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. AND RUNDLE DEVELOPMENT CO-OPERATIVE

Defendants

SECOND 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.

OCTOBER 25, 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 of certain records of Integra Investment Service ltd. ("Integra"), more fully described in Schedule A of the IR Order.

2. On September 8, 2006, the Plaintiffs obtained a Receivership Order pursuant to s. 13(2) of the *Judicature Act* (the "Receivership Order"). Pursuant to the Receivership Order Ernst & Young Inc. was appointed Receiver and Manager (the "Receiver") of the following corporations:

   a. Integra;

   b. Aurora River Towers Inc.;

   c. Carling Springs Village Inc.; and

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

   (collectively referred to as the "Integra Companies").

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

   a. some of the Receiver's actions since its First Report;

   b. the Receiver's findings with respect to certain funds transferred from Integra's Trust and Operating Accounts (as defined below); and

   c. an analysis of the present offer to purchase (the "Offer") 16 Wolf Willow Ridge, Elbow Valley, Calgary, Alberta ("16 Wolf Willow").

BACKGROUND

4. Integra is a corporation incorporated in Alberta. Maxine Cooke ("Cooke") was at all relevant times Integra's sole director and shareholder. Her common law partner, Roy Jennix ("Jennix") was Integra's marketing manager and at all material times was a *de facto* director of Integra. Cooke is the owner of 16 Wolf Willow having purchased this property on or about April 4, 2005. Jennix formerly lived at 16 Wolf Willow with Cooke.

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 primarily to make secured mortgages in these real estate projects.

6. Essentially, the Integra Companies operated as a mortgage broker that coordinated the raising of funds from investors (the "Investors") with the raised funds being advanced to borrowers (the "Loans"). The Loans were made on both a secured and unsecured basis with the secured Loans being secured by mortgages, general security agreements and guarantees.

7. Once an Investor agreed to participate in a Loan, the Investor would issue a cheque directly to either Integra's or the borrower's legal counsel. In this manner Integra raised approximately $22,000,000 from the Investors. Integra earned a commission payable by the borrower for raising funds from the Investors.

ACTIONS OF THE RECEIVER SINCE ITS FIRST REPORT

8. The Receiver has prepared this report based on its review to date of the books and records of the Integra Companies (the "Records"), which, as discussed in further detail below, remain incomplete and not up to date. The Receiver has concluded that given the lack of complete and reliable financial data, a full reconstruction of the accounting records will need to be completed in order to produce accurate loan statements, listing of investors

and listing of creditors. In addition, the Receiver anticipates that at a later date a full claims process will have to be implemented.

9. The Receiver cautions that the information summarized below may be subject to revision as the Receiver continues its analysis of the Records.

10. The Receiver continues the process of determining and evaluating the various assets held by the Integra Companies on behalf of its investors and other creditors. Given the lack of accurate records and the significant lawsuits involving the Integra Companies, a full report dealing with the Integra Companies' security position has not been completed at this time.

11. The Receiver is hopeful that a full reconstruction of the accounting records of the Integra Companies can be completed on a timely basis, and that a comprehensive report to Court summarizing the results of the reconstruction of the accounting records and the estimated security can be completed shortly thereafter.

12. The First Report of the Receiver advised the Court of certain unsupportable and/or questionable transfers from Integra's trust accounts. Subsequent analysis completed by the Receiver (discussed in further detail below) indicates that certain of the unsupportable transfers from Integra's bank accounts related specifically to the acquisition, refurbishment or furnishing of 16 Wolf Willow, the personal residence of Cooke. The unauthorized transfers relating to 16 Wolf Willow are further detailed below.

13. The Receiver has commenced an action in the Court of Queen's Bench bearing action number 0601-1194 against Cooke and Jennix concerning the unauthorized use of Integra's corporate funds. Specifically, the Statement of Claim alleges that Cooke and Jennix used Integra's corporate funds for the purpose of purchasing, renovating and furnishing 16 Wolf Willow.

14. To protect the interest of the Receiver and Integra in 16 Wolf Willow, a Certificate of Lis Pendens (the "CLP") was registered by the Receiver against the title of 16 Wolf Willow on October 23, 2006.

15. The Receiver understands that Cooke made a deposit in support of an offer to purchase 16 Wolf Willow in December 2004 and that Cooke completed the purchase in April 2005. The Receiver has completed a preliminary analysis of the Integra bank accounts (both the Trust Account and General Account) for the calendar years 2004 and 2005 as this period coincided with the commencement of the purchase and subsequent refurbishment of 16 Wolf Willow. The analysis was completed to identify unsupportable and/or questionable payments from the Trust and General Account and payments relating to 16 Wolf Willow.

