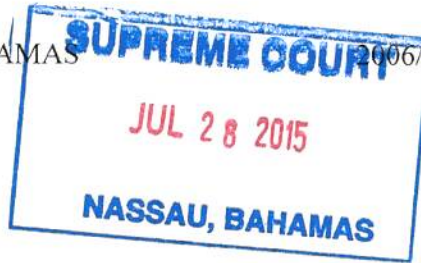


COMMONWEALTH OF THE BAHAMAS



006/COM/bnk/00015

IN THE SUPREME COURT

Commercial Division

IN THE MATTER OF MOSAIC COMPOSITE LIMITED (U.S.), INC.  
(IN LIQUIDATION)

AND

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

AFFIDAVIT

We, GEORGE CLIFFORD CULMER, of 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 Liquidators of the above-named Mosaic Composite Limited (U.S.), Inc. (In Liquidation) ("Mosaic") by this Honorable Court on the 23<sup>rd</sup> day of January, 2007.
2. By an Order of this Honourable Court made on the 23<sup>rd</sup> day of January, 2007, the Joint Liquidators were required to file with the court a report in writing as to the position of and the progress made in the winding-up of Mosaic at intervals of three months. On the 29<sup>th</sup> day of July, 2014, the Court made a subsequent Order requiring the Joint Liquidators to file with the court a report in writing as to the position of and the progress made in the winding-up of Mosaic at intervals of six months.
3. Pursuant to the said Order dated 29<sup>th</sup> July, 2014, this Report has been prepared by the Official Liquidators as of the 31<sup>st</sup> day of December 2014 and is exhibited hereto. We verily believe the contents of this, the Twenty-Eighth Report to be true.
4. The said Report summarizes the progress made since the date of our last report on the 30<sup>th</sup> day of June 2014.

SWORN to at the City of Nassau )

In the Island of New Providence )

This 24<sup>th</sup> day of July, 2015 )

  
George Clifford Culmer

BEFORE ME,



NOTARY PUBLIC

SWORN to at the City of Montreal )

In the Province of Quebec )

This 2nd day of July, 2015 )

  
Raymond Massi

BEFORE ME,



NOTARY PUBLIC



MOSAIC COMPOSITE LIMITED (U.S.), INC. (IN LIQUIDATION)  
TWENTY-EIGHTH REPORT OF THE JOINT OFFICIAL LIQUIDATORS  
TO THE COURT

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**MOSAIC COMPOSITE LIMITED (U.S.), INC.**  
**(In Liquidation)**  
**c/o BDO Chartered Accountants & Advisors**  
**P.O. Box N-10144**  
**Nassau, Bahamas**  
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**BY HAND**

Supreme Court of The Commonwealth of the Bahamas

**Mosaic Composite Limited (U.S.) Inc. (In Liquidation)**  
**Twenty-Eighth Report of the Joint Official Liquidators to the Court**

