

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE SECURITIES ACT  
R.S.O 1990, c.s.5, AS AMENDED**

BETWEEN

**ONTARIO SECURITIES COMMISSION**

Applicant

- and -

**GESTION DE PLACEMENTS NORSHIELD (CANADA) LTÉE/NORSHIELD ASSET  
MANAGEMENT (CANADA) LTD.,**

**GESTION DES PARTENAIRES D'INVESTISSEMENT NORSHIELD LTÉE/  
NORSHIELD INVESTMENT PARTNERS HOLDINGS LTD.,**

**OLYMPUS UNITED FUNDS HOLDINGS CORPORATION,**

**CORPORATION DE FONDS UNIS OLYMPUS / OLYMPUS UNITED FUNDS  
CORPORATION,**

**OLYMPUS UNITED BANK AND TRUST SCC,**

**GROUPE OLYMPUS UNITED INC./OLYMPUS UNITED GROUP INC.,**

**TECHNOLOGIES DE LOGICIELS HONEYBEE INC./HONEYBEE SOFTWARE  
TECHNOLOGIES INC. (FORMERLY CORPORATION D'INVESTISSEMENT  
NORSHIELD/NORSHIELD INVESTMENT CORPORATION), AND**

**CORPORATION GESTION DE L'ACTIF NORSHIELD/NORSHIELD CAPITAL  
MANAGEMENT CORPORATION**

Respondents

**SECOND REPORT OF THE RECEIVER  
(Dated November 15, 2005)**

**Background**

1. Pursuant to the Order of the Honourable Mr. Justice Campbell of the Ontario Superior Court of Justice (Commercial List) ("Ontario Court") dated June 29, 2005 ("Initial Order"), RSM Richter Inc. ("RSM Richter") was appointed for a period of fifteen days as

Receiver (in such capacity, the “Receiver”) pursuant to Section 129 of the *Securities Act*, R.S.O. 1990, c.S-5, as amended, without security, of all of the assets, undertakings and properties of :

- a) Gestion de Placements Norshield (Canada) Ltée / Norshield Asset Management (Canada) Ltd. (“NAM”);
- b) Gestion des Partenaires d’Investissement Norshield Ltée / Norshield Investment Partners Holdings Ltd. (“Norshield Partners”);
- c) Olympus United Funds Holdings Corporation (“Olympus Holdings”);
- d) Corporation de Fonds Unis Olympus / Olympus United Funds Corporation (“Olympus Funds”);
- e) Olympus United Bank and Trust SCC (“Olympus Bank”); and
- f) Groupe Olympus United Inc. / Olympus United Group Inc. (“Olympus United”), (collectively, the “Original Respondents”).

A copy of the Initial Order is attached hereto as Schedule “A”.

2. Pursuant to the Order of the Honourable Mr. Justice Campbell of the Ontario Court dated July 14, 2005 (“Extension Order”), the Receiver’s appointment in respect of each of the Original Respondents was continued in accordance with the terms of the Initial Order until such time as the Receiver has completed its administration of the estate herein. A copy of the Extension Order is attached hereto as Schedule “B”.
3. Pursuant to two additional Orders of the Honourable Mr. Justice Campbell of the Ontario Court dated September 9, 2005 and October 14, 2005 (“Expanded Orders”), RSM Richter was also appointed as Receiver pursuant to Section 129 of the *Securities Act*, R.S.O. 1990, c.S-5, as amended, without security, of all of the assets, undertakings and properties of:
  - a) Norshield Capital Management Corporation / Corporation Gestion de l’Actif Norshield (“Norshield Capital Management”); and

- b) Honeybee Software Technologies Inc./Technologies de Logiciels Honeybee Inc. (formerly Norshield Investment Corporation/Corporation d'Investissement Norshield) ("Honeybee Software").

Copies of the Expanded Orders are attached hereto as Schedules "C" and "D" respectively.

4. By Judgments of the Québec Superior Court (Commercial Division), the Initial Order, the Extension Order and the Expanded Orders were recognized and declared enforceable in the Province of Quebec.
5. The Original Respondents, Norshield Capital Management and Honeybee Software are collectively referred to as the "Norshield Companies" in this Second Report of the Receiver ("Second Report"). The Initial Order, the Extension Order and the Expanded Orders are collectively referred to as the "Receivership Orders". Capitalized terms not defined in the Second Report are as defined in the Initial Order, the Extension Order and the Expanded Orders and/or the Receiver's First Report to the Ontario Court dated July 12, 2005 ("First Report"). Certain information set out in the First Report is repeated herein for ease of reference.
6. All references to dollars are in Canadian currency unless otherwise noted. Where amounts are reflected on the originating documents in US dollars, they have been converted into CDN dollars at a rate of 1.20.
7. The Receiver has relied upon information and records available from the Norshield Companies and from third parties. The Receiver's review of this information does not encompass an audit of the financial position or operating results of the Norshield Companies and/or any other entity described herein. In addition, any financial information presented by the Receiver is preliminary and the Receiver is not yet in a position to determine the quantum of funds which may become available for distribution to creditors, investors and other stakeholders of the Norshield Companies.

8. As noted throughout the Second Report, the Receiver is relying mainly upon the September 30, 2003 audited financial statements (the most recent and complete financial statements available) of the Norshield Companies and the other entities described herein. **The Receiver therefore cannot yet fully and adequately determine transactions that occurred between September 30, 2003 and June 29, 2005, the date of the Initial Order, which may materially affect the conclusions drawn by the Receiver in the Second Report.**

### **Purpose of the Second Report**

9. The purpose of the Second Report is to provide this Honourable Court with (i) a detailed update in respect of the progress of the receivership generally; (ii) a description of the Receiver's activities since the date of the First Report; (iii) a summary of the observations and findings of the Receiver; and (iv) the evidentiary basis upon which to make an order:
- a) approving the activities of the Receiver as described in this Second Report;
  - b) authorizing the Receiver to file a consolidated application for a bankruptcy order against each of the Norshield Companies subject to the Receivership Orders as well as any other corporate entities added subsequently to the Receivership Orders;
  - c) authorizing the Receiver to commence proceedings and/or to participate in existing proceedings in Canada and elsewhere, including without limitation, receivership, bankruptcy, restructuring, liquidation, winding-up and civil proceedings in the United States of America, The Commonwealth of The Bahamas, Barbados, or any other jurisdiction with respect to Mosaic Composite Ltd. ("Mosaic"), Channel Fixed Income Fund Ltd., Channel F.S. Fund Ltd., Channel Technology Fund Ltd., Channel Diversified Private Equity Fund Ltd. ("Channel Entities"), Univest Multi-Strategy Fund II Ltd. and/or Cardinal International Fund Services Ltd. ("Cardinal International");

- d) authorizing the Receiver to take steps to have the Receivership Orders, the order of the Honourable Mr. Justice William Chandler of the High Court of Justice of Barbados (“Barbados Court”) dated September 22, 2005, appointing RSM Richter and Brian F. Griffith & Company (“Griffith”) as Joint Custodians of Olympus Bank (“Barbados Order”) and the order of the Honourable Justice Thompson of the Supreme Court of the Commonwealth of The Bahamas (“Bahamas Court”) dated October 3, 2005 appointing Raymond Massi, a partner of RSM Richter, as provisional joint liquidator with G. Clifford Culmer, a partner of BDO Mann Judd (“Culmer”), the privately-appointed liquidator of Olympus Uninvest Ltd. (“Olympus Uninvest”) (“Bahamas Order”) recognized in the United States (in particular the states of New York, Minnesota and Illinois);
- e) authorizing the Receiver to gain access to the “Disputed Files” (as defined below), being certain of the electronic records stored on computers owned by the Norshield Companies but pertaining to entities not subject to the Receivership Orders; and
- f) directing John Xanthoudakis to attend for examination by the Receiver on a date to be determined by this Honourable Court as to his knowledge of the business and affairs of the Norshield Companies and all investments made directly or indirectly by or through the Norshield Companies.

