Court File No. 09-8302-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF AN APPLICATION PURSUANT RULE 14.05(2) OF THE ONTARIO *RULES OF CIVIL PROCEDURE*, R.R.O. 1990, Reg. 194 AND SECTION 35 OF THE *PARTNERSHIPS ACT*, R.S.O, 1990. c. P.5

AND IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43

BETWEEN:

JAMES HAGGERTY HARRIS

Applicant

- and -

BELMONT DYNAMIC GROWTH FUND,
an Ontario Limited Partnership

Respondent

THIRD REPORT OF KPMG INC., RECEIVER AND MANAGER OF BELMONT DYNAMIC GROWTH FUND

June 21, 2010

TABLE OF CONTENTS

APPENDICES

INTRODUCTION

Appointment of the Receiver

1. Pursuant to the Order of Madam Justice Mesbur of the Ontario Superior Court of Justice (Commercial List) dated August 6, 2009 (the "Appointment Order"), KPMG Inc. was appointed receiver and manager (the "Receiver") of the assets, undertakings and properties of Belmont Dynamic Growth Fund (the "Belmont Fund"), an Ontario limited partnership. A copy of the Appointment Order, which among other things, sets out the powers of the Receiver is attached hereto as **Appendix A**. James Haggerty Harris (the "Applicant") made the application pursuant to section 101 of the *Courts of Justice Act*, RSO 1990 c.C.43.

2. The Appointment Order provided that until further order of this Honourable Court at the Dissolution Hearing or otherwise, the Receiver shall not terminate or consent to the termination of any forward contract or sell or otherwise dispose of any material portion of the property of the Belmont Fund. The Appointment Order was amended by Order of Madam Justice Hoy on October 21, 2009 (the "Amended Appointment Order") by deleting Paragraph 4 of the initial Appointment Order, so the Receiver was empowered and authorized to terminate or consent to the termination of any forward contract and to sell or otherwise dispose of any material portion of the property of the Belmont Fund where the Receiver considers it necessary or desirable to do so. A copy of the Amended Appointment Order is attached as **Appendix B**.

3. The Appointment Order was made without prejudice to the right of any interested person to return to court on August 21, 2009 (the "Comeback Hearing") to seek to alter any term of the Appointment Order, including the appointment of the Receiver. If any parties intended to come back for this purpose, they were to provide written notice to the Applicant and the Receiver by August 14, 2009. While the Receiver had discussions with Harcourt Investment Consulting AG ("Harcourt") and Omniscope Advisors Inc. ("Omniscope"), and their respective legal counsels, with respect to certain issues potentially to be addressed at the Comeback Hearing, no interested person pursued a motion at the Comeback Hearing.

4. In its Application, the Applicant also sought a Court-supervised dissolution of the Belmont Fund (the "Fund Dissolution"). The Fund Dissolution was to be the subject of a separate court hearing (the "Dissolution Hearing"). The Appointment Order directed that the return date for the hearing of the application in respect of the Dissolution Hearing and certain relief as required would be August 27, 2009, or such other date as is set by the Court upon motion by the Applicant. On August 26, 2009, this Honourable Court adjourned the Dissolution Hearing to a date to be scheduled and approved by the Court.

5. At the Dissolution Hearing on October 21, 2009, Madame Justice Hoy of the Ontario Superior Court of Justice (Commercial List) issued the Amended Appointment Order which also provided that the Belmont Fund shall be dissolved upon the Receiver filing a certificate confirming that the Receiver has completed its realization on all of the Belmont Fund's property and distributed the proceeds of such realization in accordance with the Partnership Act.

6. On October 21, 2009, the Receiver also sought and received an Order setting out a claims identification process to identify claims of the creditors of the Belmont Fund (the "Claims Procedure Order"). The Claims Procedure Order is attached hereto as **Appendix C.**

7. On May 17, 2010, the Receiver also sought and received an Order setting out a resolution process for disputed claims pursuant to the Claims Procedure Order (the "Claims Determination Order"). The Claims Determination Order is attached hereto as **Appendix D.**

Background to the Receivership

8. The Belmont Fund is an investment fund established as a limited partnership under the laws of Ontario pursuant to an agreement between Belmont Dynamic GP Inc., as general partner (the "General Partner"), and the limited partners (the "Limited Partners" or "Unitholders") of the Belmont Fund dated June 9, 2006 (the "Limited Partnership Agreement"). The Limited Partners are accredited investors and are the unitholders in the Belmont Fund. Unitholders purchased units in either of Canadian dollars ("CAD") or in US dollars ("US$"). The General Partner was responsible for managing the day-to-day business of the Belmont Fund.

9. The only undertaking of the Belmont Fund was the investment of its assets. The objective of the Belmont Fund was to provide investors with the return on the Belmont Dynamic Segregated Portfolio (the "Segregated Portfolio") of hedge funds existing as a segregated portfolio of Belmont SPC, a segregated portfolio company organized under the laws of the Cayman Islands. The Segregated Portfolio's investment objective is to invest on a leveraged basis in specialized fund of hedge funds managed by Harcourt. Harcourt is the investment advisor to the Segregated Portfolio. Alternative Investments Management Ltd, a Barbadian Company affiliated with Harcourt, owns all of the voting shares of the Belmont SPC, and is also the investment manager of the Segregated Portfolio.

10. Exposure to the Segregated Portfolio is obtained by first using the proceeds from the sale of units in the Belmont Fund to acquire two baskets of Canadian common shares (the "CAD Share Basket" and "USD Share Basket", collectively the "Share Baskets") and then entering into two forward purchase and sale agreements (the "CAD Forward Contract" and the "USD Forward Contract", collectively, the "Forward Contracts") with National Bank of Canada (Global) Limited (the "Counterparty").

11. In accordance with the Forward Contracts, the Counterparty has agreed to pay to the Belmont Fund on the maturity date of the Forward Contracts an amount equal to the redemption proceeds of a notional number of participating shares ("Participating Shares") in the Segregated Portfolio in exchange for the delivery of the Share Baskets to the Counterparty by the Belmont Fund or an equivalent cash payment at the election of the Belmont Fund. As a result of the Forward Contracts, the Belmont Fund has exposure to the performance of the Segregated Portfolio but it has no direct interest in the Segregated Portfolio.

12. The investment structure, including the Belmont Fund and the Segregated Portfolio, is defined as the "Investment Structure".

13. Harcourt and Omniscope each hold 50% ownership of the outstanding common shares of the General Partner. Omniscope carries on the business of a securities dealer and is registered as a dealer in the category of limited market dealer under the *Securities Act (Ontario)*. Omniscope is wholly owned by Daniel Nead ("Nead"). Harcourt carries on business as a portfolio manager of funds of hedge funds with its principal offices located in Zurich, Switzerland. Harcourt's principal shareholder is The Vontobel Group ("Vontobel"), a Swiss private bank headquartered in Zurich, Switzerland.

