

Second Report of The Liquidator of

**LEADENHALL BANK & TRUST COMPANY  
LIMITED**

(In Voluntary Liquidation)

For the period from December 10, 2005 to April 7, 2006

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# Leadenhall Bank & Trust Company Limited

*(In Voluntary Liquidation)*

Second Report of the Liquidator (From December 10, 2005 to April 7, 2006)

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## INTRODUCTION

The second report of the Liquidator of Leadenhall Bank & Trust Company Limited ("the Bank") is intended for use by the Central Bank of The Bahamas, the Bahamas Registrar General and the Supreme Court of The Bahamas and other concerned parties. This report sets out the steps taken by the Liquidator since his first report (October 3, 2005 to December 9, 2005). The Liquidator had previously acted as the Receiver of the Bank for the period from July 18, 2005 to October 3, 2005. The Liquidator's second report covers the period December 10, 2005 to April 7, 2006.

## BACKGROUND AND BASIS OF APPOINTMENT

Leadenhall Bank & Trust Company Limited is a Bahamian incorporated Company and was licensed under the provisions of the Banks and Trust Companies Regulation Act, 1965, as amended.

In 2000, Leadenhall was granted a license to provide services in Bahamian dollars. This license gave the Bank the authority to service the domestic market. However, that service never materialized.

The Bank's revenue was generated primarily from the following:

- Trust services
- Managed companies (e.g. IBC, property management, etc.)
- Banking and investment services

Until July 29, 2003, the Bank also generated revenue from its MasterCard (credit card) franchise, which was operated by Axxess International Bahamas Limited. MasterCard suspended the license issued to the Bank and is now claiming a termination fee of \$1.7 million.

As a result of the loss of its credit card business and the ongoing litigation with respect to the same, along with litigation involving the Cash 4 Titles class action suit and shareholder fallout, the Bank consequently experienced recurring losses from operations in recent years.

Primarily as a result of the above, I was appointed Receiver of Leadenhall Bank & Trust Company Limited with effect from July 18, 2005. The Bank's licence was suspended for the period from July 18, 2005 to October 3, 2005. My appointment was made pursuant to Section 18 (1) (f) of the Banks and Trust Companies Regulation Act, 2000.

On October 3, 2005, by a resolution of the shareholders, the Bank was placed into voluntary liquidation and I was appointed the Liquidator.

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## DEFINITIONS

In this report, the words and expressions hereunder shall mean, as follows:

"The Liquidator" means Craig A. (Tony) Gomez or any member of his ("the Liquidator's") team.

"I" means Craig A. (Tony) Gomez or any member of his (the Liquidator's) team.

"The Bank" means Leadenhall Bank & Trust Company Limited.

"Counsel" means Callenders & Co.

"Receiver" means Craig A. (Tony) Gomez acting as Receiver of the Bank during the period July 18, 2005 to October 3, 2005.

## STEPS TAKEN BY THE LIQUIDATOR (for the period from December 10, 2005 to April 7, 2006)

1. Relocated the Bank's premises to One Cumberland Hill Street reduced the Bank's rental expense by approximately \$6,000.00 monthly.
2. Met with Creditors of the Bank and presented the first report of the Liquidator and addressed all questions and concerns.
3. Released the Financial Controller of the Bank.
4. Petitioned the Court for the release of certain "off balance sheet assets" booked in the name of the Bank.
5. Place the first Liquidator's report on the Bank's website.
6. Continued with the verification of credit card holders deposit balances.
7. Continued to dispose of the Bank's assets and generate cash for distribution.
8. Relocated the Bank's general ledger to a low maintenance software (Quickbooks).
9. Established Bahamian and United States dollar accounts at Royal Bank of Canada ("RBC").
10. Closed a number of the Bank's accounts and credited the proceeds to the Liquidator's account established at RBC.
11. Collected outstanding loans in the amount of \$599,911.