## **Contents of Second Report**

10. This Second Report sets out the following major categories of information:

Section 1 – Executive Summary

Section 2 – Activities of the Receiver

Section 3 – Investment Structure of the Norshield Companies, Olympus Uninvest and  
Mosaic

Section 4 – Assets Identified and Estimated Recoveries

Section 5 – Additional Work to be Completed by the Receiver

Section 6 – Relief Requested

### **Schedules**

A: Initial Order of the Honorable Justice Campbell of the Ontario Superior Court of  
Justice dated June 29, 2005

B: Order of the Honorable Justice Campbell of the Ontario Superior Court of Justice  
dated July 14, 2005

C: Order of the Honorable Justice Campbell of the Ontario Superior Court of Justice  
dated September 9, 2005

D: Order of the Honorable Justice Campbell of the Ontario Superior Court of Justice  
dated October 14, 2005

E: Order of the Honorable Justice Chandler of the High Court of Justice of Barbados  
dated September 22, 2005

F: Copies of letters and e-mails regarding the examination of Mr. John Xanthoudakis

G: Protocol agreement between the Receiver and the Related Entities dated  
July 11, 2005

- H: Revised organizational chart of the Norshield/Olympus/Mosaic investment structure
- I: Copy of memo from Mr. Dale Smith appended to the July 27, 2005 report from the Olympus Uninvest Ltd. liquidator
- J: Chart prepared by the Receiver illustrating the flow of funds as at September 30, 2003 between Olympus United Funds Corporation, Olympus Uninvest Ltd. and Mosaic Composite Ltd.
- K: Example of a confirmation from Royal Bank of Canada confirming Mosaic Composite Ltd. position in the RBC SOHO Option
- L: Summary schedule of the assets of the Channel Entities as at September 30, 2003 (with comparative information as at September 30, 2002 and June 30, 2001)

## **SECTION 1 – EXECUTIVE SUMMARY**

11. The Norshield Companies employed an intricate and complex corporate and investment structure involving multiple jurisdictions and corporations. The complexity of this structure has made the Receiver's task of identifying and recovering assets difficult, time-consuming and costly.
12. Based on information received to date by the Receiver, approximately 1,900 Canadian Retail Investors have aggregate outstanding claims of \$132 million against the Norshield Companies. The claims of the Retail Investors relate to investments made by them in various hedge fund products marketed and sold by Olympus Funds.
13. To date, the Receiver has recovered approximately \$4 million from the assets of the Norshield Companies. In addition, the Receiver has identified an additional amount of approximately \$4.5 million of realizable assets of Olympus Bank and efforts are currently underway to recover such assets.
14. The Receiver currently estimates a gross realization from the Norshield Companies of approximately \$8.5 million. This gross realization, net of fees and expenses, shall accrue to the Retail Investors. Consequently, it appears that the recoveries by the Retail Investors will be nominal.
15. The Receiver has determined that there may also be potential recoveries at the Olympus Uninvest level in The Bahamas relating to investments made by such entity in Mosaic. It should be noted, however, that because the funds originating from the Retail Investors were consolidated with other investor assets at the Olympus Uninvest level, any such potential recoveries would be substantially diluted. Furthermore, the assets of Mosaic and other entities in which it made investments may be subject to numerous serious, substantial and competing claims having priority.
16. In this Second Report, the Receiver has described the manner in which the funds originating from the Retail Investors were invested by the Norshield Companies, Olympus



Univest and Mosaic, as well as some of the reasons for the apparent shortfall which exists between the claims of the Retail Investors and the likely anticipated recoveries.

17. The method of calculation of the Net Asset Values used by the Norshield Companies, Olympus Univest and Mosaic as described below, may have resulted in incorrect and possibly inflated subscription and redemption values. As described below, approximately 90% of Retail Investor funds flowed from Olympus Funds, to Olympus Bank, to Olympus Univest and ultimately were invested into Mosaic through the purchase of shares in that entity. To the extent that the underlying value of certain of the assets of Mosaic was impaired and it could not fulfill its obligations to Olympus Univest, the values at which the shares of investors (throughout the investment chain) were subscribed for and/or redeemed would have been inflated. In addition, any inflated redemption values could have contributed to the lack of liquidity of the Norshield Companies and Olympus Univest.

## **SECTION 2 – ACTIVITIES OF THE RECEIVER**

18. The primary focus of the Receiver since the issuance of the Initial Order has been to identify, take possession of and/or exercise control over the assets of the Norshield Companies. This task has been extremely difficult due to the absence of complete and up-to-date accounting and supporting records.
19. As described in the First Report, the Norshield Companies have assets in jurisdictions outside of Canada, in particular in Barbados and The Bahamas. The Receiver was authorized by the Extension Order to commence proceedings and/or participate in existing proceedings in The Bahamas, Barbados or any other Caribbean jurisdiction with respect to any of the Respondents, Mosaic or Univest Multi-Strategy Fund II Ltd. (“MS-II”). In particular, the Receiver was authorized to take steps to have the Receiver or one of its representatives personally appointed by the Court having jurisdiction in The Bahamas as joint liquidator, together with Culmer, of the assets, undertakings and properties of Olympus Univest.

### **Activities in Barbados**

20. Given the structure and flow of funds within the Norshield Companies, the Receiver determined that it would be necessary to have the Receivership Orders recognized in Barbados so that the Receiver would have the right to take possession of any assets of the Norshield Companies located in that jurisdiction. However, the Receiver encountered significant delays in obtaining such an order in Barbados.
21. The Receiver retained the services of the Barbados law firm of Lex Caribbean to have the Receivership Orders recognized in Barbados.
22. On July 19, 2005, the Central Bank of Barbados seized management and control of Olympus Bank pursuant to the provisions of the *International Financial Services Act*, in particular as a result of the company’s delinquent filing of financial information and its lack of directors.

23. The Receiver attended in Barbados and entered into a protocol agreement dated July 26, 2005 (“Barbados Protocol”) with the Central Bank of Barbados. The principal provisions of the Barbados Protocol are summarized below:
  - a) Central Bank of Barbados would request that the Barbados Court appoint RSM Richter as Custodian, or in the first alternative RSM Richter and its local correspondent in Barbados, Griffith, as Joint Custodians, and in the second alternative Griffith acting as RSM Richter’s agent, as Joint Custodian;
  - b) All “non-cellular funds” recovered by the Custodian would be kept in a separate bank account in Barbados and utilized only for the liquidation process in Barbados;
  - c) The Custodian would seek the approval of the Barbados Court to advance, from the non cellular funds, up to \$175,000 in order to fund the liquidation of Olympus Uninvest, with the proceeds realized from the liquidation to be applied first against such advance; and
  - d) The Central Bank of Barbados would not be required to contribute to any funding of the costs of the Olympus Bank liquidation.
24. By virtue of the Barbados Order dated September 22, 2005, RSM Richter and Griffith were appointed as Joint-Custodians of Olympus Bank. The above-noted provisions of the Barbados Protocol were included in the Barbados Order. A copy of the Barbados Order is attached hereto as Schedule “E”.
25. The delay in the appointment of the Joint Custodians was due to the requisite notice provisions under the Barbados law, the busy Barbados Court schedule as well as the objections of a dissenting creditor which subsequently withdrew its objection.
26. The Receiver attended at the premises of the Central Bank of Barbados and had several meetings with its representatives. The purpose of these meetings was to enable the Joint-Custodians to obtain an understanding of the various procedures implemented by the Central Bank of Barbados subsequent to its assumption of control of Olympus Bank on

July 19, 2005. In addition, the Receiver reviewed and obtained copies of correspondence issued and received by the Central Bank of Barbados, and took possession of the books and records, computers and electronic data, and fixed assets of Olympus Bank and conducted an inventory of same.

27. To date, the Joint Custodians have:

- a) completed the back-up of all electronic data stored on the computers and servers located at the Central Bank of Barbados premises, including a copy of all hard drives;
- b) reviewed the books and records of Olympus Bank stored at the Central Bank of Barbados;
- c) entered into employment agreements with Everton Trotman (Olympus Bank's former Chief Financial Officer and Director) and John Yearwood (Olympus Bank's former Comptroller) to carry out various functions on behalf of the Joint-Custodians, in particular the updating of the company's books and records to June 30, 2005, all in an attempt to identify and realize on the assets of Olympus Bank;
- d) coordinated with Central Bank of Barbados and sent letters to those fund managers and administrators identified as holding funds on behalf of Olympus Bank, advising them of the Barbados Order and calling upon them to remit such funds to the Joint-Custodians;
- e) prepared a physical inventory of Olympus Bank's furniture, fixtures and computer equipment currently stored at the Central Bank of Barbados premises, to arrange for the sale of such assets through a tender process; and
- f) redirected Olympus Bank's mail from the Central Bank of Barbados to the offices of Griffith in Barbados.

28. In accordance with the Barbados Order, the non-cellular funds of Olympus Bank are being held in separate bank accounts in Barbados to be used for the Barbados liquidation process.
29. The Receiver transferred \$175,000 from Olympus Bank's non-cellular funds to the Receiver's own accounts in accordance with paragraph (e) of the Barbados Order. This transfer reimbursed the Receiver for an advance in the amount of \$175,000 made on behalf of the Joint-Custodians of Olympus Bank relating to the liquidation of Olympus Uninvest.