14. The General Partner has two directors with equal voting rights: (1) Nead, a resident Canadian; and (2) Peter Fanconi ("Fanconi") a resident of Switzerland. Nead is also President and Secretary of the General Partner. Fanconi is Chief Executive Officer of the General Partner, Head of Private Banking at Vontobel and former President and Chief Executive Officer of Harcourt.

15. There are 135 Limited Partners, of which 126 are clients of RBC Phillips, Hager & North Investment Counsel Inc. ("RBC PHN") and the remaining are clients of RBC Dominion Securities ("RBCDS"). RBC PHN and RBCDS are collectively referred to as "RBC".

16. Due to the impact of the ongoing financial turmoil on the investment industry, on October 31, 2008 the directors of the Segregated Portfolio decided to compulsorily redeem all units or shares in the Segregated Portfolio in advance of closing down the Segregated Portfolio.

17. On October 31, 2008 Citco Fund Services (Europe B.V.) ("Citco") wrote to the shareholders of the Segregated Portfolio advising that the directors of the Segregated Portfolio had deemed that the continued operation of the Segregated Portfolio was no longer viable and that steps should be taken to realize on the underlying assets of the Segregated Portfolio and to close it down (the "Segregated Portfolio Closing"). The letter also included notice of a compulsory redemption of the shares in advance of the Segregated Portfolio Closing effective as of October 31, 2008 (the "Segregated Portfolio Closing Date").

18. The Receiver understands that at or around this time, Harcourt advised RBC that the Belmont Fund was no longer viable due to recent market turmoil and that steps would therefore be taken to dissolve the Belmont Fund. Further, the Receiver understands that Harcourt also advised RBC that the Limited Partners were unable to redeem their units of the Belmont Fund at that time because the direct and indirect underlying hedge fund holdings of the Segregated Portfolio had suspended the redemption of their units or shares and/or were gated, as the case may be.

19. In December, 2008, the General Partner provided RBC with a draft notice of a meeting of the Limited Partners. The meeting of the Limited Partners (the "Proposed Meeting") was to be held to consider and approve the dissolution of the Belmont Fund and to appoint the General Partner as the receiver and liquidator of the Belmont Fund in accordance with the terms and conditions of the Limited Partnership Agreement governing the operation of the Belmont Fund. The Proposed Meeting was not convened because of an "impasse" that developed between Harcourt and Omniscope.

20. This impasse has become the subject of a court proceeding under the *Business Corporations Act* (Ontario) that has been made by Harcourt against, among others, the

Belmont Fund, the General Partner and Omniscope for the purpose of, among other things, dissolving the Belmont Fund.

21. As a result of these developments, RBC was of the view that the dissolution of the Belmont Fund could not be completed by the General Partner. On July 30, 2009, RBC brought an application to this Honourable Court to appoint the Receiver and for the Dissolution Hearing.

The First Report to the Court

22. The Receiver filed its First Report to the Court dated October 19, 2009 (the "First Report"), a copy of which (without attachments) is attached hereto as **Appendix E.** The First Report provides a detailed overview of the Investment Structure and various issues addressed in these receivership proceedings, as well as support for the Claims Procedure Order which was sought at that time.

First Report Letter to Investors

23. On February 24, 2010, the Receiver issued its First Reporting Letter to Investors (the "First Letter") as attached in **Appendix F** to this Third Report. The purpose of the First Letter was to provide the Limited Partners with certain information, including that pertaining to the Segregated Portfolio regarding its investments and distributions, and updates on the claims process and certain tax matters.

Second Report to the Court

24. The Receiver filed its Second Report to the Court on April 30, 2010 (the "Second Report") and a Supplement to the Second Report on May 14, 2010 (the "Supplemental Second Report") in support of its motion to seek the Claims Determination Order. Copies of the Second Report and Supplemental Second Report (without attachments) are attached hereto as **Appendix G**.

PURPOSE OF THIRD REPORT

25. The purpose of this Third Report to the Court dated June 21, 2010 (the "Third Report") is to provide information to this Honourable Court and the stakeholders of the Belmont Fund with an update on the Receiver's activities since the First Report. This report will:

- describe activities of the Receiver;
- review of the Segregated Portfolio's financial position and estimated valuations;
- review of the redemption requests of Vontobel and proposed settlement of Derivative Application (as herein defined);
- review of funds held pending the resolution of the remaining disputed claims from the claims procedure (the "Disputed Claims"); and
- describe certain of the Receiver's next steps.

TERMS OF REFERENCE

26. The information contained in the Third Report has been obtained from the books and records and other information made available to the Receiver from the Belmont Fund and from third parties, including the General Partner and Harcourt. The accuracy and completeness of the financial information contained herein has not been audited or otherwise verified by the Receiver or KPMG LLP nor has it necessarily been prepared in accordance with generally accepted accounting principles. The reader is cautioned that this report may not disclose all significant matters about the Belmont Fund. Accordingly, the Receiver does not express an opinion or any other form of assurance on the financial or other information presented herein. The Receiver reserves the right to refine or amend its comments and/or finding as further information is obtained or is brought to its attention subsequent to the date of the Third Report. In addition, any financial information presented by the Receiver is preliminary and the Receiver is not yet in a position to project the outcome of the receivership.

27. Unless otherwise noted, all dollar amounts referred to herein are expressed in Canadian dollars.

28. All capitalized terms used herein and not otherwise defined are as defined in the First Report and Second Report and/or as defined in the Appointment Order and Amended Appointment Order.

ACTIVITIES OF THE RECEIVER

29. Since the date of the First Report, the Receiver has undertaken various actions including:

    (i) various communications and discussions with stakeholders;

    (ii) preparing and mailing the First Letter;

    (iii) continuing to collect and take possession of the Belmont Fund's books and records;

    (iv) review and approval of Share Baskets transactions;

    (v) review of certain tax matters relating to the Belmont Fund and the General Partner;

    (vi) preparation of certain tax filings with respect to the Belmont Fund;

    (vii) continuing to assess the investment and financial structures of the Belmont Fund and its investments;

    (viii) continuing to compile and review information in respect of the value of the Belmont Fund, as well as the underlying value of the Segregated Portfolio, as well as potential claims against the Belmont Fund;

(ix) review of claims received pursuant to the Claims Procedure Order as described in the Second Report and the Supplemental Second Report;

(x) preparation of the Claim Determination Order;

(xi) continuing to investigate the claims in the Derivative Application and to hold discussions with Harcourt with respect to the priority of the redemption requests of Vontobel; and

(xii) addressing potential dissolution of the General Partner;

Communications with Stakeholders

30. The Receiver continues to monitor the Receiver's dedicated telephone line and email address for inquiries from any interested parties. To date, the Receiver has received a limited number of inquiries with respect to the general status of the receivership, the creditor claims process and certain tax matters. The Receiver has contacted these interested parties and understands that all material matters have been resolved or continue to be reviewed by the Receiver.