**1.     INTRODUCTION AND BACKGROUND**

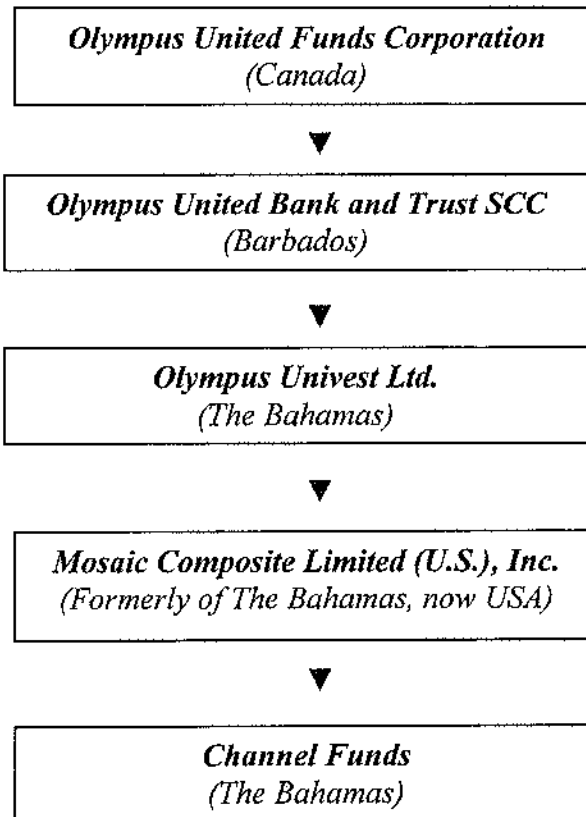
- 1.1.     This report constitutes the Twenty-Eighth Report to the Supreme Court of the Commonwealth of The Bahamas (the “Bahamian Court”) of G. Clifford Culmer (“Culmer”) of BDO Chartered Accountants and Advisors, Nassau, The Bahamas, and Raymond Massi (“Massi”) of RSM Richter Inc. (now known as Richter Advisory Group Inc.) (“Richter”), Montreal, Canada, in their capacity as the Joint Official Liquidators (“Mosaic JOLs”) in the liquidation of Mosaic Composite Limited (U.S.), Inc. (“Mosaic”).
- 1.2.     Mosaic was originally incorporated under the name of Norshield Emerging Markets Limited as an International Business Company under the Laws of the Commonwealth of The Bahamas on 27 January 1997. On 16 June 1999, the company changed its name to Norshield Composite Limited. It changed its name again on 9 May 2001 to Composite Limited, and again on 23 May 2003 to Mosaic Composite Limited. On 4 March 2005, Mosaic migrated to Anguilla and continued there as an Anguillan IBC. On 3 June 2005, Mosaic Composite merged with Mosaic Composite Limited (U.S.) Inc., a Minnesota company to be the current Mosaic entity.
- 1.3.     Culmer and Massi were appointed Joint Receivers of Mosaic by order of the Bahamian Court dated 20 January 2006.
- 1.4.     Culmer and Massi were appointed Joint Provisional Liquidators of Mosaic by order of the Bahamian Court, dated 22 March 2006. On 23 January 2007, the Bahamian issued another placing Mosaic under Court supervised liquidation and Culmer and Massi were appointed Mosaic JOLs.
- 1.5.     On 29 July 2014, the Court made a subsequent order requiring the Mosaic JOLs to file a report to the court in writing as to the position of and the progress made in the winding-up of Mosaic at intervals of six months. (collectively all the orders rendered in this matter will hereinafter be referred to the “Bahamian Orders”)

- 1.6. The Mosaic JOLs present herewith their Twenty-Eighth Report in accordance with the Bahamian Orders.

## **2. THE NORSHIELD INVESTMENT STRUCTURE**

- 2.1. Mosaic 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 is referred to as the “Norshield Investment Structure”.
- 2.2. Richter was appointed Receiver, pursuant to orders of the Ontario Superior Court of Justice (Commercial List) in Canada dated 29 June, 14 July, 9 September and 14 October 2005, of the following entities:
- 2.2.1. Norshield Asset Management (Canada) Ltd.;
  - 2.2.2. Norshield Investment Partners Holdings Ltd.;
  - 2.2.3. Olympus United Funds Corporation;
  - 2.2.4. Olympus United Funds Holding Corporation;
  - 2.2.5. Olympus United Bank and Trust SCC;
  - 2.2.6. Olympus United Group Inc.;
  - 2.2.7. Honeybee Software Technologies Inc. (formerly Norshield Investment Corporation);
  - 2.2.8. Norshield Capital Management Corporation.
- 2.3. Richter 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.
- 2.4. Culmer was appointed Liquidator of Olympus Uninvest Ltd. (“OUL”) by resolution of its common shareholder, Bice International Inc. on 19 May 2005. Massi was appointed Provisional Liquidator of OUL on 3 October 2005 pursuant to the order of the Honourable Madam Justice Jeanne Thompson of the Bahamian Court. Culmer and Massi were appointed Joint Official Liquidators of OUL (“OUL JOLs”) on 6 February 2006 by order of the Honourable Madam Justice Jeanne Thompson of the Bahamian Court.