### **Activities in The Bahamas**

30. On May 19, 2005, BICE International Inc. (controlling shareholder of Olympus Uninvest) passed a resolution placing Olympus Uninvest into voluntary liquidation, and appointed Culmer as liquidator.
31. The Receiver, Culmer and certain major institutional investors of Olympus Uninvest entered into, on August 31, 2005, three agreements setting out the basic principles and structure of the cost sharing arrangement, any committees to be established and functions of same, as well as the funding of the Receiver and Culmer in the anticipation of them being appointed joint liquidators of Olympus Uninvest ("Bahamas Protocols"). Pursuant to these agreements, an amount of \$500,000 would be contributed towards the liquidation process of Olympus Uninvest. The Receiver's contribution under the Bahamas Protocols amounted to approximately \$194,000, with the balance being paid by the Institutional Investors.
32. In accordance with the Extension Order, Jean Fontaine of the law firm Stikeman Elliott has been appointed as the representative of the investors of Olympus Funds on any committees established pursuant to the Bahamas Protocol.
33. Pursuant to the Bahamas Order, dated October 3, 2005, the voluntary liquidation of Olympus Uninvest was converted into a court supervised process and Raymond Massi, a partner of RSM Richter, was appointed provisional joint liquidator. It is anticipated that the Bahamas Court hearing to confirm the appointment of Raymond Massi jointly with Culmer will take place within the next sixty days.

34. Subsequent to the Bahamas Order, representatives of RSM Richter attended at the offices of Culmer in The Bahamas and reviewed certain of the available but limited books and records.
35. The latest available financial statements of Olympus Univest are for the period ended September 30, 2003. The Olympus Univest Joint Liquidators are in the process of attempting to update the company's books and records.
36. As noted in Section 3, all of the funds invested in Olympus Univest were invested into Mosaic. The Olympus Univest Joint Liquidators have instituted certain proceedings against Mosaic to recover the funds invested.

#### **Examinations under Oath**

37. The Receiver has identified certain individuals it wishes to examine under oath. The examinees include former shareholders, officers, directors, key employees, administrators and fund managers of the various Norshield Companies, Olympus Univest, Mosaic, Channel Entities et al., as well as certain representatives of the auditors of the aforementioned.
38. The Receiver has conducted an examination of Dale Smith, who was the President and a Director of certain Norshield Companies. The Receiver is scheduled to examine a representative of Brooks di Santo, the auditors of the Channel Entities on November 23, 2005.

#### **Efforts to Obtain Information from/Examine John Xanthoudakis**

39. Mr. Xanthoudakis was the President and controlling shareholder of many of the Norshield Companies. The Receiver has determined that he was involved in the decisions of many aspects of the structure of and investments made by the Norshield Companies, Olympus Univest and possibly other entities mentioned in this Second Report. The Receiver believes that Mr. Xanthoudakis has material information which will assist the Receiver in discharging its mandate.

40. The Receiver has had a series of informal meetings with Mr. Xanthoudakis. The Receiver is concerned that the information provided during these informal sessions was vague, unspecific, and not supported by financial information or any other written documentation.
41. The Receiver determined that it needed to examine Mr. Xanthoudakis under oath. The following is a chronology of the Receiver's efforts to have Mr. Xanthoudakis attend for examination:
  - a) By letter dated July 28, 2005 the Receiver's counsel asked Mr. Xanthoudakis' counsel, Blake, Cassels and Graydon LLP in Toronto ("Blakes"), to provide specific information and documents relating to the Norshield Companies;
  - b) Blakes responded by letter dated August 3, 2005 suggesting that Mr. Xanthoudakis had fully cooperated and proposing a meeting;
  - c) Receiver's counsel responded by letter dated August 9, 2005 taking issue with the level of disclosure and cooperation provided to the Receiver but agreeing that a further meeting was appropriate;
  - d) By letter dated October 12, 2005 to Blakes from Receiver's counsel, a Notice of Examination was sent requiring Mr. Xanthoudakis' attendance for examination on October 26 and 27, 2005 in Montréal. A request was made to advise whether Blakes would accept service of the Notice of Examination on behalf of Mr. Xanthoudakis;
  - e) By e-mail dated October 18, 2005 Blakes responded that they had no instructions to accept service of the Notice of Examination or to attend any examination of Mr. Xanthoudakis. By e-mail exchange of the same date, Receiver's counsel enquired whether Mr. Xanthoudakis would be engaging other counsel and whether Blakes could provide an address for service for Mr. Xanthoudakis. Blakes responded that they did not have an address for service and did not know whether other counsel would be retained for Mr. Xanthoudakis;
  - f) The Receiver then made efforts to ascertain an address for service for Mr. Xanthoudakis. In the course of these enquiries, the Receiver was informed that

Blakes' Montréal office would, in fact, be attending with Mr. Xanthoudakis for examination. By e-mail, the Receiver contacted Blakes Montréal office to arrange for an examination prior to November 4, 2005;

- g) Blakes in Montréal returned by e-mail that November 8, 2005 would be the earliest available date for the examination. The Receiver instructed its Quebec counsel to formally confirm and accept November 8, 2005 as the date for Mr. Xanthoudakis' examination;
- h) On October 30, 2005 Blakes in Montréal confirmed Mr. Xanthoudakis' presence for an examination for November 8, 2005;
- i) On November 2, 2005 the Receiver's Quebec counsel received a letter from another law firm who advised that they were now representing Mr. Xanthoudakis in replacement of Blakes. Mr. Xanthoudakis' new lawyers also sought an adjournment of the examination set for November 8, 2005 and alleged that the Receiver's Quebec counsel was in a conflict of interest and would have to withdraw from this mandate. Quebec counsel for the Receiver believe that they do not have any conflict and, in fact, no allegations of conflict were ever previously asserted in any of the subject legal proceedings dating back to June 30, 2005 (the date that the Québec Superior Court first came in aid of this Honourable Court pursuant to the Initial Order).
- j) On November 3, 2005, Quebec counsel for the Receiver wrote to Mr. Xanthoudakis' lawyers indicating that they were not in conflict and that the Receiver would not in agreement to postpone the examination;
- k) On November 4, 2005 Mr. Xanthoudakis' lawyers replied by indicating that a motion would be filed contesting the Receiver's Quebec counsels' right to act in this matter. On the same date, the Receiver's Quebec counsel replied to Mr. Xanthoudakis' lawyer urging him to reconsider his decision not to permit his client to be examined on November 8, 2005. Mr. Xanthoudakis' lawyers replied suggesting an alternative date of November 11, 2005 on the condition that the



Receiver's Quebec counsel withdraw. The Receiver's Quebec counsel advised that November 11, 2005 was not acceptable and that they would vigorously contest any attempt to have their firm removed;

- l) On November 8, 2005, Mr. Xanthoudakis' lawyer replied that they were proceeding with a motion to have the Receiver's counsel removed from the file. Mr. Xanthoudakis did not attend for examination on November 8, 2005; and
- m) On November 11, 2005 the Receiver's Quebec counsel was served with a motion to have them disqualified in this matter.

A copy of the numerous letters and e-mails evidencing the above exchange of correspondence is attached at Schedule "F".

- 42. The Receiver believes that an order is necessary to have Mr. Xanthoudakis attend for examination by the Receiver on a date to be determined by this Honourable Court. The Receiver believes that it has made sufficient and reasonable efforts to examine Mr. Xanthoudakis.

#### **Taking Possession of the Assets, Book and Records**

- 43. Upon its appointment as Receiver on June 29, 2005, the Receiver took possession of all the books, records and fixed assets located in the Montréal and Toronto premises formerly occupied by NAM ("NAM Premises"). The NAM fixed assets were mainly comprised of office furniture and computer hardware.
- 44. Given the relatively nominal value of the NAM fixed assets, the Receiver completed a private call for tenders, which resulted in offers being received from five (5) liquidators. The Receiver sold these assets for approximately \$75,000 and is currently holding these proceeds in trust, pending the resolution of a purported competing claim.
- 45. Upon taking possession of the NAM Premises, the Receiver determined that a significant number of documents and files had been removed from the premises prior to its arrival.

There were also indications that computers had been removed from the NAM Premises. The Receiver has been unable to determine whether the missing documents and files related to the Norshield Companies or whether they related to other "Norshield" entities ("Related Entities") that were not subject to the Receivership Order.

46. The Receiver performed a full backup of all the data and information stored on the servers and personal computers located on the NAM Premises. The Receiver noted that these electronic records also pertain to the Related Entities and/or certain of their directors, officers and shareholders.
47. As indicated in the First Report, an agreement dated July 11, 2005 was entered into between the Receiver and the Related Entities ("Records Protocol") to address the Receiver's authority to access the electronic records. A copy of the Records Protocol is attached hereto as Schedule "G". Pursuant to the Records Protocol, the electronic records were segregated between those pertaining to the Respondents ("Respondent Files") and those pertaining to other entities and/or persons ("Disputed Files").
48. The Receiver estimates that the volume of data comprising the Disputed Files amounts to approximately 488 gigabytes. Under the terms of the Records Protocol, a third party who, in the Receiver's opinion, would have both the appropriate legal expertise and commercial experience, should be appointed to review the Disputed Files to determining the Receiver's entitlement thereto. The Receiver estimates that it would take that third party at least 60-80 hours to review the Disputed Files at a cost of over \$50,000 including the time charges of the Receiver's representative who must also attend during the whole review process. Under the terms of the Records Protocol, part of these costs would be absorbed by those parties purporting to have an interest in the Disputed Files.
49. The Receiver now believes that it needs to gain access to the Disputed Files in order to obtain a more complete understanding of the flow of funds and assets of the Norshield Companies and to determine if any investor funds flowed into or through the Related Entities. The information contained in the Disputed Files may materially supplement the

limited information that the Receiver currently has access to and may be of substantial assistance to the Receiver in fulfilling its mandate.

