

NO. L031587
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF

BRITISH COLUMBIA SECURITIES COMMISSION

PETITIONER

AND

BERKSHIRE CAPITAL PARTNERS, INC.,
CARTER & ASSOCIATES, LTD.,
DOTTENHOFF FINANCIAL, LTD.,
GALTON SCOTT & GOLETT, INC.,
STRATEGIC FINANCIAL SERVICES,
EXCHANGE BANK AND TRUST INC.,
STERLING INTERNATIONAL BANK INC.

AND

GRAHAM R. WHITESIDE, IN HIS CAPACITY
AS PROVISIONAL LIQUIDATOR OF
STERLING INTERNATIONAL BANK INC.

RESPONDENTS

**EIGHTH REPORT OF
KPMG INC., RECEIVER**

September 3, 2008

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INTRODUCTION AND BACKGROUND

Freeze Orders and Property

During April and May of 2000, the British Columbia Securities Commission (“BCSC”) issued Directions to Freeze Property pursuant to section 151 of the British Columbia *Securities Act* (the “Freeze Orders”) in respect of the following parties:

- Exchange Bank & Trust Inc. (“EBT”);
- Stephen C. Sayre;
- Independent Financial Reports, Inc.;
- Silver Screen Industries, Inc.;
- Premier Film Adventures, Inc.;
- Itex Corporation;
- Terry L. Neal and Maureen Neal;
- Nevis American Trust Company Limited, Sovereign Securities Ltd.;
- Offshore Corporate Services and Offshore Corporate Services (Canada) Inc.;
- Gillian Donna Hobson;
- Berkshire Capital Partners Inc.;
- Carter & Associates, Ltd.;
- Dottenhoff Financial, Ltd.;
- Galton Scott and Golett, Inc.;
- Strategic Financial Services; and
- Sterling International Bank Inc. (“Sterling”).

The property subject to the Freeze Orders included cash held in accounts at Bank of Montreal, 595 Burrard Street, Vancouver, B.C. (“BMO”) and cash and securities held in accounts at Union Securities Ltd., IPO Capital Corp., Raymond James Ltd. and Thomson Kernaghan Company Limited¹. The accounts subject to the Freeze Orders and subsequently frozen are hereinafter referred to collectively as the “Property”.

¹ We understand that Thomson Kernaghan Company Limited was adjudged bankrupt pursuant to a Receiving Order with an effective date of July 12, 2002. Ernst & Young Inc. was appointed Trustee in Bankruptcy.

Appointment of KPMG Inc.

KPMG Inc. was initially appointed Interim Receiver over the Property effective June 5, 2003. Subsequently, on June 16, 2003, the appointment of the Interim Receiver was made permanent, and KPMG Inc. was appointed Receiver to conduct such investigations and inquiries as it deemed appropriate with respect to the Property so as to determine potential claimants thereto and to report to the Court with respect to its activities.

Purpose of the Receiver's Report to Court

The purpose of the Receiver's Eighth Report is to summarize for the Court the Receiver's actions to-date, summarize the proposed distribution suggested by the parties and to present the account balances identified within the Property for the Durante Funds, Sayre Funds and Specific Account Claimants (as defined in the Receiver's Third Report dated June 29, 2005 (the "Third Report")) in support of the Receiver's preliminary claim determinations.

SCOPE RESTRICTIONS AND LIMITATIONS

Our preliminary review and any analyses, commentary and or findings related thereto, are for the sole purpose of assisting the Court in determining the proper ownership and entitlement of claimants to the Property based upon relevant and probative evidence attached to the Proofs of Claims filed in this matter and the results of the Receiver's investigations. This report should not be reproduced or used for any purpose other than that specified without the prior written permission of KPMG Inc. We do not assume any responsibility or liability for losses incurred by any party as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

We have not undertaken a comprehensive analysis, reconstruction, verification and/or reconciliation of any of the records made available to KPMG Inc. in this matter, nor have we undertaken procedures to identify all information that may be relevant in such a review. Accordingly, our analyses and resultant findings are preliminary and are subject to amendment should additional information become available, or more comprehensive reconciliation and verification procedures be performed.

All amounts in this report are in US dollars unless otherwise noted.

SUMMARY OF RECEIVER'S ACTIONS

Conservatory Measures

The Receiver continues to maintain all cash balances from the Property in separate interest bearing accounts at a major Canadian Chartered Bank, and all remaining unsold securities are maintained at an account at Odium Brown Limited ("Odium Brown").

The Property has earned combined interest in the amount of \$3,354,352 to July 31, 2008.