Books and Records

31. Since the date of the First Report, the Receiver has continued its efforts to gather and review information and records relating to the Belmont Fund, and the Receiver has continued to have discussions with relevant stakeholders as new information is received.

32. In December 2009, Citigroup Fund Services Canada Inc. ("Citigroup"), the Belmont Fund's administrative services provider, delivered to the Receiver a set of records which included the following:

(i) Net Asset Value ("NAV") statements;

(ii) Share Baskets transaction records;

(iii) account summaries; and

(iv) various other reports and supporting information.

33. Despite numerous inquiries of key stakeholders, including Nead and Citigroup, the Receiver has not obtained a complete set of books and records for the Belmont Fund. For instance, the Receiver has not obtained the information used to prepare the Prior T5013s (as defined in paragraph 45). In addition, the Receiver understands that financial statements for the year ended December 31, 2008 were not prepared. In the event that it would be necessary to prepare the 2008 financial statements, the Receiver has not been able to collect a complete set of records to support the preparation of such financial statements.

Share Baskets Transactions

34. As described in the First Report, proceeds raised from the Unitholders were used to purchase the Share Baskets of non-dividend-paying Canadian securities listed on the Toronto Stock Exchange, consisting of securities that constitute "Canadian securities" for purposes of section 39(6) of the *Income Tax Act (Canada).* If any dividends or distribution are to be received by the Belmont Fund, the Forward Contracts provide that replacement securities acceptable to the Counterparty, may at the Belmont Fund's option, be substituted for shares in respect of which the dividend or distribution has been declared to preserve the value of the Forward Contracts (referred to as a the "Share Basket Rebalancing").

35. On February 12, 2010, the Counterparty advised the Receiver of proposed rebalancing transactions for each of the CDN and USD Share Baskets. The Receiver reviewed and approved the rebalancing and underlying transactions. The transactions in question resulted in realized capital losses of approximately $23,000.

36. On May 19, 2010, the Counterparty advised the Receiver of proposed rebalancing transactions for each of the CDN and USD Share Baskets. The Receiver reviewed and approved the rebalancing and underlying transactions. The transactions in question resulted in realized capital gains of approximately $1.1 million.

The General Partner

37. On October 20, 2009, Harcourt through its legal counsel notified the Receiver that the General Partner had received a notice of pending cancellation dated October 2, 2009 from the Ontario Ministry of Revenue as a result of non-compliance with the *Corporations Tax Act* (the "Notice of Pending Cancellation"). The Notice of Pending Cancellation provided thirty days from the date of issue for the General Partner to comply otherwise an Order to dissolve the company would be issued.

38. Given the potential adverse affects that a dissolution of the corporate general partner would have had on the limited partnership, the Receiver took the following steps:

- communicated with the stakeholders of the General Partner to determine the current status of the alleged non-compliance issues, and sought their assistance to ensure full compliance, in accordance with the Limited Partnership Agreement;

- communicated with the Ontario Ministry of Revenue, after receiving and submitting authorization for release of account information to the Receiver from a director of the General Partner, to determine the nature of the alleged non-compliance issues, next steps and requirements to bring the General Partner into compliance; and

- communicated with certain service providers to determine the current status of the alleged non-compliance issues and cost and timing required to bring the General Partner into compliance, if required.

39. On February 18, 2010, the Receiver through its legal counsel, requested the Ontario Ministry of Revenue to cease any further steps in respect of the Notice of Pending Cancellation on the basis that any involuntary dissolution of the General Partner may adversely impact the Belmont Fund and/or these receivership proceedings, and in light of the stay or proceedings granted in the Appointment Order.

40. On March 6, 2010, the Notice of Pending Cancellation was elevated to an impending cancellation of the General Partner by way of posting to The Ontario Gazette.

41. Following this publication, the Receiver through its legal counsel was able to contact the Ontario Ministry of Revenue directly to discuss the potential dissolution in the context of these receivership proceedings and the stay of proceedings. On April 8, 2010, the Ontario Ministry of Government Services informed the Receiver's legal counsel that the cancellation process had been withdrawn and the General Partner would remain with "active" status.

The Belmont Fund – 2009 Year-end

42. For the year ended December 31, 2009, the Receiver prepared and remitted to Canada Revenue Agency (the "CRA") a T5013 Summary, *Information Return of Partnership Income* and related information slips T5013, *Statement of Partnership Income* (the "2009 T5103s") (collectively referred to as the "2009 Return") and to Revenu Quebec the Form TP-600-V, *Partnership Information Return* and the related information slips RL-15, *Montants attribués aux membres d'une société de personnes* (the "2009 RL-15s") (collectively referred to as the "2009 Quebec Return"). In addition, for the year ended December 31, 2009 the Receiver sent to each person who was either a limited or general partner at December 31, 2009, a 2009 T5013 and, and if the Limited Partner was a Quebec resident, a 2009 RL-15.

43. The 2009 Return and the 2009 Quebec Return (the "2009 Returns") were prepared using available records and information of the Belmont Fund, including available information contained in prior filings with the CRA, supplemented by certain information obtained from third parties by the Receiver since its appointment as Receiver. In preparing the 2009 Returns, the Receiver did not carry out an audit nor was the Receiver in a position to formally verify the information obtained from the records of the Belmont Fund or from third parties.

44. Pursuant to the Limited Partnership Agreement for tax purposes, the income and losses of the Belmont Fund in respect of a fiscal year are to be allocated among the General Partner and the Limited Partners. In determining the income and losses of the Belmont Fund for the fiscal year ended 2009, the Receiver included the realized gains and losses from all of the Share Basket Rebalancing transactions in 2009. The information with respect to the list of 2009 Share Basket Rebalancing transactions was provided to the Receiver by the Counterparty.

45. For the years ended December 31, 2006, 2007 and 2008 (the "Prior Years"), the Receiver received copies of the previously filed T5013s (the "Prior T5013s) from Citigroup; however, the Receiver did not receive any of the supporting information used in the preparation of the Prior T5013s. For the Prior Years, the Receiver has no information

with respect to whether Limited Partners resident in Quebec received RL-15 slips (the "Prior RL Slips").

46. As discussed in paragraph 33, the Receiver has not obtained a complete set of financial records for the Belmont Fund. In particular, the Receiver has not obtained the information used to prepare the returns for the years prior to the year ending December 31, 2009 (the "Prior Returns"). Given the incomplete records available to the Receiver, the Receiver is also not in a position to confirm the accuracy of the Prior Returns. The Receiver has advised the Limited Partners that should there be any errors in the Prior Returns, that these errors may have been carried forward to the 2009 Returns.

CASH POSITION OF THE BELMONT FUND

47. The Receiver currently holds no cash in its trust bank account relating to these proceedings. Since the date of the Appointment Order, the Receiver has not received any funds nor has the Receiver made any payments or distributions to any creditors/investors.

