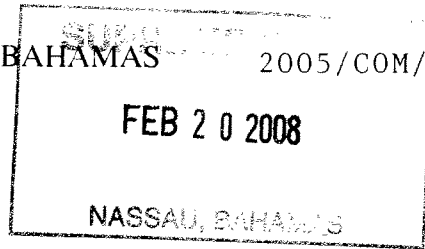


COMMONWEALTH OF THE BAHAMAS 2005/COM/bnk/00047

IN THE SUPREME COURT

Commercial Division



IN THE MATTER OF OLYMPUS UNIVEST LTD.  
(IN LIQUIDATION)

AND

IN THE MATTER OF THE INTERNATIONAL BUSINESS COMPANIES  
ACT,  
Chapter 309  
Statute Laws of The Bahamas, 2000 Edition

A F F I D A V I T

We, GEORGE CLIFFORD CULMER of Sans Souci in the Eastern District of the Island of New Providence, and RAYMOND MASSI, of the City of Montreal, Province of Quebec, Canada, make oath and say as follows:-

1. We were appointed Joint Official Liquidators of the above-named Olympus Uninvest Ltd. (In Liquidation) by this Honourable Court on the 6<sup>th</sup> day of February, 2006.
2. By an Order of this Honourable Court made on the 6<sup>th</sup> day of February, 2006, the Joint Official Liquidators are required to file with the court a report in writing as to the position of and the progress made in the winding-up of Olympus Uninvest Ltd. at intervals of three months.
3. Pursuant to the said Order a Report has been prepared by the Joint Official Liquidators as of the 31<sup>st</sup> day of December, 2007 and is exhibited hereto. We verily believe the contents of this Second Report to be true.
4. The said Report summarises the progress made since the date of our last report on 20 May 2006.

SWORN to at the city of Nassau )

In the Island of New Providence )

This 18<sup>th</sup> day of February, 2008 )

*G. B. Bulmer*

BEFORE ME,

*[Signature]*

NOTARY PUBLIC

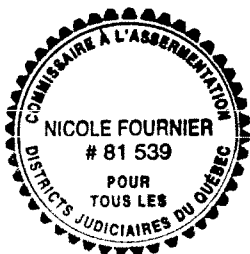
SWORN to at the City of Montreal )

In The Province of Quebec )

This 15<sup>th</sup> day of February, 2008 )

*[Signature]*

BEFORE ME,



*Nicole Fournier*

COMMISSIONER OF OATHS

**OLYMPUS UNIVEST LTD.  
(In Liquidation)  
c/o BDO Mann Judd  
P.O. Box N-10144  
Nassau, The Bahamas**

**BY HAND**

Supreme Court of the Commonwealth of The Bahamas  
Nassau, The Bahamas

**OLYMPUS UNIVEST LTD.  
(IN LIQUIDATION)  
SECOND REPORT OF THE JOINT OFFICIAL LIQUIDATORS  
TO THE COURT**

## **INTRODUCTION AND BACKGROUND**

### **Introduction**

1. This report constitutes the Second Report to the Supreme Court of the Commonwealth of The Bahamas (the “Bahamian Court”) of G. Clifford Culmer (“Culmer”) and Raymond Massi (“Massi”) in their capacity as the Joint Official Liquidators (“Olympus Uninvest JOLs”) in the liquidation of Olympus Uninvest Ltd. (“Olympus Uninvest”).
2. Reference is made to the First Report of Culmer, as voluntary liquidator, dated 27 July 2005, the Second Report of Culmer, as voluntary liquidator, and Massi, as provisional liquidator, dated 31 January 2006, and the First Report of the Olympus Uninvest JOLs dated 20 May 2006.
3. The complex, multi-jurisdictional investment structure within which Olympus Uninvest was operating (as described more fully within this report) has made the Olympus Uninvest JOLs’ task of identifying assets extremely difficult, time-consuming and costly. This task has been made difficult due to, among other things, the absence of complete up-to-date accounting and supporting records, incomplete documentation relating to transactions to which Olympus Uninvest was a party, and the need to seek relief from the courts of various foreign jurisdictions to assist in the recovery process.
4. The purpose of this Second Report is to provide the Bahamian Court with (i) a detailed report in respect of the progress of the liquidation generally since the First Report of the Olympus Uninvest JOLs; (ii) a description of the Olympus Uninvest JOLs’ activities and recovery efforts since the date of their appointment; (iii) the basis of the Olympus Uninvest JOLs’ belief that they have identified sufficient evidence of possible fraudulent and/or wrongful activities involving Olympus Uninvest and other entities within the Norshield Investment Structure (as described more fully within this Second Report) to warrant the involvement of police authorities and securities regulators in The Bahamas, Canada and other foreign jurisdictions; and (iv) a summary of the observations and findings of the Olympus Uninvest JOLs.

5. The Olympus Uninvest JOLs' review of any information referred to herein or on which this Second Report is based does not encompass an audit of the said information nor of the financial position or operating results of Olympus Uninvest and/or any of the entities described herein. The financial information presented below by the Olympus Uninvest JOLs, including any asset recovery information, remains subject to change in the event further information becomes available to the Olympus Uninvest JOLs. Any such additional information could affect the conclusions drawn by the Olympus Uninvest JOLs in this Second Report.
6. All references to dollars are in U.S. currency unless otherwise noted. Where amounts are reflected in the originating documents in a currency other than in U.S. dollars, they have been converted into U.S. dollars at the exchange rate in effect at the date of the transaction, where possible.

