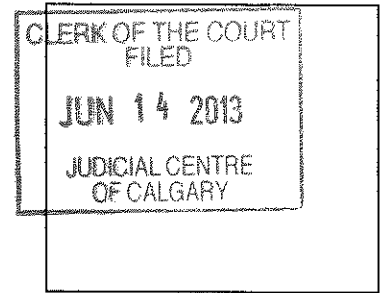


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COURT FILE NUMBER 1101-16994

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANT BRUCE BRANDER

RESPONDENTS COPESTONE CAPITAL INC., COPESTONE ASSET MANAGEMENT INC., NUTERRA INVESTMENTS CORPORATION, BROOKSTONE DEVELOPMENTS INC., LUANO BAISI, LES BAISI, BRADLEY BAKER AND MARY BAKER

IN THE MATTER OF THE APPOINTMENT OF A RECEIVER OF COPESTONE CAPITAL INC. AND COPESTONE ASSET MANAGEMENT INC.

DOCUMENT FOURTH REPORT OF THE RECEIVER

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT **JENSEN SHAWA SOLOMON DUGUID HAWKES LLP**  
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File: 12531.001

**FOURTH REPORT OF THE RECEIVER  
DATED JUNE 13, 2013**

BDO Canada Limited  
620, 903 – 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta  
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Web: [www.bdo.ca](http://www.bdo.ca)

## 1.0 INTRODUCTION AND PURPOSE OF THE REPORT

### 1.1 The purpose of this report is to:

- (i) Highlight the steps taken since the Third Report of the Receiver filed January 29, 2013;
- (ii) Outline for the Court the updated findings of the Receiver from investigations and analysis of the books and records of Copestone Capital Inc. ("Copestone Capital") and Copestone Asset Management Inc. ("Copestone Asset") (collectively the "Companies" or "Copestone");
- (iii) Ask for advice and direction from the Court in respect to the sales proceeds of 2432 37<sup>th</sup> Avenue N.W., Calgary, Alberta, specifically allowing the Receiver to be able to utilize these funds currently held in trust.

## 2.0 RECEIVERSHIP ACTIVITY

- 2.1. The Receiver retained new counsel with respect to the within matter and the claim that has been brought by the Receiver in Action No. 1201-11805.
- 2.2. The Receiver requested, and obtained documentation from Justin O'Connell, counsel on many of the real estate transactions involving property that was attached as a result of the Receivership Order granted December 14, 2011 and other real estate transactions which involve loans made by Copestone.
- 2.3. The Receiver has undertaken a further detailed analysis of the accounting records of Copestone to determine the disposition and dissipation of investor funds with respect to certain, specific properties. As a result, some of the figures outlined in the Third Report of the Receiver have been updated as outlined below.
- 2.4. Draft financial statements of Copestone Capital for the period ending December 14, 2011 have been prepared by the Receiver [Schedule "A"].

## 3.0 FINDINGS OF THE RECEIVER FROM INVESTIGATIONS OF THE COMPANIES' BOOKS AND RECORDS RELATING TO PROPERTY INVESTMENTS

- 3.1. As indicated in the Receiver's First Report, dated February 28, 2012, and the Receiver's Third Report, dated January 29, 2013, the Receiver obtained various books and records of the Companies and undertook an initial analysis of these records. Since the Third Report of the Receiver, the Receiver has made further attempts to trace the funds from the Companies to debtors through analysis of various source documents including bank statements, deposit books, agreements of purchase and sale and other documents obtained. In addition, the Receiver analyzed the bank statements, cancelled cheques and recorded and

tracked material payments out of the Companies. The Receiver analyzed cash transactions only. Non-cash transactions, such as interest on loans, have not been taken into account. The Receiver has been unable to locate any loan agreements and as such has been unable to calculate interest. The Receiver was able to trace, from the date of the Companies' inception to present, where the funds of the Companies had gone. By analyzing the cancelled cheques, books and records of the Companies, and other sources such as mortgage files, the Receiver compiled a listing of all properties that Copestone Capital appears to have had some interest in. In addition, further analysis of this documentation which has been conducted since the Third Report of the Receiver has resulted in some updated information with respect to certain properties discussed in the Third Report of the Receiver and the amounts payable to Copestone.

3.2. The Receiver has been able to determine that, with the exception of undocumented claims, there is no evidence of any creditors of the Companies. No proof of claims have been submitted.