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



- 2.6. Olympus United Funds Corporation was a mutual fund investment vehicle. Each class of shares had a specific investment strategy.
- 2.7. 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.
- 2.8. Olympus United Bank and Trust SCC then invested its funds into Olympus Univest Ltd. in The Bahamas. Olympus United Bank and Trust SCC’s investments were co-mingled in OUL 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.
- 2.9. OUL then invested, either directly or through other funds, in Mosaic. Mosaic, in turn, held investments in both hedged and non-hedged assets.
- 2.10. 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.

- 2.11. Mosaic's non-hedged assets consisted mainly of investments in Channel Fixed Income Fund Ltd., which in turn held all the outstanding shares of Channel F.S. Fund Ltd., Channel Technology Fund Ltd. and Channel Diversified Private Equity Fund Ltd. (collectively, the "Channel Funds").
- 2.12. The Mosaic JOLs have discovered that the assets of Mosaic were grossly overstated and illiquid. The Mosaic JOLs have assessed that Mosaic's investment in the Channel Funds has no value.
- 2.13. 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 other 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.

3. **PROCEEDINGS OF THE ONTARIO SECURITIES COMMISSION  
AGAINST JOHN XANTHOUDAKIS, DALE SMITH AND PETER KEFALAS**

- 3.1. On 11 October 2006, the Ontario Securities Commission (the "Commission") issue a statement of allegations alleging that Norshield Asset Management (Canada) Ltd., Olympus United Group Inc., Xanthoudakis, Smith and Peter Kefalas (collectively, the "Respondents") breached Ontario securities laws and acted contrary to the public interest.
- 3.2. Hearings on the merits were held in 2008 and 2009. The Commission made the following findings:
  - 3.2.1. Norshield Asset Management (Canada) Ltd., Olympus United Group Inc., Xanthoudakis and Smith failed to deal fairly, honestly and in good faith with investors;
  - 3.2.2. Norshield Asset Management (Canada) Ltd. and Olympus United Group Inc. failed to keep and maintain proper books and records in relation to the Norshield Investment Structure;
  - 3.2.3. As a consequence of their positions of seniority and responsibility as officers and directors of Norshield Asset Management (Canada) Ltd. and Olympus United Group Inc., Xanthoudakis and Smith authorized, permitted and acquiesced in breaches of Ontario security laws;
  - 3.2.4. Xanthoudakis and Smith knowingly made statements and provided evidence and information to staff that was materially misleading and failed to state facts which were required to be stated in an effort to hide violations of Ontario securities laws;

- 3.2.5. Xanthoudakis, Smith and Kefalas engaged in a course of conduct that was abusive to and compromised the integrity of Ontario's capital markets and was contrary to the public interest.
- 3.3. As a results of these findings, the following sanctions and costs were issued against the Respondents:
- 3.3.1. They were permanently (Kefalas for two years only) prohibited from becoming registrants under Ontario securities laws. Any exemptions that could be sought would no longer be available to them;
- 3.3.2. They were permanently (Kefalas for two years only) prohibited from trading in securities with certain exceptions for personal investments;
- 3.3.3. Xanthoudakis and Smith were personally reprimanded and were ordered to resign and prohibited from ever becoming or acting as directors or officer of any issuer. Kefalas received the same personal sanctions but limited to a two year period only;
- 3.3.4. Xanthoudakis and Smith were each ordered to pay administrative penalties totaling \$2,125,000 as well as cost totaling \$295,000, on a joint and several basis.
- 3.4. Xanthoudakis and Smith both appealed the decisions made by the Commission, which appeal was ultimately rejected.

