

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

**IN THE MATTER OF THE BANKRUPTCY OF MARLOW GROUP PRIVATE
PORTFOLIO MANAGEMENT INC., A COMPANY INCORPORATED UNDER
THE LAWS OF THE PROVINCE OF ONTARIO WITH A HEAD OFFICE IN
THE CITY OF TORONTO IN THE PROVINCE OF ONTARIO**

FIRST REPORT OF THE TRUSTEE IN BANKRUPTCY

Purpose of Report

1. This First Report to Court of A. Farber & Partners Inc., as trustee in bankruptcy (the "Trustee") of Marlow Group Private Portfolio Management Inc. ("MGPPMI") is in support of a motion to:
 - Authorize and direct the Trustee to make an allocation of the 2005 partnership and tax shelter information in respect of Flow-Through Shares to customers of MGPPMI (the "Customers") in accordance with the allocation table attached as Appendix "A" to this Report (the "Allocation Table"), and issue relevant tax receipts to investors based upon the Allocation Table, with copies thereof provided to Canada Revenue Agency ("CRA").
 - Enable the Trustee to make the allocation in respect of the Flow-Through Shares for the purpose of issuing tax receipts without prejudice to the ultimate distribution of cash, securities or other property of MGPPMI, which is to occur in accordance with the Order of the Court dated January 17, 2006 and Part XII of the BIA;
 - Authorize the Trustee to amend in the future, if necessary, the allocation in respect of the Flow-Through Shares and to issue further or amended tax receipts in the event that new information indicates that the initial allocation was incorrect; and
 - Authorizing the Trustee to issue a letter substantially in the form attached as Appendix "B" to the Customers who are to receive the tax receipts.

Background

2. A. Farber & Partners Inc. was appointed as Interim Receiver (the "Receiver") of all the assets, undertakings and properties of Marlow Group Private Portfolio Management Inc. ("MGPPMI"), Marlow Group Securities Inc. ("MGSI"), Marlow Group Inc. ("MGI"), Marlow Private Estate Builders Inc. ("MPEBI") (collectively, the "Corporate Debtors") and certain of the property of Terrence W. Marlow ("Marlow") on March 9, 2005.
3. Prior to the Receivership, MGPPMI would buy blocks of shares or units of limited partnerships in its name and then allocate them to various Customers. Most of these allocations were virtual in that the Customers' accounts in MGPPMI's books and records would reflect the allocations, but share certificates were not issued in the Customers' names, but rather were held, and continue to be held, in the name of MGPPMI. Accordingly, the general partners issue the T5013's to MGPPMI and MGPPMI, in turn, historically issued T5013s to the Customers based on their virtual allocations.
4. In April 2005, the Receiver brought a motion for directions with respect to the issuance of tax documents pertaining to the 2004 tax year (the "2004 T5013s") to customers of MGPPMI with respect to securities held by MGPPMI that had been virtually allocated to such customers. A copy of the Receiver's First Report to the Court (the "Receiver's First Report") setting out the basis and rationale behind the allocation and issuance of the 2004 T5013s is attached hereto as Appendix "C". By an Order made on April 14, 2005, the Court approved the issuance of the 2004 T5013s on the basis recommended in the Receiver First Report. A copy of the Order of the Court dated April 14, 2005 is attached hereto as Appendix "D"
5. On February 23, 2006, A. Farber & Partners Inc. also became the Trustee in Bankruptcy (the "Trustee") of the Corporate Debtors pursuant to an Order of the Court made on January 17, 2006 authorizing and directing the Receiver to assign the Corporate Debtors into bankruptcy which is attached as Appendix "E". A copy of the Trustee's Preliminary Report to Creditors is attached as Appendix "F"
6. By April 7, 2006, the Trustee received the T5013s for the 2005 tax year in respect of securities of CMP 2004 Resource Limited Partnership, Endeavour Flow-Through (2004) Limited Partnership and Front Street Flow Through 2004-1 Limited Partnership held in MGPPMI's name. The Trustee requires the Court's direction with respect to the issuance of 2005 T5013 tax receipts (the "2005 T5013s") in respect of these securities to customers of MGPPMI on the same basis as that ordered by the Court in its April 14, 2005 Order.