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**STEPS TAKEN BY THE LIQUIDATOR** (for the period from December 10, 2005 to April 7, 2006)  
(continued)

12. Consulted with Counsel and held discussions with Mr. Thomas Lynch on retaining Mr. Lynch and his firm as the Liquidator's legal counsel in the Cash 4 Titles litigation in Florida.
13. Liaised with Counsel for Carib Insurance, Mr. David Walker, in connection with the Liquidator's efforts to recover claims for legal fees incurred by the Bank.
14. Met with Mr. William Jennings on the issue of booking clients' assets in the name of the Bank.
15. Met with Justice Faizool Mohammed in March 2006 to discuss the progress of the reconciliation of the Axxess accounts.

**CONCERNS**

- **Axxess International Bahamas Limited ("Axxess")**

During the period, we continued with the reconciliation of the various Axxess International Bahamas Limited credit card deposit accounts. The approach taken by the Liquidator is to reconcile:

1. The bank balances existing as at the time of transfer and to determine the amounts transferred to FFCTC by the Bank;
2. All individual Axxess customer account balances from the records held by the Bank.

The challenges facing the Liquidator in the reconciliation are as follows:

1. During the reporting period I delivered a letter to Mr. Raynard Rigby, Counsel for First Financial Caribbean Trust Company ("FFCTC"), requesting his client's (FFCTC's) approval to have the Banks involved in the transfer of assets to FFCTC as at September 4, 2002, to release to me the statements as at that date, to allow a proper reconciliation as per step 1 above. (See sample at Appendix 1). As at the date of this report, I am still awaiting a response from Mr. Rigby.

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## CONCERNS

- **Axxess International Bahamas Limited** (*continued*)
- 2. The reconciliation / accounting of the Axxess customers' account balances are being reconciled with the records maintained by the Bank.

Further, in instances where customers have submitted claim forms, we are reconciling the balances, per the claim forms, to the records and balance information held by the Bank.

During the reporting period Mr. Brian Moree, of McKinney, Bancroft & Hughes, Counsel for the Liquidator in the Axxess / FFCTC matter and Mr. Raynard Rigby, Counsel for FFCTC met with Justice Faizool Mohammed to assess the status of the reconciliation.

It is likely that the next mention date will be April 25, 2006. As at the date of this report the reconciliation of the customer accounts was approximately 25% complete. However, of the approximately 5,533 accounts, only 214 claim forms had been received.

- **Cash 4 Titles**

There have been no further developments in this matter except for the discussion held with Mr. Thomas Lynch, which follows below.

### **Discussion with Attorney Tom Lynch**

During the period Counsel (Mr. Michael Saunders) received a phone call from Mr. Thomas Lynch, the Bank's United States Counsel in the Cash 4 Titles matter. Counsel advised me that Mr. Lynch had two (2) concerns; the payment of his outstanding invoices totaling approximately \$231K and a duly executed engagement letter from the Liquidator for representation to be made by Mr. Lynch and his firm, Wildman, Harrold, Allen & Dixon LLP, on behalf of the Liquidator during the liquidation. He stated that these concerns must be addressed immediately, otherwise he will withdraw his services and return all files to the Bank.

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## CONCERNS

- **Cash 4 Titles (continued)**

### **Discussion with Attorney Tom Lynch (continued)**

Subsequently, Counsel, (Mr. Sidney Cambridge and Michael Saunders), and I (inclusive of Mr. Edward Rolle) had a conference call with Mr. Lynch and his senior partner, Mr. Donald Flayton on March 6, 2006 to discuss these concerns.

I advised Mr. Lynch that I would like for him to continue on as the Bank's counsel in the Cash 4 Titles matter and my reason for this decision was that firstly, he had represented the Bank well in the past and secondly, new counsel will be more costly in becoming familiar with the case.

I also advised Mr. Lynch that once we came to an agreement on the outstanding issues, I will provide him with an engagement letter for representation in the Cash 4 Titles matter. In respect to his outstanding invoices, which were incurred prior to the Bank's receivership, I informed Mr. Lynch that he is classified as an unsecured creditor and he will be paid when the Liquidator is in a position to pay dividends to creditors or when insurance payments, specific to the coverage for legal expenses incurred, are paid by the insurance providers and received by the Liquidator.