### **Corporate History**

7. Olympus Uninvest was incorporated as Seagull Investments Limited under the laws of The Bahamas on 20 April 1990.
8. Seagull Investments Limited changed its name to Uninvest Ltd. on 4 October 1990, and Uninvest Ltd. changed its name to its current name, Olympus Uninvest Ltd., on 18 September 2003.

### **Court Appointments – Olympus Uninvest**

9. Culmer, a partner of BDO Mann Judd, an accounting firm located in Nassau, in the Commonwealth of The Bahamas, was appointed voluntary liquidator of Olympus Uninvest by resolution of its common shareholders on 19 May 2005.
10. Massi, a partner of RSM Richter Inc, an accounting firm located in Montreal, Quebec, Canada was appointed provisional liquidator of Olympus Uninvest on 3 October 2005 pursuant to the Order of the Honourable Madam Justice Jeanne Thompson of the Bahamian Court.

11. Culmer and Massi were appointed Olympus Uninvest JOLs on 6 February 2006 by Order of the Honourable Madam Justice Jeanne Thompson of the Bahamian Court.

### **Court Appointments – Other Entities**

12. Olympus Uninvest was part of an intricate and complex corporate and investment structure involving multiple jurisdictions and corporations which included entities in Canada, in Barbados, in The Bahamas, and other jurisdictions. This structure, as more fully described below, is referred to in this Second Report as the “Norshield Investment Structure”.
13. RSM Richter Inc., the firm with whom Massi is a partner of, was appointed Receiver, pursuant to Orders of the Ontario Superior Court of Justice (Commercial List) in Canada (the “Ontario Court”) dated 29 June, 14 July, 9 September and 14 October 2005, of the following entities:
  - a) Norshield Asset Management (Canada) Ltd.;
  - b) Norshield Investment Partners Holdings Ltd.;
  - c) Olympus United Funds Corporation;
  - d) Olympus United Funds Holding Corporation;
  - e) Olympus United Bank and Trust SCC;
  - f) Olympus United Group Inc.;
  - g) Honeybee Software Technologies Inc. (formerly Norshield Investment Corporation);
  - h) Norshield Capital Management Corporation.
14. RSM Richter Inc. and Brian F. Griffith & Company, a Barbados accounting firm, were appointed Joint Custodians of Olympus United Bank and Trust SCC by Order of the Barbados High Court of Justice dated 22 September 2005.
15. Upon the petition dated and filed on 17 March 2006 and following a hearing on the winding-up petition against Mosaic Composite Limited (U.S.), Inc. (“Mosaic”) before the Honourable Madam Justice Albury of the Bahamian Court held on 23 January 2007, the

Bahamian Court issued an Order that Mosaic be wound up under the provisions of Section 93 of the International Business Companies Act, 2000 and Culmer and Massi were appointed Joint Official Liquidators of Mosaic (the "Mosaic JOLs").

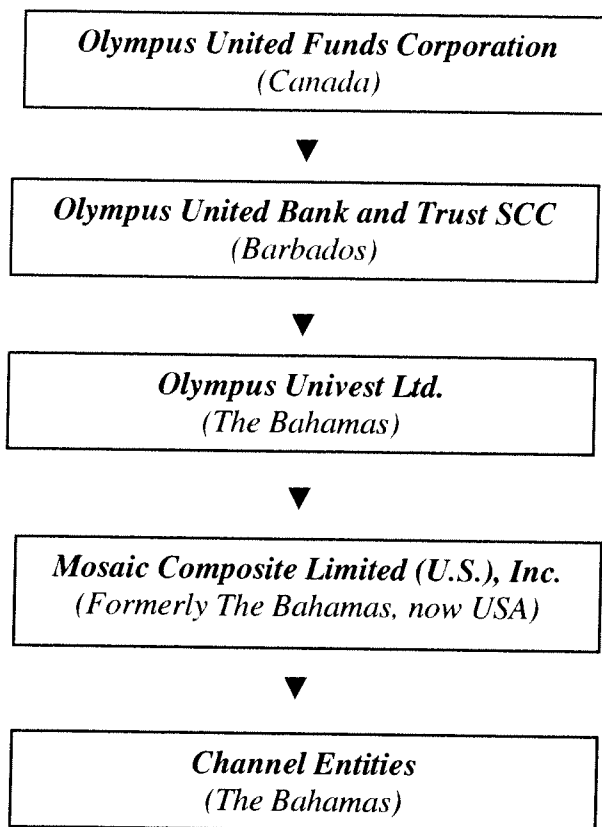
16. The aforementioned court appointments have been sought and obtained in all relevant jurisdictions to assure a cohesive, efficient and effective administration of the various liquidations referred to above in order to maximize the recovery of assets, to facilitate the investigation into the affairs of entities in liquidation, and to achieve a fair and equitable distribution of assets in all of the aforementioned liquidations.

### **Supplementary Court Orders**

17. Upon the application of the Olympus Uninvest JOLs made by way of a summons, supported by the affidavit of Culmer, both filed on 14 December 2006, Madam Justices Albury and Thompson authorized Culmer and Massi, as well as others whom they may direct, to use or permit the use of confidential information obtained in their capacity as Olympus Uninvest JOLs and Mosaic JOLs for the purposes of making reports to courts in other jurisdictions, including but not limited to, the Ontario Court.
18. Upon the application by the Mosaic JOLs made by way of a sealed summons dated 7 May 2007, Madam Justice Albury ordered on 9 May 2007, under and subject to seal, that the Mosaic JOLs are at liberty to pay from all sums realized in the liquidation of Mosaic and from those sums to be realized, all costs, professional fees and disbursements incurred by the Olympus Uninvest JOLs in the liquidation of Olympus Uninvest either within or outside of the jurisdiction.