Receiver's First Report to Court Regarding 2004 Tax Receipts

7. The Receiver's First Report sets out the background and the Receiver's recommendations pertaining to the accounting for, and the issuance of, the 2004 T5013s to the Customers. This information is still applicable to the Trustee in its efforts to account for, and issue, the 2005 T5013s to the Customers.
8. A large portion of the securities identified in the Receiver's First Report relates to investments in Flow-Through Shares. A Flow-Through Share means a share or a right to a share that is a "flow-through share" as defined in subsection 66(15) of the *Income Tax Act* (Canada), in respect of which a qualifying corporation agrees to renounce eligible expenditures in favour of the holders of the Flow-Through Shares. For the purpose of accounting and reporting to the limited partners, the general partner will forward to each limited partner the information that is necessary for each limited partner to complete such limited partner's Canadian federal and, where applicable, provincial income tax returns with respect to partnership matters for the preceding year.
9. As the virtual allocations set out in MGPPMI's books and records represented the best available information for the purposes of issuing tax receipts to Customers, the Receiver recommended, and the Court approved, that the Receiver cause MGPPMI to issue the 2004 T5013's to the Customers based on their virtual allocations in the same fashion as MGPPMI had in the past. Such allocation for the purposes of issuing tax receipts was made without prejudice to the manner in which the distribution of cash, securities or other property of MGPPMI to Customers was ultimately determined as the issue of whether the property was to be distributed pursuant to Part XII of the *Bankruptcy and Insolvency Act* (the "BIA") or otherwise was, at that time, still to be determined.
10. The Receiver also obtained authority to amend the 2004 T5013's if needed, but to date, no amendments have been made since no further information was received from the issuers with respect to 2004 tax receipts which would require such amendments.

2005 Tax Receipts

11. By April 7, 2006 MGPPMI received the 2005 T5013's from the general partners for the units that were registered in MGPPMI's name, but which are virtually allocated to its Customers. Such Customers of MGPPMI urgently require the tax reporting information to complete their 2005 T1 individual tax returns, (which have to be filed by May 1, 2006) and MGPPMI has an obligation to submit this information.
12. Pursuant to an Order of the Court made on January 17, 2006, MGPPMI was assigned into bankruptcy and its property is to be distributed in accordance with

Part XII of the BIA (which essentially pools securities, except for "Customer Name Securities" actually registered in the names of customers, into a common pool (the "Customer Pool Fund"), from which Customers receive distributions on a pro-rata basis). MGPPMI was assigned into bankruptcy on February 23, 2006 and, in accordance with the January 17, 2006 Order, the Customer Pool Fund will include all securities that were not found by the Court to constitute Customer Name Securities and will be used to make distributions to all Customers with valid proofs of claim on a pro-rata basis in accordance with Part XII of the BIA, including to Customers who did not originally have the Flow-Through Shares virtually allocated to them. Accordingly, the final allocation of shares, or the proceeds thereof, may not be consistent with the basis on which the Flow-Through Shares had previously been reported for tax purposes.

13. The Trustee cannot, at this time, determine the final distribution of the Flow-Through Shares, or the proceeds thereof, and cannot therefore determine how different the distributions under Part XII of the Act may ultimately be from the historic allocations of the T5013's. Accordingly, the best information that is available to the Trustee for the purpose of issuing the 2005 T5013s remains the virtual allocations, based on which the 2004 T5013s were issued by the Receiver as ordered by the Court on April 14, 2005.
14. In recognition of the fact that Customers may need to file amended tax returns after they actually receive their distributions in the bankruptcy of MGPPMI, the Trustee is proposing to send a letter substantially in the form attached as Appendix "B" hereto, to the Customers advising them as to the basis of the allocations and the possibility that they may need to file amended tax returns based on the final distributions made to the Customers. This will allow the Customers to take whatever tax planning steps they deem necessary.

Preparation of the Allocation Table

15. The Allocation Table attached as Appendix "A" has been prepared on the virtual allocation of the relevant securities set out in the books and records of MGPPMI, which is on the same basis as set out in the Receiver's First Report approved by the Court in its April 14, 2005 Order.

Recommendations

16. In order to allow Customers of MGPPMI to file their 2005 tax returns on a timely basis, the Trustee is seeking an Order approving its proposal to issue the 2005 T5013s based upon information available to date, as set out in the Allocation Table. Consequently, the Trustee respectfully recommends an order of this Honourable Court's Order:

- Authorizing and directing the Trustee to make an allocation of the partnership and tax shelter information in respect of Flow-Through Shares to Customers of MGPPMI in accordance with the Allocation Table attached as Appendix "A" and issue relevant tax receipts to investors based upon the Allocation Table, with copies thereof provided to CRA;
- Enabling the Trustee to make the allocation in respect of the Flow-Through Shares for the purpose of issuing tax receipts without prejudice to the ultimate distribution of cash, securities or other property of MGPPMI, which is to occur in accordance with the Order of the Court dated January 17, 2006 and Part XII of the BIA;
- Authorizing the Trustee to amend in the future, if necessary, the allocation in respect of the Flow-Through Shares and to issue further or revised tax receipts in the event that new information indicates that the initial allocation was incorrect;
- Authorizing the Trustee to issue a letter substantially in the form attached as Appendix "B" to Customers.

Respectfully submitted, this 12th day of April. 2006.

A. FARBER & PARTNERS INC.

**SOLELY IN ITS CAPACITY AS TRUSTEE IN BANKRUPTCY OF THE
ESTATE OF MARLOW GROUP PRIVATE PORTFOLIO MANAGEMENT INC.,
A BANKRUPT, AND WITH NO PERSONAL OR CORPORATE LIABILITY**

Per: Allan Nackan, CA●CIRP