I also assured him that all future invoices, if he were to continue on as the Liquidator's Counsel in the Cash 4 Titles matter, will be considered part of the Liquidator's cost and would be considered a priority cost, paid upon receipt by the Liquidator, subject to the Court's approval.

- **Investment in the CIG 24/24 Preferred Funds ("CIG")**

The CIG Fund ("the Fund") is an insurance policy investment, whereby life insurance is taken out on individuals and returns on an investment are received when the insured individual dies. The Fund's offering memorandum states that it was a high yield closed-end fund investing in the life settlement industry. The Fund apparently has one insured individual left, he is 82 years old and his death benefit is \$3,000,000.00. His life expectancy is apparently another 8 years and 4 months under the new revised life expectancy formulae, as quoted by the fund manager.

The Bank's investment in the Fund and its returns to date are as follows:

	<b>Amount</b>
Investment as at June 2001	\$2,000,000.00
Less principal returns:	
Returns January 10, 2003	(1,209,684.01)
Returns June 2, 2003	(170,009.64)
<b>Shortfall on initial investment</b>	<b>\$ (620,306.35)</b>

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## CONCERNS

- **Investment in the CIG 24/24 Preferred Funds ("CIG") (continued)**

The fund manager, Mr. Adrian Crosbie-Jones of The Private Trust Corporation ("PTC"), sent the Liquidator an email proposal on December 19, 2005 to obtain comments or observations, on the proposal to sell the fund. The highest bidder to-date is \$900,000.

The directors of the fund have already agreed to accept the proposal to sell the policy. The Bank owns 65% of the monies currently invested in the fund. Mr. Crosbie-Jones noted in the proposal that the fund currently has \$79,000, which could cover premiums for the next two (2) quarters and if the premiums ceased, the policy would lapse and all invested funds on the policy could be lost.

In reviewing the possibility of the death of the insured, the death benefit will be \$3,000,000. However, this approach is riskier and could result in a potential loss in the amount of \$620,306. The Liquidator is in favor of accepting the proposition to sell the policy which will result in a cash receipt of approximately \$557,395.

It is significant to note that this investment was carried in the Bank's December 31, 2004 financial statements at \$103,594 and the cashing in of this policy at this time will result in a gain of \$453,801.

I received confirmation from Mr. Adrian Crosbie-Jones on March 22, 2006, that the last policy in the fund was sold and the proceeds from the sale were received by the administrator. He also confirmed that final distribution to the investors will be made once all fees are settled.

- **Generali International - Policy no. PF32322**

Based on my reading of the files the Bank was apparently introduced to Generali International Limited ("Generali") by Caledonia Corporate Management Group Limited ("Caledonia") in 2002. Generali is a licensed insurer under the insurance Business (Bailiwick of Guernsey) Law 2002.

Shortly after the introduction, the Bank established a policy (investment policy) with Generali on November 26, 2002, and the assured persons were Mr. William Howard Jennings, the Bank's managing director, and Ms. Bernadette Lorraine North, the Bank's then corporate secretary. The initial investment amount paid into the policy was \$1,542,319.48, and the Bank subsequently made additional investments.

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## CONCERNS

- **Generali International - Policy no. PF32322 (continued)**

The portfolio totaled \$15,510,393 as at March 3, 2006. The investment is comprised of the following:

	<b>December 31, 2005</b>
	<b>Market Value</b>
Structured Asset Investment Loan T-Bill	\$ 1,059,348
Caledonia Corporate Group Limited	3,086,797
Cash	11,214,168
<b>Total</b>	<b>\$15,360,313</b>

Generali is currently charging the Bank approximately \$118,100.00 per quarter for portfolio management fees, trading charges and service charges. Generali automatically debits the Bank's account held by them to recoup their quarterly fees, as per their terms and conditions.