## The Norshield Investment Structure

19. The flow of funds through the Norshield Investment Structure was as follows:



20. Olympus United Funds Corporation was a mutual fund investment vehicle. Each class of shares had a specific investment strategy. As at the date of RSM Richter Inc.'s appointment as Receiver to Olympus United Funds Corporation, the shares of Olympus United Funds Corporation were held by approximately 1,900 Canadian investors. The last net asset value of the outstanding shares of Olympus United Funds Corporation was approximately \$160 million.
21. Investments in Olympus United Funds Corporation flowed into its wholly-owned subsidiary, Olympus United Bank and Trust SCC in Barbados, wherein the said investments were purportedly segregated into different "cells" (as constituted according to Barbados banking laws) which, more or less, matched the investment strategies of each class of shares of Olympus United Funds Corporation.

22. Olympus United Bank and Trust SCC then invested its funds into Olympus Uninvest in The Bahamas. Olympus United Bank and Trust SCC's investments were co-mingled in Olympus Uninvest with investments received from pension funds and financial institutions, mostly from Canada, as well as other persons whose investments were made either in cash or by way of "in kind" contributions. At the time of Culmer's appointment as Voluntary Liquidator of Olympus Uninvest, on 19 May 2005, its equity amounted to approximately \$483 million.
23. Olympus Uninvest then invested, either directly or through other funds, in Mosaic. Mosaic, in turn, held investments in both hedged and non-hedged assets.
24. Mosaic's hedged assets consisted predominantly of two cash settled equity barrier call options with the Royal Bank of Canada which were consolidated into a single option on 31 March 2004 (the "RBC SOHO Option"). The RBC SOHO Option permitted Mosaic to invest in a basket of hedge funds managed by various fund managers. Furthermore, the RBC SOHO Option was highly leveraged such that the basket of hedge funds had a gross value of approximately six times the value of Mosaic's actual investment.
25. As at 30 September 2003, the date of the last audited financial statements of Mosaic, the RBC SOHO Option had a gross value of approximately \$300 million while Mosaic's actual investment therein (equity) was approximately \$50 million.
26. In addition to its significant value, the RBC SOHO Option was important to the Norshield Investment Structure because the gross value of the basket of hedge funds was the basis upon which the net asset value of the shares of Mosaic, Olympus Uninvest and Olympus United Funds Corporation, as reported to their investors, was substantially calculated.
27. The RBC SOHO Option was sold to a Cayman entity in November 2004 in exchange for shares of that Cayman entity.

28. Mosaic's non-hedged assets consisted mainly of investments in a number of private entities incorporated in The Bahamas in the late 1990s and early 2000s, namely:
- a) Channel Fixed Income Fund Ltd.;
  - b) Channel F.S. Fund Ltd.;
  - c) Channel Technology Fund Ltd.; and
  - d) Channel Diversified Private Equity Fund Ltd.
- (collectively, the "Channel Entities").
29. The Olympus Uninvest JOLs have assessed that Mosaic's investment in the Channel Entities has no value.
30. Under the Norshield Investment Structure, Mosaic purportedly undertook in favour of Olympus Uninvest to guarantee the following:
- a) To deliver 100% of the underlying net asset value, comprised principally of the RBC SOHO Option;
  - b) To provide hedge fund returns on 100% of its investments;
  - c) To be responsible for and to pay any outstanding indebtedness (including capital, interest and fees) owing in respect of the hedged assets;
  - d) To maintain cash reserves to meet liquidity needs;
  - e) To absorb all foreign exchange risks; and
  - f) To assume all settlement risks.
31. The Olympus Uninvest JOLs have discovered that the assets of Mosaic were grossly overstated and illiquid such that it could not fulfill its obligations to Olympus Uninvest as described above.
32. The Norshield Investment Structure gave the appearance of a large, diversified provider of alternative investment products. These products were promoted as "funds of funds" managed by professional managers who were experienced in various investment strategies.

33. The entities within the Norshield Investment Structure were purportedly independent of one another, such that Olympus United Funds Corporation/Olympus United Bank and Trust SCC were independent of Olympus Uninvest, Olympus Uninvest was independent of Mosaic, and Mosaic was independent of the Channel Entities.
34. John Xanthoudakis was an integral part of the Norshield Investment Structure. He determined investment strategies and had de facto control over the investment decision-making of the entities within the Norshield Investment Structure, including those entities located in The Bahamas as well as the foreign jurisdictions. Dale Smith was also a principal of the Norshield Investment Structure as he was an officer and/or director of various entities therein.

## **ACTIVITIES OF THE OLYMPUS UNIVEST JOLS**

### **Books and Records**

35. The Olympus Uninvest JOLs have continued their efforts to obtain the missing books and records of Olympus Uninvest. The most recent financial statements of Olympus Uninvest in the possession of the Olympus Uninvest JOLs are the unaudited financial statements for the year ended 30 September 2004. Incomplete records dating prior to and after 30 September 2004 were obtained by the Olympus Uninvest JOLs from Grant Thornton, auditors of Olympus Uninvest for the year ended September 30, 2003, and Stephen Hancock (“Hancock”), president of Cardinal International Fund Services Ltd. (“Cardinal”) and a former director of Olympus Uninvest.
36. Cardinal, a Bahamian company, was the fund administrator of Olympus Uninvest until late 2004, when Cardinal ceased operating.
37. The Olympus Uninvest JOLs were informed by Hancock that, prior to the termination of Cardinal’s operations, he provided a copy of Olympus Uninvest’s accounting records in electronic format to Dora Santchi and Matthew Smith, two representatives of Norshield Asset Management (Canada) Ltd. Massi demanded that these records be returned but both individuals deny having possession of these electronic files. Hancock further stated that Cardinal did not retain any back up copies of these electronic files and any remaining

hard copies of the books and records of Olympus Uninvest were allegedly destroyed by the storage company where they were allegedly kept, because of unpaid storage fees.

