated under the laws of Alberta  
and having its registered and records office at  
442 Couleesprings Road South, Lethbridge, AB T1S 5R5  
("Frontline")

RECITALS:

- A. The Fund desires to invest in factoring arrangements in the Province of Alberta and that such factoring arrangements be sourced and presented to the Fund by Frontline and, if entered into by the Fund, managed and serviced by Frontline;
- B. Frontline is experienced and qualified to source, analyze and administer factoring arrangements;
- C. Frontline has agreed to source and present to the Fund for potential investment by the Fund certain potential factoring arrangements identified by it or its Affiliates during the term hereof in accordance with and subject to all of the terms and conditions set forth herein; and
- D. Frontline has agreed to provide certain administrative services to the Fund with respect to all approved factoring arrangements sourced and presented by Frontline in which the Fund invests all in accordance with and subject to the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION of the foregoing and the mutual promises and covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby conclusively acknowledged, the parties hereto hereby covenant and agree as follows:

I. Interpretation and Definitions

1.1 In this Agreement:

- (a) "**Administrative Services**" means the contract administration and servicing services to be provided hereunder by Frontline to the Fund with respect to Approved Factoring Arrangements, as more particularly set forth in section 4.1;
- (b) "**Affiliate**" means any person or entity owned or controlled (whether in law or in fact) by, controlling or under common control with any one of the parties herein, as the case may be;
- (c) "**Agreement**" means this factoring procurement and administration agreement, including the recitals hereto and all schedules attached hereto, as the same may be amended, supplemented, restated or revised from time to time;
- (d) "**Approved Factoring Arrangements**" means the factoring arrangements sourced by Frontline in accordance with the terms of this Agreement which are presented to the Fund by Frontline and which meet the Fund's Approved Investment Criteria, and "**Approved Factoring Arrangement**" means each of such Approved Factoring Arrangements;
- (e) "**Approved Investment Criteria**" means the Fund's investment criteria for factoring arrangements as [agreed to between the Fund and Frontline from time to time/described more particularly in Exhibit "C" hereto];
- (f) "**Business Day**" means any day that the Toronto Stock Exchange is open for business;
- (g) "**Contract Documents**" means all documents and agreements relating to each Approved Factoring Arrangement, including without limitation, the Factoring Agreement, a Lockbox Agreement, and all other agreements, instruments, and documents relating to the Approved Financing Arrangement heretofore, now or hereafter evidencing, securing, guaranteeing, or otherwise relating to the Approved Factoring Arrangement, or any other aspect of the transactions contemplated by this Agreement, as any of such agreements, instruments or documents may be amended, supplemented, or otherwise modified from time to time.
- (h) "**Debtor**" means those persons that are counterparties to the receivables due to a Merchant that are covered by an Approved Factoring Arrangement;
- (i) "**Due Diligence Guidelines**" means the written due diligence guidelines adopted by the Fund relating to Approved Factoring Arrangements [and disclosed to Frontline in writing from time to time/, a copy of which Frontline acknowledges receiving and which are attached hereto as Exhibit A, as the same may be amended from time to time by the Fund];
- (j) "**Frontline**" means Frontline Factoring Inc., a corporation incorporated pursuant to the laws of Alberta;

- (k) "**Fund**" means the Crystal Enlightened Income Fund, a mutual fund trust established pursuant to the laws of the Province of Ontario;
  - (l) "**Merchant**" means the person or entity sourced by Frontline with whom the Fund has entered into or will enter into an Approved Factoring Arrangement;
  - (m) "**Non-Performing Factoring Arrangements**" means any Approved Factoring Arrangement in which the Merchant is in default or breach, or where it is reasonable, as mutually agreed upon, to conclude that the Merchant may not be able to meet its current or repayment obligations of principal at any time;
- 1.2 This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein.
- 1.3 Nothing herein contained shall be deemed to create any relationship of partnership or of joint venture between the Fund and Frontline. Frontline is entering into this Agreement and performing and observing its respective covenants and obligations hereunder as an independent contractor.

## **2. Proposed Contracts**

Frontline shall, on a regular basis, present to the Fund potential factoring arrangements that it or its Affiliate(s) have identified during the term hereof for potential investment by the Fund. Each such proposed factoring arrangement must comply with all of the requirements of this Agreement and the Approved Investment Criteria. Prior to its presentation to the Fund, Frontline shall have evaluated each potential factoring arrangement in accordance with the Due Diligence Guidelines and shall include, but will not be limited to, a review of the operations and credit worthiness of any Merchant, the Debtors involved, the accounts receivable aging and any other applicable Contract Documents as outlined in the factoring agreement to be entered into between the Fund and each Merchant (the "**Factoring Agreement**") which will be in substantially the form of the agreement attached hereto as Exhibit B. With respect to each specific proposed arrangement, Frontline shall also provide a written report as to whether the specific proposed arrangement complies with the Due Diligence Guidelines.