50. The Receiver believes that it is in the best interests of the investors that the Court annul the Records Protocol and grant the Receiver access to the Disputed Files, given the significant cost relating to the review process contemplated under the Records Protocol, the significant shortfall that is anticipated to be realized by the investors and the interrelationships between the Norshield Companies and the Related Parties and certain of their directors, officers and shareholders.
51. Based on the Receiver's preliminary review, the available records appear to be incomplete. The information and conclusions contained in the Second Report are subject to change in the event that any further information becomes available.

### **The Expanded Orders**

52. Based upon its review of the books and records of the Norshield Companies, the Receiver noted a certain degree of financial inter-relationship between the Norshield Companies and Norshield Capital Management and Honeybee Software (formerly Norshield Investment Corporation).
53. The Receiver further noted that the accounting records of NAM as at June 30, 2005 showed indebtedness due from Honeybee Software of approximately \$2.7 million.
54. Mendota Capital Corporation (formerly known as Comprehensive Investor Services Ltd.) ("Mendota"), claims that it was owed in excess of \$29 million by Norshield Capital Management and \$18 million by Honeybee Software, and that it held a first ranking security on the assets of Norshield Capital Management and Honeybee Software as well as on the assets of NAM by virtue of a corporate guarantee. The Receiver has not yet been able to determine the validity of these claims or the underlying security.
55. On July 29, 2005, Mendota made a motion to foreclose on the assets of Honeybee Software and Norshield Capital Management in satisfaction of its purported secured

indebtedness. The Receiver has requested but has not received any documentary evidence supporting Mendota's purported claims.

56. On July 27, 2005 the Receiver informed, in writing, Mendota's legal counsel that NAM was under receivership pursuant to the Initial Order and on September 19, 2005, the Receiver issued a Notice to Suspend proceedings against Honeybee Software and Norshield Capital Management to Mendota pursuant to the Expanded Orders.
57. Subsequent to the issuance of the September 9<sup>th</sup>, 2005 Expanded Order, it came to the Receiver's attention that Norshield Investment Corporation had amalgamated with Honeybee Software Technologies Inc. on June 22, 2005. The Receiver brought a motion to this Honourable Court to amend the September 9<sup>th</sup> Expanded Order to reflect this amalgamation. Pursuant to the Order of the Ontario Court dated October 14, 2005, the reference to "Norshield Investment Corporation" in the September 9<sup>th</sup> order was deleted and replaced with the name "Honeybee Software Technologies Inc./Technologies de Logiciels Honeybee Inc."

#### **Identification of Retail Investors and Corresponding Claims**

58. To obtain an understanding of the flow of investments from the Retail Investors as well as the timing and values at which redemptions were made prior to the Receiver's appointment, the Receiver contacted Unisen Inc. ("Unisen"), which performed the administration function on behalf of Olympus Funds. The Receiver does not have any reason to believe that Unisen is in any way related to the Norshield Companies.

59. The Receiver has been provided with a chronological listing, by investor, of all subscriptions and redemptions of Olympus Funds and its predecessor, First Horizon Holdings Ltd. The Receiver has compiled the information obtained from Unisen to determine the value of subscriptions and redemptions by year as well as in the aggregate. The Receiver's preliminary findings are summarized as follows:

<b>Olympus Funds</b>						
<b>Summary of Subscriptions and Redemptions by Year<sup>(1)</sup></b>						
Years	SUBSCRIPTIONS		REDEMPTIONS		NET	FUNDS INVESTED AT YEAR END
	In CDNS	% of Total	In CDNS	% of Total		
1993	\$ 4,552,480	2%	\$ -	0%	\$ 4,552,480	\$ 4,552,480
1994	6,430,576	2%	-	0%	6,430,576	10,983,056
1995	2,771,446	1%	(129,443)	0%	2,642,004	13,625,060
1996	1,617,306	1%	(390,563)	0%	1,226,742	14,851,802
1997	2,485,124	1%	(336,494)	0%	2,148,630	17,000,432
1998	568,832	0%	(1,577,450)	1%	<b>(1,008,618)</b>	15,991,814
1999	2,509,769	1%	(3,081,545)	2%	<b>(571,776)</b>	15,420,038
2000	6,904,478	2%	(3,626,328)	2%	3,278,150	18,698,187
2001	65,271,345	22%	(6,908,471)	4%	58,362,875	77,061,062
2002	90,000,927	31%	(18,355,877)	11%	71,645,051	148,706,113
2003	48,673,395	17%	(41,680,738)	26%	6,992,657	155,698,770
2004	56,111,628	19%	(65,890,606)	41%	<b>(9,778,979)</b>	145,919,791
To June 30, 2005	<u>5,326,912</u>	<u>2%</u>	<u>(19,264,600)</u>	<u>12%</u>	<u><b>(13,937,688)</b></u>	<u>131,982,102</u>
<b>Total</b>	<b><u>\$ 293,224,217</u></b>	<b><u>100%</u></b>	<b><u>\$ (161,242,115)</u></b>	<b><u>100%</u></b>	<b><u>\$ 131,982,102</u></b>	<b><u>\$ 131,982,102</u></b> <sup>(2)</sup>

**Note 1: Based on data provided by Unisen.**  
**Note 2: Approximately 1,900 investors as at June 30, 2005.**

60. As noted in the above table, approximately \$132 million of funds invested are held by approximately 1,900 investors in Canada ("Retail Investors").

61. The Receiver has been in regular communications with numerous Retail Investors to address their queries regarding their outstanding investments in the Olympus Funds as well as setting up a toll-free number along with a dedicated website.

**SECTION 3—INVESTMENT STRUCTURE OF THE NORSHIELD COMPANIES,  
OLYMPUS UNIVEST AND MOSAIC**

62. Prior to its appointment as Receiver, RSM Richter was retained by NAM on June 1, 2005, pursuant to certain orders of the Ontario Securities Commission and the Autorité des Marchés Financiers, to, among other things, monitor the financial and business affairs of NAM, Olympus Funds and Olympus Bank. In the course of such engagement, RSM Richter prepared a Preliminary Report, dated June 21, 2005 (“Preliminary Report”) which was included as an exhibit to the First Report.
63. In the Preliminary Report, RSM Richter included an organizational chart, which the Receiver has reproduced in this Second Report with certain modifications to reflect new information obtained. This revised organizational chart is attached hereto as Schedule “H”.
64. Schedule “H” illustrates an intricate and complex investment structure involving a multitude of jurisdictions and corporations, through which approximately 1,900 Retail Investors, mainly Canadian, could pursue a particular trading strategy or series of strategies by purchasing one or more of the twelve specific classes of shares of Olympus Funds. The money generated from the sale of each class of shares was to have been invested with one or more hedge fund managers who employed the corresponding trading strategy.
65. As the monies from the Retail Investors flowed from Olympus Funds into Olympus Bank in Barbados, the particular investment strategy chosen by each Retail Investor was to have been preserved by having these monies invested in distinct segregated cells that were established to follow the particular investment strategy. Furthermore, and in accordance with Barbados law, the assets within each distinct cell were protected from the creditors of other segregated asset cells and from the general liabilities of Olympus Bank.
66. Olympus Bank then invested a portion (between 10% and 15%) of the assets with a limited number of independent hedge fund managers as part of an “overlay” program or as part of a “tactical trading” program using proprietary trading software. These assets remained at the Olympus Bank level.

67. The balance of the assets (representing between 85% and 90% of the monies originating from the Retail Investors) was invested into Olympus Uninvest in The Bahamas.
68. Olympus Uninvest is an entity which is apparently controlled by BICE International Inc., a Bahamian corporation whose beneficial owners could not be identified by either John Xandoudakis, during informal discussions with the Receiver or by Dale Smith, a former director of Olympus Uninvest, during his examination. The Receiver notes that in Olympus Funds' offering memorandum, dated June 21, 2004, there is a declaration that BICE International Inc. was not associated or affiliated with Olympus Funds or Olympus Bank.
69. Olympus Uninvest was created in 1990 and its structure evolved over the years as its size and sources of investments grew. In September 2003, Olympus Uninvest formalized its "fund" structure by incorporating nine strategy-specific investee companies ("Strategy Funds").
70. Under the structure, Olympus Uninvest received and consolidated assets originating from three sources:
  - a) Retail Investors in the manner described above;
  - b) Pension funds and financial institutions, located in Canada and elsewhere ("Institutional Investors"); and
  - c) Individuals and entities who invested directly in Olympus Uninvest ("Direct Uninvest Investors"). The assets brought into Olympus Uninvest by this category of investor were made up of cash or cash equivalents, and/or assets "in kind".  
  