SEGREGATED PORTFOLIO

48. As described in greater detail in the Receiver's First Report, the principal asset of the Belmont Fund is the Forward Contracts, the value of which varies directly with the market value and return of the Segregated Portfolio. As a result, the value of the Belmont Fund is tied to the value and potential recovery from the Segregated Portfolio.

49. The Segregated Portfolio is itself presently in wind-up, with Harcourt overseeing the winding-up. The Receiver has requested regular updates in respect of the wind-up of the Segregated Portfolio and continues to collect any relevant supporting information with request to the value and liquidity of the Underlying Funds of Funds (as defined below) from Harcourt.

50. A number of factors affect the value, timing and entitlement of any potential recoveries from the Segregated Portfolio. Two significant factors are a) the value and timing of realizations from the investments of the Segregated Portfolio and b) the priority of distributions from the Segregated Portfolio, in particular the Second Redemption Request (defined in paragraph 70) and the alleged foreign exchange loss claims by the Counterparty (the "Counterparty Claim"). Information with respect to the financial position and investments of the Segregated Portfolio is provided in paragraphs 51 to 67. The Second Redemption Request, including a proposed resolution, is discussed below beginning in paragraph 68. The Counterparty Claim is discussed in the Second Report and is being addressed through the Claims Determination Process.

Financial Position of the Segregated Portfolio

51. The Receiver obtained from Harcourt the NAV statement for the Segregated Portfolio for March 31, 2010 on June 3, 2010 (the "March 2010 NAV Statement"). This is the most current NAV statement available to the Receiver. According to the March 2010 NAV Statement, which is attached as **Appendix H**, the net assets of the Segregated Portfolio before outstanding redemption requests as at March 31, 2010 were approximately US$12.1 million as at March 31, 2010 (the "March 2010 NAV"). **As**

noted in the First Report, the Receiver continues to be uncertain of the value, timing and entitlement to any potential recoveries from the Segregated Portfolio.

52. According to the NAV statement for the Segregated Portfolio for July 31, 2009 (the "July 2009 NAV Statement"), the net assets of the Segregated Portfolio before outstanding redemption requests were approximately US$12.4 million as at July 31, 2009 (the "July 2009 NAV"). The July 2009 NAV Statement is attached as **Appendix I.**

53. Harcourt has advised the Receiver that the July 2009 NAV and the March 2010 NAV are calculated as follows:

	July 31, 2009 (US$ 000's)	March 31, 2010 (US$ 000's)
Underlying Fund of Funds (cost)	*$12,030*	*$10,290*
Underlying Fund of Funds (market value)	$9,166	$7,281
Cash *	1,716	4,068
Receivable for investments sold	349	0
Receivable from ABL FUND	1,248	828
Total Assets	12,479	12,177
Payables and accrued expenses	(36)	(40)
Net assets before outstanding redemption requests	**12,443**	**12,137**
Payable for fund shares repurchased **	(2,263)	(2,263)
Net assets	$10,180	$9,874
Number of outstanding Class A shares ***	187,142.5472	187,142.5472
NAV per Class A shares (US$)	$53.04	$51.46
Number of outstanding Class B shares	5,478.7870	5,478.7870
NAV per Class B shares (US$)	$46.23	$44.54

** The July 2009 and March 2010 NAV Statements include separate amounts for Cash and Cash Equivalents and Due from Brokers, which the Receiver has classified together as Cash. Harcourt has confirmed to the Receiver that both of these amounts are Cash.*

*** In the July 2009 and March 2010 NAV Statements, Vontobel is classified as a creditor for US$2,262,900, the Second Redemption Request Amount.*

**** The number of outstanding Class A shares is net of the 30,000 shares which are part of the Second Redemption Request.*

54. If the 30,000 shares which are part of the Second Redemption Request were considered to still be outstanding Class A shares, the Receiver estimates that the NAV per Class A share would increase by approximately US$3 per share.

55. For the investment management services that Harcourt provides to the Segregated Portfolio, Harcourt is entitled to receive a monthly management fee and a performance fee based on a percentage of the Segregated Portfolio's NAV, which the Receiver

understands is calculated based on the equity in the Segregated Portfolio and is not based on the leveraged value of the Segregated Portfolio.

56. Subject to certain requirements, the Segregated Portfolio is to pay Harcourt a performance fee which is based on a percentage and is calculated and paid quarterly (the "Performance Fee"). The Receiver understands that where a net shortfall amounts arises in a subsequent fiscal year, Harcourt is not required to return the Performance Fee paid in respect of a prior period. Harcourt has advised the Receiver that no Performance Fees are outstanding and that given the financial performance of the Segregated Portfolio, Harcourt does not expect to earn any Performance Fees in the future.

Investments of the Segregated Portfolio

57. Harcourt has advised the Receiver that as at March 31, 2010, the Segregated Portfolio was invested in cash and the following five fund of hedge funds (the "Underlying Funds of Funds"):

Fund Name	Market Value at March 31, 2010 US$ (000's)
BELMONT ASSET BASED LENDING CLASS A ("ABL FUND")	$3,603
BELMONT RX SPC CLASS ASIA 11/08 ("RX ASIA FUND")	560
BELMONT RX SPC CLASS LATAM 11/08 ("RX LATAM FUND")	1,012
BELMONT RX SPC CLASS FI 09/08 ("RX FI 09/08 FUND")	220
BELMONT RX SPC CLASS FI 11/08 ("RX FI 11/08 FUND")	1,886
Total	$7,281

58. The Underlying Funds of Funds are in turn invested in hedge funds (the "Underlying Funds"). Harcourt has advised the Receiver that there are three basic types of investments held in the Underlying Funds:

    (i) fixed income instruments which are high yield with low subordinated positions;

    (ii) equity positions in small-cap companies which have not been able to obtain financing to buy out the existing investors; and

    (iii) private loans for which refinancing is not available.

59. The ABL FUND was placed into a court supervised liquidation proceeding in January 2010, with Stuart Sybersma and Ian Wight of Deloitte & Touche ("Deloitte") in the Cayman Islands being appointed as Joint Official Liquidators of the ABL FUND by an Order of the Grand Court in the Cayman Islands on January 19, 2010. Prior to this, the ABL FUND which was established by Harcourt, was being informally wound up by Harcourt. The Receiver learned of appointment of the Joint Official Liquidators from Harcourt in early May 2010. The Receiver understands from Harcourt that the liquidity provider to the ABL FUND sought the appointment of an official liquidator for the ABL FUND.

60. Based on a conversation with a representative of Deloitte, the Receiver understands that Deloitte is continuing to investigate the financial status of the ABL FUND and has not yet developed a realization or distribution plan for the ABL FUND. Harcourt advises the Receiver that the first report from Deloitte is expected to be available shortly.