## **3. Investment In Approved Factoring Arrangements**

Upon being presented with a proposed factoring arrangement by Frontline, the Fund shall then be entitled (but not obligated) to enter into a Factoring Agreement with the applicable Merchant. The Fund shall notify Frontline in writing of its willingness to enter into such a Factoring Agreement within five (5) Business Days of receipt thereof from Frontline. Absent a response or upon notice from the Fund by the end of such five (5) business day period that the Fund does not wish to enter into a Factoring Agreement with respect to such proposed factoring arrangement, Frontline shall be free to seek other purchasers for the proposed factoring arrangement or enter into the proposed factoring arrangement on its own behalf. If the arrangement is approved by the Fund, Frontline and the Fund will execute all actions outlined in the Factoring Agreement in order to facilitate completion of the proposed arrangement.

4. **Administrative Services**

- 4.1 The Fund hereby retains Frontline, to manage and service each Approved Factoring Arrangement on behalf of the Fund, including, but not limited to:
- (a) the registration, assignment of or transfer into the name of the Fund of all receivables purchased pursuant to a Factoring Agreement (the "Purchased Receivables");
  - (b) Frontline shall from time to time at the request of the Fund provide assurances as may be required by the Fund for enforcing its rights, benefits, title, interest, and vesting in the Purchased Receivables;
  - (c) the collection and remittance to the Fund of all Purchased Receivables (less any fees payable under Section 4.6 below) received from Debtors as required under the Contract Documents entered into with the Merchant [NTD: Should collections be directed to a collection/lock box account over which the Fund has control?];
  - (d) collection of any fees or commissions payable under each Factoring Agreement and any penalties or other miscellaneous fees;
  - (e) provision of information to the Merchant, Debtor and any other parties for the maintenance or discharge of the Contract Documents;
  - (f) negotiation and settlement (for Fund approval) of any payments in arrears;
  - (g) management of any legal actions required to enforce the Contract Documents;
  - (h) negotiate and manage any actions required with the Debtor or other third parties if any; and
  - (i) negotiate and manage any actions required with the Merchant.
- 4.2 Frontline will provide to the Fund a weekly report by 12:00 pm on the last Business Day of each week which shall include the following information:
- (a) listing of contracts and total principal outstanding; which will include a report on any event of default or potential jeopardy of the collateral and such other reasonable information as requested from time to time;
  - (b) payments received during the week;
  - (c) total income for the week;
  - (d) contracts in arrears and the amount and period of time in arrears;
  - (e) any subsequent encumbrance on the property or any significant change in circumstances affecting the arrangement; and

(f) any other reports reasonably requested by the Fund.

4.3 Without limiting any other provision herein, Frontline is required to obtain the written authorization of the Fund in respect of any of the following matters:

- (a) any amendment or modification to any Contract Documents;
- (b) any extensions of the term of any Approved Factoring Arrangement;
- (c) any subordination or postponement of any rights under a Contract Document;
- (d) any concession or waiver with regard to the payment of any receivables payable under any Factoring Agreement or with regard to the compliance with any material obligations of any Merchant imposed thereby;
- (e) any action taken in respect to any default under the Contract Documents by the respective Merchant;
- (f) any settlement of loss payable under the insurance policies relating to any contract or any settlement of compensation payable in respect of an expropriation of any contract; and
- (g) any amendments to the Due Diligence Guidelines.

Any written authorization of the Fund required under this Agreement shall be satisfied if Frontline obtains the original, a facsimile or a PDF of the authorization signed by an authorized officer of the Fund.

4.4 The Fund hereby authorizes and empowers Frontline, without the requirement of a further written authorization or direction from the Fund to:

- (a) make, or cause to be made, advances out of funds provided by the Fund in accordance with a Factoring Agreement;
- (b) make any emergency type advances to preserve and protect the property and assets which are the subject matter of a Factoring Agreement.

4.5 Without limiting any other provision contained in this Agreement, it is understood and agreed by the parties hereto that the relationship between Frontline and the Fund shall be that of trustee and beneficiary with respect to all monies collected by Frontline on account of principal, commissions, discounts, interest, fees or otherwise and all Contract Documents in respect of all Approved Factoring Arrangements and such monies, excluding Frontline's fees and other reimbursements, and Contract Documents shall be held by Frontline in trust for the Fund.

4.6 As compensation for its services hereunder, Frontline shall be entitled to receive and retain an administrative fee equal to any fees and commissions paid under each Factoring Agreement which are in excess of the equivalent of interest earned at eighteen (18%)

percent per annum of any amounts advanced under Factoring Agreements. The parties agree that all monies received from a Merchant or its Debtors, either in the normal course of business or in the event of a collection action or resolution shall be paid, firstly, to the Fund until the amount advanced by the Fund has been repaid in full and, secondly, on a pro rata basis to Frontline and the Fund for the amounts of the fees due to each of them hereunder.