(collectively "Olympus Preference Shareholders")
71. Based on informal discussions with John Xandoudakis as well as the testimony of Dale Smith, it appears that between \$40 and \$100 million of investments received by Olympus Uninvest were assets "in kind". However, both individuals could not provide any further details as to the identities of those investors, the nature of such assets, the value or method of valuation thereof nor how much of such investors' shares were subsequently redeemed.

72. The Olympus Preference Shareholders were issued, in exchange for their cash and/or assets “in kind” investments, shares from one of the seven classes of preference shares (“Olympus Preference Shares”) issued by Olympus Uninvest. As represented in Olympus Uninvest’s January 2004 offering memorandum, the Olympus Preference Shares had, *inter alia*, the following principal characteristics:
- a) non-voting;
  - b) participating;
  - c) preferential over common shares, but *pari passu* as among each other; and
  - d) to be issued or redeemed at the net asset value (“Net Asset Values”) per share at a particular valuation date.
73. According to the same Olympus Uninvest offering memorandum, the Net Asset Values attributable to each class of shares was to be determined by Olympus Uninvest’s administrator, namely Cardinal International, in accordance with International Accounting Standards including, *inter alia*, the following:
- a) the value of the underlying portfolio of investments made by one of the Strategy Funds directly into managed accounts, through hedge funds or via counterparties;
  - b) the value of the liabilities of the Strategy Funds, including all accrued expenses, brokerage commissions and interest expense;
  - c) both realized and unrealized capital gains and losses and unrealized appreciation and depreciation;
  - d) accruals for fees and expenses (i.e. management, advisory, administrative, etc.); and
  - e) cash in the bank.



74. Olympus Uninvest in turn invested, either directly or through the Strategy Funds, the consolidated assets of the Olympus Preference Shareholders into Mosaic, another Bahamian entity whose beneficial ownership could not be identified by either John Xanthoudakis or Dale Smith.
75. Mosaic attempted to mirror the Olympus Uninvest investment structure by way of an investment agreement (“OUL/MCL Investment Agreement”). To assist this Honourable Court in its appreciation of the investment structure at the Mosaic level, the Receiver is attaching hereto the following two schedules:
- a) Schedule “I” – which is a reproduction of a document, prepared by Dale Smith and apparently reviewed by John Xanthoudakis, that formed part of the report, dated July 27, 2005, submitted by Culmer; and
  - b) Schedule “J” – prepared by the Receiver, which graphically illustrates the flow of funds from Olympus Fund/Olympus Bank to Olympus Uninvest to Mosaic. This schedule also shows in which entity the Olympus Preference Shareholders made their respective investments.
76. According to Schedule “I” as well as information obtained from Dale Smith during his examination, the OUL/MCL Investment Agreement provided that Mosaic undertook to guarantee the following in favour of Olympus Uninvest:
- a) To deliver 100% of the underlying net asset value of the Olympus Uninvest portfolio;
  - b) To provide the Olympus Preference Shareholders with hedge fund returns on 100% of their investments;
  - c) To be responsible for and pay any outstanding indebtedness (including capital, interest and fees) owing by Mosaic to third parties in respect of the assets provided by the Olympus Preference Shareholders;
  - d) To maintain cash reserves to meet liquidity needs;

- e) To absorb all foreign exchange risk; and
- f) To assume all settlement risks.

77. Neither the Receiver nor Culmer has yet to receive a copy of the OUL/MCL Investment Agreement despite various requests made to Messrs. Xanthoudakis and Smith as well as the representatives of Cardinal International and Mosaic.

78. In reviewing Mosaic's audited financial statements as at September 30, 2003 (last available audited statements), the Receiver notes that Mosaic's shareholders' equity consists of the following components:

Description	Book value	Characteristics
Olympus Preference Shares (Classes A through J inclusive)	US\$431,356,253	Non-voting; participating
Preference Ordinary Shares	100,000	Voting; non-participating
Retained Earnings	<u>1,366,381</u>	
<b>Total</b>	<b>US\$<u>432,822,634</u></b>	

79. The above table illustrates that, as at September 30, 2003, virtually 100% of Mosaic's equity was attributable to the Olympus Preference Shareholders and that only US\$100,000 was invested by the holders of the Preference Ordinary Shares to support Mosaic's undertakings pursuant to the OUL/MCL Investment Agreement.

80. By virtue of the OUL/MCL Investment Agreement, there was a notional separation of assets within Mosaic whereby its assets were divided into two categories:

- a) "Hedged Assets"; and
- b) "Non-hedged Assets".

81. According to information received from both John Xanthoudakis, during informal discussions, and Dale Smith during his examination, the Hedged Assets were “earmarked” for the exclusive benefit of the Olympus Preference Shareholders and the Non-hedged Assets were for the exclusive benefit of Mosaic, subject to its obligations pursuant to the OUL/MCL Investment Agreement. Therefore, it would appear that any gains or losses realized on the Hedged Assets would be attributable to the Olympus Preference Shareholders while any gains or losses realized on the Non-hedged Assets would be for the sole account of Mosaic. In his testimony, Dale Smith described such notional separation as follows:

*P.92 “Q. I’m asking more specifically about the NAV values that were used for the subscription and redemption of investments. Were those NAV values based upon the – in part upon the value of the investments in the Channel Funds that are reflected in the Schedule Exhibit R-2?”*

*A. No, they are not based at all on that. They’re based strictly on the values of the RBC option basket and the tactical trading and managed futures assets which are the assets of [Mosaic] Composite which are earmarked, if you wish, as assets belonging to the Olympus Uninvest investors. The other assets of Composite are simply there as collateral assets to support the option leverage.*

*They’re not intended to be a part of the value equation at all and to give you an example, if these investments in Mosaic Composite had been wildly successful and made a billion dollar profit, that profit would not belong or was not intended to belong to the investors. The same as if they made a billion dollar loss, the loss was not intended to be borne by the investors.*

*Q. But in fact if there had been a billion dollar profit, based upon your understanding that profit would belong exclusively to Mosaic Composite Limited, is that correct?”*

*A. If the profit were made on the assets that were not earmarked to the Olympus Uninvest investors, that is correct.*

*Q. Well, if there had been a billion dollar profit on the Channel Fund investments, that billion dollar profit would have accrued solely to Mosaic Composite Limited?*

*A. That's correct.*

*Q. Whereas if there had been a loss of a billion dollars in the Channel Fund investments, then Mosaic Composite Limited would not have been able to meet its obligations to Olympus Uninvest Limited and Olympus Uninvest Limited and its investors would have borne the entire brunt of the loss, is that correct?*

*A. That's correct. That's the way the structure was set up in my understanding. The same way as if the RBC option and the tactical trading and managed futures, if it made a billion dollar profit, the whole billion dollars would belong to the investors of Olympus Uninvest. None of it would belong to Mosaic Composite. And if they made a billion loss at the RBC option, it would be totally borne by the Olympus Uninvest investors. It was like those two groups of assets were for different people."*

82. Dale Smith testified that despite the obligations apparently contained in the OUL/MCL Investment Agreement, in the event that there was an erosion of value in the Non-hedged Assets of Mosaic or if these assets could not be converted to cash to satisfy any call on any leverage that may have been outstanding and secured by the Hedged Assets, these latter assets would be required to be liquidated to repay such leverage.
83. The Hedged Assets consisted of the following underlying assets:
- a) A Cash-Settled Equity Barrier Call Option with the Royal Bank of Canada ("RBC SOHO Option");
  - b) A managed futures account; and
  - c) A tactical trading account.

84. The RBC SOHO Option is a financial instrument by which Mosaic could gain access to a basket of portfolio investments upon payment to the Royal Bank of Canada of an amount (“Premium” as described below) which was equal to a percentage (between 15% and 25%) of the total value of said basket of portfolio investments (“Exposure” as described below). The difference between the Premium and the Exposure represented the leverage that was inherent in the RBC SOHO Option (“Leverage”). For illustration purposes, the Receiver has prepared the following table which explains in more detail each component of this financial instrument. In addition, the Receiver is attaching as Schedule “K”, an example of a confirmation that Mosaic would have received from the Royal Bank of Canada confirming its position within this option.