61. The RX LATAM FUND, the RX ASIA FUND and the RX FI 09/08 and RX FI 11/08 FUNDS (the "RX Funds) are "side pockets" funds, established respectively from the following funds: BELMONT ASIA CLASS A, BELMONT LATIN AMERICA LTD. CLASS A and BELMONT FIXED INCOME LTD CLASS A. (the "Redeemed Funds"). A side pocket is a separate account created to include the illiquid assets of a particular hedge fund. Each time an investor redeemed from one of the Redeemed Funds the investor received the liquid part of its redemption in cash as well as a payment in kind in the form of units in one of the RX Funds.

62. Harcourt established and managed the Redeemed Funds. Harcourt continues to manage and oversee the liquidation of the RX Funds. The Receiver understands from Harcourt that Harcourt's approach to liquidating the RX Funds is to maximize the recovery from the Underlying Funds; therefore, to the extent it is reasonable, Harcourt's objective is to continue to hold the positions in the Underlying Funds until such time as the fund allows redemptions. It is not Harcourt's intention to "fire sale" the assets of the RX Funds in the secondary market. The Receiver understands from Harcourt that as liquidity is available in the RX Funds, distributions will be made on a *pro rata* basis to investors in the RX Funds, including the Segregated Portfolio.

Cash Position of the Segregated Portfolio

63. The cash position of the Segregated Portfolio was approximately US$4.1 million at March 31, 2010 (the "March 31, 2010 Cash Balance"). The cash position of the Segregated Portfolio at July 31, 2009 was approximately US$1.7 million. The principal reason for the change in the cash position has been the distribution of funds from each of the Underlying Fund of Funds.

64. The Receiver has been advised by Harcourt that the Segregated Portfolio has not received any payments from the ABL FUND since November 2009. Since March 31, 2010, the Segregated Portfolio has received cash distributions of approximately US$100,000 from the RX FI 09/08 and RX FI 11/08 FUNDS.

Realization of Assets of the Segregated Portfolio

65. In December 2009, Harcourt provided the Receiver with a liquidity analysis, dated September 30, 2009, which extended to November 2012 and beyond (the "Sept. 2009 Liquidity Analysis"). Based on the Sept. 2009 Liquidity Analysis, the estimated cash receipts to be available over time to the Segregated Portfolio, before ongoing costs of the Segregated Portfolio, was US$12.2 million (the "Sept. 2009 Estimated Cash Receipts"), with the cash on hand at September 30, 2009 being approximately US$2.3 million.

66. Based on the March 2010 NAV Statement the estimated cash receipts to be available over time (before ongoing costs of the Segregated Portfolio) is US$12.1 million (the "March 2010 Estimated Cash Receipts"). Approximately 33% (or US$4.1 million) of the March 2010 Estimated Cash Receipts is cash and the balance is largely in illiquid

investments. Approximately 37% (or US$4.4 million) of the March 2010 Estimated Cash Receipts is recoverable from the ABL FUND. In May 2010, Harcourt provided the Receiver with estimated payout schedules for the RX Funds as at March 31, 2010 (the "RX Payout Schedules"). Harcourt has not prepared an estimated payout schedule for the ABL FUND as Deloitte is now responsible for the liquidation of that fund. As a result, the timing of any distributions from the ABL FUND is uncertain.

67. The Receiver understands that the Sept. 2009 Liquidity Analysis and the RX Payout Schedules were prepared by Harcourt from information received directly or indirectly from the administrators of the Underlying Funds. The Receiver understands that Harcourt has limited ability to assess the accuracy of the valuations received directly or indirectly from the administrators or portfolio managers of the Underlying Funds. This is because, given the terms of the agreements between the Underlying Funds of Funds and the Underlying Funds, it is up to the discretion of the fund managers of the Underlying Funds as to whether they provide all detailed specifics about the underlying investments and the specific methods and processes used to value the investments of the Underlying Funds. In addition, the Underlying Funds are invested in illiquid investments for which it is difficult to obtain precise market values. Furthermore, the values received from the Underlying Funds' managers may consist of estimates only. Due to a number of factors, including the uncertainty of future events, there can be no assurance that the value at which an investment is recorded in the accounting records of a particular Underlying Fund at any particular time will not later be reduced, or that a fund will be able to liquidate the investment at that value or at any other amount.

VONTOBEL REDEMPTION REQUESTS

Vontobel Seed Capital and Redemption Requests

68. In August 2006, Vontobel invested seed capital in the Segregated Portfolio, with a subscription of 50,000 Class A shares for US$5 million (the "Seed Capital").

69. Harcourt advised the Receiver that in May 2008 Vontobel made the decision to withdraw the Seed Capital from the Segregated Portfolio. The decision was made to withdraw the Seed Capital in two instalments. Further to this, Vontobel submitted a redemption request to Citco for 20,000 of its shares on May 9, 2008 (the "First Redemption Request") to be redeemed using the June 30, 2008 NAV. The Receiver understands from Harcourt that approximately US$2 million was paid to Vontobel on August 4, 2008 and that 20,000 of the 50,000 shares in the Segregated Portfolio held by Vontobel were redeemed.

70. Based on documents provided by Harcourt, the Receiver understands that on June 23, 2008, Vontobel requested that the custodian for its shares in the Segregated Portfolio, SIS SegaInterSettle AG ("SIS"), make a redemption request for 30,000 shares held by Vontobel in the Segregated Portfolio (the "Second Redemption Request") for a trade date at the end of September. SIS placed the Second Redemption Request with Citco on August 5, 2008. The confirmation for the Second Redemption Request from Citco dated August 5, 2008 indicates that the trade date was to be October 1, 2008, based on the September 30, 2008 NAV for the Segregated Portfolio, with a settlement date of October 30, 2008.

71. Using the September 30, 2008 NAV of approximately US$75.43 per share (the "September NAV"), the amount claimed by Vontobel for the Second Redemption Request is US$2,262,900 (the "Second Redemption Request Amount"), which would have resulted in a loss by Vontobel of approximately US$700,000 on its US$3 million investment in 30,000 shares.

72. The Receiver understands that no amounts have been paid to Vontobel with respect to the Second Redemption Request. Harcourt has confirmed that any distributions (including outstanding redemption requests) from the Segregated Portfolio to shareholders of the Segregated Portfolio have been frozen and, pending discussions with the Receiver, Harcourt/Vontobel has undertaken not to pursue receiving payment of the Second Redemption Request.

Vontobel Redemption Requests Disputes

73. The First and Second Vontobel Redemption Requests (collectively, the "Vontobel Redemption Requests") were the subject of a proposed derivative claim within Court File No. CV-09-8227-00CL. In the cross application in Court File No. CV-09-8227-00CL (the "Derivative Application"), the cross applicants, Nead and Omniscope (the "Cross Applicants"), sought, *inter alia*, an Order pursuant to the *Business Corporations Act* (Ontario) granting leave to Omniscope to commence a derivative action on behalf of the General Partner against Fanconi, Harcourt and Vontobel (collectively the "Defendants"), in respect of, *inter alia*, the redemption requests.