- 4.7 Frontline will retain and store on the Fund's behalf all Contract Documents pertaining to the outstanding contracts consistent with the standards exhibited by conventional factoring companies. Such files will be maintained for a period of time required to meet the requirements of the Canada Revenue Agency and any other tax authority with jurisdiction over the transaction.
- 4.8 The Fund shall have the right to audit, at the Fund's expense and on Frontline's premises during regular business hours, the Contract Documents, security interests and periodic reporting of Frontline to the Fund.
- 4.9 In the event that Frontline is unable, unwilling or otherwise not in a position to continue its obligations to provide Administrative Services as contemplated by this Agreement, Frontline will forward all of the Contract Documents to the Fund.
- 4.10 Other than costs or expenses identified in paragraph 5.1, the Fund will not be responsible for any other costs or expenses pertaining to the initiation or the on-going operation of this Agreement.
- 4.11 Frontline agrees that it shall provide the Administrative Services, or any other set of services substantially the same as those defined, exclusively to the Fund or other pooled investment products including, but not limited to, mutual fund trusts and limited partnerships managed by Crystal Wealth Management System Limited. To be more specific, Frontline shall not provide similar services to any other pooled investment entity or company that carries substantially the same security registrations as Crystal Wealth Management System Limited in Canada.
- 4.12 In consideration of the Administrative Services to be provided by Frontline hereunder, the Fund does hereby indemnify and hold Frontline and its executive committees, parent, affiliates, depository banks, subsidiaries, agents, directors, officers, employees, agents, and their successors and assigns (collectively the "Indemnified Parties") harmless against any damages or claims arising from the failure of the Fund funding any of the Merchants under Approved Factoring Arrangements entered into by the Fund, including, without limitation, any actions against Frontline by any Merchants or guarantors as a result of the action, inaction, decisions or lack of decisions by the Fund, and from any and all costs, claims, expenses, actions and liabilities, including fees of attorneys and other professionals and experts, costs of suit and interest, arising out of any of the foregoing. This indemnification shall survive the termination or expiration of this Agreement.

5. **Collection Proceedings**

- 5.1 In addition to the regular weekly reports described herein, the Fund will receive additional reports on any Non-Performing Factoring Arrangements. In the event of a default under an Approved Factoring Arrangement or another Event of Default (as defined below or in any Approved Factoring Arrangement) triggering the right to enforce a remedy or exercise a right pursuant to an Approved Factoring Arrangement, the following procedures will be applied:
- (a) The Fund will be provided with all information in the possession of Frontline including Frontline's suggested action plan and an outline of the rights or obligations of the Fund, along with any costs to the Fund including anticipated shortfalls that may result from amounts owing to the Fund that may not be recovered by Collection Proceedings (as defined below);
  - (b) The Fund may request that Frontline take such action, including but not limited to notifying account debtors and Debtors, issuing default notices, commencing litigation, retaining agents to exercise remedies under the Approved Contract, or engaging legal counsel as selected by Frontline to initiate and prosecute collection, foreclosure or other legal proceedings (collectively, "Collection Proceedings") to collect the amount owed, interest, penalties, costs and other amounts payable pursuant to the contract or to otherwise enforce the rights and remedies pursuant to the contract in respect of which a default has been made, as the Fund may request and as Frontline and the Fund may agree, all at the cost of the Fund and only upon the Fund giving to Frontline such authorizations, directions, assurances, contributions and indemnities as Frontline may reasonably request. All legal counsel and third party providers shall be retained by Frontline on behalf of and in the name of the Fund and Frontline shall not have any liability for fees, costs, expenses, etc.;
  - (c) Unless otherwise paid by or collected from the Merchants, the payroll and normal business expenses of Frontline personnel shall be borne by Frontline, all additional costs associated with Collection Proceedings shall be borne by the Fund subject to pre-approval by the Fund, upon request from Frontline, the Fund shall advance all pre-approved costs and expenses;
  - (d) The Fund agrees to fully co-operate with Frontline and legal counsel or other agents appointed in connection with the collection of the contract or enforcement of rights or remedies and will provide prompt and timely instruction and information in connection with such Collection Proceedings as Frontline may reasonably request; and
  - (e) Frontline may at any time, with the written consent of the Fund, agree to accept from any merchant a settlement of an account receivable for less than the face value thereof.

6. **Termination**

- 6.1 Either party, in this paragraph referred to as the terminating party, may terminate this Agreement at any time upon the occurrence of any of the following events:
- (a) If the other party or its representatives act unlawfully, dishonestly, in bad faith or is grossly negligent with respect to the business of the terminating party;
  - (b) There occurs a breach or default of any material term of this Agreement by the other party if such breach or default has not been remedied within 30 days after written notice of the breach or default has been delivered by the terminating party.
- 6.2 Subject to any ongoing obligations, including, but not limited to the servicing or funding of Approved Factoring Arrangements, either party may terminate this Agreement at any time for any reason whatsoever upon ninety (90) days written notice.
- 6.3 The Fund may dispose of Approved Factoring Arrangements only in the following circumstances:
- (a) through Collection Proceedings should the contract become a Non-Performing Approved Contract, delinquent or is otherwise in default.
  - (b) at any other time, at the request and at the cost of the Fund, Frontline will attempt to sell the contract to another Fund, on a best efforts basis, subject to a reasonable commission fee for Company to be negotiated in good faith.
  - (c) At any time, if the sale process is managed by the Fund and Frontline will collaborate therewith and provide all materials, documents, contracts and such reasonable information as may be requested by the Fund.
- 6.4 In the event of termination, the Fund has the right to appoint a new servicing agent for all Approved Factoring Arrangements that it owns and Frontline will cooperate with the transfer of Administrative Services for these contracts, and, once transferred, Frontline will have no further claim or right to any fees or compensation from the transferred contracts.