38. The Olympus Uninvest JOLs are very concerned with the difficulties encountered in obtaining the requisite books and records necessary to properly complete the administration and liquidation of Olympus Uninvest and the possibility that such books and records were either removed and/or destroyed.

### **Examinations under Oath**

39. In order to assist in the asset identification and recovery process, the Olympus Uninvest JOLs initiated actions to examine under oath certain parties who were believed to have information and/or documents relating to Olympus Uninvest and its activities.
40. The following parties have been examined:
- a) Hancock;
  - b) Paul Gomez, partner of Grant Thornton, in Nassau, The Bahamas, the auditors of Olympus Uninvest for the year ended September 30, 2003.
41. During the course of these examinations, the Olympus Uninvest JOLs obtained various documents relating to the activities of Olympus Uninvest including limited books and records and obtained as well the working papers of Grant Thornton.
42. In addition to the above noted examinations completed by the Olympus Uninvest JOLs, the Mosaic JOLs or RSM Richter Inc. in its capacity as Receiver in Canada, conducted examinations under oath of the following individuals:
- a) John Xanthoudakis, an officer and director of various companies within the Norshield Investment Structure;
  - b) Dale Smith, an officer and director of various companies within the Norshield Investment Structure;
  - c) Michael Maloney, a former director of Mosaic;
  - d) Lowell Holden, one of the last two remaining directors of Mosaic.

43. Culmer and Massi, acting in their dual capacity as Olympus Uninvest JOLs and Mosaic JOLs, also attempted to examine a representative of Deloitte & Touche, the former auditors of Olympus Uninvest, and to obtain any documents and/or information in their possession relating to Olympus Uninvest and Mosaic and their activities. By Orders dated 4 and 9 October 2006, the Olympus Uninvest JOLs and Mosaic JOLs were granted liberty to examine Deloitte & Touche through one of their partners regarding the affairs of Olympus Uninvest and Mosaic and at the same time to produce all books, paper records and documents of Olympus Uninvest and Mosaic in their possession, power and custody or control. A Penal Notice was attached to both of the above Orders.
44. By two summonses filed on 28 September 2007, the Olympus Uninvest JOLs and Mosaic JOLs applied for a further Order to enforce the above mentioned Orders made by Madam Justice Thompson and Albury on 4 and 9 October 2006. This application was vigorously opposed by Deloitte & Touche.
45. In the ensuing months, Madam Justice Thompson retired from the bench and carriage of this application was assumed by Madam Justice Albury. By Order rendered on 22 November 2007, Madam Justice Albury upheld Deloitte & Touche's opposition to the Olympus Uninvest JOLs' and Mosaic JOLs' application. On 6 December 2007, the Olympus Uninvest JOLs and Mosaic JOLs successfully applied for leave to appeal from this Ruling and a Notice of Appeal was filed on 17 December 2007.

### **Flow of Funds Analysis**

46. The Olympus Uninvest JOLs attempted to analyze the flow of the funds invested in and used by Olympus Uninvest. However, given the limited books and records that are available, this analysis is not final and additional information is required.
47. The objectives of this flow of funds analysis are:
  - a) To identify assets to liquidate;
  - b) To identify the parties who may have received payments from Olympus Uninvest and determine the amounts and purposes of these payments; and

- c) To obtain information necessary to establish the validity of the claims in the liquidation.
48. Because the activities of the various entities within the Norshield Investment Structure were so intertwined in that investments and funds flowed among the entities, including but not limited to Olympus Uninvest, the flow of funds analysis must be analysed collectively to obtain a full understanding of how the Norshield Investment Structure operated as well as how transactions among the entities related to each other.
49. The preliminary findings with regards to the flow of funds analysis of the Norshield Investment Structure were included in *Section F* of the Sixth Report of the Receiver, prepared by RSM Richter Inc. and submitted to the Ontario Court on 6 March 2007. For this Honourable Court's reference and appreciation, a complete copy of this *Section F* is attached herewith as **Exhibit OUL – 1**.
50. The Olympus Uninvest JOLs believe that the value of Olympus Uninvest's assets as at 30 September 2004, consisting primarily of its investment in Mosaic, was significantly overstated and that the net asset value of Olympus Uninvest's shares at that date as reported to its shareholders was inflated.
51. The investigations conducted by RSM Richter Inc., Massi and Culmer in their various capacities have revealed evidence of possible fraudulent and/or wrongful activities within the Norshield Investment Structure. The possible fraudulent activities identified can be categorized as follows:
- false reporting through overstatement of the net asset values throughout the Norshield Investment Structure, which camouflaged the significant impairment in underlying asset values;
  - transactions which had the effect of inflating the value of assets held by Olympus Uninvest and other entities within the Norshield Investment Structure; and
  - transactions which had the effect of diverting assets from Olympus Uninvest and other entities within the Norshield Investment Structure to the detriment of the stakeholders in those entities.