BANK ACCOUNT ANALYSIS

16. Since the First Report, the Receiver has obtained additional banking information and continued its review of the Integra Companies' available books and records. The Receiver has identified certain cash disbursements that appear to be non-business related and that were made in relation to the acquisition, refurbishment or furnishing of 16 Wolf Willow.

17. The Receiver cautions that its analysis of the Integra Companies' banking information is incomplete. However, given the Offer and the CLP, the Receiver deems it necessary to provide the Court with a preliminary analysis of those disbursements identified as relating to 16 Wolf Willow.

18. The Receiver's analysis indicates that Integra used two bank accounts for its operations. The first account was a general account used for general corporate purposes including office expenses, payroll and the payment of commissions, etc. (the "General Account"). The second account used by Integra was a trust account (the "Trust Account") which was used to receive payments from legal counsel relating to advances by the Investors.

19. Investor advances were to be paid directly to legal counsel and were to be held in trust and released to the ultimate borrower once appropriate conditions were met (i.e. security received, etc). Accordingly, the transactions occurring within Integra's Trust Account would be expected to be minimal as the funds were to flow directly from the Investor, via

legal counsel, to the borrower. The Receiver's analysis of the banking records however indicates that:

a. Significant deposits and withdrawal were made into and out of the Trust Account primarily in 2004 and 2005; and

b. A significant amount of the withdrawals from the Trust Account were unsupported, as discussed in further detail below.

20. The unusual volume of transactions occurring within the Trust Account in 2004 and 2005 appear to be due to the return of some of the Investors' monies to Integra by legal counsel because certain projects did not proceed. Certain of the Loans arranged by Integra in 2004 and 2005 did not close but the Investors' funds had been raised and already paid into legal counsel's trust accounts. The records indicate that some of those funds were then returned by legal counsel to Integra instead of being returned directly to the Investors.

Analysis of the Trust Account

21. The Receiver's analysis of the Trust Account for the years 2004 and 2005 indicates that approximately $2.3 million was transferred from the Trust Account to the General Account. The funds transferred were internally described as commissions and fees earned by Integra for raising funds on the various mortgages and projects.

22. The Receiver continues its process of reconstructing the accounting records of the Integra Companies, including calculating the amount of commissions that Integra was legally entitled to for raising the funds. As this analysis is not complete, the Receiver has not yet determined what portion of the amount of $2.3 million paid from the Trust Account during 2004 and 2005 represents commission properly earned by Integra. However, certain payments of approximately $1.0 million included in the $2.3 million from the Trust Account to the General Account are unsupported, including:

a. Approximately $500,000 in payments described as commissions associated with the Health Centre COP project (the "COP Project"). Integra raised funds for the

COP Project with the intended purpose that certain lands located in Calgary near the Calgary Olympic Park would be acquired and developed as a medical centre. The Receiver understands that the lands were never acquired, no asset/security exists and that the funds raised were to be returned to the Investors. The Receiver is in the process of investigating the accounting for the return of funds to the Investors. Integra however appears to have paid itself a commission for raising the funds even though the deal did not close; and

b. $447,000 in transfers described as consulting fees and outstanding administration fees with no details supporting the calculation of the fees earned or any details of the project/mortgage to which the fees supposedly related.

Analysis of the General Account

23. The Receiver's analysis of the General Account indicates approximately $500,000 of payments and transfers that appear to relate to the acquisition, refurbishment or furnishing of 16 Wolf Willow. Some of the payments relating to 16 Wolf Willow include:

a. The initial deposit on 16 Wolf Willow of $100,000 deposit paid to Benmar Realty on December 12, 2004;

b. Cheques totalling $24,703 issued in December 2004 relating to the purchase of furniture;

c. A $14,000 payment dated January 25, 2005 with the cheque's memo description indicating "basement reno";

d. A $10,000 payment dated April 5, 2005 with the cheque's memo description indicating "deposit on painting and woodwork";

e. A $15,332 payment dated June 3, 2005 with the cheque's memo description indicating "kitchen and patio";

f. Cheques totalling $32,824 relating the installation of hardwood floors;

g. A $35,000 payment dated September 30, 2005 with the cheque's memo description indicating landscaping service; and

h. A $10,000 payment dated November 5, 2005 with the cheque's memo description indicating "deposit on draperies".