## **7. Miscellaneous**

- 7.1 All payments made by Merchants or Debtors pursuant to Approved Factoring Arrangements, including penalties and bonuses, will be paid, disbursed and disposed of in accordance with this Agreement.

Frontline shall not be obligated to make payments to the Fund except as otherwise provided herein or from payments of principal, interest or other amounts made by or on behalf of the Merchant under the applicable Factoring Agreements.

If a Merchant, debtor or account debtor makes a payment by cheque, other than by certified cheque, money order or bank draft, Frontline shall not be obligated to make a payment to the Fund until the cheque has cleared and Frontline has received the funds.

If Frontline receives money as the proceeds of the redemption or partial redemption of the Contract, then subject to the obligations for costs and fees pursuant to this Agreement, Frontline, as the case may be, shall promptly pay to the Fund the full amount owing to the Fund.

The parties agree that in the event that any payment which is the subject of remittance by one party to another as provided herein is returned unpaid for any reason or sought to be recovered by the payer or a representative thereof (including a trustee in bankruptcy) or assignee for the benefit of creditors on the grounds of preference, then the party who made the remittance which is either returned or sought to be recovered (the "Remitting Party") shall promptly so advise the party who received the remittance (the "Receiving Party") in writing. Following the aforementioned written notice, Receiving Party shall have the exclusive right and obligation, at its sole cost and expense, to contest, defend or settle such claim. Receiving Party hereby indemnifies and holds Remitting Party harmless from and against any and all loss or expense arising out of the assertion of such claim including Remitting Party's reasonable attorneys' fees incurred (including those incurred by Remitting Party at all trial and appellate levels) arising out of or relating to any such claim or cause of action.

- 7.2 In the event of a default under an Approved Contract pursuant to this Agreement or in the event that Frontline becomes aware of a subsequent encumbrance on the respective collateral secured by such contract or any other significant change in circumstances affecting the Contract, Frontline, as the case may be, will notify the Fund of such default or subsequent encumbrance in writing by the most expedient means possible including email, fax or sent by pre-paid mail posted in Canada and addressed to the Fund at the address specified in this Agreement or at such other address in Canada as the Fund shall direct in writing.
- 7.3 The Fund acknowledges and agrees that by signing a Contract disclosure statement, a Contract approval submitted by Frontline to the Fund, the Fund expressly acknowledges receiving the disclosure statement, commitment together with copies of all applicable closing documents as outlined which Frontline is obligated to provide and which the Fund considers material to the Fund's decision whether to purchase the Approved Contract.
- 7.4 If a provision of this Agreement is wholly or partially invalid, this Agreement shall be interpreted as if such invalid provision had not been hereof and all other provisions shall remain in full force and effect.
- 7.5 This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. Company shall not have the right to transfer, sell or assign any or all of its rights and obligations herein or any part of this agreement or any entitlements in respect of any Approved Contract without the prior written consent of Fund, which consent can be withheld for any reason thereto. A sale of any controlling interest in the capital stock of Company shall be deemed to be a transfer or assignment herein and subject to the prior written consent of the Fund. Fund shall have the right to

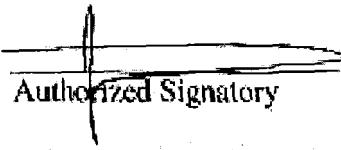
transfer and assign its rights, obligations and this agreement to any other person without the consent of Company.

- 7.6 This Agreement and all schedules hereto constitute the entire agreement between the parties with respect to the subject matter of this agreement.
- 7.7 In the event of any litigation, arbitration or other proceeding arising out of or in connection with this Agreement, the substantially prevailing party shall be entitled to recover its reasonable attorneys' fees and court costs from the other party. Such attorneys' fees and costs shall include all attorneys' fees and costs reasonably incurred in any effort to resolve any dispute, at the trial level, in any related bankruptcy action, and at the appellate level.

**IN WITNESS WHEREOF** this Agreement has been executed by the parties hereto as of the day and year first above written.