## **ASSETS IDENTIFIED AND ESTIMATED RECOVERIES**

52. The Olympus Uninvest JOLs' review of the available books and records indicates that Olympus Uninvest's only asset consists of its investment in Mosaic.
53. Therefore, it appears at this time that any realization from known assets in the Olympus Uninvest liquidation would be from distributions received from Mosaic through the claims process in that entity.
54. Further recoveries may also become available for the benefit of Olympus Uninvest's stakeholders from possible litigation against various parties. The Olympus Uninvest JOLs are assessing possible legal remedies that may be available in relation to the costs to successfully exercise such legal remedies and the potential recoveries therefrom. No decisions in this regard have yet been made.
55. Any distribution to claimants in the Olympus Uninvest liquidation would only be made once a claims process in accordance with the laws of The Bahamas has been completed.

## **RECEIPTS AND DISBURSEMENTS**

56. A statement of receipts and disbursements for the period from 7 May 2006 to 31 December 2007 is attached hereto as **Exhibit OUL-2**.
57. Mosaic paid an amount of \$1,063,267 on behalf of Olympus Uninvest to cover the costs related to its liquidation, as authorized by the Bahamian Court.

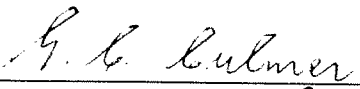
## **CONCLUSION**

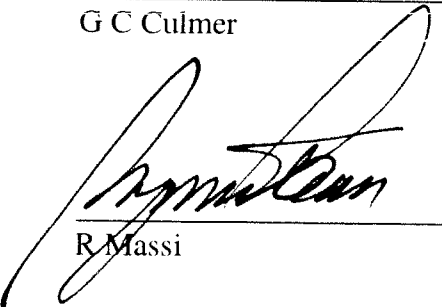
58. The Olympus Uninvest JOLs have determined that as funds originating from predominantly Canadian investors flowed from one entity/jurisdiction to the next within the Norshield Investment Structure, significant dissipation of investor funds occurred at each level as a result of redemptions at inflated net asset values, unexplained third-party payments and the costs of maintaining the investment structure itself.
59. The principals of Olympus Uninvest and the other entities within the Norshield Investment Structure have attempted to camouflage the dissipation of investor funds by artificially inflating not only the underlying value of the assets purportedly held by Olympus Uninvest

and certain other entities within the Norshield Investment Structure, but also by artificially inflating the net asset values presented to the investors in each entity within the investment structure.

60. Not only was the underlying value of the assets held by Olympus Uninvest and the other entities within the Norshield Investment Structure inflated, but a significant portion of those assets were also illiquid. Consequently, it is the Olympus Uninvest JOLs' belief that the collapse of the Norshield Investment Structure, including Olympus Uninvest, was due to the enormous disparity between the real value of the underlying assets within the Norshield Investment Structure and the illiquid nature of the assets.
61. The Olympus Uninvest JOLs wish to inform the Bahamian Court that RSM Richter Inc. in its capacity as Receiver has instituted legal proceedings in Canada against John Xanthoudakis and Dale Smith for: a) breaching their fiduciary and other duties, b) assisting others to breach their fiduciary duties and c) permitting the diversion and conversion of assets in certain of the entities within the Norshield Investment Structure, all to the detriment of the Canadian investors. The Olympus Uninvest JOLs are not party to this litigation but are assessing their recourses, if any, against these two individuals or others which may have caused a prejudice to Olympus Uninvest and/or its investors.

Respectfully submitted the 18 day of February 2008

  
\_\_\_\_\_) )  
G C Culmer ) )

  
\_\_\_\_\_) )  
R Massi ) )

) )  
) ) Olympus Uninvest JOLs  
) )

**OLYMPUS UNIVEST LTD.**  
**SECTION F OF THE SIXTH REPORT OF THE RECEIVER**

Prepared by RSM Richter Inc.  
and submitted to the Ontario Court  
on 6 March 2007

**N.B.: A complete version of the Sixth Report of the Receiver dated 6 March 2007 can be obtained by going to:**

**[http://www.rsmrichter.com/downloads/pdf/insolvency\\_files/CaseID46/SixthReportandExhibits.pdf](http://www.rsmrichter.com/downloads/pdf/insolvency_files/CaseID46/SixthReportandExhibits.pdf)**

## **SECTION F – EVIDENCE OF POSSIBLE FRAUDULENT ACTIVITIES WITHIN THE NORSHIELD INVESTMENT STRUCTURE**

### **The Norshield Investment Structure**

1. The Norshield investment structure gave the appearance of a large, diversified provider of alternative investment products. These products were promoted as a “fund of funds” managed by professional managers who were experienced in various investment strategies.
2. The entities within the Norshield investment structure were purportedly independent of one another, such that the Norshield Companies were independent of Olympus Uninvest, Olympus Uninvest was independent of Mosaic, and Mosaic was independent of the Channel Entities.
3. In fact, John Xanthoudakis was an integral part of the Norshield investment structure. He determined investment strategies and had de facto control over the investment decision-making of the entities within the Norshield investment structure, including those entities located in foreign jurisdictions.
4. The Receiver has determined that as funds originating from Retail Investors and from other investors flowed through the Norshield investment structure from one entity/jurisdiction to the next significant dissipation of investor funds occurred as a result of redemptions at inflated NAVs, unexplained third party payments and the costs of maintaining the investment structure itself. Many of the assets throughout the Norshield investment structure were illiquid.
5. The principals of the Norshield Companies, Olympus Uninvest and Mosaic attempted to camouflage the dissipation of investor funds by artificially inflating not only the underlying value of the assets purportedly held by each entity within the Norshield investment structure but also by artificially inflating the NAVs presented to the investors in each entity within the investment structure.