Below are the fees charged by Generali for the period from January 2002 to December 2005. The 2005 charges are shown quarterly:

	<b>Amount</b>
2002	\$ 566,253.45
2003	341,890.43
2004	469,802.10
1 <sup>st</sup> Qtr. 2005	118,261.46
2 <sup>nd</sup> Qtr. 2005	118,313.96
3 <sup>rd</sup> Qtr. 2005	118,366.46
4 <sup>th</sup> Qtr. 2005	118,156.46
<b>Total fees</b>	<b>\$1,851,044.32</b>

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## CONCERNS

- **Generali International - Policy no. PF32322 (continued)**

Below is an analysis of the Bank's 2005 interest earned and charges incurred on the Bank's portfolio held at Generali:

	<b>2005</b>
Interest earned on investment	\$ 432,852
Various fees paid to Generali	(473,098)
<b>Direct net loss for the year 2005</b>	<b>\$ ( 40,246)</b>

Based on the quarterly interest charges and the fact that this investment is a net loss to the Bank, I have made a decision to surrender the policy and to transfer the funds to the Bank's account held at Royal Bank of Canada.

I then requested from Generali details on the charges to close the account and a copy of the account opening documentation. On receiving the faxed information from Generali, we noted that the total charges to close the account will be approximately \$1,207,291.45 resulting in net investment funds of \$14,303,101.55. The details of the charges, per Generali, to close the account are as follows:

	<b>Amount</b>
Current investment market value of investments	\$15,510,393.00
Early discontinuance charge (EDC)	(1,125,789.77)
Administrative charge (pro rata)	(81,267.51)
Service charge (pro rata)	(129.17)
Trading charges	(105.00)
<b>Total net investments</b>	<b>\$14,303,101.55</b>

After careful review of the details received from Generali, I have made a decision not to surrender the policy at this time until further clarification is received from Generali for the following concerns:

1. Clarification on Section 13, of the terms and conditions of the policy contract which would further explain the 20<sup>th</sup> charging date, Early Discontinuance Charge ("EDC") and at what point is the Bank at, relative to the charging date?
2. Confirmation that Leadenhall Bank & Trust Company Limited, the first policyholder, is the beneficiary of the policy.

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## CONCERNS

- **Generali International - Policy no. PF32322 (continued)**

I received information from Generali addressing my concerns as follows:

1. The 20<sup>th</sup> charging date refers to twenty (20) quarterly management fee charges assessed by Generali after each new investment/premium is received by them. If the policy is surrendered before the 20<sup>th</sup> charging date, an EDC is deducted. The Bank is at the 11<sup>th</sup> charging dates and has another 9 charging dates or 2.25 years to avoid an EDC. The EDC rate begins at 8% and reduces by 0.4% after each charging date.

If the policy is not surrendered, the Bank will be charged quarterly fees for nine (9) quarters at approximately \$118,000.00 per quarter, totaling \$1,062,000.00. Based on the information received from Generali, the Bank cannot avoid paying a hefty fee now or at a later date to surrender this policy.

2. No beneficiary was noted on the policy, the Bank, who is the policyowner, will become the beneficiary and the death benefits will only be paid upon the expiration of the two (2) assured persons, Mr. William Howard Jennings and Ms. Bernadette Lorraine North.

Based on the above, this investment appears to me, to have not been made in the Bank's best interest, as it begs the question, why would the Bank's management invest \$15M for an extended period of time, thus reducing its liquidity and then be forced to pay Generali annual fees in excess of \$400K annually to manage the account? Such a fee, to especially manage cash, seems excessive. Further, why would management invest in a vehicle in which the income earned is \$40K less than the charges paid to the portfolio manager (Generali)? The investment strategy is puzzling.

- **Closure of bank accounts**

The Bank operated numerous Bank accounts locally and internationally. To gain better control over the cash of the Bank, I have commenced closure of these accounts and placed the funds into the Liquidator's account established at Royal Bank of Canada.