#### **4. CREDITORS AND SHAREHOLDERS**

- 4.1. The Mosaic JOLs commenced a preliminary claims process by placing advertisements in newspapers in each of The Bahamas, The Cayman Islands, Canada and the U.S.A. requesting that all creditors file proofs of debt in the OUL liquidation by 15 October 2008.
- 4.2. The Mosaic JOLs reviewed the proofs of debt filed and established, with the assistance of legal counsel, a formalized admit/reject procedure for the liquidation of Mosaic. Rejection notices were sent to the claimants in December 2010 and the claimants were granted an additional 30 days to provide to the Mosaic JOLs either further evidence of their investment or to object to the rejection notices. As at the date of this report, no claimants provided further evidence nor have the JOLs received any notices of objections.
- 4.3. An application, by way of an Amended Summons, was filed with the Bahamian Court on April 24, 2014 by the Mosaic JOLs, and an order was rendered on 6 August 2014 such that the steps taken to date by the Mosaic JOLs to identify claimants and determine the claims in the Mosaic liquidation constituted the court-sanctioned claims process in this matter.
- 4.4. Please refer to BDO's website at the following address  
<http://www.bdobahamas.com/publications> for further details relating to the Bahamian Court Order of 6 August 2014.



## 5. REALIZATIONS

5.1 Mosaic's gross asset realizations are as follows:

Asset	Realized (US \$)
MS-II Class B Shares	7,286,562
Dividends received from Premier Commercial Real Estate	1,990,990
Interest Income	454,339
Proceeds from the liquidation of Globe-X International Limited (The Bahamas)	673,631
Proceeds from the liquidation of Globe-X Asset Appreciation Limited (The Bahamas)	261,842
Proceeds from the liquidation of Uninvest Fixed Return Fund Limited (The Bahamas)	46,192
	10,713,556

5.2. Please refer to Richter's various Reports as Receiver and Monitor for the entities listed in paragraph 2.2 above for further details at the following address: <http://www.richter.ca/en/insolvency-cases/n/norshield>.

5.3. The Mosaic JOLs have determined that Mosaic owns a 51% controlling interest in Premier Commercial Real Estate Investment Corporation ("Premier"), a publicly-traded Bahamian income trust which owns commercial real estate in The Bahamas. The JOLs are in regular communications with the board of directors and management of Premier to obtain reports on the ongoing activities of the fund.

5.4. The Mosaic JOLs are continuing their efforts to either monetize or enhance the value of Premier's various real estate properties, all in an attempt to realize upon same.

## 6. LITIGATIONS

### **Lowell Holden**

6.1. On 14 July 2009, the Mosaic JOLs filed a civil complaint in Minnesota against a citizen of the USA, Lowell Holden, who resides in Burnsville, Minnesota. This complaint served to recover funds belonging to Mosaic that Holden wrongfully advanced or transferred in contravention of the Bahamian Orders which divested Holden of any authority or power to transact on behalf of Mosaic.

- 6.2. The Mosaic JOLs believe that Holden advanced or transferred a total of at least CAD \$560,015 and USD \$795,722 from Mosaic to other parties related to him.
- 6.3. On 21 August 2009, a default judgment in Minnesota was rendered against Holden, as he failed to respond in a timely manner to the above civil complaint.
- 6.4. Between September 2009 and 2011, the Mosaic JOLs and Holden entered into protracted litigation in Minnesota involving the various allegations advanced by the Mosaic JOLs.
- 6.5. On 8 February 2012, the parties convened for a settlement conference and reached an agreement in principle subject to a definitive written settlement. Over the next several months, the parties negotiated the terms of the written settlement agreement.
- 6.6. By order of the Honourable Madam Justice Rhonda Bain of the Supreme Court of The Commonwealth of The Bahamas issued on 4 October 2012, the settlement agreement between the Mosaic JOLs and Holden was approved and subsequently executed by both parties.
- 6.7. Pursuant to the settlement agreement, all litigation between the parties was dismissed with prejudice, effective as of 1 March 2012.
- 6.8. As part of the settlement agreement, Holden withdrew all his claims against Mosaic and the Mosaic JOLs. As consideration for the funds transferred or disbursed by Holden, the Mosaic JOLs obtained the assignment of rights and interest in certain assets belonging to Holden or entities under his control. The Mosaic JOLs are attempting to recover on these assets.