Particulars of the Property

Excluding accrued interest below is a summary of the Property cash balances on hand as at July 31, 2008:

Property	Cash Balance (USD) as at July 31, 2008
Exchange Bank and Trust Inc.	\$ 20,586,370
Sterling International Bank Inc.	617,814
Union Securities Ltd.	343,598
IPO Capital Corp.	137,933
Raymond James Ltd.	892,657
	\$ 22,578,372

Summary of Remaining Securities

Below is a summary of the remaining unsold securities (the “Remaining Securities”), estimated market values and cash balances in these accounts as at June 30, 2008.

Union Securities Ltd.

Security Description	Total Quantity	Price at 6/30/08	Berkshire Capital Partners Inc.		Galton, Scott & Golett Inc.		Dottenhoff Financial Ltd.		Strategic Financial Services Ltd.		Commonwealth Associates Ltd	
			Quantity	Market Value	Quantity	Market Value	Quantity	Market Value	Quantity	Market Value	Quantity	Market Value
Absolutefuture.com	50,027	0.0001	12,127	1.21	-	-	-	-	-	-	37,900	3.79
Football Equities Inc.	2,500	0.1000	2,500	250.00	-	-	-	-	-	-	-	-
Itemus Inc.	25,000	0.0002	25,000	5.00	-	-	-	-	-	-	-	-
Ramoil Management Ltd.	2,723,870	0.0002	13,255	2.65	-	-	-	-	-	-	2,710,615	542.12
Sunrise Petroleum Res. Inc. NEQ	2,186	NIL	1,504	-	32	-	30	-	-	-	620	-
Wamex Holdings Inc.	10,508,872	0.0001	6,089,936	608.99	316,476	31.65	200,570	20.06	-	-	3,901,890	390.19
Winsong Productions Inc.	700	NIL	700	-	-	-	-	-	-	-	-	-
Broadband Wireless Intl. Corp.	1,100	0.0003	-	-	-	-	-	-	1,100	0.33	-	-
Total Market Value				867.85		31.65		20.06		0.33		936.10
Cash				63.75		-		-		20.61		1.53

Raymond James Ltd.

Security Description	Total Quantity	Price at 6/30/08	Oracle Investments Inc.		Fairwinds Holdings Inc.		Lion Fortune Ltd.		Sovereign Securities Ltd.		Usher & Usher Ltd.	
			Quantity	Market Value	Quantity	Market Value	Quantity	Market Value	Quantity	Market Value	Quantity	Market Value
NBG Radio Network Inc.	947,900	0.0001	39,000	3.90	8,900	0.89	218,100	21.81	681,900	68.19	-	-
Garcis USA Inc.	10,000	NIL	-	-	-	-	-	-	10,000	-	-	-
Merlin Sftwr Techs Intl Inc.	12,000	0.0001	-	-	-	-	-	-	-	-	12,000	1.20
Total Market Value				3.90		0.89		21.81		68.19		1.20
Cash				-		-		-		-		-

Odlum Brown continues to seek opportunities to dispose of the unsold securities, although many of the securities have either ceased trading or do not currently have an active trading market.

Receiver’s Statement of Receipts and Disbursements

Summarized below is the Receiver’s Statement of Receipts and Disbursements for the period from June 16, 2003 to August 15, 2008:

Receipts:	\$ CDN
Funds Transferred from BMO EBT account	1,133,756
Interest Income	2,940
	1,136,696
Disbursements:	
Legal Fees	348,449 *
Bank Wire Charge Copying Charges	140
Interim Receiver Fees	43,969
Receiver Fees	646,509 *
IKON Office Solutions	5,635
Document Copying	876
GST Paid on Disbursements	68,268
Nevis Legal Counsel Fees	21,335
	1,135,181
Excess of Receipts Over Disbursements	1,515

* The fees of the Receiver's legal counsel and those of the Receiver have been paid to June 27, 2008 and May 31, 2008, respectively.

The above Statement of Receipts and Disbursements includes the activities of the Interim Receiver for the period June 5, 2003 to June 15, 2003.

CLAIMS SETTLEMENTS

A Mediation was held on May 15 and 16, 2008 (the "Mediation") which included the parties in these proceedings. The Receiver has been advised by the Mediator in writing and by the parties involved by telephone discussion that the parties in these proceedings reached an agreement as to a distribution of the Property, excluding the "Other Companies" as discussed subsequently, at the Mediation. Although the Receiver and its legal counsel were present at the Mediation, they were excluded from much of the negotiations.

EBT BMO and Durante Funds

Attached as Appendix A is a letter from Church & Company (the "Church Letter") where the Receiver was advised as to the manner in which the parties agreed to distribute the EBT BMO and Durante Funds (the "EBT/Durante Settlement"). The actual settlement amounts were revised slightly based on information received from BCSC's counsel on September 2, 2008.

The Receiver has been advised that the EBT/Durante Settlement is subject to the following parties obtaining the necessary approvals:

- i. H. Thomas Moran II (court approval);
- ii. the Securities and Exchange Commission (“SEC”); and
- iii. the BCSC

Once the Receiver has been advised that these approvals have been obtained, the approval of the Supreme Court of British Columbia will be sought. As of the date of this Report, the Receiver’s legal counsel has been advised that the three approvals noted above are imminent.

