Action No: 0601-09869

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

BETWEEN:

VECKENSTEDT HOLDINGS INC., HERB VECKENSTEDT, FRED PIPER, JOAN PIPER, LIPOTH CONSULTING, AND PAUL LIPOTH

Plaintiffs

- and -

INTEGRA INVESTMENT SERVICE LTD. ("INTEGRA")
AND
RUNDLE DEVELOPMENT CO-OPERATIVE ("RDC")

Defendants

THIRD REPORT OF THE INTERIM RECEIVER

ERNST & YOUNG INC.

AUGUST 24, 2006

INTRODUCTION AND BACKGROUND

1. On August 18, 2006, the Plaintiffs applied for and obtained an Order (the "IR Order") pursuant to s. 13(2) of the *Judicature Act*, R.S.A. 2000, c. J-2, as amended.

2. Pursuant to the IR Order, Ernst & Young Inc. was appointed Interim Receiver ("IR") of certain records as described in Schedule A of the IR Order (the "Records").

3. On August 22, 2006, the IR Order was amended (the "Amendment to the IR Order") to include the residential address of Mr. Frank Hassan situated at 71 Sweetwater Place, Calgary, Alberta (the "Hassan Residence").

4. The purpose of this third report of the IR (the "Third Report") is to provide this Honourable Court with:

   a. The IR's responses to the affidavit of Mr. Leandre St. Pierre, sworn on August 23, 2006 (the "Affidavit"); and

   b. A detailed summary of the steps completed by the IR during the course of the search and seizure pursuant to the IR Order of the Residential Premises of Mr. Leandre St. Pierre situated at 506-18th Avenue N.W., Calgary, Alberta (the "Residence").

IR's RESPONSE TO THE AFFIDAVIT

Background

5. The IR has reviewed the Affidavit and has prepared this Third Report to Court as the IR believes that certain of the statements made by Mr. St. Pierre are incorrect or provide an incomplete summary of the relevant events. The IR has summarized for the Court the detailed steps completed by the IR on August 18, 2006 to discharge its duties under the IR Order with respect to securing the Records at the Residence.

Steps completed the by IR at the Residence

6. The IR met with a representative of Bison Bailiff Services (the "Bailiff") at the IR's offices upon the granting of the IR Order. The IR and the Bailiff reviewed the IR Order and other relevant court materials.

7. Mr. Deryck Helkaa and Mr. Chris Stepanuik were the representatives of the IR responsible for attending the Residence. Both Mr. Helkaa and Mr. Stepanuik are licensed trustees in bankruptcy and Charted Insolvency and Restructuring Professionals.

8. Mr. Helkaa, Mr. Stepanuik and the Bailiff arrived at the Residence at approximately 4:00 pm, Calgary Time. The IR and the Bailiff waited in a vehicle outside the Residence until other representatives of the IR arrived at the Residential Premises located at 16 Wolf Willow Ridge, Elbow Valley, Calgary ("16 Willow Ridge"). The IR's intention was to

effect the IR Order simultaneously at both the Residential Premises attached at Schedule "B" to the IR Order.

9. The IR attempted to simultaneously attend both the Residential Premises shortly after 4:00 pm. At approximately 4:15 pm the IR attended the Residence and at this time no one was present at the Residence. An individual entered the Residence at approximately 4:45 pm and Mr. St. Pierre identified himself to the IR and Bailiff. The IR and the Bailiff identified themselves and the IR Served the following documents on Mr. St. Pierre:

   a. The Statement of Claim;

   b. The IR Order;

   c. The Affidavits of Herb Veckenstedt and Paul Lippoth; and

   d. The Plaintiff's Notice of Motion for the appointment of a Receiver and Manager over all the property, assets and undertaking of the Defendants filed or issued under these proceedings

10. The IR provided Mr. St. Pierre with an overview of the IR Order and advised that he should review the materials and contact legal counsel. Mr. St. Pierre reviewed the material but was unable to reach his legal counsel.

11. The IR advised Mr. St. Pierre that as he could not reach his legal counsel, that any Records seized would be moved to the IR's offices and sealed and that the documents would not be reviewed by any party (other than the IR for sole purposes of completing a detailed inventory listing of the Records – which is discussed in further detail below) until further order from the Court.