#### **Brooks, Di Santo**

- 6.9. Mosaic held substantial investments in the Channel Funds and relied upon the audited financial statements of the Channel Funds for the fiscal years ended September 30, 2002 and September 30, 2003 (the "CF Financial Statements") in making or maintaining investments therein.
- 6.10. Brooks, Di Santo, a firm of chartered accountants located in Montreal, Quebec, audited the CF Financial Statements and issued unqualified audit reports thereon.
- 6.11. The Mosaic JOLs' investigations, including a detailed review of the audit working papers prepared by Brooks, Di Santo led them to conclude that the carrying value of the assets appearing on the CF Financial Statements were significantly impaired, to the extent of more than \$300 million dollars.
- 6.12. The Mosaic JOLs' investigations have also led them to conclude that the CF Financial Statements were not prepared in accordance with International Accounting Standards, were materially misleading and did not present fairly the financial position of the Channel Funds, in that, inter alia:

- 6.12.1. a substantial portion of the assets carried on the CF Financial Statements does not appear to actually be owned by the Channel Funds and therefore should not have been included in the financial statements;
- 6.12.2. the carrying value of substantially all of the assets on the CF Financial Statements were allegedly significantly inflated, without recognition of any impairment as required by International Accounting Standards.
- 6.13. Brooks, Di Santo did not appear to have obtained sufficient appropriate audit evidence to support the ownership and valuation of the investments of the Channel Funds.
- 6.14. Richter has also filed a litigation plan before the Ontario Superior Court which was approved on 13 January 2010 with respect to proposed proceeding against Brooks, Di Santo and the partners in charge of the audits of the CF Financial Statements, namely Peter Marini and Fred Ragonese (the "Defendants") in this matter.
- 6.15. On 10 February 2010, Richter and the Mosaic JOLs commenced a claim against the Defendants in the Superior Court of Quebec.
- 6.16. Since February 2010, the litigation has been ongoing. The insurers of the Defendants have now intervened in the proceedings. The parties reached an agreement in September 2010 as to process and discoveries have now commenced.
- 6.17. To accelerate the discovery process, Richter prepared and submitted to the Defendants' legal counsel a confidential information memorandum outlining the plaintiffs' position and grounds for their claim against the Defendants.
- 6.18. Richter has continued to provide additional information to the lawyers of the Defendants and has indicated an openness to settle the litigation.
- 6.19. Concurrently, Messrs. Marini and Ragonese were brought before the disciplinary committee of the Order of the Chartered Professional Accountants of Québec for nonconformity to international standards of accounting and auditing.
- 6.20. Hearings in respect of these disciplinary proceedings were held in July 2014 and both individuals were suspended from practicing for a period of six months.

**7. CRIMINAL PROCEEDINGS AGAINST XANTHOUDAKIS AND OTHERS**

- 7.1. In March 2011, criminal charges were filed in Quebec, Canada against John Xanthoudakis with respect of the approximately \$120 million of funds that were invested by Cinar Corporation , a Canadian public company, in Globe X

Management Limited and Globe X Canadiana Limited ("Globe X"), two Bahamian entities, between 1998 and 2000.

- 7.2. The Quebec crown prosecutors allege that Xanthoudakis, with the assistance of another Canadian, Lino Matteo, facilitated the movement and investment of these funds in The Bahamas and then orchestrated a plan to disguise the whereabouts of the funds. The indictment includes allegations of fraud, forgery and making or circulating a false prospectus.
- 7.3. Matteo, was the principal of Mount Real Innovation Centre Ltd. which issued valuation reports in respect of the assets of the Channel Funds. As noted in the previous section, the Mosaic JOLs' investigations have led them to conclude that the values ascribed to the assets were significantly overstated and incorrectly recorded by the Channel Funds in their audited statements. This inaccurate and misleading financial information was relied on by investors throughout the Norshield Investment Structure and was a necessary tool to facilitate the solicitation of additional and increasing amounts of retail investors' funds by Olympus United Funds Corporation.
- 7.4. The criminal trial against Xanthoudakis and Matteo began in May 2014 and is ongoing.