According to the EBT/Durante Settlement, 100% of the net interest earned on the EBT BMO account from May 16, 2008 to the earlier of October 1, 2008 or Court approval of the Settlement is to be paid to the claimant Michael Jason Evans, and net interest earned on the same account from October 1, 2008 to Court approval is to be distributed 21% to Jason Michael Evans and 79% to the SEC and BCSC. It appears that the EBT/Durante settlement is silent on the distribution of interest earned on the Durante Funds after May 15, 2008.

The following table details, as at certain dates, the quantum of EBT BMO and Durante Funds available for distribution and distribution of same according to the EBT/Durante Settlement detailed in the Church Letter.

Account Name	Source of Liquidated Securities	Estimated As At May 12, 2008	Actual As At May 15, 2008 ²	Actual As At July 31, 2008 ³
<u>Funds Available for Distribution (Note 1)</u>				
1 Exchange Bank and Trust Inc. ("EBT BMO")		\$ 20,510,000.00	20,510,779.18	20,586,369.81
2 Durante Funds				
Berkshire Capital Partners Inc.	[Union Securities]		73,577.24	73,654.67
Carter & Associates	[IPO Capital]		136,336.68	137,932.84
Commonwealth Associates Ltd.	[Union Securities]		25,150.66	25,175.96
Dottenhoff Financial Ltd.	[Union Securities]		7,967.06	7,969.05
Galton Scott & Golett Inc.	[Union Securities]		36,910.88	36,948.01
Total Durante Funds		276,201.00	<u>279,942.52</u>	<u>281,680.53</u>
Total Funds Available for Distribution		<u>20,786,201.00</u>	<u>20,790,721.70</u>	<u>20,868,050.34</u>
<u>Distribution (EBT/Durante Settlement)</u>				
Michael Jason Evans		3,895,238.00	3,895,238.00	3,895,238.00
Hoebet & Bernstein Ltd.		150,865.00	150,865.00	150,865.00
Henninger Financial Inc.		1,419.00	1,419.00	1,419.00
Stourbridge Ltd.		40,000.00	40,000.00	40,000.00
Securities and Exchange Commission British Columbia Securities Commission	}	14,656,179.00	14,656,179.00	14,656,179.00
H. Thomas Moran II		1,825,000.00	1,825,000.00	1,825,000.00
Wolverton Securities Ltd.		55,000.00	55,000.00	55,000.00
Miguel Valenti		100,000.00	100,000.00	100,000.00
Nancy Valenti		62,500.00	62,500.00	62,500.00
Total funds to be distributed		<u>20,786,201.00</u>	<u>20,786,201.00</u>	<u>20,786,201.00</u>
Difference		<u>-</u>	<u>4,520.70</u>	<u>81,849.34</u>
<u>Outstanding costs</u>				
Mediation costs May 15 and 16, 2008				12,312.22
Receiver's unbilled fees and fees to discharge				30,000.00
Receiver's legal counsel unbilled fees and fees to discharge				<u>20,000.00</u>
				62,312.22
Net difference payable to Michael Evans ⁴				<u>19,537.12</u>

(1) Accrued interest has not been included in the balances above.

(2) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0000 (May 15, 2008)

(3) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0240 (July 31, 2008)

(4) Michael Jason Evans is to receive 100% of the net interest earned on the EBT BMO Funds for the period May 16, 2008 to the earlier of October 1, 2008 or Court approval of the Settlement.

The parties used May 12, 2008 estimated balances for purposes of the mediation discussions. Insertion of actual balances as at May 15, 2008 results in a difference of \$4,500 at the outset. Also and as noted above, accrued interest has been excluded from these calculations. Subject to payment of outstanding administration costs noted above, the initial difference of \$4,500 and any accrued interest as at May 15, 2008 will ultimately be paid to Mr. Evans based on the terms of the EBT/Durante Settlement.

Interest continues to be earned on the EBT BMO and Durante Funds which will be distributed in accordance with the terms of the EBT/Durante Settlement once approvals are finalized.

Estimates for professional fees may be revised depending on the outcome of the September 17, 2008 Court hearing (as subsequently discussed).

Sterling International Bank Inc.

The Receiver was advised that funds held in the Sterling BMO account are to be distributed as follows based on the settlements reached between the parties:

Account Name	Actual As At May 15, 2008 ²	Actual As At July 31, 2008 ³
Funds Available for Distribution (Note 1)	\$ 615,839.88	617,813.95
<u>Distribution</u>		
Draco Limited	5,000.00	5,000.00
Dennis Harman, Executor for Estates of Juanita Harman and Virgil Harman	61,000.00	61,000.00
Securities and Exchange Commission (Judgement against Stephen C. Sayre, Independent Financial Reports Inc., and Silver Screen Industries Ltd.)	549,839.88	551,813.95
Total funds to be distributed	615,839.88	617,813.95
Difference - Undistributed Funds	-	-

(1) Accrued interest has not been included in the balances above.