12. Mr. St. Pierre voluntarily advised the IR and the Bailiff as to the location of the Records. The Records were located in the basement of the Residence which appeared to serve as Mr. St. Pierre's home office. Mr. St. Pierre then identified the specific location of the Records (ie. the filing cabinet etc).

13. Mr. St. Pierre agreed to allow the IR to box the Records he identified as pertaining to RDC while he continued to attempt to contact his legal counsel and other parties.

14. All Records were boxed into standard banker boxes with each box being numbered and labelled with the Records' location (ie. top drawer filing cabinet etc). Two boxes of Mr. St. Pierre's Records relating to RDC were already boxed. The IR did not transfer these Records to its banker boxes but identified and labelled the boxes (ie. floor of home office). The IR did not transfer these Records into new banker boxes in an attempt to minimize any disruption to the Records.

15. The IR identified two computers located in the home office in the basement of the Residence. Mr. St. Pierre advised that the computers were his personal computers. One computer was being used by Mr. St. Pierre and connected to standard peripheral equipment (referred to as "Computer 1"). The second computer was sitting on a floor and not connected to either power or standard peripheral equipment (referred to as "Computer 2"). Mr. St. Pierre advised the Monitor that he did not use Computer 2.

16. Upon further discussion, Mr. St. Pierre advised the IR that the computers may have some data that related to RDC (such as email correspondence).

17. The IR requested, and Mr. St. Pierre agreed, to allow the IR to copy the hard drive of Computer 1. The hard drive was copied to ensure that all relevant records were secured and this also allowed Mr. St. Pierre to retain Computer 1 for his continued use.

18. The IR advised Mr. St. Pierre that Computer 2 could either be copied or seized. Mr. Pierre was agreeable to allow Computer 2 to be seized by the IR as it was not being used. On August 21, 2006 the IR was advised by its counsel that Mr. St. Pierre had requested the return of Computer 2. The IR copied the contents of the hard drive of Computer 2 and returned it to RDC's counsel, Mr. Pat Mahoney on August 23, 2006.

19. The IR requested that Mr. St. Pierre escort the IR on a tour of the Residence to ensure that no additional Records were located on site. Mr. St. Pierre agreed and escorted the IR throughout the Residence including the unattached garage. No additional Records were located outside the basement of the Residence. The IR's search of the Residence

consisted of a tour of the various rooms by Mr. St. Pierre to determine any additional Records. The IR's search of the Residence outside the home offices comprised reviewing each room to determine if boxes or records were in plain site.

20. An inventory of the Records seized was provided by the IR to Mr. St. Pierre. The inventory indicated that the following Records seized from the Residence on August 18, 2006:

    a. 17 boxes of Records, including 2 boxes that were previously boxed by St. Pierre;

    b. 1 IBM computer (Computer 2) with serial number 152153E34AF12MMA*;

    c. 4 bundles of schematics;

    d. 7 cardboard floor plans;

    e. 1 LG hardrive (Computer 1), contents copied, computer left at the Residence.

21. Mr. St. Pierre signed the inventory that listed the above items.

22. The IR advised Mr. St. Pierre that the Records would be removed to the IR's office and that a full inventory would be completed (ie. the contents of each box) and delivered to him the week of August 21st. The IR further advised that no other party would review the Records until further Order of the Court and that the IR would only review the Records for the sole purpose of completing the inventory listing of the boxes.

23. The IR has not commenced an inventory of the Records as counsel to RDC has advised the IR's legal counsel that it wants the Records obtained from the Residence to remain sealed. Accordingly the IR has not reviewed the Records since they were removed from the Residence.

24. The Records were loaded into the Bailiffs truck. Boxes with lids that were secure were placed into the bed of the pickup. The two open boxes, Computer 1, the bundles of schematics (which would not fit into boxes) and the contents of Computer 2's hard drive (zip drive) were placed in the cab of the pickup. The boxes placed in the bed of the

pickup were fully secured and covered by the truck's bed covering. The Bailiff and the IR both visually confirmed that the Records were fully secured prior to leaving the Residence.

25. The Records were immediately transported from the Residence to the IR's offices and placed in a secure office.

26. The IR talked by telephone to Ms. Marlene Pittors (officer of RDC) while at the Residence. Ms. Pittors wanted confirmation from the IR that the Records were not going to be delivered and/or reviewed by other parties including Mr. Roy Jennix. The IR confirmed to Ms. Pittors that the Records would be transported directly to the IR's offices and that no parties would be reviewing the documents without a further order from this Court.

