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

FIRST REPORT OF THE RECEIVER OF

INTEGRA INVESTMENT SERVICE LTD., AURORA RIVER TOWERS INC., CARLING SPRINGS VILLAGE INC., AND CARLING DEVELOPMENT (B.C.) INC.

ERNST & YOUNG INC.

SEPTEMBER 22, 2006

INTRODUCTION

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. 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.

2. On August 22, 2006, the Plaintiffs applied for an Order (the "Receivership Order") pursuant to S. 13(2) of the *Judicature Act*. Pursuant to the Receivership Order obtained on September 8, 2006, Ernst & Young Inc. was appointed Receiver and Manager (the "Receiver") of the following companies:

    a. Integra Investment Service Ltd. ("Integra");

    b. Aurora River Towers Inc. ("ART");

    c. Carling Springs Village Inc. ("Carling"); and

    d. Carling Development (B.C.) Inc. ("Carling BC").

    Collectively referred to as "Integra" or the "Integra Companies"

3. The purpose of this first report of the Receiver (the "First Report") is to provide this Honourable Court with an update in respect of:

    a. Receiver's actions to date; and

    b. The Receiver's findings based on its preliminary review of the books and records of the Integra Companies (the "Records").

4. The Receiver has prepared this report based on its preliminary review of the Records, which, as discussed in further detail below, are incomplete and not up to date. The Receiver continues to review the Records and is in the process of reconstructing accounting records as required to complete the administration of the receivership estate. The Receiver cautions the information summarized below may be subject to revision as the Receiver continues its analysis of the Records.

BACKGROUND

5. The Integra Companies were in the business of promoting investment opportunities that included the selling of securities in specific real estate projects and pooling funds raised from individual investors to make secured mortgages in these real estate projects. Essentially, the Integra Companies operated as a mortgage investment fund and has approximately 300 to 400 investors (the "Investors"). These Investors advanced approximately $22 million to the Integra Companies. The Integra Companies, acting as a bare trustee, advanced the Investors' funds to borrowers with the advances being secured by mortgages, general security agreements, guarantees, etc. (the "Loans"). The books and records indicate approximately 19 Loans outstanding at this time.

6. The Receiver understands that the Integra Companies commenced operations in 2002; at the time of the appointment of the IR, the Integra Companies were effectively dormant. The Integra Companies had no operations and its books and records were being stored at the residence of the sole director and shareholder of Integra, Ms. Maxine Cooke.

7. The Receiver understands that the Integra Companies have not raised any new funds since February 2005 when a Cease and Desist order was issued by the Alberta Securities Commission[1] and that all the Loans are currently non-performing.

ACTIONS OF THE INTERIM RECEIVER AND RECEIVER TO DATE

8. Details of the IR's actions to date are detailed in its three reports to Court dated August 21, 2006 and August 24, 2006.

9. A summary of the Receiver's actions completed to date are summarized below:

   a. Took possession and control of the Integra Companies' undertakings, property and assets;

   b. Sent the Notice of Receiver as prescribed and required under the *Bankruptcy and Insolvency Act*.

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[1] The Integra Companies were ordered to cease and desist the raising of further funds from Investors.

c. Commenced a process to review and analyze the Records in an attempt to allow the following reports to be produced:

   i. Listing of outstanding Loans and funds advanced by the Integra Companies to the various borrowers;

   ii. Current status of Loan advances and an evaluation of the related security; and

   iii. Investor listings by Loan.

BOOKS AND RECORDS

10. Upon the Receiver's appointment the Records were unsealed and the Receiver reviewed the contents of the boxes of books and records seized by the IR.

11. A summary of the Receiver's preliminary findings are as follows:

- The Records are incomplete;
- No financial statements (internally or externally prepared) were found for any of the Integra Companies;
- No complete accounting records were found for any of the Integra Companies such as general ledgers or trial balances;
- No corporate income tax returns were found for any of the Integra Companies. Correspondence from the Canada Revenue Agency was discovered that indicated returns had been completed; and
- Certain bank statements were located; however the banking information is incomplete. The Receiver's analysis of the bank statements is discussed in further detail below.

12. The content of a hard drive, seized by the IR at the personal residence of Ms. Maxine Cooke, is still being reviewed by the Receiver. The hard drive included several back up folders of data of the Integra Companies' financial information. The Receiver retrieved the most recent financial data back up dated March 11, 2005. A summary of the Receiver's preliminary review of the retrieved back up financial data is as follows:

- Incomplete and inconsistent Investor information and inconsistent investment amounts;
- Incomplete and outdated financial information; and
- Incomplete and inconsistent information on the Integra Companies' Loans and other assets

13. The Receiver is continuing to review and analyze the Records in an attempt to compile a complete listing of Investors and the amount that was advanced to the Integra Companies.

BANK ACCOUNT ANALYSIS

Banking records

14. The Records did not contain a complete set of bank statements since the inception of Integra in 2002. The Receiver's review of the Records indicated that the Integra Companies banked at TD Canada Trust (the "Bank") and this was also confirmed by Integra's director and a former consultant.

15. Immediately following the issue of the Receivership Order, the Receiver notified the Bank to freeze the accounts of the Integra Companies and the Receiver is requesting the Bank to provide the missing bank statements.