74. The Cross Applicants sought leave to issue and serve a statement of claim requesting the following relief: (i) a declaration that the Vontobel Redemption Requests are invalid; (ii) an Order requiring the Defendants to return to the Belmont Fund all amounts paid to Vontobel pursuant to the First Redemption Request with interest; (iii) an Order prohibiting the Defendants from pursuing the Second Redemption Request or, in the alternative, an Order requiring the Defendants to return to the Belmont Fund all amounts paid to Vontobel pursuant to the Second Redemption Request with interest; (iv) in the alternative to (i), (ii) and (iii), compensation for facilitating, participating in, and receiving property obtained in, breach of fiduciary duty; and (v) in alternative to (iv), an Order for the disgorgement of all profits or other benefits occasioned by the Defendant's allegedly wrongful conduct.

75. In the Appointment Order, the Court ordered that the Derivative Application was to be dealt with by the Receiver and considered by the Court on the return of the Dissolution Hearing. This portion of the motion to address the potential of the Receiver pursuing the Derivative Application was addressed on a preliminary basis in the First Report and adjourned by an Order of the Court pending further discussions between Harcourt and the Receiver.

Background of Vontobel Redemption Requests

76. In the First Report the Receiver advised this Honourable Court that it was investigating the claims in the Derivative Application and holding discussions with Harcourt with respect to the priority of the Vontobel Redemption Requests. Since the First Report the Receiver has continued to investigate the background of the Vontobel Redemption Requests.

77. It was alleged in the Derivative Application that when the Belmont Fund was established, Fanconi, Harcourt and the General Partner agreed that Harcourt, through Vontobel, would invest the Seed Capital directly in the Belmont Fund; however, instead of buying units of the Belmont Fund, Vontobel invested in the Segregated Portfolio. The Receiver has not been provided any written confirmation from the Cross Applicants supporting their claim of an agreement that the Seed Capital was to be invested directly in the Belmont Fund. The Receiver understands from discussions with Harcourt that there was no agreement that the Seed Capital was to be invested in the Belmont Fund.

78. In addition, with respect to the Seed Capital, Harcourt advises the Receiver of the following:

    (i) Harcourt/Vontobel normally uses seed capital to launch new products and that the amount of seed capital available to Harcourt was limited;

    (ii) an objective of investing the Seed Capital at the launch of the Belmont Fund was to increase the asset base of the Investment Structure to spread out the costs of the Investment Structure; and

    (iii) generally speaking, seed money injections into any particular investment fund by Harcourt/Vontobel are removed after a given investment fund reaches a size which supports the cost structure of the respective fund.

79. The Cross Applicants allege that Vontobel submitted the First Redemption Request to Citco on August 5, 2008, and that Vontobel received payment for the First Redemption Request on or about September 30, 2008. The Cross Applicants claim that this decision detrimentally affected the Belmont Fund. The Receiver has received supporting information from Harcourt that the First Redemption Request was made on May 9, 2008 and subsequently settled on August 4, 2008.

80. Harcourt has advised the Receiver that the decision to withdraw the Seed Capital was made in May 2008. The decision to withdraw the Seed Capital was made to allow Harcourt to use the Seed Capital in other projects. At the time the decision was made to request the redemptions of the Seed Capital, Harcourt advises that it did not have any knowledge or expectation of a decline in the value of the Segregated Portfolio or that the viability of the Segregated Portfolio was in question. Harcourt has also advised the Receiver that at the time the First Redemption Request was settled it did not have any knowledge or expectation of a decline in the per share value of the Segregated Portfolio or that the viability of the Segregated Portfolio was in question.

81. The following NAVs for the Class A shares of the Segregated Portfolio were taken from the monthly NAV statements for the Segregated Portfolio, provided to the Receiver by Harcourt.

Month	NAV per Class A share (US$)
March 31, 2008	99.27
April 30, 2008	99.65
May 30, 2008	101.61
June 30, 2008	101.17

July 31, 2008	98.40
August 31, 2008	95.35
September 30, 2008	75.43
October 31, 2008	67.06

82. In the Derivative Application, it was alleged that Vontobel submitted the Second Redemption Request on September 30, 2008. As discussed in paragraph 70, the Receiver understands that the request for the Second Redemption Request was made on August 5, 2008, with the decision to make the Second Redemption Request being made in May 2008. Harcourt has advised the Receiver that it decided to remove the Seed Capital in two transactions in order to lessen the impact on the liquidity of the Segregated Portfolio.

83. According to the Derivative Application, by investing directly in the Segregated Portfolio, Vontobel was able to remove its investment ahead of the Limited Partners, and at a favourable NAV. The Cross Applicants also allege that as fiduciaries of the Belmont Fund, Fanconi and Harcourt were not free to use pertinent information about the Segregated Portfolio, which was not available to the Limited Partners, to benefit themselves or third parties, including early redemption of the Seed Capital. In turn, Vontobel was not free to accept information delivered through a breach of fiduciary duty.

84. The Cross Applicants claim that Harcourt and Fanconi had access to pertinent information regarding market conditions and the Segregated Portfolio before the General Partner and the Limited Partners. It further alleges that confidential information was disclosed to Vontobel, which knowingly received and used such information to its benefit by investing directly in the Segregated Portfolio and submitting the Vontobel Redemption Requests. The breaches of fiduciary duty by Harcourt and Fanconi, and assisted in by Vontobel, caused direct financial loss to the Belmont Fund.

85. As noted in paragraph 53, in the July 2009 and March 2010 NAV Statements, Vontobel is classified as a creditor with respect to the Second Redemption Request Amount. Harcourt has advised the Receiver that it is Vontobel's position that:

- the Second Redemption Request was a valid redemption request for which the proceeds are to be calculated using the September 30, 2008 NAV;
- effective September 30, 2008 Vontobel ceased to be a shareholder of the Segregated Portfolio;
- effective September 30, 2008 Vontobel became a creditor of the Segregated Portfolio for the amount of the Second Redemption Request Amount; and
- as a creditor of the Segregated Portfolio, Vontobel is entitled to receive payment of the Second Redemption Request Amount in advance of any distributions to shareholders of the Segregated Portfolio.

86. The Receiver notes paragraph 19 of the Articles of Association for Belmont SPC which states that:

> *"Participating Shares of a Segregated Portfolio to be redeemed shall be deemed to be outstanding until and including the close of business on the day as at which the NAV of the Participating Shares of the relevant Segregated Portfolio is determined and after that time until paid the price thereof shall be deemed to be a liability of the Segregated Portfolio."*

87. In addition, Harcourt has advised the Receiver that if the directors of the Belmont Fund had not authorized the Leverage Provider Payment (defined below), the Second Redemption Request could have been paid in full on October 31, 2008. The cash balance in the Segregated Portfolio was US$2,710 as at September 30, 2008. During October 2008, there were significant transactions in the Segregated Portfolio, including receiving redemption requests from certain Underlying Funds of US$9.4 million and US$1.9 million on October 29, 2008 and October 31, 2008 respectively, and paying US$9.4 million to the leverage provider on October 31, 2008 (the "Leverage Provider Payment"). The closing cash balance of the Segregated Portfolio on October 31, 2008 was US$1.9 million (the "October 2008 Cash").