The Bank accounts closed to date are as follows:

### **Local Bank Accounts**

- Commonwealth Bank Limited
- Bank of the Bahamas

### **International Bank Accounts**

- Israel Discount Bank of New York

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## CONCERNS

- **Closure of bank accounts** (continued)

Accounts remaining opened are:

### Local Bank Accounts

- First Caribbean International Bank Limited (BSD, USD, CAD & GBP)
- Equities held on behalf of the Bank's clients in custody at Caledonia Corporate Management Group Limited

### International Bank Accounts

- Generali International, Guernsey, Channel Islands (USD) (see report)
- HSBC London

- **Unsecured Credit Cards**

At the commencement of the reporting period the Bank had 464 unsecured credit cardholders with outstanding balances totaling \$1,451,452.81. Below is an analysis of the account balances at that time:

<b>Classification</b>	<b># of cards</b>	<b>Amount</b>
Staff	2	\$ 7,497.46
Local	103	715,955.69
International	354	707,364.15
<b>Total outstanding</b>		<b>\$1,430,817.30</b>

To date all staff balances have been settled and I have received payments from two (2) of the unsecured credit card holders, with receipts totaling of \$11,271.

We are in discussion with many of the local credit card holders and have agreements to commence collection of these amounts during May – June 2006. Unfortunately, the contact details for many of these account holders are non-existent or incorrect.

With respect to the international account holders, Counsel is continuing to develop a collection strategy with their international partners for the collection of these funds.

## CONCERNS

- **Leased property**

During the reporting period I received approval from the Court to proceed with the relocation of the Bank's premises to One Cumberland Hill Street, which was done on January 1, 2006. I am in negotiation with Bahamas Business Solutions Limited on additional storage space for records previously held at the IBM building and records belonging to Axxess International Limited held at the Bank's former premises.

The decision to sublet the former premises and lease new space reduced the Bank's monthly rent expense by approximately \$6,000.00 (\$13,500.00 – \$7,500.00).

- **Loan receivables**

The Bank's loan receivables, inclusive of principal and interest, is represented by the following:

<b>Account #</b>	<b>Borrower</b>	<b>Balance due</b>
28900	Alfred Lenarciak	\$ 124,554
20940	C to T Limited	30,649
22765	Dimethaid Research Inc.	1,673,995
22255	Fulton Partners	1,063,914
24800	Gulfstream Blue	177,934
40600	Neil Mactaggart	55,374
23000	Orinoco River Trust	189,083
		<b>\$3,315,503</b>

The following actions were taken in the reporting period to recover funds from outstanding loan amounts:

- **Alfred Lenarciak**

I contacted Mr. Lenarciak on January 24, 2006 requesting settlement of his outstanding loan balance. I also advised Mr. Lenarciak that in default of settlement I will make a claim on his property situated in Old Fort Bay in New Providence. Mr. Lenarciak emailed me on January 26, 2006 advising that he will be in Nassau on February 10, 2006, and also requested my contact number. I emailed the contact details to him on January 26, 2006. Mr. Lenarciak did not visit the Bahamas on February 10, 2006 as promised, and I emailed him on February 15, 2006 to inquire about his scheduled visit. I received a response from him that he will be visiting Nassau for a week commencing March 6, 2006 and he wanted me to arrange a meeting. I emailed Mr. Lenarciak and scheduled a meeting for March 7, 2006 at 10:00am.

## CONCERNS

- Loan receivables (continued)
  - **Alfred Lenarciak (continued)**

I met with Mr. Lenarciak on March 9, 2006 and gave him a copy of his print-out detailing current loan settlement amount. He advised me that the Bank was holding an original share certificate for him that he wanted me to release to him once the loan is settled. In checking the Bank's records there was no record of that certificate on file. I advised Mr. Lenarciak that the Bank had no record of the share certificate and he told me that he has records to verify that the share certificate was given to the Bank. He promised to fax the documents to me. Mr. Lenarciak visited me on April 3, 2006 and produced the documents as promised. Mr. Lenarciak and I agreed to send a letter to the custodian of the shares to have them re-issue a new share certificate. Mr. Lenarciak informed me that once the new share certificate is issued, he will proceed with settling his outstanding loan balance.