**FRONTLINE FACTORING INC.**

Per:

  
Authorized Signatory

**CRYSTAL ENLIGHTENED INCOME FUND by its  
manager and trustee CRYSTAL WEALTH  
MANAGEMENT SYSTEM LIMITED**

Per:

  
Authorized Signatory

4368

# TAB 15

**Crystal Wealth Management System Limited**  
**Outstanding Purchased Invoices**  
**As at October 26, 2017**

Merchant	Invoice Nbr	Debtor	Invoice Date	Advance Date	Days O/S	Principal Due	A Upfront Fees		B Payments Received		C Payment Allocation		D Payments Received		E Payments Received		F Total Received		G+H Total Received		Owing to CW			
							Paid to FF	CW	Paid to FF	CW	Paid to FF	CW	Paid to FF	CW	Paid to FF	CW	Paid to FF	CW	Principal	Interest				
<b>FACTORING FUND</b>						<b>23,557,593</b>	<b>259,321</b>	<b>454,067</b>	<b>2,310,507</b>	<b>543,820</b>	<b>1,229,301</b>	<b>537,387</b>					<b>196,040</b>	<b>47,200</b>	<b>12,793,175</b>	<b>2,280,593</b>				
Dome Mountain	206	MGE Corporation Limited	05-Nov-16	05-Nov-15	538	12,793,175	196,040	47,200	-	-	-	-	-	-	-	-	196,040	47,200	12,793,175	2,280,593				
Zomongo TV																								
AC-2015-08-27a	Accent Marketing	27-Aug-15	01-Oct-15	608	315,000	4,725	11,025	433,041	251,222	78,965	102,854	83,690	113,879	63,778	6,888									
AC-2015-08-27b	Accent Marketing	27-Aug-15	01-Oct-15	608	315,000	4,725	11,025	71,978	71,978	-	-	76,703	11,025	315,000	42,368									
EC-12-15b-2015	Eyeconic.tv	15-Dec-15	08-Jan-16	498	661,500	9,923	23,153	118,409	-	118,409	-	-	128,331	23,153	661,500	88,972								
EC-01-12-2016	Eyeconic.tv	12-Jan-16	21-Jan-16	470	606,375	9,096	21,223	104,601	-	104,601	104,601	-	113,696	21,223	606,375	81,558								
EC-01-18-2016	Eyeconic.tv	18-Jan-16	04-Feb-16	464	441,000	6,615	15,435	72,986	-	72,986	-	-	73,601	15,435	441,000	59,315								
AC-2016-02-08a	Accent Marketing	08-Feb-16	29-Mar-16	443	421,053	-	21,053	64,633	-	64,633	-	-	64,633	21,053	421,053	56,633								
VA-2016-04-4a	Varus Consulting Inc.	04-Apr-16	08-Apr-16	387	210,526	-	10,526	31,262	-	31,262	-	-	31,262	10,526	210,526	28,315								
VA-2016-04-4b	Varus Consulting Inc.	04-Apr-16	08-Apr-16	387	210,526	-	10,526	29,894	-	29,894	-	-	29,894	10,526	210,526	28,315								
VA-2016-04-4c	Varus Consulting Inc.	04-Apr-16	21-Apr-16	387	210,526	-	10,526	29,894	-	29,894	-	-	29,894	10,526	210,526	28,315								
EC-05-19-2016	Eyeconic.tv	19-May-16	20-May-16	342	632,813	-	31,641	80,685	-	80,685	-	-	80,685	31,641	632,813	85,114								
EC-05-21-2016	Eyeconic.tv	21-May-16	27-May-16	340	526,500	-	26,325	65,286	-	65,286	-	-	65,286	26,325	526,500	70,814								
EC-05-16-2016	Eyeconic.tv	16-Jun-16	16-Jun-16	314	421,875	-	21,094	48,094	-	48,094	-	-	48,094	21,094	421,875	56,743								
EC-06-29-2016	Eyeconic.tv	29-Jun-16	04-Jul-16	301	421,875	-	21,094	44,297	-	44,297	-	-	44,297	21,094	421,875	56,743								
EC-06-16-2016	Eyeconic.tv	29-Jun-16	12-Jul-16	301	213,750	-	10,688	21,590	-	21,590	-	-	21,590	10,688	213,750	28,751								
MM-2016-17-8a	Mobility Media & TV	17-Aug-16	03-Oct-16	252	211,500	-	10,575	12,892	-	12,892	-	-	12,892	10,575	211,500	28,139								
MM-2016-17-8b	Mobility Media & TV	17-Aug-16	03-Oct-16	252	6,455,595	35,083	287,697	1,282,392	251,222	928,315	102,854	963,399	390,551	6,204,373	845,396									
Lotus Environmental Ltd.	04-Aug-15	22-Sep-15	631	526,316	7,895	18,421	544,390	68,236	165,463	310,691	173,358	328,112	458,080	17,450										
PROFAB Industrial Construction	08-Jan-16	15-Jan-16	474	71,502	1,073	1,430	-	-	-	-	1,073	1,430	71,502	22,155										
AIC International Group	15-Dec-15	15-Jan-16	498	201,600	3,024	4,032	-	-	-	-	3,024	4,032	201,600	62,496										
Lotus Energy Services Inc.	05-Jan-16	15-Jan-16	477	200,441	3,009	4,009	-	-	-	-	3,009	4,009	200,441	62,136										
M2 Energy Ltd.	25-Feb-16	09-Mar-16	426	171,095	-	5,988	-	-	-	-	-	-	5,988	171,095	200,441	50,988								
Downton's Transport Ltd.	02-Aug-16	25-Aug-16	267	153,593	-	5,376	-	-	-	-	-	-	-	5,376	153,593	32,794								
Lotus Environmental Ltd.	04-Aug-15	22-Sep-15	631	526,316	7,895	18,421	544,390	68,236	165,463	310,691	173,358	328,112	458,080	17,450										
PROFAB Industrial Construction	08-Jan-16	15-Jan-16	474	71,502	1,073	1,430	-	-	-	-	1,073	1,430	71,502	22,155										
AIC International Group	15-Dec-15	15-Jan-16	498	201,600	3,024	4,032	-	-	-	-	3,024	4,032	201,600	62,496										
Lotus Energy Services Inc.	05-Jan-16	15-Jan-16	477	200,441	3,009	4,009	-	-	-	-	3,009	4,009	200,441	62,136										
M2 Energy Ltd.	25-Feb-16	09-Mar-16	426	171,095	-	5,988	-	-	-	-	-	-	5,988	171,095	200,441	50,988								
Dome Mountain	221	Dome Mountain	04-May-16	13-May-16	357	487,200	-	9,744	289,828	224,361	56,658	8,809	56,658	18,553	262,839	38,557								
IC Commerce	222	Dome Mountain	03-Aug-16	17-Aug-16	266	361,200	-	7,224	-	-	-	-	-	7,224	361,200	78,561								
12-Feb-17	08-Mar-17	73	200,000	-	4,000	-	4,000	-	-	-	-	-	-	4,000	200,000	23,200								
156 Alberta	223	IC Commerce	10-May-16	16-Jun-16	351	307,789	-	6,156	-	-	-	-	-	6,156	307,789	76,483								
			01-Jun-16	16-Jun-16	329	131,909	-	2,638	-	-	-	-	-	2,638	131,909	32,777								
647 BC	335	Dome Mountain	10-May-16	16-Jun-16	512	1,048,400	-	20,968	289,828	224,361	56,658	8,809	56,658	29,777	824,039	140,318								
			01-Jun-16	16-Jun-16	512	439,698	-	8,794	-	-	-	-	-	8,794	439,698	109,260								
University of Calgary	18-Sep-15	01-Oct-15	586	400,000	6,000	11,000	98,280	-	36,400	61,880	42,400	72,880	400,000	29,000										
TLP Outreach Assoc Inc.	01-Dec-15	16-Dec-15	512	480,000	7,200	13,200	68,688	-	25,440	43,248	32,640	56,448	480,000	34,800										
CPPS Mission Projects	01-Dec-15	29-Jan-16	512	261,097	-	11,097	21,854	-	12,011	9,843	12,011	20,940	261,097	18,930										
CPPS Mission Projects	01-Dec-15	24-Feb-16	512	104,439	-	4,439	5,076	-	5,013	63	5,013	4,501	104,339	6,005										
CPPS Mission Projects	01-Dec-15	20-Apr-16	512	156,658	-	6,658	-	-	-	-	-	-	6,658	156,658	12,141									
Restoration Energy	2015/2017A	University of Calgary	1,402,193	13,200	46,393	193,897	-	78,864	115,034	92,064	92,064	161,427	1,402,193	106,876										
2015/2017C	First Capital Management Services	06-Aug-16	12-Aug-16	263	93,985	-	3,759	-	-	-	-	-	-	3,759	93,985	26,206								
Single Source Services	318																							