88. Harcourt advised the Receiver that there was no requirement or request to pay the Leverage Provider Payment ahead of the Second Redemption Request, and that Harcourt could have elected to pay the Second Redemption Request in full prior to the winding-up of the Segregated Portfolio. However, the directors of the Belmont Fund approved the payment of the Leverage Provider Payment in order to reduce risk in the Segregated Portfolio.

89. In addition to the Derivative Application that was sought by the Cross Applicants, correspondence was exchanged between Harcourt/Vontobel and the Counterparty (as shareholder in the Segregated Portfolio) in respect of the then proposed redemption requests. Attached hereto as **Appendix J** is a copy of the correspondence between the Counterparty and its Cayman counsel, Harcourt/Vontobel and Belmont SPC/Segregated Portfolio and its counsel in respect of the redemption requests. In this exchange, the Counterparty argued, *inter alia* that "all shareholders, including those whose redemptions have been delayed because of such liquidation, should be treated on a *pro rata* basis to ensure fair and equal treatment." In response, counsel for the Segregated Portfolio, noted that they had spoken with the directors of the Segregated Portfolio and took the position that the decision to redeem the seed capital was made before the decision to liquidate the Segregated Portfolio and the seed investor (Vontobel) did not have information about the Segregated Portfolio's performance unavailable to other investors.

90. The Receiver understands that Harcourt/Vontobel indicated that it would not agree to withdraw the Second Redemption Request, and took the position that Cayman law supported their claim that the timing of the Second Redemption Request elevated their claim to that of a creditor of the Segregated Portfolio and not a shareholder.

91. Notwithstanding this position, as noted above, upon the appointment of the Receiver, Harcourt/Vontobel agreed to take no further steps in respect of the Second Redemption Request while discussions were ongoing with the Receiver.

Proposed Settlement with Vontobel and Harcourt

92. The Receiver has reached a proposed agreement with Vontobel (the "Vontobel Settlement") which the Receiver believes is favourable to the estate. As discussed above, since its appointment the Receiver has continued to investigate the claims in the Derivative Application and to hold discussions with Harcourt with respect to the priority of the Vontobel Redemption Requests. Matters investigated and discussed included:

(i) Vontobel being considered to have redeemed its 30,000 Class A shares in the Segregated Portfolio effective September 30, 2008 and to be a creditor of the Segregated Portfolio as at September 30, 2008 for US$2,262,900 versus continuing to hold an equity position as a holder of Class A shares;

(ii) whether at the Segregated Portfolio Closing Date, Vontobel had an outstanding redemption request that was due prior to the decision to wind-up the Segregated Portfolio (a "Prior Outstanding Redemption Request");

(iii) in the event Vontobel had a Prior Outstanding Redemption Request, whether the full amount of the Prior Outstanding Redemption Request of US$2,262,900 should be paid in priority to any distributions to any other shareholders in the Segregated Portfolio, but after all other debts and liabilities of the Segregated Portfolio, and whether Vontobel's 30,000 shares should be cancelled, notwithstanding the winding-up of the Segregated Portfolio;

(iv) in the event Vontobel had a Prior Outstanding Redemption Request, whether Vontobel is entitled to proceeds in priority to any distributions to any other shareholders in the Segregated Portfolio to the extent that cash was available to the Segregated Portfolio to pay the Prior Outstanding Redemption Request after the date upon which the redemption was due to be effected and before the winding-up of the Segregated Portfolio commenced; or

(v) whether Vontobel should be considered to hold 30,000 Class A shares at the Segregated Portfolio Closing Date and be entitled to receive distributions from the Segregated Portfolio on a *pari passu* basis with other shareholders in the Segregated Portfolio.

93. The proposed resolution of the Derivative Application includes the following:

(i) Vontobel would withdraw the Second Redemption Request;

(ii) instead of a priority lump sum payment of US$2,262,900 from the Segregated Portfolio, Vontobel would receive payments over time, based on a predetermined percentage of funds made available from the Segregated Portfolio and a set amount of equivalent shares. Specifically, Vontobel would:

(a) be deemed to have redeemed approximately 25,188.9169 Class A shares (the "Deemed Redeemed Shares") and in payment for the Deemed Redeemed Shares to receive approximately 15.6% of any net cash receipts in the Segregated Portfolio (the "Vontobel Allocation") to be paid out on a *pari passu* basis with the shareholders of the Segregated Portfolio up to a maximum amount of US$1.9 million; and

(b) Vontobel would continue to hold the equivalent of approximately 4,811.0831 shares in the Segregated Portfolio (the "Remaining Shares") and to have rights in the distribution of surplus assets on the same basis as the other shareholders of the Segregated Portfolio;

(iii) costs would continue to be paid in the ordinary course from the funds available to the Segregated Portfolio;

(iv) the Receiver would not pursue the Derivative Application or claims therein. Specifically relating to the reversal of the First Redemption Request, which was made and settled prior to the commencement of these receivership proceedings, the monies paid to Vontobel in respect of the First Redemption Request would remain in its hands; and

(v) Harcourt would continue to provide ongoing cooperation with respect to the provision of information to the Receiver on a regular and timely basis.

94. The Vontobel Settlement was agreed in principle by the Receiver and Harcourt in December 2009 and was based upon the figures available to the parties when the resolution was reached, including the Sept. 2009 Estimated Cash Receipts.

95. The Vontobel Allocation of 15.6% was calculated based on the percentage that the October 31, 2008 Cash of US$1.9 million, the date on which the decision was made to wind-up the Segregated Portfolio, represents of the Sept. 2009 Estimated Cash Receipts of US$12.2 million.

96. The number of the Deemed Redeemed Shares was calculated by dividing US$1.9 million by the amount of the September 30, 2008 NAV of US$75.43. The Receiver understands that the September 30, 2008 NAV was finalized on October 30, 2008, and as such it is reasonable to use this NAV figure for purposes of estimating the potential claim in respect of the Second Redemption Request.

97. The number of the Remaining Shares of 4,811.0831 was calculated by subtracting the number of Deemed Redeemed Shares from the Second Redemption Request amount of 30,000 shares.

98. If the Vontobel Settlement is approved, based upon information provided by Harcourt the Receiver estimates that the total number of remaining shares in the Segregated Portfolio will be:

- the equivalent of approximately 191,953.6303 Class A shares, of which approximately 4,811.0831 shares are held by Vontobel; and

- 5,478.7870 Class B shares.