- **Dimethaid Research Inc. ("Dimethaid")**

I received a proposal from Mr. John London, Vice Chairman of Dimethaid, now known as Nuvo, to repay the loan on January 6, 2006, after the sale of the 1405 Denison Street, Markham property, ("the Property"). Nuvo is disputing the interest calculation based on the premise that it violated the Canadian Interest Act in that the rate in the loan agreement was stated at 2% per month rather than 24% per annum. Consequently, the loan should only attract a 5% default interest rate.

The 5% rate will reduce the recoverable interest by \$419,606.39. I was advised by Counsel to accept the proposal, subject to Court approval, prior to the proposed offer expiration date of November 15, 2005. The net offer of \$1.2M was accepted and the funds received were held in escrow, subject to the Court's approval.

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## CONCERNS

- **Loan receivables (continued)**
  - **Dimethaid Research Inc. (“Dimethaid”) (continued)**

Further to my discussion with Dimethaid, Counsel obtained an opinion from a Canadian attorney on the issue as to whether the loan interest rate violated the Canadian interest act. The opinion stated that the section of the interest act in question, provided that quoting interest rate at 2% per month instead of 24% per year does not apply to mortgages. Based on this opinion, Counsel sent a letter to Dimethaid’s Counsel, Mr. Vanderlugt, advising him that the escrow was withdrawn and they can proceed to engage a firm of local attorneys to assist them with any challenge they pose to raise against the Liquidator keeping the full proceed. Dimethaid has since retained the law firm of Harry B. Sands, Lobosky & Company and meeting have been held with Counsel.

Subsequently, I received a response to Counsel’s letter to Dimethaid from Mr. John London, on March 14, 2006 expressing his disappointment in our new decision to withdraw the escrow based on the new information. He went on to infer that they may continue their litigation pursuits in Canada against Dimethaid’s previous CEO, Mrs. Rebeeca Keeler and the Bank’s Managing Director Mr. William Jennings.

Counsel and I had a conference call with J. David Sloan, the Bank’s Counsel in the Dimethaid matter in Canada on April 11, 2006. Mr. Sloan updated us on the Dimethaid matter in Canada and expressed interest in continuing to represent the Bank in the matter if Dimethaid proceeded with their expressed legal action. Counsel requested that Mr. Sloan forward all filings to date for their review, which will provide direction for the Liquidator’s next step in the matter.

- **Fulton Partners**

I contacted Mr. Brian Copey by email on January 24, 2006, requesting settlement of his outstanding loan balance. Mr. Copey advised me that he intended to settle this loan from funds outside the securities held by the Bank. He wanted assurance that I was in a position to transfer the shares held by the Bank at HSBC Easier Plc and Boustead Plc to him or his Broker once he settled the outstanding loan balance.

## CONCERNS

- **Loan receivables (continued)**

- **Fulton Partners (continued)**

The matter of the transfer of the shares was sent to Counsel on January 24, 2006 for their review, as the shares being held at HSBC are in the name of the Bank.

I met with Counsel on February 3, 2006 to discuss the matter of releasing the shares after settlement of the outstanding loan balance by Mr. Copsey. I was advised by Counsel to send a letter to Mr. Copsey accepting his offer, subject to the Court's approval.

I attended court on March 13, 2006 with Counsel to petition the release of certain "off balance sheet assets" held in the name of the Bank but excluded from the Bank's balance sheet. The Court ordered that the assets should be released. I sent an email to Mr. Copsey on March 13, 2006 advising him to proceed in securing a local solicitor so that we could settle the outstanding loan balance and release his shares held at HSBC.

I am awaiting final arrangements from Mr. Copsey and his local solicitor to settle the loan balance.

This loan is fully collateralized by the securities held by the Bank at HSBC for Fulton Partners Limited.

- **Gulfstream Blue**

I sent an email to Mr. James Murdock on February 1, 2006 requesting that he contact me at the Bank but I received no response. I was able to locate a telephone number for Mr. Murdock on February 2, 2006. I called the number and was able to speak with Mr. Murdock and advised him of his outstanding loan balance. Mr. Murdock advised me that he was not responsible for the loan

I received a fax letter from Mr. Murdock on February 7, 2006 where he advised that he had previously requested information from Mr. William Jennings concerning his investments. He noted that the Bank never supplied him with the information requested and he was upset due to a lack of communication when Mr. Jennings advised him of his outstanding loan.