6. As time went by, there was not enough money in the Norshield investment structure to meet redemptions. Existing assets had been overvalued and many were illiquid. In the months leading up to the Receiver's appointment, new subscriptions were entirely used to fund redemptions. The collapse of the Norshield Companies, Olympus Uninvest and Mosaic was inevitable.
7. The investigations conducted by the Receiver have revealed evidence of possible fraudulent and/or wrongful activities within the Norshield investment structure. The possible fraudulent activities identified by the Receiver are categorized as follows:
  - false reporting through overstatement of the NAVs throughout the Norshield investment structure, which camouflaged the significant impairment in asset values;
  - transactions which had the effect of inflating the value of assets held by entities within the Norshield investment structure; and
  - transactions which had the effect of diverting assets from entities within the Norshield investment structure to the detriment of investors in those entities.

**i) False Reporting of Net Asset Values**

8. As previously reported, as at September 30, 2003, a substantial portion (66% or US\$90 million) of the total assets (US\$137 million) carried on the audited consolidated financial statements of Olympus Funds consisted of its investment in Olympus Uninvest.
9. At the same date, a substantial portion (90% or US\$404 million) of the total assets (US\$448 million) carried on the audited consolidated financial statements of Olympus Uninvest consisted of its investment in Mosaic.
10. On that date, Mosaic's audited financial statements disclosed assets totalling US\$770 million consisting of:
  - a) hedged assets (consisting of the RBC SOHO Option, managed futures accounts and tactical trading accounts) with a gross value of US\$388 million against which there was an outstanding secured margin loan of US\$300 million;

- b) investments in the Channel Entities having a carrying value of US\$307 million; and
- c) other assets having a carrying value of US\$75 million.

11. Accordingly, as at September 30, 2003, without regard to the entity in which the assets were accounted for on their respective audited financial statements, the underlying assets within the Norshield investment structure available to satisfy investor claims consisted primarily of the following:

**Hedged Assets**

- a) Olympus Bank's managed futures and tactical trading accounts; and
- b) Mosaic's hedged assets (which included the RBC SOHO Option, managed futures accounts and tactical trading accounts).

**Non-Hedged Assets**

- a) Cash and sundry other assets held by Olympus Funds, Olympus Bank, Olympus Uninvest and Mosaic; and
- b) Mosaic's investment in the Channel Entities.

12. Both John Xanthoudakis and Dale Smith stated during their examinations by the Receiver that the NAVs which were provided, on a weekly basis, by Mosaic for presentation to the preference shareholders of Olympus Uninvest and indirectly to the Retail Investors (flowing up from Olympus Uninvest, through Olympus Bank and then Olympus Funds) were calculated almost entirely on the value of the hedged assets of Mosaic.

13. The basis for the net asset value calculation, according to John Xanthoudakis and Dale Smith, was that Mosaic undertook in favour of Olympus Uninvest:

- a) to deliver 100% of the underlying net asset value comprised by the RBC SOHO Option to the investors in Mosaic;
- b) to provide the investors 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 in respect of the hedged assets;
- d) to maintain cash reserves to meet liquidity needs;
- e) to absorb all foreign exchange risk; and
- f) to assume all settlement risks.

No copy of any agreement pursuant to which Mosaic gave these commitments to Olympus Uninvest has ever been obtained by the Receiver, despite numerous requests.

14. Under this structure, Mosaic would have been entitled to any profit which could have been realized upon investments in its non-hedged assets, including but not limited to the Channel Entities, but would not have borne any potential losses in value in respect thereof. In fact, it was the Olympus Uninvest investors who absorbed the losses without having the benefit of potential profits.
15. In order for this method of calculating the NAVs of the entities within the Norshield investment structure to be supported, Mosaic's non-hedged assets would have to have had, at a minimum, a realizable value equal to or greater than the outstanding amount of the margin loans which were secured by Mosaic's hedged assets. As stated above, Mosaic's non-hedged assets consisted principally of its investments in the Channel Entities.
16. On the Receiver's examination of the auditor of the Channel Entities, the documents which were used to support the carrying values of the assets of the Channel Entities as reflected on their audited financial statements were produced and reviewed. Based on the Receiver's review, it has concluded that the value of these assets was grossly overstated.
17. The Receiver has concluded that the asset values carried on the audited financial statements of the Channel Entities were overstated by at least US\$200 million for fiscal 2002, increasing to at least US\$300 million for fiscal 2003. As a result, the value of the Channel Entities' assets was overstated by approximately 88% on their fiscal 2003 financial statements.

18. The Receiver is still in the process of assessing the value of the Channel Entities as at their 2001 fiscal year-end to determine if any impairment existed at the end of that fiscal period.
19. Since Mosaic did not have sufficient non-hedged assets to fulfill its obligations to Olympus Uninvest, the NAVs upon which the subscriptions to and redemptions from Olympus Uninvest and Olympus Funds were made were inflated.