24. In addition to the above payments that were made directly from the General Account to specific suppliers; approximately $350,000 in funds were paid from the General Account to Cooke but which are unsupported. The unsupported payments include a $100,000 'loan' dated November 2, 2004 and a $200,000 payment on February 25, 2005 with no payment description.

Summary of above analysis

25. Based on the above analysis the Receiver believes that inappropriate withdrawals were made from the Trust Account with the funds being deposited into the General Account. Certain payments from the General Account were funded by the unsupported and/or inappropriate Trust Account withdrawals. The Receiver understands that at all times during 2004 and 2005 Cooke was the sole director of Integra and signing officer.

26. A direct tracing of the withdrawals from Trust Account to the deposit to the General Account and payment relating to 16 Wolf Willow is not possible. However, upon the appointment of the Receiver on August 22, 2006, the General Account had a negative balance of $49,981.07 and the Trust Account a positive balance of $16,510.01. Therefore, without the unsupported withdrawals from the Trust Account as discussed above, Integra would not have been able to fund the payments made relating to 16 Wolf Willow.

27. The Receiver believes that Integra, through the unauthorized payments made indirectly from the Trust Account, has a direct interest in 16 Wolf Willow. Furthermore, any funds that came from Integra may be trust funds and may have priority to existing secured charges registered against the property if those secured charges were advanced after the trust monies were applied towards 16 Wolf Willow. As indicated above, this interest is

likely to be substantial but the exact amount will not be ascertained until a full accounting has been completed by the Receiver.

OFFER TO PURCHASE 16 WOLF WILLOW

28. The Offer was purportedly accepted by Cooke on August 7, 2006. The Receiver has obtained and reviewed a copy of the Offer with the main terms including:

    a. The purchaser is Shane Malsbury (the "Purchaser");

    b. The total purchase price is $4,499,800;

    c. A total deposit was to be paid of $675,000;

    d. A first mortgage financing of $2,250,000 will be arranged by the Purchaser;

    e. Vendor take-back financing of $1,574,800 (the "VTB");

    f. The offer to purchase includes certain furniture; and

    g. Vacant possession is to take place October 27, 2006.

29. The Receiver has reviewed the Offer and has the following concerns and comments:

    a. The Offer requires payment of a deposit amount of $675,000 but is silent on the details of the delivery of this amount (see Section 3.3 of the Offer). The Receiver has been advised by Cooke's legal counsel that the deposit has not been received to date;

    b. The VTB comprises 35% of the Offer with the payments amortized over a 25 year period. The VTB includes only $8,174.50 in principal payments over the first year and include a buy-out bonus to the vendor in the amount of $100,000 after a 12 month term. The terms of the VTB are unusual and require further investigation;

    c. The Receiver has not received any information on the credit worthiness of the buyer and there does not appear to be any requirement for personal guarantees supporting the VTB;

d. The Receiver is uncertain whether the Purchaser has waived or met the financing requirements/conditions; and

e. The Offer's net cash to the Vendor as a result of the VTB and required repayments of secured charges results in the Offer providing less than 40% cash of the net equity in the house thereby minimizing the cash to settle any other charges against 16 Wolf Willow.

30. The table below summarizes the net proceeds available from the proposed sale of 16 Wolf Willow and indicates that after payment of charges currently registered against 16 Wolf Willow and taking into consideration the VTB, approximately $1.0 million in surplus is available for distribution. The exact amounts advanced by Integra to 16 Wolf Willow are not known and the priority of those amounts as they relate to other creditors registered against 16 Wolf Willow is not known. Therefore, the Receiver is unable to conclude as to whether the net cash available from the Offer is sufficient to repay all valid charges and claims against 16 Wolf Willow.

16 Wolf Willow	**$**
Purchase price	4,499,800
Less VTB	(1,574,800)
Cash available from sale	2,925,000
Less:	
Commissions & Legal - estimated	45,000
First mortgage (existing)	950,000
Integra trust funds	unknown
Second mortgage (existing)	800,000
CCRA claim	114,362
	1,909,362
Net proceeds available	1,015,638

RECOMMENDATION

31. The Receiver recommends that the Offer not be approved by Court in its present form given the inclusion of the VTB and the uncertainties with respect to the holding of the deposits and waiving of financing conditions.

All of which is respectfully submitted this 25th day of October 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.

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

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

CLERK OF THE COURT
OCT 25 2006
CALGARY, ALBERTA

SECOND REPORT OF THE 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