Crystal Wealth Management System Limited  
Outstanding Purchased Invoices  
As at October 26, 2017

Merchant	Invoice Nbr	Debtor	Invoice Date	Advance Date	Days O/S	Principal Due	A Upfront Fees		B Payments Received		C Payment Allocation		D A+C+D Total Received		E B+E Paid to FF		F Owing to CW Principal Interest			
							Paid to CW	Paid to FF	Payments Received		Principal	Interest	Paid to CW	Paid to FF	(612)	11,575	95,417	3,011,397	909,586	
HEDGE FUND									96,029	10,963								1,015,660	181,058	
Dome Mountain	206	MGE Corporation Limited	05-Nov-16	05-Nov-15	538	1,015,360												1,015,660	181,058	
Zomongo TV	EC-01-18-2016 AC-2016-02-08a GS-2016-04-4a GS-2016-04-4b GS-2016-04-4a GS-2016-04-4b GS-2016-04-4b MM-2016-17-3a MM-2016-17-3b	Eyeconic.tv Accent Marketing Golden Shores Enterprises Inc. Golden Shores Enterprises Inc. Golden Shores Enterprises Inc. Golden Shores Enterprises Inc. Golden Shores Enterprises Inc. Mobility Media & TV Mobility Media & TV	18-Jan-16 08-Feb-16 04-Apr-16 04-Apr-16 04-Apr-16 04-Apr-16 04-Apr-16 17-Aug-16 17-Aug-16	21-Mar-16 22-Mar-16 12-Apr-16 12-Apr-16 13-May-16 13-May-16 13-May-16 22-Aug-16 22-Aug-16	464 443 387 387 387 387 387 252 252	1,015,360														
							105,263	-	5,263	-	-	-	-	-	5,263	105,263	142,105	142,105		
							142,105	-	7,105	-	-	-	-	-	7,105	142,105	69,010	69,010		
							263,158	-	13,158	-	-	-	-	-	13,158	263,158	123,196	123,196		
							263,158	-	13,158	-	-	-	-	-	13,158	263,158	123,196	123,196		
							210,526	-	10,526	-	-	-	-	-	10,526	210,526	210,526	210,526		
							210,526	-	10,526	-	-	-	-	-	10,526	210,526	93,121	93,121		
							150,000	-	7,500	-	-	-	-	-	7,500	150,000	150,000	150,000		
							150,000	-	7,500	-	-	-	-	-	7,500	150,000	53,729	53,729		
							1,494,737	-	74,737	-	-	-	-	-	74,737	1,494,737	660,307	660,307		
Restoration Energy	20160309 20151201C 20160309	CPPS Mission Projects CPPS Mission Projects CPPS Mission Projects	09-Mar-16 01-Dec-15 09-Mar-16	14-Mar-16 16-Mar-16 16-Mar-16	413 512 413	302,872 21,000 177,128		12,872 393 7,528	6,951 425 3,587		7,118 (167) 3,985		12,705 845 7,130		302,872 21,000 177,128	41,322 24,049	501,000	68,222		
<b>GRAND TOTAL</b>						26,566,990		259,321	550,086		2,321,470		543,820		1,240,876	536,775	1,500,196	1,086,871	26,325,170	4,654,265

