

**FIRST REPORT OF MSI SPERGEL INC.,
IN ITS CAPACITY AS COURT-APPOINTED RECEIVER OF
BANNERS BROKER INTERNATIONAL LIMITED**

TO THE ISLE OF MAN COURT

**IN THE MATTER OF CERTAIN PROCEEDINGS TAKEN IN THE ISLE OF
MAN WITH RESPECT TO BANNERS BROKER INTERNATIONAL
LIMITED**

July 13, 2016

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I. Purpose of this Report

1. This Report is filed by msi Spergel inc., in its capacity as Canadian court-appointed receiver (in such capacity, the “**Receiver**”) of Banners Broker International Limited (“**BBIL**”), to outline the Receiver’s various statutory powers and obligations under Canadian law.

II. Overview of BBIL

2. BBIL was central to a group of at least eight related companies and service providers. Together they were involved in and/or operated the “Banners Broker” online enterprise (“**Banners Broker**”).

3. Now defunct, various of the corporate entities making up the Banners Broker enterprise are currently subject to insolvency proceedings in the Isle of Man (in the case of BBIL), as well as in Canada (in the case of BBIL and others).

4. Although BBIL was legally domiciled in the Isle of Man, its operations were in fact completely controlled by Canadian residents working in Ontario, Canada. Accordingly, and as set out below, the Ontario court accepted there was jurisdiction in Ontario to engage in a receivership of BBIL.

III. Canadian Orders Granted in Respect of the Receivership of BBIL

5. BBIL was ordered into liquidation by the Isle of Man High Court of Justice on February 26, 2014. Miles Andrew Benham and Paul Robert Appleton were appointed as Joint Liquidators of BBIL in the Isle of Man proceedings (“**Joint Liquidators**”).

6. On August 22, 2014, pursuant to an application by the Joint Liquidators, the Isle of Man proceeding was recognized by the Ontario Superior Court of Justice under cross-border provisions of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (“**BIA**”). msi Spergel inc. was appointed as Receiver of BBIL in Canada. Copies of the August 22, 2014 court orders of the Ontario Superior Court of Justice (Commercial List) (“**Commercial List**”), recognizing the

Isle of Man proceeding and appointing the Receiver as receiver of BBIL are attached as **Appendix “A”** and **Appendix “B”**, respectively.

7. Then, on August 7, 2015, the Ontario Superior Court of Justice empowered the Receiver to initiate and prosecute claims on behalf of BBIL for the purpose of completing the administration of the receivership of BBIL (the “**Further Supplemental Order**”). A copy of the Further Supplemental Order of the Commercial List is attached as **Appendix “C”**.

8. On May 26, 2016, the Receiver sought and was granted an order by the Commercial List, approving and facilitating the transition of certain insolvency administration matters from the Joint Liquidators to the Receiver, including the administration of a global claims process. A copy of the May 26, 2016 order by the Commercial List is attached as **Appendix “D”**.

IV. The Receiver’s Statutory Powers and Obligations

9. The Receiver’s powers are derived from both the federal BIA and orders obtained by the Receiver from the Commercial List.

10. The Receiver’s powers under s.243(1) of the BIA are as follows:

s.243 (1) ... on application by a secured creditor, a court may appoint a receiver to do any or all of the following if it considers it to be just or convenient to do so:

(a) take possession of all or substantially all of the inventory, accounts receivable or other property of an insolvent person or bankrupt that was acquired for or used in relation to a business carried on by the insolvent person or bankrupt;

(b) exercise any control that the court considers advisable over that property and over the insolvent person’s or bankrupt’s business; or

(c) take any other action that the court considers advisable.

11. The Commercial List is a specialized commercial court within the Ontario Superior Court of Justice for hearing certain matters, including insolvency and restructuring proceedings under

the BIA. The Commercial List is comprised of a team of judges that specialize in complex commercial litigation.

12. The Commercial List's judges are authorized to issue receivership orders that grant broad powers to a Canadian receiver in addition to those granted under s.243(1) of the BIA.

13. The Receiver has accordingly been granted comprehensive powers to administer and complete the receivership of BBIL as set out in Paragraph 6 of the Supplemental Order by the Commercial List, appended at **Appendix "B"**, and Paragraph 10 of the Further Supplemental Order by the Commercial List, appended at **Appendix "C"**.

V. The Transition Agreement

14. After extensive and on-going investigation into the Banners Broker business, the Receiver and Joint Liquidators have concluded that Canada, as opposed to the Isle of Man, was/is the centre for Banners Broker business operations.

15. As such, the Receiver and Joint Liquidators have also concluded that the steps required to complete the administration of the BBIL liquidation are most efficiently achieved by the Receiver as set out in the Receiver's May 19, 2016 Report to the Commercial List ("**Sixth Report**"). A copy of the Sixth Report, without exhibits, is attached at **Appendix "E"**.

16. As a result, the Joint Liquidators and Receiver have drafted a Transition Services and Assignment Agreement ("**Assignment Agreement**") that outlines: the Receiver's covenants with respect to the on-going administration of BBIL; the transition steps to be taken to move all on-going administrative matters from the Joint Liquidators to the Receiver; an assignment of the assets of BBIL to the Receiver; and an indemnification of the Joint Liquidators by the Receiver.

17. This Assignment Agreement has been consented to by the Receiver and approved by the Commercial List and is attached as **Appendix "F"** to this report. The May 26, 2016 Order of

the Commercial List approving the Assignment Agreement is attached as **Appendix “D”**. The Receiver will sign the Assignment Agreement once approved by the Isle of Man Court.

VI. Summary

18. The Receiver is advised that the Joint Liquidators have lodged with the Court in the Isle of Man, as exhibits to their Joint Liquidators Reports, the following Receivers Reports No:7,6,5,4,3,2,1 which cover the period 2 October 2014 up to 30 May 2016 which the Receiver had previously lodged with and which have been approved by the Commercial List in Canada.

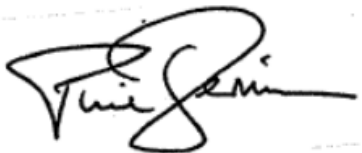
19. The Receiver relies upon the content of these previous reports to the Commercial List in Canada, which describe in greater detail the Receiver’s activities and investigations to date.

20. The Receiver has been granted wide-ranging and comprehensive powers by the Commercial List in Canada through the aforementioned Court Orders and statutory regimes that permit it to complete an orderly and efficient winding up of the BBIL estate.

21. Philip Howard Gennis, who has responsibility for the BBIL Estate in Canada, is a Canadian solicitor and an Insolvency Trustee licensed by the Canadian Superintendent of Bankruptcy with approximately 40 years of insolvency experience. The Receiver is well equipped to assume obligations arising from and necessary to complete the administration of the receivership of BBIL. A copy of Mr. Gennis’ CV is attached as **Appendix “G”** to this report.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 13th day of July, 2016.

msi Spergel inc.,
Court-appointed Receiver of
Banners Broker International Limited



Per: Philip H. Gennis, J.D., CIRP, LIT