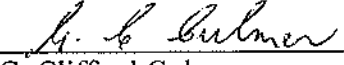
8. **RECEIPTS AND PAYMENTS**

- 8.1. A Statement of Receipts and Payments for the period 01 July 2014 to 31 December 2014 is attached hereto as Exhibit 1.

9. **CONCLUSION**

- 9.1. The Mosaic JOLs are continuing in their efforts to either monetize or enhance the value of Premier's various real estate properties, all in an attempt to realize upon same while marketing the controlling shares of Premier.
- 9.2. The Mosaic JOLs are actively pursuing the Channel Funds' former auditors for damages in the amount of \$5.0 million due to their negligent audits of the CF Financial Statements during the years ended 30 September 2002 and 2003.
- 9.3. Once the aforementioned matters are resolved, the Mosaic JOLs will be in a position to make a distribution and finalize the liquidation of Mosaic. However, the timing relating to the resolution of these matters remains uncertain.

Respectfully submitted this 22 day of July 2015.

  
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G. Clifford Culmer )  
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)  
)  
)  
Raymond Massi

**EXHIBIT 1****MOSAIC COMPOSITE LIMITED (U.S.), INC. (IN LIQUIDATION)****STATEMENT OF THE JOINT OFFICIAL LIQUIDATORS' RECEIPTS AND PAYMENTS****FOR THE PERIOD 01 JULY 2014 TO 31 DECEMBER 2014**

RECEIPTS	Accounts in The Bahamas			Accounts in Canada		Total
	B\$	CDN\$	US\$	CDN\$	US\$	
Interest Income	149	-	-	13,952	146	14,247
Transfer between accounts	158,124	-	-	-	-	158,124
<b>TOTAL RECEIPTS</b>	<u>158,273</u>	<u>-</u>	<u>-</u>	<u>13,952</u>	<u>146</u>	<u>172,371</u>
<b>DISBURSEMENTS</b>						
Liquidator fees	168,808	-	-	-	-	168,808
Legal fees	38,880	-	-	-	226	39,106
Bank and miscellaneous charges	-	120	120	-	1	241
Transfer between accounts	-	80,006	90,005	-	-	170,011
<b>TOTAL DISBURSEMENTS</b>	<u>207,688</u>	<u>80,126</u>	<u>90,125</u>	<u>-</u>	<u>227</u>	<u>378,166</u>
<b>(DECREASE) / INCREASE IN CASH</b>	<b>(49,415)</b>	<b>(80,126)</b>	<b>(90,125)</b>	<b>13,952</b>	<b>(81)</b>	<b>(205,795)</b>
<b>Total Cash as at 1 July 2014</b>	<u>128,940</u>	<u>92,409</u>	<u>100,229</u>	<u>2,777,032</u>	<u>601,967</u>	<u>3,700,577</u>
<b>Total Cash as at 31 December 2014</b>	<u>79,525</u>	<u>12,283</u>	<u>10,104</u>	<u>2,790,984</u>	<u>601,886</u>	<u>3,494,782</u>

**COMMONWEALTH OF THE BAHAMAS**

**IN THE SUPREME COURT**

Commercial Division

**IN THE MATTER OF MOSAIC COMPOSITE  
LIMITED now MOSAIC COMPOSITE  
LIMITED (U.S.), INC. (A Minnesota Corporation)  
(In Liquidation) ("Mosaic")**

**AND**

**IN THE MATTER OF THE INTERNATIONAL**

**BUSINESS COMPANIES ACT , Chapter 309,**

**Statute Laws of the Bahamas, 2000 Edition ("the  
Act")**

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**AFFIDAVIT OF GEORGE CLIFFORD CULMER  
AND RAYMOND MASSI**

**(TWENTY-EIGHTH REPORT OF THE  
LIQUIDATORS)**

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2006/COM/bnk/00015

  
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Attention: Roy Sweeting

Attorneys for the Joint Official Liquidators