(2) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0000 (May 15, 2008)

(3) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0240 (July 31, 2008)

The Receiver understands that the SEC has claimed the funds originally claimed by Mr. Sayre pursuant to the \$1.7 million judgment that the SEC has obtained against Mr. Sayre and the other parties noted above and which was offered and accepted as evidence in support of its claim.

Additional interest earned on these funds will be paid to the SEC based on the Receiver's understanding of the settlement of the funds held in the Sterling BMO account.

Specific Claimants

The Receiver was advised that funds held in the Specific Claimants – Strategic Financial Services Ltd. (“Strategic”) account are to be paid to Strategic under the settlements reached on May 15 and 16, 2008.

Account Name	Source of Liquidated Securities	Actual As At May 15, 2008 ²	Actual As At July 31, 2008 ³
<u>Funds Available for Distribution (Note 1)</u>			
Strategic Financial Services Ltd.	[Union Securities]	\$ 107,133.11	107,252.72
<u>Preliminary Distribution</u>			
Strategic Financial Services Ltd.		107,133.11	107,252.72
<u>Difference - Undistributed Funds</u>		<u>-</u>	<u>-</u>

(1) Accrued interest has not been included in the balances above.

(2) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0000 (May 15, 2008)

(3) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0240 (July 31, 2008)

Additional interest earned on these funds will be paid to Strategic based on the Receiver’s understanding of the settlement arrangement.

Other Companies

No claim was ever made to funds held in respect of these “Other Companies”. The Receiver understands that the BCSC, who had not previously claimed these funds, intends to make an application to the Court to have these funds paid to the BCSC.

Account Name	Source of Liquidated Securities	Actual As At May 15, 2008 ²	Actual As At July 31, 2008 ³
<u>Funds Available for Distribution (Note 1)</u>			
		-	
Bullock Investments	[Raymond James] \$	5,413.68	5,415.04
Dobbins & Dottenhoff	[Raymond James]	49,435.04	49,948.67
Fairwinds Holdings	[Raymond James]	98,250.37	99,271.54
First Technology	[Raymond James]	13,200.26	13,208.57
Glisan & Glisan	[Raymond James]	126.51	126.54
Irish Tyndall Trading	[Raymond James]	89,584.94	90,501.45
Lion Fortune	[Raymond James]	3,741.35	3,762.71
National Online	[Raymond James]	53.76	53.76
Oracle Investments	[Raymond James]	25,534.18	25,799.94
Sovereign Securities	[Union Securities, Raymond James]	666,383.67	673,964.44
Usher & Usher Ltd.	[Raymond James]	23,069.97	23,202.37
Total Funds Available for Distribution		974,793.73	985,255.03
Undistributed Funds		974,793.73	985,255.03

(1) Accrued interest has not been included in the balances above.

(2) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0000 (May 15, 2008)

(3) For purposes of this analysis, Canadian currency account balances have been converted at USD = CDN \$1.0240 (July 31, 2008)

If the BCSC is successful in its application to have the Other Companies' funds paid to it, the Receiver understands that the BCSC may include the Remaining Securities (discussed above) in its application and that these would then be transferred to BCSC as part of that claim.

Summary

Assuming that all requisite approvals of the settlements discussed above are obtained and the BCSC's claim to the Other Companies' funds and the Remaining Securities is authorized by the Court, all of the Property under the Receiver's control would then be distributed. If the BCSC's application is not granted in respect of its claim to the Other Companies' funds, the Receiver recommends that these remaining funds be paid to the Court.

ENTITLEMENT HEARING AND SETTLEMENT APPROVAL

Hearing Date

Pursuant to a case management conference held on July 15, 2008, the Entitlement Hearing was adjourned generally as a result of the proposed settlement described herein.

Settlement Approval

Attached as Appendix B is the Requisition dated July 21, 2008 setting a Case Management Conference for September 17, 2008. The Receiver understands that the agenda of the hearing is:

- to seek approval of the settlements noted above;
- the BCSC will seek to have the Other Companies' funds paid to the BCSC;
- to seek approval of the fees and disbursements of the Receiver and the Receiver's counsel since September 30, 2006 and if necessary, to pay the Other Companies' funds into Court as a part of that discharge; and
- to seek discharge of the Receiver, subject only to the distribution of the funds pursuant to the settlement.

Respectfully submitted,

**KPMG INC., in its capacity as Receiver
and not in its personal capacity**



Robert M. Rusko
Senior Vice President

RMR/
Enclosures