27. The IR asked Mr. St. Pierre whether he had had knowledge of Records that were at any locations other than the Residence. Mr. St. Pierre advised that Records were also located at the following locations:

   a. Kelly & Creaghan, Chartered Accountants. Mr. St. Pierre advised that Kelly & Creaghan were responsible for the daily accounting/bookkeeping of RDC;

   b. Lawson Glod Mahoney – Mr. St. Pierre advised the IR that LGM were external counsel to RDC.

28. The IR has attended the offices of Kelly & Creaghan and reports to Court that Kelly & Creaghan have advised the IR that they are not the daily accountants for RDC and were retained for the sole purpose of completing a certain forensic accounting exercise relating to the amounts owed by RDC to Integra. The IR further understands that this report was not completed.

29. Counsel to RDC has recently advised the IR's legal counsel that RDC in fact has no external accountant/bookkeeper currently retained and that Marlene Pittors has been handling RDC's bookkeeping. The IR intends to contact Marlene Pittors to determine if she has any relevant Records.

Specific comments by the IR with respect to the Affidavit

30. Paragraph 41 (a) of the Affidavit stated that Mr. St. Pierre pointed out to the IR that they were breaching the time provisions of IR Order. The IR advises the Court that Mr. St. Pierre did not advise of any concerns with respect to the timing of the IR arrival or seizure. The IR further advises the Court that:

    a. The search was completed under amicable conditions and Mr. St. Pierre voluntarily assisted the IR in its execution of the IR Order; and

    b. The IR completed the search within the timing provisions of the IR Order.

31. Paragraph 41 (b) of the Affidavit stated the IR removed personal records, including family photographs and personal property. The IR only removed the Records that Mr. St. Pierre advised related to RDC or that were specifically identified by the IR as relating to RDC or Integra. The IR is not aware of removing any personal records. In fact, where the Records appeared to be commingled with other documents that did not relate to RDC or Integra (for example – Records scattered on top of a desk), the IR reviewed each document and seized only those specifically relating to RDC and/or Integra. In addition, when there was uncertainty, the IR consulted with Mr. St. Pierre to ensure that only relevant Documents were seized.

32. Mr. St. Pierre's statement regarding the computer has been discussed above and relates to Computer 2. Computer 2 was not being used and Mr. St. Pierre agreed to allow the IR to seize Computer 2.

33. Mr. St. Pierre's statement contained in Paragraph 41 (c) has been discussed above. The IR did provide a summary inventory listing upon leaving the Residence which was signed by Mr. St. Pierre. In addition, Mr. St. Pierre was in agreement with the IR providing a detailed inventory listing of the boxes the following week. As discussed above, all the Records were secured and transported directly to the offices of the IR.

34. Paragraph 41 (d) of the Affidavit states that the IR insisted on searching the entire Residence. The IR agrees that a search of the entire Residence was completed; however it was completed under the agreement and cooperation of Mr. St. Pierre.

35. The IR has had the Bailiff that attended the Residence review this Third Report and has confirmed its completeness and accuracy.

All of which is respectfully submitted this 24th day of August 2006.

ERNST & YOUNG INC.
In its capacity as Interim Receiver of
Integra Investment Service Ltd. and
Rundle Development Cooperative

Deryck Helkaa, CA•CIRP
Vice-President

Action No.: 0601-09869 2006

IN THE COURT OF QUEEN'S BENCH
OF ALBERTA

JUDICIAL DISTRICT OF CALGARY

BETWEEN:

VECKENSTEDT HOLDINGS INC., HERB VECKENSTEDT, FRED PIPER, JOAN PIPER, LIPOTH CONSULTING, AND PAUL LIPOTH

Plaintiffs

- and -

**INTEGRA INVESTMENT SERVICE LTD.
AND
RUNDLE DEVELOPMENT COOPERATIVE**

Defendants

THIRD REPORT OF THE INTERIM RECEIVER

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
1000, 400 - 3rd Ave SW
Calgary, Alberta T2P 4H2

Attention: Josef Kruger
Telephone: (403) 232-9563
Fax: (403) 266-1395