16. The Receiver's review of the banking records indicates the following:

    a. Integra had one general account (the "General Account") which it used for general corporate purposes such as paying office expenses, payroll and other expenses;

b. Integra had one trust account (the "Trust Account") which was used to receive and disburse the Investors' funds for all Loans. Integra did not have individual trust accounts for each Loan;

c. Bank statements were only found for Integra; no bank statements were found for any of the remaining Integra Companies; and

d. Certain unsupported withdrawals in the amount of $1.2 million were noted from Trust Account (as discussed in further detail below).

17. The Receiver understands that the Integra Companies also received and disbursed Investors' funds through their lawyers trust accounts. The Receiver intends to obtain and review the relevant lawyers' trust accounts forthwith and will report to Court once this analysis is complete.

Review of Trust Account

18. The Receiver has completed a preliminary review of the available Integra's Trust Account bank statements. The Receiver has been made aware by persons knowledgeable about the Trust Account of specific allegations that certain unauthorized withdrawals may have been made from this account.

19. The books and records included the complete set of monthly Trust Account bank statements for the calendar years of 2004 and 2005 (excluding a missing bank statement for November 2005). The Trust Account records were incomplete for the period prior to 2004 and for 2006. As discussed above, the Receiver is following up with the Bank to obtain the missing banking records.

20. The analysis of the 2004 and 2005 Trust Account indicated that $1,277,107 was withdrawn from Integra's Trust Account and transferred to Integra's General Account. At this time, the Receiver cannot conclude or comment as to the reasonableness or appropriateness of the payments from the Trust Account as the books and records of Integra are incomplete; however, the Receiver did not find any documentation supporting the payments from the Trust Account.

21. The Receiver is continuing its investigation of the books and records, including the above payments from the Trust Account, and will report to Court at a later date once further supporting documentation is received.

OTHER MATTERS

22. The Receiver has met with Mr. Roy Jennix, former principal of Integra, on two occasions. During these meetings, Mr. Jennix advised that on certain occasions, he believes that unauthorized withdraws were made from Integra's Trust Account by Maxine Cooke. Mr. Jennix alleges that unauthorized withdrawals occurred at the time when he and Ms. Maxine Cooke were closing on a deal to purchase a home in Elbow Valley in the spring 2005 and further unauthorized withdrawals occurred shortly after closing on the sale of the home. Mr. Jennix further advises that some of the funds from the unauthorized withdrawals were used to pay for home furnishings.

23. At this time, given the incomplete set of accounting records, the Receiver has not been able to substantiate Mr. Jennix's allegation. However, the Receiver has identified certain unsupported withdrawals from the Trust Account during the spring of 2005.

24. The Receiver spoke with Maxine Cooke on September 21, 2006 and enquired about the unsupported withdrawals from the Trust Account. Maxine advised that all accounting and calculations with respect to the Trust Account were done by Mr. Roy Jennix and she only signed the cheques. She indicated that Roy should be able to explain any unsupported withdrawals from the Trust Account.

25. The Receiver discovered a letter dated April 12, 2005 from the former accountant for Integra, Ms. Rose Wiebe, of Capital Support Inc. ("CSI") and addressed to Integra. The letter from CSI advises Integra that they were terminating their contract with Integra as monies had been withdrawn from the Trust Account and never returned.

26. The Receiver understands that all records held by Ms. Wiebe relating to Integra have been seized by the Calgary Police, including her computer. The Receiver understands that the Police seized the records as numerous investors had filed complaints against Integra for wrong-doing.

27. The Receiver has contacted Ms. Rose Wiebe and had preliminary discussions regarding the financial records of Integra and the April 12, 2005 letter. On September 20, 2006, the Receiver met with Ms. Wiebe and Ms. Wiebe voluntarily provided the Receiver with a backup hard drive of Ms. Wiebe's computer (contained data relating to Integra), a disk with information on the Integra Trust Account and certain documents that Ms. Wiebe provided to the Police.

28. Ms. Wiebe confirmed to the Receiver that she believed that unauthorized withdrawals were made from Integra's Trust Account and that the proceeds were used for non-corporate purposes.

29. The Receiver is in the process of retrieving and reviewing the information obtained from Ms. Wiebe and is attempting to assess her assertions.

SUMMARY

30. The Receiver is in the process of completing an initial analysis of Integra; however, certain material matters have been discovered to date by the Receiver that causes concerns including:

   a. The incomplete nature of Integra's records;

   b. The lack of banking information;

   c. The unsupported withdrawals from the Trust Account and the quantum of these withdrawals;

   d. The difficulties the IR had in tracking down the location of Integra's documents;

   e. The allegation of misappropriation of funds from Integra's Trust Account by Ms. Wiebe and Mr. Jennix; and

   f. The seizing of company records by the Calgary Police.

31. The Receiver is continuing its investigations into the affairs of the Integra Companies, including as assessment of their various assets and will report to the Court once this analysis has been further advanced.

All of which is respectfully submitted this 22nd day of September 2006.

ERNST & YOUNG INC.
Solely in its capacity as Court Appointed Receiver
of Integra Investment Service Ltd, Aurora River Towers Inc.,
Carling Springs Village Inc. and Carling Development (B.C.) Inc.

H. Neil Narfason, CA•CIRP, CBV
Senior Vice-President