<b>Component</b>	<b>Amount, as at June 30, 2005 (Schedule “K”) for illustration purposes only</b>	<b>Description</b>
Exposure	\$220,946,708	Represents the gross value of the basket of portfolio investments and securities, managed by approximately 15-20 managers, each having a specific investment strategy which was intended to mirror the strategies of the Strategic Funds.
Leverage	\$183,548,023	Represents the amount of leverage inherent in the RBC SOHO Option owing to the Royal Bank of Canada as a margin loan secured by the basket of portfolio investments and securities of the Exposure.
Premium	\$ 37,398,685	Represents the difference between the Exposure and the Leverage which constitutes the equity inherent in the RBC SOHO Option.

85. The other components of Mosaic’s Hedged Assets consisted of two trading activities, one activity dealing with managed futures and another activity dealing with tactical trading. According to Dale Smith during his examination, both these accounts represented, at any given time prior to 2004, between 10% and 15% of the aggregate value of the assets provided by the Olympus Preference Shareholders and were always managed by representatives of the Norshield Companies under the direction of John Xanthoudakis.

86. Based on the audited financial statements of Mosaic, as at September 30, 2003, it would appear that the Hedged Assets totalled approximately \$465 million (US\$387 million). The Leverage owing to the Royal Bank of Canada under the RBC SOHO Option and secured by the basket of securities within the RBC SOHO Option totalled approximately \$360 million (US\$300 million).
87. According to both John Xanthoudakis, during informal discussions with the Receiver, and Dale Smith during his examination, the Net Asset Values which were provided, on a weekly basis, by Mosaic for presentation to the Olympus Preference Shareholders and indirectly to the Retail Investors (flowing up through Olympus Bank and Olympus Funds) were calculated solely on underlying value of the Hedged Assets of Mosaic. Furthermore, the Leverage inherent in the RBC SOHO Option was not included in the calculation of the Net Asset Values because of Mosaic's obligation, pursuant to the OUL/MCL Investment Agreement, to assume all responsibility for the outstanding balance owing on the Leverage.
88. The method of calculation of the Net Asset Values used by the Norshield Companies, Olympus Uninvest and Mosaic as described above, may have resulted in incorrect and possibly inflated subscription and redemption values. To the extent that the underlying value of certain of the Non-hedged Assets was impaired and Mosaic could not fulfill its obligations pursuant to the OUL/MCL Investment Agreement, the values at which the Olympus Preference Shares were subscribed and/or redeemed, would have been inflated. In addition, any inflated redemption values could have contributed to the lack of liquidity of the Norshield Companies and Olympus Uninvest.
89. The Receiver obtained and reviewed, on a test basis, the Net Asset Values calculations for certain of the weeks during 2004 and 2005 and can confirm that the Net Asset Values presented to the Olympus Preference Shareholders, either at the Olympus Uninvest level or the Olympus Funds level were based exclusively on the Hedged Assets of Mosaic as well as any other portfolio assets that existed at the Olympus Bank level, less fees and expenses, without regard to the Leverage relating to the RBC SOHO Option. The Receiver also noted that the value of the Non-hedged Assets of Mosaic was not included in the calculation of the Net Asset Values.

90. The Non-hedged Assets consisted of the following underlying assets;
- a) Investments (represented by equity shares and/or debentures) in a group of Bahamian entities, namely Channel Fixed Income Fund Ltd., Channel F.S. Fund Ltd., Channel Technology Fund Ltd., and Channel Diversified Private Equity Fund Ltd.; and
  - b) Cash and sundry other assets.
91. Based upon the information contained in this Section of the Receiver's Second Report, the Receiver has reached the following preliminary conclusions:
- a) It would appear that all of the funds invested by Retail Investors, Institutional Investors and Direct Uninvest Investors were invested by Olympus Uninvest in Mosaic;
  - b) The terms and the existence of the OUL/MCL Investment Agreement and the potential risks inherent in that agreement for the investors in Olympus Uninvest do not appear to have been disclosed in any offering memorandum;
  - c) The notional segregation of assets within Mosaic between the Hedged Assets in which investors had a financial interest and the Non-hedged Assets in which investors did not have a financial interest, does not appear to have been disclosed in any offering memorandum;
  - d) The investments by Mosaic in illiquid companies within the Channel Entities appear not to have been disclosed in any offering memorandum; and
  - e) It appears that there was no disclosure to the Olympus Preference Shareholders of the alleged acceptance by Olympus Uninvest of subscriptions "in kind" and the apparent ability of such subscribers to redeem their shares for cash. Furthermore, they apparently did not disclose the nature of the assets contributed, the identity of the subscribers, nor the basis of valuation of these contributions.

92. A complete description of the underlying assets which constitute both the Hedged Assets and Non-hedged Assets of Mosaic is provided in the following Section 4 – Assets Identified and Estimated Recoveries.



#### **SECTION 4 – ASSETS IDENTIFIED AND ESTIMATED RECOVERIES**

93. In view of the Norshield Companies and Olympus Uninvest investment structures as described in the previous section, this section has been divided into the following sub-sections:
- a) Assets of Norshield Companies;
  - b) Assets of Olympus Uninvest; and
  - c) Assets of Mosaic.
94. **The Receiver emphasizes that the following tables and comments reflect only estimated gross realizations and do not constitute the Receiver’s estimate of net recoveries that may accrue to the Olympus Preference Shareholders. Based on the information currently available and the Receiver’s assessment of the potential impact of numerous factors, which include, without limitation, those listed below, the ultimate realization on these assets and subsequent recoveries to investors may be substantially less due to:**
- a) **the illiquid nature of many of the assets identified;**
  - b) **the existence of competing claims;**
  - c) **the erosion of value of the assets during the realization process;**
  - d) **the costs of realization, including professional fees, which could be substantial due to the complex and multi-jurisdictional investment structure and possible protracted litigation; and**
  - e) **the difficulty in establishing ownership rights.**

##### **Assets of Norshield Companies**

95. As previously indicated, the primary focus of the Receiver since the issuance of the Initial Order has been to identify and take possession of and/or obtain control over the assets of the Norshield

Companies, despite the difficulties encountered as a result of the absence of complete and up-to-date accounting records.

The actions instituted by the Receiver to recover the assets of the Norshield Companies, described in detail in Section 2 of this Second Report, have resulted in the following recoveries to date:

Norshield Entity	Amount Recovered	Nature of Asset/Comments
NAM	\$ 366,000	Bank account balances/receivables/fees
Olympus Funds	1,231,000	Bank account balances
Olympus Bank	<u>2,438,000</u>	Bank account balances/investment funds
<b>Total</b>	<b><u>\$4,035,000</u></b>	

96. The Receiver has further identified the following assets of Olympus Bank in respect of which the Receiver's realization efforts are continuing:

Description	Preliminary Estimated Value	Recovery Efforts
Managed Funds	\$2,425,000	Receiver has requested the liquidation of assets under management;
Real Estate	<u>2,000,000</u>	Ownership of property located in Barbados; estimated preliminary value based on recent valuation and option to purchase granted current lease.
<b>Total</b>	<b><u>\$4,425,000</u></b>	

97. The above tables summarize that the aggregate gross value of the assets realized and identified (but not yet realized) to date by the Receiver at the Norshield Companies level approximates \$8.5 million. Assuming that outstanding claims of the Retail Investors at the Olympus Funds level amounts to approximately \$132 million, it is evident that there will only be a nominal recovery for the Retail Investors.
98. In addition to the assets identified above, the Receiver has also found evidence that investments may have been made by one or more of the Norshield Companies, either directly or indirectly, over a period of many years in respect of a number of entities which include:
- a) Véhitec Inc.;
  - b) Les Productions Michael Mills Ltée.;
  - c) BCS Global Networks Inc.;
  - d) Eboat Inc. (91190496 Quebec Inc.);
  - e) Investissements Lexxus Inc.;
  - f) Automobile Sportiva Inc. ;
  - g) Les Corporations des Systèmes Meta-4 ;
  - h) Maurcval Holdings;
  - i) Gisco, Compagnie d'assurance;
  - j) Composite VCI Inc.;
  - k) Microslate Inc.;
  - l) Oceanwide Inc.;

- m) AMT International Mining Corp.; and
  - n) Niocan Inc.
99. The Receiver has been unable to determine, with any degree of certainty, the nature or form of the investments made by the Norshield Companies in these aforementioned entities nor whether assets originating from the Retail Investors, Institutional Investors and/or the Direct Uninvest Investors were utilized in this regard. Some of these entities will appear as assets of the Channel Entities, as assets of other entities or may have been disposed of. Consequently, the Receiver is not attributing any value to these investments until additional information is obtained (except those companies referred to in paragraph 117.)
100. In addition to the assets realized and identified above, there could be additional recoveries accruing to the Retail Investors from the following sources:
- a) Olympus Uninvest (flowing up from Mosaic and the Channel Entities as described below);
  - b) Unidentified assets following a further review of the books and records and other supporting documents; and
  - c) Amounts recovered from litigation.