## CONCERNS

- **Loan receivables (continued)**
  - **Gulfstream Blue (continued)**

I advised Mr. Murdock on February 7, 2006 by fax, that if he had a claim against the Bank, then he could visit the Bank's website at, [www.leadenhallbahamas.com](http://www.leadenhallbahamas.com) and complete a claim form accordingly. I also faxed to Mr. Murdock a copy of his loan facility letter and promissory note, which was signed by Mr. David Rounce.

I spoke to Mr. Murdock on February 13, 2006 and he advised me that he had little knowledge about the loan and was surprised that Mr. David Rounce signed a promissory note to repay the loan. He further, advised that he was not prepared to pay the outstanding balance on the loan. I advised him that he should send me a written response on his position, relative to the settlement of the outstanding balance on the loan.

Mr. Murdock sent me a fax on February 15, 2006 stating that he was not aware of the outstanding loan and Mr. David Rounce was not authorized to sign a promissory note on his behalf.

I sent a response to Mr. Murdock's February 15, 2006 fax on March 9, 2006, reiterating that the loan was a reclass of his overdrawn current account which was not being maintained by him to cover his personal expenses. I advised Mr. Murdock that the matter is being forwarded to Counsel for further action.

- **Kalila Inc.**

Caledonia Management Group Limited, ("Caledonia") is the investment advisor for this account. I received payment by check in the amount of \$536,204.13 on March 22, 2006, from Caledonia in full settlement of the principal and interest outstanding on this loan.

## CONCERNS

- Loan receivables (continued)

- **Neil Mactaggart**

Mr. Neil Mactaggart had two loans with the Bank. I met with Mr. Mactaggart on March 6, 2006 to discuss the settlement of his outstanding loan balances. Mr. Mactaggart agreed to settle his first loan balance in the amount of \$50,000.00 plus interest totaling \$3,706.76, but he is disputing the second loan in the amount of \$54,336.00, stating that the Bank made an error in the selling of his shares held with Commonwealth Bank Limited and incurred a loss in the repurchase of shares.

I spoke with Mr. Mactaggart on March 13, 2006 and he promised to meet with me on March 15, 2006 to settle the first loan in the amount of \$50,000.00 plus interest of \$3,706.76.

I received a check in the amount of \$53,706.76 from Mr. Mactaggart on March 15, 2006, representing payment of the principal and interest on the first loan in the amount of \$50,000.00.

The investigation is ongoing to determine how the second loan balance will be settled.

- **Orinoco River Trust**

The client is apparently very upset over this matter. He claims that he had a verbal agreement with the Bank and is refusing to further communicate at this time. We anticipate that we will have to pursue this matter through the court.

The Bank extended a loan, which was an extension of credit to Mr. H. Donald Rickard, dated September 1, 2002 to cover an overdraft on his current account held by the Bank. The facility letter and the promissory note were both signed by Mr. Rickard.

We have been in contact with Mr. Rickard from September 2005 requesting collection of this outstanding loan. I faxed another letter to Mr. Rickard on February 1, 2006, requesting immediate settlement of his outstanding loan balance in the amount of CAD\$226,490.03.

- **Loan receivables (continued)**
  - **Orinoco River Trust (continued)**

I also spoke to Mr. Rickard, who advised me that the Bank owes him monies arising from an agreement made after he had introduced two (2) clients to the Bank. I checked the Bank's records and found no written agreement to support Mr. Rickard's claim. I suggested to Mr. Rickard that he should forward a claim form to the Liquidator for funds owed to him by the Bank on these referrals. I received an email from Mr. David Rounce, the Bank's former Managing Director confirming Mr. Rickard's when as clients introduced/referred verbal claim. Mr. Rounce stated that Mr. Rickard introduced two (2) clients to the Bank and it was agreed to pay him 20% or 25% of the annual fees collected from these clients. The total accounts administered by the Bank for these clients were; two (2) trust and three (3) companies, and the Bank received approximately \$18,000.00 in annual fees.