**ii) Transactions Which Inflated Asset Values**

**Use of Option Agreements**

20. In the Receiver's Second Report, the Receiver attached a list of the underlying assets of the Channel Entities as at September 30, 2003 with comparative information for September 30, 2002 and June 30, 2001. This list is reproduced herein as Exhibit "3".
21. Since issuing the Second Report, the Receiver has examined two representatives of the auditor of the Channel Entities and has obtained and reviewed their working papers for the fiscal periods ended September 30, 2002 and September 30, 2003.
22. Based on a review of the auditor's working papers, the Receiver has identified a series of transactions by which certain assets, which were purportedly owned by John Xanthoudakis directly or indirectly through Norshield Financial Holdings Ltd. and Norshield Capital Management (each of which is controlled by Mr. Xanthoudakis), were purportedly optioned to Liberty Trust and, in turn, to the Channel Entities by way of option agreements. These assets were apparently recorded on the Channel Entities' audited financial statements.
23. Liberty Trust was apparently created in July 1999. The settlor was Thomas Muir, a former director of Mosaic, and the trustee was Longview Associates Ltd., a company represented by David Csumrik, the former president of Olympus Bank. The beneficiary of this trust is Comprehensive Investor Services Ltd., the shareholders of which are unknown. As noted below, the Receiver has identified significant unexplained payments made by Olympus Bank (US\$40.9 million) and Mosaic (US\$38.4 million) to Comprehensive Investor Services Ltd.

24. The following illustrates the manner in which option agreements between John Xanthoudakis and/or entities under his control and Liberty Trust and between Liberty Trust and the Channel Entities inflated the values of certain assets:

Subject Asset	First Option	Second Options	Increase in value	Date – First Option Date – Second Option
19.6 Common Shares of Olympus Funds (formerly First Horizon Holdings Ltd.)	Optioned by Norshield Financial Holdings Ltd. to Liberty Trust for US\$2,000,000	Optioned by Liberty Trust to the Channel Entities for US\$59,100,370	US\$57,100,370	August 1, 1999 June 30, 2001
Microslate common shares	Optioned by Norshield Financial Holdings Ltd./Norshield Capital Management to Liberty Trust as follows:	Optioned by Liberty Trust to the Channel Entities as follows:		Same date for both – October 1, 2000
- 722	US\$ 5,870,000	US\$12,720,000		
- 713	US\$ 5,800,000	US\$12,562,000		
- 287	US\$ <u>2,330,000</u>	US\$ <u>5,056,422</u>		
Total	US\$ <u>14,000,000</u>	US\$ <u>30,338,422</u>	US\$16,338,442	
148.5 Class A shares and 2,308,017 Class D shares Vezina Composites Inc	Optioned by Norshield Financial Holdings Ltd./Norshield Capital Management to Liberty Trust for US\$1,000,000	Optioned by Liberty Trust to the Channel Entities for US\$2,881,946	US\$1,881,946	Same date for both – June 30, 2001
40 Class D shares Olympus United Holdings Inc. <sup>(1)</sup>	Optioned by John Xanthoudakis to Liberty Trust for US\$10,000,000	Optioned by Liberty Trust to the Channel Entities for US\$46,084,776	US\$36,084,776	Same date for both – September 30, 2002
<b>Total Increase</b>			<b>US\$<u>111,405,534</u></b>	

<sup>(1)</sup> Olympus United Holdings Inc. is the holding company for Olympus Funds and NAM.

25. The Receiver's examination of the representatives of the Channel Entities' auditor and its review of the working papers has revealed the following:

- a) There is no evidence that any of these options were exercised by Liberty Trust or the Channel Entities or that the strike price of the options was ever paid by Liberty Trust. The second set of options in favour of the Channel Entities states that the full price has been paid, but the Receiver has not seen any evidence of such purported payments;

- b) No satisfactory explanation or justification has been provided to the Receiver for the significant increase in value of the shares of Microslate Inc, Vezina Composites Inc. and Olympus United Holdings Inc. under the second set of option agreements, notwithstanding that the second set of option agreements are dated as of the same date as the first set of option agreements;
  - c) No satisfactory explanation or justification has been provided to the Receiver for the significant increase in value, during the two year period, of the shares of Olympus Funds (formerly First Horizons Holdings Ltd.) under the second option agreement in relation to the first option agreement;
  - d) Olympus United Holdings Inc. is the holding company for Olympus Funds (formerly First Horizon Holdings Ltd). As a result, the value of Olympus Funds is accounted for twice on the Channel Entities' financial statements; and
  - e) Following the foregoing transactions, the value of Olympus Funds was calculated, in part, on its own value.
26. The effect of these option transactions was to artificially inflate the value of the Channel Entities, which represented the most significant portion of Mosaic's non-hedged assets, by at least \$129 million (US\$111 million).

**Accounts Receivable from Bice International Inc.**

27. The Channel Entities had an interest in Emerald Key Management Ltd ("EKM"), which was carried on their books at a value of US\$40.2 million, as at September 30, 2002. The Receiver was not provided with any information as to how this investment was acquired by the Channel Entities nor any evidence in support of the value thereof.
28. On July 29, 2003, the Channel Entities sold this interest to Bice International Inc. for a price of US\$148 million, with no cash down, payable over a six year period, with the largest payments being made in the 5<sup>th</sup> and 6<sup>th</sup> years. A promissory note was secured by the shares of EKM, which were the object of the transaction. As a result of this transaction, the Channel Entities recorded an immediate gain on the sale of this investment in the amount of US\$107.8 million.

29. On the same day, July 29, 2003, Bice International Inc. sold to Olympus Bank for US\$225 million the rights to the management and incentive fee revenue stream of Olympus Uninvest which EKM held.
30. No satisfactory explanation or justification has been provided to the Receiver for the significant increase in value of EKM from US\$40.2 million to US\$148 million and, on the same day, to at least US\$225 million.
31. The effect of these back-to-back transactions was to:
  - a) artificially inflate the value of EKM on the financial statements of the Channel Entities by replacing their investment therein with a receivable of significantly higher value from Bice International Inc.;
  - b) artificially inflate the NAVs of Mosaic, Olympus Uninvest, Olympus Bank and Olympus Funds.