Due to the uncertain nature of these sources, the Receiver is unable to estimate the amount of any additional recoveries.

#### **Assets of Olympus Uninvest**

101. As previously indicated, Olympus Uninvest received investments originating from the Retail Investors, Institutional Investors and Direct Uninvest Investors. In addition to that portion of outstanding balance of investments of Retail Investors flowing from Olympus Bank (approximately 85% to 90% of \$132 million), it would appear that more than \$350 million of investments by the Institutional Investors and the Direct Uninvest Investors into Olympus Uninvest remains outstanding. Therefore, any recoveries from the assets of Olympus Uninvest may have to be shared amongst the three categories of investors.

102. The Receiver has been in continual communication with Culmer, the joint liquidator of Olympus Uninvest to identify any assets that may be realizable at the Olympus Uninvest level.
103. The Receiver was informed by Culmer, that the review of the books and records of Olympus Uninvest, identified an uncompleted wire transfer originating from Olympus Uninvest that was pending for many months in the amount of \$4.2 million (US\$3.5 million). After communicating with the financial institutions and the eventual beneficiary, Culmer was advised that the transaction has been completed. Culmer is presently determining the nature and timing of this transaction to determine what recourses, if any, can be taken to recover this potential asset.
104. Other than recoveries which may flow up to Olympus Uninvest from Mosaic, there does not appear to be other assets available for recovery at the Olympus Uninvest level for the benefit of the Olympus Preference Shareholders and, more particularly, the Retail Investors.

**Assets of Mosaic**

105. As described in paragraph 80, there was a notional separation of assets within Mosaic pursuant to the OUL/MCL Investment Agreement whereby the assets were categorized as follows:
  - a) Hedged Assets, consisting of the RBC SOHO Option as well as funds under management within managed futures and tactical trading programs; and
  - b) Non-hedged Assets, consisting of investments in the Channel Entities and various sundry assets.

*Hedged Assets of Mosaic*

106. It would appear that the RBC SOHO Option results from the March 2004 consolidation of two previously purchased call options; one purchased by Mosaic in July 1999 for a total premium of \$18 million (US\$15 million) and another purchased in June 2002 for a total premium of \$6 million (US\$5 million). Based on the examination of Dale Smith, both of these original call options were put in place by Mosaic upon the advice of John Xanthoudakis.
107. Based on the Receiver's review of documents filed in court proceedings instituted in New York, we understand that in November 2004, Mosaic assigned its interest in the RBC SOHO Option to MS-II, a Cayman Islands entity, in exchange for Class A and Class B shares, both of which were non-voting participating shares but with the Class A shares having a priority over the Class B shares. It also appears that Mosaic then sold, sometime in late 2004/early 2005, all of its Class A shares of MS-II to Merrill Lynch International for a total consideration of approximately \$36 million (US\$30 million).
108. It would also appear that the Royal Bank of Canada has now liquidated the RBC SOHO Option and an approximate Premium of \$44.4 million (US\$37 million) was realized.
109. The ownership and entitlement rights to the Premium are presently being contested in court proceedings both in New York and The Bahamas, by various parties including Merrill Lynch International (or connected entities) by virtue of its holdings in the Class A shares of MS-II and the liquidators of two other Bahamian entities, namely Globe-X Management Ltd. and Globe-X Canadiana Ltd., who claim that the monies originally used to purchase the call options belong to their creditors. The litigation is ongoing and the Royal Bank of Canada is currently holding the Premium amount until legal entitlement is established by a court of competent jurisdiction. To further complicate matters, MS-II was recently placed in liquidation in the Cayman Islands.
110. On the assumption that Mosaic is still the legal and beneficial owner of the Class B shares of MS-II and that the claim of the liquidators of Globe-X Management Ltd. and Globe-X Canadiana Ltd. is unfounded, Mosaic may be entitled to the residual value of the Premium of approximately

\$8.4 million (US\$37 million realized upon liquidation of the SOHO Option less the US\$30 million which accrues to the holder of the Class A shares, converted to Canadian dollars).

111. According to Dale Smith, the other component of Mosaic's Hedged Assets (within the managed futures and tactical trading programs) appear to have been liquidated during 2004 and 2005 to satisfy redemption requests received at the Olympus Uninvest level.

*Non-hedged Assets of Mosaic*

112. The principal component of Mosaic's Non-hedged Assets consisted of an investment in shares and debentures of the Channel Entities which were reflected on its September 30, 2003 financial statements at a book value of approximately \$368 million (US\$307 million). In addition, Mosaic's Non-hedged Assets also included cash and sundry assets.

113. During the Receiver's examination of Dale Smith, he produced a schedule summarizing the assets of the Channel Entities as at September 30, 2003, with comparative information for September 30, 2002 and June 30, 2001. This summary is attached hereto as Schedule "L". The Receiver was able to obtain the September 30, 2003 audited financial statements of each of the Channel Entities (except for Channel Diversified Private Equity Fund Ltd.), which provided further information relating to their assets.

Utilizing this schedule, Dale Smith described the underlying assets of the Channel Entities as at September 30, 2003, as follows:

Entity	Book Value (In US \$000's)	Explanations Provided in Dale Smith's Examination
Emerald Key Advisors	\$ 8,000	<ul style="list-style-type: none"> <li>▪ Bahamian entity; asset manager (between \$50 and \$100 million under management);</li> <li>▪ Beneficial controlling ownership not as yet determined by Receiver;</li> <li>▪ Basis of determining book value on the financial statements of the Channel Entities not as yet determined by Receiver.</li> </ul>
First Horizon Holdings Ltd. (name changed to Olympus Funds)	92,250	<ul style="list-style-type: none"> <li>▪ Holding company which raised capital and owns 100% of Olympus Bank;</li> </ul>

Entity	Book Value (In US \$000's)	Explanations Provided in Dale Smith's Examination
Olympus United Holdings Inc.	46,085	<ul style="list-style-type: none"> <li>▪ Beneficially owned indirectly by John Xanthoudakis;</li> <li>▪ Book value on the financial statements of the Channel Entities was based on the discounted value of the projected net income stream (from management and incentive fees) assuming some "reasonable" growth estimates to the asset base under management;</li> <li>▪ Above was prepared by an independent evaluator whose identity Dale Smith could not recall.</li> <li>▪ Represented a 62% ownership interest.</li> <li>▪ Holding company which owns Olympus Funds;</li> <li>▪ Owned directly or indirectly by John Xanthoudakis;</li> <li>▪ Book value on the financial statements of the Channel Entities was based on the discounted value of the projected net income stream (from management and incentive fees) assuming some "reasonable" growth estimates to the asset base under management.</li> <li>▪ Above was prepared by an independent evaluator whose identity Dale Smith could not recall.</li> <li>▪ Represented a 40% ownership interest.</li> <li>▪ According to Dale Smith, this asset was transferred to the Channel Funds in order to compensate for the impairment in the value of certain investments which took place in the fiscal period ended September 30, 2002</li> </ul>
Microslate Inc.	19,438	<ul style="list-style-type: none"> <li>▪ Canadian manufacturer and designer of mobile data equipment for public services and utilities.</li> <li>▪ Beneficial controlling ownership is Channel Funds and Norshield Capital Management /Norshield Investment Corporation.</li> <li>▪ Book value on the financial statements of</li> </ul>



Entity	Book Value (In US \$000's)	Explanations Provided in Dale Smith's Examination
		<p>the Channel Entities was based on consideration paid by Channel Technology Fund Ltd. on acquisition of its interest in Microslate Inc.</p> <ul style="list-style-type: none"> <li>▪ Represented a 65% ownership interest.</li> </ul>
<p>Oceanwide.com Inc. (name changed to Oceanwide Inc.)</p>	<p>14,735</p>	<ul style="list-style-type: none"> <li>▪ Canadian developer and processor of logistics software for the transportation, brokerage and insurance sectors.</li> <li>▪ Beneficial controlling ownership is held by the management group.</li> <li>▪ Book value on the financial statements of the Channel Entities was based on consideration paid by Channel Technology Fund Ltd. on acquisition of its interest in Oceanwide Inc.</li> <li>▪ Represented a 36% ownership interest.</li> </ul>
<p>Lonald Holdings N.V. (PRB S.A.)</p>	<p>3,221</p>	<ul style="list-style-type: none"> <li>▪ Paper recycling company located in Spain.</li> <li>▪ Beneficial controlling ownership is not as yet determined by Receiver.</li> <li>▪ Basis of determining book value on the financial statements of the Channel Entities not as yet determined by Receiver.</li> <li>▪ Represented a 17% ownership interest.</li> </ul>
<p>Vežina Composites Inc.</p>	<p>2,882</p>	<ul style="list-style-type: none"> <li>▪ Canadian manufacturer of composites and carbon fibres products.</li> <li>▪ Beneficial ownership was management and Société Générale de Financement.</li> <li>▪ Basis of determining book value on the financial statements of the Channel Entities not as yet determined by Receiver.</li> <li>▪ Represented a 49% ownership interest.</li> <li>▪ According to Dale Smith, the ownership interest was sold for \$1 dollar in 2004.</li> </ul>
<p>Niocan Inc.</p>	<p>1,540</p>	<ul style="list-style-type: none"> <li>▪ Public company listed on the TSX with interests in various mining projects in Québec.</li> <li>▪ Beneficial interest represented by 2 million shares of Niocan (ownership is to be determined).</li> </ul>