The Receiver notes that there is a discrepancy between the information received from Harcourt and from the Counterparty with respect to the number of Class A shares held by the Counterparty. According to the records of the Counterparty, the Counterparty holds 187,892.9150 shares, approximately 750 shares more than that reported by Harcourt to be outstanding. The Receiver needs to obtain additional information in order to understand the reason for the difference.

99. If the Vontobel Settlement is approved, based on the Sept. 2009 Estimated Cash Receipts, Harcourt would receive US$2.15 million over time, before ongoing costs of the Segregated Portfolio, consisting of approximately US$1.9 million in respect of the Vontobel Allocation and approximately US$250,000 in respect of the Remaining Shares. In the event the total realization for the Segregated Portfolio is less than US$12.2 million, Vontobel would receive less than US$2.15 million. In the event the total realization for the Segregated Portfolio is greater than US$12.2 million, Vontobel will receive a maximum of US$1.9 million for the Vontobel Allocation but has the potential to receive in excess of US$250,000 for the Remaining Shares.

100. Based on the March 31, 2010 Cash Balance of approximately US$4.10 million, before taking into consideration a reserve for ongoing costs of the Segregated Portfolio, approximately US$720,000 is available to be paid to Vontobel as an interim distribution, with US$640,000 relating to the Vontobel Allocation and US$80,000 for the Remaining Shares. The remaining US$3.38 million would be available to be distributed from the Segregated Portfolio.

101. The Receiver recommends the approval of the Vontobel Settlement by this Honourable Court for the following reasons:

(i) the Vontobel Settlement is fair and reasonable;

(ii) with respect to the First Redemption Request, the Receiver is of the view that further pursuit of the matter to recover any amounts already paid to Vontobel through litigation would not be cost effective. Our review of the timing and payment of the First Redemption Request suggests the request was made and settled prior to a decline in the value of the Segregated Portfolio;

(iii) there is litigation risk in respect of the Derivative Application, including that the evidence in support of the Derivative Application may not be satisfactory to prove the claims, and in the event Vontobel successfully defended the Derivative Application, Vontobel would be permitted to be paid the full Second Redemption Request Amount of US$2,262,900 in advance of other shareholders of the Segregated Portfolio;

(iv) with respect to the Second Redemption Request, the proposed settlement provides that Harcourt is effectively dealt with as a shareholder in the

Segregated Portfolio and would receive payments over time, thereby having the same payment risk as the other Class A and Class B shareholders. Vontobel would not receive priority payment for the Second Redemption Request out of the Segregated Portfolio's most liquid assets and shall bear equally with the other shareholders for the ongoing costs of the liquidation of the Segregated Portfolio. Had the Derivative Application been successful as it relates to the Second Redemption Request, Vontobel would have a received a priority payment of US$2,262,900;

(v) Vontobel will be paid on a *pro rata* basis with the Counterparty, Class A shareholder, and the Class B shareholders. Based upon the March 31, 2010 Cash Balance of approximately US$4.10 million, approximately US$720,000 is available as an initial distribution to Vontobel and the balance of approximately US$3.38 million is available to be distributed from the Segregated Portfolio;

(vi) by continuing to hold a stake in the Segregated Portfolio through shareholdings and a percentage of future recoveries, Vontobel continues to have a direct interest in the viability and recoveries available from the Segregated Portfolio;

(vii) based on the Sept. 2009 Estimated Cash Receipts, Harcourt will receive approximately US$2.15 million over time, thereby incurring a loss of approximately US$850,000 on its investment of US$3 million;

(viii) the costs and time delay involved in pursuing the Derivative Application, through full litigation proceedings would be cost prohibitive. Instead, in addressing this matter in Canada through these receivership proceedings, the Receiver has been able to reach a cost and time effective resolution for the estate;

(ix) the proposed resolution effectively puts the Belmont Fund and estate in the same position as if the Derivative Application had been successful in respect of the Second Redemption Request, with Vontobel sharing *pro rata* with other shareholders, instead of in priority to them;

(x) resolution of this issue permits the estate to be one step closer to a final determination of outstanding issues and ability to distribute funds to Limited Partners; and

(xi) RBC as representative of the Limited Partners supports this proposed settlement.

HOLDING OF FUNDS PENDING RESOLUTION OF DISPUTED CLAIMS

102. As discussed above, Harcourt has advised the Receiver that pending resolution of the Second Redemption Request, Harcourt would not agree to the distribution of any cash on hand from the Segregated Portfolio, with the exception of ongoing expenses of the

Segregated Portfolio. Upon the approval of the Vontobel Settlement, Harcourt will be in a position to use the available cash at the Segregated Portfolio to make *pro rata* distributions to Vontobel, the Counterparty as a holder of Class A shares ("Counterparty Distributions") and the Class B shareholders.

103. The Receiver seeks an Order that the any Counterparty Distributions be paid to the Receiver and held pending a resolution of the Counterparty Claim. This will permit the funds to be repatriated to Canada and available for distribution as quickly as possible once the Disputed Claims have been resolved or determined. The Receiver seeks to hold the reserve in a manner that is without prejudice to the rights and claims of parties to the funds.

NEXT STEPS

104. The Receiver shall, among other things:

(i) continue to gather and review information from the stakeholders of the Belmont Fund with respect to the Belmont Fund, the Segregated Portfolio, the Disputed Claims and any other matters related to these receivership proceedings, as necessary;

(ii) continue to work towards a resolution of the Disputed Claims in accordance with the Claims Determination Order; and

(iii) report to the Limited Partners and the Court, and where necessary, seek further direction of the Court as required.

SUMMARY AND CONCLUSIONS

105. The Receiver requests that this Honourable Court make an Order:

(i) approving the activities of the Receiver as described in this Third Report;

(ii) authorizing the Receiver to proceed with the proposed Vontobel Settlement; and

(iii) authorizing any distributions to the Counterparty be paid to the Receiver and held pending a resolution of the Counterparty Claim.

RESPECTFULLY SUBMITTED,

Dated the 21st day of June, 2010.

KPMG INC.
In its capacity as Court-appointed
receiver and manager of
Belmont Dynamic Growth Fund

Per: *Elizabeth J. Murphy*
Vice-President

JAMES HAGGERTY HARRIS	and	BELMONT DYNAMIC GROWTH FUND, an Ontario limited partnership	Court File No: 09-8302-00CL
Applicant		Respondent	

ONTARIO
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST

Proceeding commenced at Toronto

THIRD REPORT OF KPMG INC., RECEIVER AND MANAGER OF BELMONT DYNAMIC GROWTH FUND

STIKEMAN ELLIOTT LLP
Barristers & Solicitors
5300 Commerce Court West
199 Bay Street
Toronto, Canada M5L 1B9

Elizabeth Pillon LSUC#: 35638M
Tel: (416) 869-5623
Fax: (416) 861-0445

Lawyers for KPMG Inc.