**iii) Dissipation of Assets**

**Unexplained Payments**

32. The Receiver has identified numerous significant payments from 2002 to 2004 made by Mosaic to entities and/or funds which appear to have or have had i) close connections to John Xanthoudakis and/or to Norshield entities, and/or ii) connections to entities over which John Xanthoudakis had influence with respect to investment decisions. The Receiver has not identified evidence that any of these third party payments have benefited either John Xanthoudakis or Dale Smith personally.

33. These payments totalling \$156.6 million consisted of:

Payees	Amount US\$ Million
Globe-X Management Ltd., Globe-X Canadiana Ltd., Globe-X Enhanced Yield Fund, Globe-X International, Globe-X Asset Appreciation	\$ 57.6
Comprehensive Investors Services Ltd.	38.4
C-MAX Advantage Fund Ltd	14.0
Commax Management	18.3
Univest Fixed Return for Emerald Key Management	4.2
Bice International Inc.	3.2
Real Vest Investment Ltd.	1.6
Silicon Isle Ltd.	3.7
Olympus Bank (for Liberty Trust)	<u>15.6</u>
<b>Total</b>	<b><u>\$156.6</u></b>

34. The Receiver has not found a satisfactory explanation for these payments.

35. The Receiver also identified significant payments made by Olympus Bank, from January 2001 to June 2005 to entities that i) were related to or had close connections to John Xanthoudakis and/or to Norshield entities, and/or ii) connections to entities over which John Xanthoudakis had influence with respect to investment decisions. The Receiver has not identified evidence that any of these third party payments have benefited either John Xanthoudakis or Dale Smith personally.

36. These payments by Olympus Bank totalled \$60.7 million and included:

Payees	Amount US\$ Million
Comprehensive Investor Services Ltd.	\$40.9
Cardinal International Corp. Limited	9.6
Bice International Inc.	5.1
Norshield Investment Partners Inc.	2.0
Univest Global Funds Ltd.	1.4
Balanced Return Fund Limited	1.0
Sterling Leaf Income Trust	<u>0.7</u>
<b>Total</b>	<b><u>\$60.7</u></b>

37. The Receiver has not found a satisfactory explanation for these payments.

38. Although the Receiver has identified certain of the parties which received payments from Mosaic and Olympus Bank, the Receiver has not yet ascertained if such third parties received the funds for their own account or were mere conduits of such funds to other parties. In addition, certain payments have been made by each of Mosaic and Olympus Bank to third parties about which the Receiver has no information. The Receiver's ability to determine with certainty the ultimate recipient of the foregoing payments has been impeded by: (i) the incomplete records of the Norshield Companies, Olympus Uninvest and Mosaic, (ii) the Receiver's inability to gain access to records in the possession of certain third parties, and (iii) the significant costs of investigating transactions in multiple jurisdictions with uncooperative counterparties.

#### **Mendota Capital Corporation Hypothecation**

39. On June 12, 2005, pursuant to articles of merger, Comprehensive Investor Services Ltd. merged with Mendota Capital Corporation ("Mendota").
40. Mendota claims that it is owed in excess of \$29 million by Norshield Capital Management and \$18 million by Honeybee Software, which amounts were purportedly guaranteed by NAM. Mendota further claims that these obligations are secured by a first ranking hypothec on the assets of Norshield Capital Management, Honeybee Software and NAM, which was executed and registered in May 2005 (just prior to the Receiver's appointment).
41. This purported claim and security of Mendota over the assets of Norshield Capital Management, Honeybee Software and NAM, if determined to be valid, would have the effect of diverting assets away from the stakeholders of certain of the Norshield Companies. The Receiver is contesting the validity of the hypothec claimed by Mendota.
42. As set out above, the Receiver has identified substantial unexplained payments to Mendota (formerly Comprehensive Investor Services Limited) made by Mosaic (US\$38.4) and Olympus Bank (US\$40.9).

**OLYMPUS UNIVEST LTD.**  
**STATEMENT OF THE JOINT OFFICIAL LIQUIDATORS' RECEIPTS AND**  
**DISBURSEMENTS FOR THE PERIOD OF 7 MAY 2006 TO 31 DECEMBER 2007**

**OLYMPUS UNIVEST LIMITED (IN LIQUIDATION)**

**STATEMENT OF THE JOINT OFFICIAL LIQUIDATORS'**  
**RECEIPTS AND DISBURSEMENTS**

**FOR THE PERIOD OF 7 MAY 2006 TO 31 DECEMBER 2007**

**(EXPRESSED IN U.S. DOLLARS)**

**RECEIPTS**

Cash balance at 6 May 2006 as previously reported \$308,216

**DISBURSEMENTS**

Expenses of Liquidation

Legal fees paid on behalf of Mosaic Composite Limited (U.S.), Inc.	25,065
Bank of Nova Scotia trust fees	2,500
Bank charges	<u>17</u>
	<u>27,582</u>

**Cash balance** **\$280,634**

**Note:** Repayment of any funds received under the Funding Agreement is a first charge against any funds recovered.

COMMONWEALTH OF THE BAHAMAS  
IN THE SUPREME COURT  
Commercial Division

**IN THE MATTER OF OLYMPUS UNIVEST LTD**  
(In Liquidation)

**AND**

**IN THE MATTER OF THE INTERNATIONAL  
BUSINESS COMPANIES ACT, Ch, 309, Statute Laws  
of The Bahamas, 2000 Edition**

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**A F F I D A V I T**

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2005/COM/bnk/00047

  
**CALLENDERS & CO.**

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