

Court File No. 01-CL-4192

SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

ONTARIO SECURITIES COMMISSION

Plaintiffs

- and -

BUCKINGHAM SECURITIES CORPORATION

Defendants

EIGHTEENTH REPORT OF
BDO DUNWOODY LIMITED, IN ITS
CAPACITY AS RECEIVER AND MANAGER OF
BUCKINGHAM SECURITIES CORPORATION

TO THE SUPERIOR COURT OF JUSTICE

A. PURPOSE OF THE REPORT

1. This report of BDO Dunwoody Limited in its capacity as Court-Appointed Receiver and Manager (the "Receiver") of the property, undertaking and assets of Buckingham Securities Corporation ("Buckingham"), including all property held in the name of Buckingham, directly or indirectly, as principal or agent, beneficially or otherwise, and all proceeds thereof (the "Property"), is filed in support of a motion by the Receiver for an Order amending certain terms of the Order of this Honourable Court, dated 22 November 2004, relating to the Claims Bar Process as follows:

- (i) amending paragraph 2 of the Order so as to allow the Receiver 30 days from the date of the Order, rather than 7 days, to forward notices to Buckingham's creditors setting out the amount of their claims as recognized by the Receiver;
- (ii) extending the period within which creditors may file claims and the Claims Bar Date referred to in paragraph 3 of the Order until January 17, 2005; and
- (iii) amending paragraph 4 of the Order so as to allow the Receiver 30 days from the date of the Order rather than 7 days, to publish a Notice in the Globe & Mail advising Buckingham's creditors of the Claims Bar Date.

The reasons for these requested amendments to the Order of November 22, 2004 are as follows:

2. The following comments should be read in conjunction with the Seventeenth Report of the Receiver & Manager dated November 10, 2004.
3. As has been previously reported, on July 6, 2001 the Ontario Securities Commission ("OSC") suspended Buckingham's registration and froze all trading in securities in any accounts held in the name of Buckingham.
4. By Order of the Honourable Madam Justice Swinton dated July 26, 2001, the Receiver was appointed Receiver & Manager of all the property, assets and undertaking of Buckingham. Pursuant to paragraph 15 of the Receiver's Seventeenth Report, the Receiver proposed to determine "net equity" of each customer's security position with Buckingham, as at July 6, 2001, the date of the Cease Trade Order. The Receiver recommended the use of July 6, 2001 as the appropriate date for determining customer claims, as that is the date on which Buckingham's business and trading activities were frozen by the OSC, and the ability of Buckingham's customers to deal with their cash and securities held in accounts with Buckingham was effectively frozen.
5. The Receiver further advised, as per paragraph 16 of the Seventeenth Report, that it had "calculated the net equity of each of Buckingham's customers as at July 6, 2001 using the

information available in Buckingham's records." A listing of customers' claims was attached to the Seventeenth Report, as Exhibit "F".

6. With the mailing out of the Motion Record related to the Motion returnable on November 22, 2004, customers began to contact the Receiver to advise of alleged discrepancies between the balances marked on Exhibit "F", and balances shown on the customer account statements previously circulated to customers by Buckingham, as at 30 June 2001, and as subsequently reported by the Receiver in its First Report to the Court, dated August 28, 2001. That Report had advised of most customer balances, based on available figures as at July 11, 2001, soon after the Receiver's initial involvement with Buckingham. Paragraph 18 of the Receiver's First Report advised that "the total market value of securities identified due to clients at July 26, 2001 amounts to \$8,938,489". It appears from a reconciliation of these amounts, that these sums included customer cash balances. In addition to this Report, there was a mail out to creditors to advise them of the Receivership, and a statement produced by Buckingham was sent to the customers indicating their balances available from the ISM system as at July 31, 2001.
7. By that time, the Receiver had realized that it was impossible to utilize the ISM system to provide customer account statements at any date other than a month-end. While daily balances were available electronically, and could be printed out on that date, they were superseded daily and only monthly statements could be produced.
8. Accordingly, in early 2002, after speaking with the Corporate Securities Department of the Hongkong Shanghai Bank of Canada, ("HSBC") which then acted as Custodian of all of the shares of Buckingham, on behalf of the Receiver, it was determined that a "Bloomberg" system existed that could calculate values on a daily basis, and could be utilized to recreate values as at July 6, 2001. Accordingly, the Receiver was then furnished by HSBC with a hardcopy listing of market values of all marketable securities as at July 6, 2001.

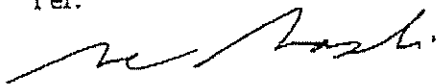
9. The Receiver's staff then manually amended the customer account statements as at July 31, 2004, to insert the values as at July 6, 2001 provided by HSBC. The staff supervisor checked a number of entries and, while there were reasonably small differences between the values indicated for July 6, 2001, and those indicated on the July 31, 2001 customer account statements generated by the ISM system, he assumed that the differences represented market fluctuations from July 6, 2001 to July 31, 2001. This assumption appeared validated when he noted that the total of all customer claims approximated a little under \$9 million, close to the amount reported in the First Report of the Receiver. No line-by-line comparison was initiated of the balances generated for each customer by HSBC from the "Bloomberg" system as at July 6, 2001, and the balances generated by the ISM customer account statements on July 31, 2001.
10. It was not until customers started to call the Receiver, and the Receiver's counsel, after receiving the Motion Record, to query why there were differences between the figures they had previously been led to believe applied to them, and the figures currently being reported, that the Receiver realized there were in some cases significant differences between the quotes obtained from HSBC, and the customer accounts as reported by the ISM system. At the time of attending at Court on November 22, 2004, the Receiver still thought that these queries were anomalies, but since then has conducted a line-by-line review and found numerous differences between the stock quotes in the Receiver's Seventeenth Report and the figures indicated in the earlier ISM reports; some higher, and some lower.
11. The Receiver now realizes that this is a systemic problem, and has concluded that its calculations of many of the customer accounts at July 6, 2001 were probably inaccurate, and need to be redone. It is impossible to redo these calculations and notify customers of the new balances within the available timeframe provided for in the Claim Bar Process established by the Order of November 22, 2004.

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12. In addition, in view of the difficulties which have been identified in valuing thinly traded securities, the Receiver would like an opportunity to report to the court with respect to the approach the Receiver recommends be adopted in valuing those securities in advance of recalculating customer balances and issuing claim notices to customers. In the interim, the Receiver proposes to mail a letter to all of the former Buckingham customers to explain the delay in the claims process and advise them of the new timetable.
13. The Receiver profoundly regrets the inconvenience and delay occasioned by the errors in the information received and used by the Receiver in valuing the securities, and is grateful to the customers of Buckingham for their assistance in identifying these errors so that the Receiver can correct the problem prior to any distribution. The Receiver respectfully requests the Court's indulgence in providing the requested additional amount of time to allow the Receiver to prepare and send out corrected information to the customers.

Respectfully submitted,

BDO DUNWOODY LIMITED
Receiver and Manager
Per:



Uwe Manski, FCA, FCIRP
President