Entity	Book Value (In US \$000's)	Explanations Provided in Dale Smith's Examination
BDP Retirement Homes Inc.	1,000	<ul style="list-style-type: none"> <li>▪ Book value on the audited financial statements of the Channel Entities was based on the trading price of the shares.</li> <li>▪ Owner of a number of retirement homes in Québec.</li> <li>▪ Beneficial controlling ownership is as yet determined by Receiver.</li> <li>▪ Basis of determining book value on the financial statements of the Channel Entities not as yet determined by Receiver.</li> </ul>
AMT International Mining Corp.	1,000	<ul style="list-style-type: none"> <li>▪ De-listed Canadian public company with interests in a copper mine in Arizona, USA.</li> <li>▪ Nature of direct interest of Channel Entities in AMT International Mining Corp. not as yet determined by Receiver.</li> <li>▪ Basis of determining book value on the financial statements of the Channel Entities not as yet determined by Receiver.</li> </ul>
Cash – Cardinal International	3,524	<ul style="list-style-type: none"> <li>▪ Cash for investment or liquidity purposes.</li> </ul>
Due from Composite	360	<ul style="list-style-type: none"> <li>▪ May be amounts owed by Mosaic.</li> </ul>
Accounts Receivable	<u>149,466</u>	<ul style="list-style-type: none"> <li>▪ Dale Smith indicated that this represents a receivable from Bice International, the entity which controls Olympus Uninvest and whose shareholders could not be identified.</li> </ul>
<b>TOTAL</b>	<b><u>US\$343,500</u></b>	

114. Based on the information obtained from Dale Smith in his examination, it would appear that the interests of the Channel Entities in certain of above noted entities/assets may have been obtained by virtue of option agreements and, as such, legal title to such assets may still remain with the registered owners.

115. It further appears, from Dale Smith's testimony, that Mr. Xanthoudakis transferred his direct or his indirect interest in certain Norshield Companies and other entities to the Channel Entities in order to compensate for the apparent impairment of value of certain investments in the Channel

Entities such that Mosaic would have sufficient assets to support its obligations pursuant to the OUL/MCL Investment Agreement.

116. During his examination, Dale Smith stated that in his capacity as a director of Olympus Uninvest, he would review the status of Mosaic's investments in the Channel Entities on an annual basis once the audited financial statements of Mosaic and the Channel Entities were issued. With the exception of Olympus Funds, Microslate Inc., Oceanwide Inc. and AMT International Mining Corp., the entities for which he is currently or has recently been acting as a director or officer, he has limited knowledge regarding any continuing interest which the Channel Entities may have in the above-noted entities/assets as well as the current underlying value of any remaining entities/assets.
117. Based on the available information obtained by the Receiver from various sources as well as its analysis of the information and subject to the impact of the factors listed in paragraph 94, the following table is the Receiver's preliminary estimated liquidation value of certain of the underlying assets supporting Mosaic's investments in the Channel Entities as at November 14, 2005.

As previously noted, this estimate is based on September 30, 2003 audited financial statements (latest available) and the Receiver cannot adequately determine what transpired between said date and the date of the Initial Order:

Entity	Book Value as at September 30, 2003 (US \$000's)	Receiver's Preliminary Estimated Liquidation Value as at November 14, 2005 (CAN \$000's)	Commentary
First Horizon Holdings Ltd. (now Olympus Funds)	92,250	Nil	Entity in receivership.
Olympus United Holdings Inc.	46,085	Nil	No significant known underlying assets. Entity in receivership.
Microslate Inc.	19,438	Minimal	Entity is experiencing a significant liquidity crisis.
Oceanwide Inc.	14,735	7,500 to 15,000	Company is profitable but value is difficult to estimate.
Vezina Composites Inc.	2,882	Nil	Sold.
Niocan Inc.	1,540	800 to 1,600	Thinly traded stock and uncertainty as to commercialization of assets.
AMT International Mining Corp.	1,000	1,600	Canadian dollar equivalent of the proceeds from the sale of the underlying assets of the entity. The sale transaction also specifies an entitlement to a royalty stream which is currently difficult to quantify.
Cash – Cardinal International	3,524	Nil	Cardinal International's representative indicated that no cash reserves currently exist.
<b>TOTAL</b>	<b>\$181,454</b>	<b>\$9,900 to 18,200</b>	

118. The Receiver cannot provide a preliminary estimated liquidation value of the remaining underlying assets of the Channel Entities because of a lack of information available.

119. The cash and sundry assets of Mosaic, as reflected on its September 30, 2003 audited financial statements, consist of cash of \$26.6 million (US\$22 million) as well as two other categories of assets having an aggregate book value of \$64.8 million (US\$19.5 and US\$34.4 million). The Receiver was unable to obtain any specific information which could provide insight into these assets. According to Dale Smith, it would appear that any cash balances that Mosaic would have had in September 2003 were used to satisfy subsequent redemption requests received from Olympus Uninvest.
120. In conjunction with Culmer, the Receiver has identified that Mosaic may own shares of Premier Commercial Real Estate Investment Corporation, a publicly traded Bahamian entity having real estate holdings. The potential value of this asset is approximately \$6.6 million (US\$5.5 million), based on its current trading value and net asset value as at June 30, 2005. In addition, we understand that approximately \$600,000 (US\$500,000) of unpaid dividends may also be owing to Mosaic relating to these shares. The Receiver and Culmer are working together to obtain additional information on this potential Mosaic asset.

## **SECTION 5 – ADDITIONAL WORK TO BE COMPLETED BY THE RECEIVER**

121. The following is the additional work to be completed by the Receiver subsequent to this Second Report:

- a) Completion of examinations under oath of key individuals;
- b) Updating of the books and records and financial statements of the various Norshield Companies, all in an attempt to identify additional assets for recovery;
- c) Realization on any remaining assets;
- d) Forensic investigation with regard to:
  - (i) The calculations relating to the Net Asset Values;
  - (ii) The subscriptions and redemptions of the Retail Investors;
  - (iii) The outflow of assets from the Norshield Companies and Olympus Uninvest;
  - (iv) Various transactions “in kind” as described in the Dale Smith’s examination; and
  - (v) The fee structure within the Norshield Companies and related entities.
- e) Resolution of the various competing claims relating to certain of the Norshield Companies’ assets;
- f) Review the possibility of claims and recourses to recover losses sustained by the Retail Investors; and
- g) Initiate a claims process for the Retail Investors including:
  - (i) The confirmation of the balance of amounts invested;
  - (ii) The formation of a creditors’ committee; and
  - (iii) The scheduling of information meetings to be held in Montréal and Toronto before the end of January 2006.

## **SECTION 6 – RELIEF REQUESTED**

122. The Receiver respectfully recommends that this Honourable Court grant an Order:

- a) approving the activities of the Receiver as described in this Second Report;
- b) authorizing the Receiver to file a consolidated application for a bankruptcy order against each of the Norshield Companies subject to the Receivership Orders as well as any other corporate entities added subsequently to the Receivership Orders;
- c) authorizing the Receiver to commence proceedings and/or to participate in existing proceedings in Canada and elsewhere, including without limitation, receivership, bankruptcy, restructuring, liquidation, winding-up and civil proceedings in the United States of America, The Bahamas, Barbados, or any other jurisdiction with respect to Mosaic, the Channel Entities and/or Cardinal International;
- d) authorizing the Receiver to take steps to have the Receivership Orders, the Barbados Order and the Bahamas Order recognized in the United States (in particular the states of New York, Minnesota and Illinois);
- e) authorizing the Receiver to gain access to the Disputed Files; and
- f) directing John Xanthoudakis to attend for examination by the Receiver on a date to be determined by this Honourable Court as to his knowledge of the business and affairs of the Norshield Companies and all investments made directly or indirectly by or through the Norshield Companies.

All of which is respectfully submitted this 15<sup>th</sup> day of November 2005.

**RSM Richter Inc., in its capacity as**

Court –Appointed Receiver of the  
Norshield Companies (as defined herein),  
and with no personal or corporate liability.

A handwritten signature in black ink, appearing to read "Raymond Massi". The signature is fluid and cursive, with a large initial "R" and "M".

Raymond Massi