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# TAB 16

# AIRD BERLIS

Mark van Zandvoort  
Direct: 416.865.4742  
E-mail: [mvanzandvoort@airdberlis.com](mailto:mvanzandvoort@airdberlis.com)

June 28, 2017

**BY EMAIL**

Jerry Froese  
President/CEO  
Frontline Factoring Inc.  
230-719 4th Ave S  
Lethbridge, AB  
T1J 0P1  
Email: [jerry@frontlinefactoring.com](mailto:jerry@frontlinefactoring.com)

Dear Mr. Froese:

**Re: Receivership of Crystal Wealth Enlightened Factoring Strategy (formerly Crystal Enlightened Income Fund) and Crystal Wealth Enlightened Hedge Fund**

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We are the lawyers for Grant Thornton Limited, in its capacity as receiver and manager (in such capacity, the "Receiver") of the assets, undertakings and properties of Crystal Wealth Management System Limited, and of Crystal Wealth Enlightened Factoring Strategy (formerly Crystal Enlightened Income Fund) and Crystal Wealth Enlightened Hedge Fund (together, the "Funds").

As you are aware, the Receiver was appointed as receiver and manager of the Funds pursuant to the Order (Appointing Receiver) (the "Appointment Order") issued by the Honourable Justice Newbould of the Ontario Superior Court of Justice (Commercial List) on April 26, 2017. The Appointment Order can be found on the Receiver's Case Website [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth). As is evident in the Appointment Order, the Court has provided broad powers to the Receiver in furtherance of its mandate, in order to augment and ensure that the highest possible recovery can be achieved for the benefit of investors of the Funds.

Pursuant to Factoring Procurement and Administration Agreements (the "Administration Agreements"), Frontline Factoring Inc. ("Frontline") is required to manage and service certain factoring arrangements entered into by the Funds with third party Merchants.<sup>1</sup> In this regard, we understand that despite the Receiver's request, a copy of the Hedge Fund Administration Agreement has yet to be provided by Frontline. Please provide it forthwith.

We understand that Frontline at times has failed to provide consistent weekly reporting to the Receiver contrary to s. 4.2 of the Administration Agreements. It is critical that Frontline provide such weekly reporting. Furthermore, it is essential that Frontline provide reports to the Receiver with respect to any Non-Performing Factoring Arrangements as required by s.

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<sup>1</sup> Unless otherwise defined, all capitalised terms used herein are intended to have the meaning ascribed to them in the Administration Agreements.

June 28, 2017  
Page 2

5.1 of the Administration Agreements, including the reasons for non-performance by any Debtors and Merchants and the specific efforts made by Frontline to collect. In the event that a default has occurred under an Approved Factoring Arrangement or the Administration Agreements as contemplated by s. 5.1 thereof, we require that Frontline provide to the Receiver all information in its possession concerning the default(s). Please provide updated weekly reports, and reports with respect to any Non-Performing Factoring Arrangements, to the undersigned and the Receiver by no later than 5 p.m. EST on Friday, June 30, 2017, and every Friday thereafter on a weekly basis.

In accordance with s. 4.3(d) of the Administration Agreements, we further reiterate that Frontline is not to make any concession or waiver with regard to the payment of any receivables owing to the Funds arising from the Factoring Agreements entered into with Merchants.