3.3. The following properties were held at the date of the Receivership Order by one of the related parties (as outlined in the Third Report of the Receiver) and Copestone Capital money can be traced directly into their purchase or development (numbering is consistent with the Third Report of the Receiver):

3.3.1. **Property #1:** 714 56th Avenue S.W. was acquired by Nuterra Investments Corporation ("NIC") from Mr. Luano Baisi on March 1, 2007. Copestone Capital registered a mortgage of \$900,000 against the property on March 28, 2006 which mortgage was discharged on March 1, 2007. Copestone Capital records evidence various mortgage and other draws against this project in the amount of \$1,259,693.75 as well as re-payment in the amount of \$1,257,110.67. Based on the information available to the Receiver, the difference between the amount advanced by Copestone and the amount repaid by NIC associated with this property is \$2,583.08 [Schedule "B"].

3.3.2. **Property #2:** 129 27<sup>th</sup> Avenue N.W. was owned by Ecologic Developments 2000 Inc. ("Ecologic Developments") which obtained funding from Copestone Capital in the amount of \$143,000. The property was transferred from Ecologic Developments to NIC on March 1, 2007 for \$1. Additional funds were advanced from Copestone Capital to NIC in the amount of approximately \$1,559,247.29 for a total of \$1,702,247.29 up to December 2009. Identified re-payments from NIC to Copestone Capital amount to \$1,252,000. Based on the information available to the Receiver, the difference between the amount advanced by Copestone and the amount repaid by NIC associated with this property is \$450,247.29 [Schedule "B"].

- 3.3.3. **Property #7:** 2004 48 Avenue S.W. was purchased by Brookstone Developments Inc. ("Brookstone") on April 28, 2009 for \$600,000. On February 24, 2010, Brookstone sold the property to NIC for \$550,000, and it was later transferred back to Brookstone for \$10. The property was then sold to an unrelated party on December 22, 2012 for \$540,000. Funds were advanced from Copestone Capital to NIC in the amount of \$355,967.50 up to December 2010. The Receiver has not been able to find evidence of re-payment of this amount.
- 3.3.4. **Property #8:** 648 26 Avenue N.W. was purchased by NIC for \$520,000 with funds advanced from Copestone Capital. NIC received additional advances from Copestone Capital for a total of \$1,036,793.52 as of December 2011. The Receiver has been able to identify re-payment of \$200,000. This property was sold pursuant to a Court Order dated April 23, 2012, as outlined in the Third Report of the Receiver at paragraph 2.4. Based on the information available to the Receiver, the difference between the amount advanced by Copestone and the amount repaid by NIC associated with this property is \$836,793.52. Pursuant to the Court Order dated April 23, 2012, the amount of \$298,777.41 was provided to the Receiver following the sale of this property [Schedule "B"].
- 3.3.5. **Property #9:** 2022 23 Avenue N.W. was purchased by NIC for \$570,000 on September 18, 2007 with funds received from Copestone Capital. NIC transferred the property to Luano Baisi, Les Baisi and Bradley Baker for nominal consideration on February 11, 2010. The property was then transferred back to NIC on September 10, 2010, for the same consideration. Finally, the property was transferred to Brookstone on February 22, 2011 for \$1. Copestone advanced additional funds for a total amount of \$1,187,559.68 as of December, 2011. The Receiver has identified re-payment of \$150,000. The property was sold on March 1, 2012, by Brookstone and the sale proceeds of \$400,000 were paid to the Receiver pursuant to Court Order dated March 1, 2012. Based on the information available to the Receiver, the difference between the amount advanced by Copestone Capital and the amount repaid by NIC associated with this property is \$1,037,559.68 [Schedule "B"].
- 3.3.6. **Property #10:** 908 33 Street N.W. was purchased by Nuterra Developments Inc. ("NDI") on June 3, 2006 for \$549,000, and Copestone Capital registered a mortgage for \$599,999 against the property. On March 1, 2007, the mortgage was discharged but, to the best of the Receiver's knowledge, not paid out. NDI received the sale proceeds of \$1,064,043.46 from the property. Copestone Capital advanced additional funds for a total amount of \$1,897,630.37. The Receiver has identified re-payments from NIC to Copestone Capital in the amount of

\$1,279,000.00. Based on the information available to the Receiver, the difference between the amount advanced by Copestone Capital and the amount repaid by NIC associated with this property is \$618,630.37 [Schedule "B"].

3.3.7. **Property #14:** 2806 24<sup>th</sup> Street N.W. and **Property #15,** 2432 27 Avenue N.W., was purchased and Copestone Capital registered a mortgage for \$499,000 on February 24, 2006. On March 2, 2007, the property was transferred to NIC for consideration of \$600,000. On March 2, 2007, the mortgage was discharged but, to the best of the Receiver's knowledge, not paid out. On February 8, 2010, Sub-Division Plan 101578 was registered, cancelling the title and creating the two properties listed above. Copestone advanced additional funds for a total amount of \$2,500,905.94 as of December 2011. The Receiver has identified repayment in the amount of \$598,000. Based on the information available to the Receiver, the difference between the amount advanced by Copestone Capital and the amount repaid by NIC associated with this property is \$1,902,905.94 [Schedule "B"].

3.3.8. **Property #16:** 724 19<sup>th</sup> Avenue N.W. was purchased by 549853 Alberta Limited (now Brookstone) on December 8, 2005 for \$345,000 and Copestone Capital registered a mortgage for \$385,000 against the property. The mortgage was discharged but, to the best of the Receiver's knowledge, not paid out. The property was sub-divided on March 11, 2008 and the owner at the time was NIC. As of December 2010, Copestone advanced funds for a total amount of \$1,740,049.82. The Receiver has been able to identify re-payments in the amount of \$829,267.12. Based on the information available to the Receiver, the difference between the amount advanced by Copestone Capital and the amount repaid by NIC associated with this property is \$910,782.70 [Schedule "B"].

#### 4.0 RECEIVERSHIP ACTIVITY

- 4.1. Following the sale of **Property #14** 2806 24<sup>th</sup> Street N.W., surplus sale proceeds in the amount of \$130,469.43 are being held in trust by Mr. O'Connell, pursuant to Court Order dated March 12, 2012, pending further Court Order. The Application filed by Mary Baker to have the surplus proceeds paid to Ms. Baker has been adjourned *sine die*.
- 4.2. The Receiver obtained a Court Order on July 30, 2012 to list **Property #15** 2432 27<sup>th</sup> Avenue N.W. for sale. The Receiver's activities and acceptance of the Offer to Purchase is outlined in the Second Report of the Receiver dated August 29, 2012. Surplus sale proceeds in the amount of \$726,493.85, at the time of the

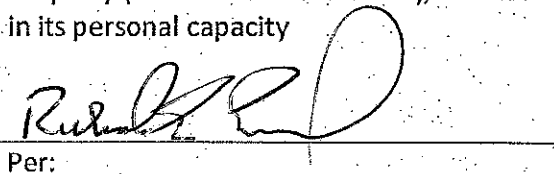
drafting of this Report, are presently being held by the Receiver in trust pending further Court Order.

- 4.3. In correspondence dated December 3, 2012, the Receiver sought a Consent Order from Les Baisi, and Luano Baisi to release the remaining sale proceeds being held in trust with respect to **Property #15** to the Receiver; however, did not receive consent. In correspondence dated January 2, 2013, counsel for the Baisis indicated that there are claims against sale proceeds being held in trust and asked the Receiver to comment on a method of adjudicating those claims and arranging for the pro rata distribution of the sale proceeds. In correspondence dated January 11, 2013, further information was sought from the Baisis on their alleged claims specifically an accounting of the claims along with supporting documentation. No further information has been received by the Receiver.
- 4.4. In correspondence dated January 11, 2013, the Receiver sought a Consent Order from Mary Baker to release the remaining sale proceeds being held in trust with respect to **Property #15** to the Receiver. In correspondence dated February 12, 2013, counsel for Mary Baker advised that his clients do not take any position with respect to the relief sought.
- 4.5. The Receiver has prepared a Statement of Disbursements attached as **Schedule "C"**.

## 5.0 FINAL COMMENTS

- 5.1. The Receiver respectfully submits this Report and requests the Court's advice and direction with respect to the \$726,493.85 currently held in trust by the Receiver as a result of the proceeds of sale from **Property #15** 2432 27<sup>th</sup> Avenue N.W., specifically allowing the Receiver to be able to utilize these funds currently held in trust.