More specifically in this latter regard, we have been advised that Frontline recently informed the Receiver that Zomongo Inc. a/k/a Zomongo TV Corp ("Zomongo") is advising Debtors that they need not pay to Frontline receivables purchased by the Funds from Zomongo. In accordance with s. 4.1(e) of the Administration Agreements, we require Frontline's immediate confirmation that it will advise all Merchants and Debtors, and based on the above specifically, Zomongo, that the Receiver's appointment is of no consequence to the amounts owing to the Funds pursuant to the Funds' Factoring Agreements, and that all outstanding Purchased Receivables and associated fees must continue to be remitted in full.

We trust that Frontline will act with vigilance in fulfilling its obligation to collect and remit the Purchased Receivables to the Receiver on behalf of the Funds. In the interim, we continue to reserve all rights on behalf of the Receiver, including with respect to the extensive powers provided to it under the Appointment Order and to take any necessary steps to obtain recovery for the Funds in the event that satisfactory performance is not promptly provided by Frontline in accordance with the Administration Agreements.

Yours truly,

AIRD & BERLIS LLP

Mark van Zandvoort

MVZ/ds

- c. Grant Thornton Limited, in its capacity as receiver and manager of the assets, undertakings, and properties of Crystal Wealth Enlightened Factoring Strategy (formerly Crystal Enlightened Income Fund) and Crystal Wealth Enlightened Hedge Fund

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AIRD BERLIS

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# TAB 17



4375

230-719 4<sup>th</sup> Ave S  
Lethbridge, Alberta  
T1J 0P1, Canada

July 12, 2017

**BY EMAIL**

[Debtor Name]  
[Address]  
[City, Province]  
[Postal Code]

Dear Sirs:

**Re: Receivership of Crystal Wealth Enlightened Factoring Strategy (formerly Crystal Enlightened Income Fund) and Crystal Wealth Enlightened Hedge Fund Ontario Superior Court of Justice Court File No. CV-17-1179-00CL**

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As you may be aware, on April 26, 2017, Grant Thornton Limited was appointed by the Ontario Superior Court of Justice (Commercial List) as receiver and manager (the “**Receiver**”) of the assets, undertakings and properties of Crystal Wealth Management System Limited (the “**Company**”), Crystal Wealth Enlightened Factoring Strategy (formerly Crystal Enlightened Income Fund) (the “**Factoring Fund**”) and Crystal Wealth Enlightened Hedge Fund (the “**Hedge Fund**”, and together, the “**Funds**”). This Court Order is posted on the Receiver’s Case Website: [www.grantthornton.ca/crystalwealth](http://www.grantthornton.ca/crystalwealth).

The fact that the Receiver has been appointed by the Court does not in any way alter or relieve you of your liabilities to the Company and the Funds, as applicable, on account of their factoring arrangements with **[Merchant Name]**. As you know, Frontline administers such factoring arrangements on the Company and the Funds’ behalf. In this regard, invoice nos. **[Invoice No.(s)]** are currently outstanding by you. Payment of all amounts owing under these invoices, including on account of principal and accrued interest, must be forthwith remitted directly to Frontline Factoring Inc. (“**Frontline**”), in trust for the Receiver.

We wish to be clear that no concession or waiver with respect to the amounts owing in this regard will be made, and full and timely payment of all amounts presently due and outstanding are to be paid directly to Frontline, in trust.

It is important to reiterate that the Receiver has been empowered by the Court with the express authority to collect the amounts owing by you under these invoices. Aside from the Receiver, no other entity – including **[Merchant Name]** – has any authority to relieve you of, or otherwise compromise or settle your indebtedness pursuant to the aforesaid invoices.



**FRONTLINE**  
FACTORING

**4376**

230-719 4<sup>th</sup> Ave S  
Lethbridge, Alberta  
T1J 0P1, Canada

We look forward to receiving prompt payment from you. If you have any questions, please contact Frontline or the Receiver at its contact information set out below.

**Toll Free Number:** 1-866-448-5867

**Local Number:** 416-607-4130

**Email:** [crystalwealth@grantthornton.ca](mailto:crystalwealth@grantthornton.ca)

Sincerely,

Jerry Froese  
President/CEO  
Frontline Factoring Inc.

29822389.1

4377

# TAB 18

# Dome Mountain Resources of Canada Ltd.

112 Cranston Drive SE, Calgary AB, T3M 1A8

4378

411

Date	To	Terms
November 11, 2015	MGE Corporation LTD	

## Instructions

Please direct payment to:

Frontline Factoring Inc.  
230 – 719 4<sup>th</sup> Ave S  
Lethbridge AB T1J 0P1

Thank you for your business!

ONTARIO SECURITIES COMMISSION

and

CRYSTAL WEALTH MANAGEMENT SYSTEM LIMITED, ET AL.

Applicant

Respondents

Court File No. CV-17-11779-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST  
Proceedings commenced at TORONTO**

**MOTION RECORD**

**Volume 1 of 3**

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**ANTHONY WHITEHOUSE**  
Plaintiff

-and-

**BDO CANADA LLP**  
Defendant

Court File No. CV-17-579357-00CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

PROCEEDING COMMENCED AT  
TORONTO

**MOTION RECORD  
VOLUME 13 OF 20**

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