BDO CANADA LIMITED, solely in its capacity  
as Court Appointment Receiver of the  
Property (as defined in the Order), and not  
in its personal capacity



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Per:

Name: Richard Edwards

Title: Senior Vice-President

# Schedule 'A'

## Copestone Capital Inc Financial Statements

For the period ended December 14, 2011  
(Unaudited - see Notice to Reader)

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DRAFT - For Discussion Purposes Only

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Notice to Reader

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On the basis of information provided by management, we have compiled the balance sheet of Copestone Capital Inc as at December 14, 2011 and the Statement of Operations and Deficit for the period then ended.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

Chartered Accountants

Calgary, Alberta  
March 26, 2013

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Copestone Capital Inc  
Balance Sheet  
(Unaudited - see Notice to Reader)

December 14	2011	2010
<b>Assets</b>		
Cash	\$ 5,380	\$ 123,190
Accounts receivable	1,142	1,142
Loans and notes receivable	6,115,470	5,853,214
	<u>\$ 6,121,992</u>	<u>\$ 5,977,546</u>
<b>Liabilities</b>		
Due to related parties	\$ 562,350	\$ 416,676
Dividends payable	-	29,485
	<u>562,350</u>	<u>446,161</u>
Share capital	6,160,697	5,921,959
Deficit	(601,055)	(390,574)
	<u>5,559,642</u>	<u>5,531,385</u>
	<u>\$ 6,121,992</u>	<u>\$ 5,977,546</u>

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**Copestone Capital Inc**  
**Statement of Operations and Deficit**  
**(Unaudited - see Notice to Reader)**

For the period ended December 14	2011	2010
<b>Revenues</b>		
Interest income	\$ 141,392	\$ 455,061
Management fees	9,668	86,692
	<u>151,060</u>	<u>541,753</u>
<b>Expenses</b>		
Bank charges	216	145
Investment interest	345,260	665,133
Office expenses	702	
Professional fees	15,363	16,670
	<u>361,541</u>	<u>681,948</u>
<b>Net loss</b>	(210,481)	(140,195)
<b>Deficit, beginning of year</b>	(390,575)	(250,380)
<b>Deficit, end of year</b>	<u>\$ (601,056)</u>	<u>\$ (390,575)</u>

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# Schedule 'B'

Copestone Capital Inc  
Mortgage Receivable Summary  
As of December 14, 2011

	Property	Advances	Repayment	Fund Balance
#1	714 - 56 Avenue SW	1,259,693.75	1,257,110.67	2,583.08
#2	129 - 27 Avenue NW	1,702,247.29	1,252,000.00	450,247.29
#7	2004 - 48 Avenue SW	355,967.50	-	355,967.50
#8	648 - 26 Avenue NW	1,036,793.52	200,000.00	836,793.52
#9	2022 - 23 Avenue NW	1,187,559.68	150,000.00	1,037,559.68
#10	908 - 33 Street NW	1,897,630.37	1,279,000.00	618,630.37
#14 and #15	2806 - 24th Street NW and 2432 - 27 Avenue NW	2,500,905.94	598,000.00	1,902,905.94
#16	724 - 19 Avenue NW	1,740,049.82	829,267.12	910,782.70
		<u>11,680,847.87</u>	<u>5,565,377.79</u>	<u>6,115,470.08</u>

\* Mortgage draw schedules provided by Copestone have been summarized on a property by property basis.

# Schedule 'C'

Estate No. 25-094239

COPESTONE CAPITAL INC.  
BDO CANADA LIMITED COURT APPOINTED RECEIVER  
FOR THE PERIOD FROM DECEMBER 14, 2011 TO MAY 15, 2013

Receipts:

Sale of real property - 2020/2022 23rd Ave NW	400,000.00
Sales of real property - 648 26th Ave NW	298,777.41
Cash on hand	5,181.96
Utilities refund	621.97
Interest	4,714.99

Total receipts \$ 709,296.33

Disbursements:

Receiver's fees	137,493.29
GST on Receiver's fees	6,912.19
Legal fees	314,343.16
GST on Legal fees	15,600.84
Fees paid to the Official Receiver	70.00
Fax, courier and postage	17.53
GST paid	30.00
Change of locks	103.00
Land title fees	630.00
Utilities	700.00
Repairs and building maintenance	600.00
Transfer to Copestone Asset Management Receivership Trust Account	25,079.63

Total disbursements \$ 501,579.64

Funds on hand at May 15, 2013 \$ 207,716.69

NOTES:

- 1 Gross Proceeds of \$726,493.85 from the sale of 2432 - 27th Ave SW are being held in a Receiver's general trust account, separate and apart from the Receiver's trust account in accordance with a Court Order. These funds are currently not available for use.
- 2 Surplus sales proceeds in the amount of \$130,469.43 for the sale of 2804 - 24th Street NW property are being held in trust by Mr. O'Connell, pursuant to Court Order dated March 12, 2012.
- 3 The Receiver has realized all known assets of the debtor, including the real property.