Apparently Mr. Rickard had apparently introduced the clients during the period 1990 - 1993.

The matter is being addressed with Counsel for further action against Mr. Rickard to recover outstanding loan balance.

- **Forged check**

I Spoke with Sgt. Young on January 25, 2006 and asked him for an update on the investigation relative to the forged check in the amount of CAD 125,937.06.

He advised me that they were still trying to locate the whereabouts of Mr. Timothy Lightfoot. I ask him if an injunction was placed on any funds being held by Sentinel Bank & Trust Company Limited on behalf of BAVT, which Mr. Lightfoot is the beneficial owner. He told me that he was not certain and he will check and get back to me. I visited BAVT office on Parliament Street on January 26, 2006 but notice that the sign was no longer affixed to the entrance of the building.

- **Forged check (continued)**

I followed up with Sgt. Young on March 14, 2006 and he advised me that he is in communication with his Canadian counterparts to get their assistance in locating Mr. Timothy Lightfoot. I provided Sgt. Young with Mr. Lightfoot's telephone number in Canada.

I am in the process of consulting with Counsel to determine the next step to bring closure to this matter in the shortest possible time.

- **Transfer of accounts**

A number of the Bank's trust customers have requested that their trust accounts be transferred to other service providers:

Counsel has advised that a trust client's request should be considered for "off-balance sheet" status in certain circumstances, providing that:

- 1) The Liquidator is satisfied that the transaction does not reduce the Bank's ability to recover money that it is owed nor lead to any preferential treatment of any creditor of the Bank.
- 2) The Liquidator is satisfied that he has the legal power to approve the transaction and that there are no suspicious circumstances surrounding it and that in the circumstances it would be unreasonable to refuse the request.
- 3) The Liquidator is satisfied that the transaction is consistent with the mandate of the account (for example in meeting the terms in that mandate for transferring the account) **and is being conducted on arms-length basis.**

- **Transfer of accounts (continued)**

Below is a summary of requests to transfer client accounts to new service providers, or to liquidate a company:

Transfer company to new service provider	-	42
Transfer trust to new trustee	-	19
Close company/trust	-	14
<b>Total requests</b>	-	<b>75</b>

All transfers are being acted upon, and all clients are requested to sign a liquidator's exit letter to indemnify the liquidator and/or his team members.

- **Client accounting**

The Liquidator continues to update the client accounting, especially as it relates to customers who wish to transfer their trust accounts to other service providers. There were approximately 119 billable accounts, which required annual financial statements.

- **Professional Indemnity Insurance**

I met with Counsel on March 1, 2006 to discuss the Bank's indemnity policy held with Carib Insurance. Counsel provided an update on their communications with Carib's counsel, Mr. David Walker on the status of the recovery of legal expenses incurred in the Bank's litigation matters. I was informed by Counsel that Carib was only willing to honor legal bills relative to the Cash 4 Titles matter, claiming that matters relative to the First Financial Caribbean Trust Company ("FFCTC") vs. Axxess International Bahamas Limited ("Axxess") were not covered under the Bank's policies.

## CONCERNS

- **MasterCard**

I have not yet received a response from MasterCard. As per my first report, a reconciliation of the amount due to the Bank by MasterCard, without consideration of the termination fee is as follows:

	<b>Amount</b>
Letter of credit	- \$3,000,000.00
Three days failed settlement plus interest charges	- (1,101,510.97)
Chargeback claim from Bahamas Air plane ticket	- (877.90)
<b>Due to the Bank</b>	<b>\$1,897,611.13</b>

MasterCard is making no further statement as regard to the deposit in the amount of \$1,875,627 being held in the name of the Bank until all litigation matters are resolved and no further claim is in the public domain relative to the Bank. Once all matters relative to the Bank are resolved, MasterCard would assess termination fees as per their terms and conditions and any excess funds will be returned to the Bank. There is preliminary indication from MasterCard that the termination fee is pegged in the amount of \$1.7M.

- **Off Balance Sheet Assets held in the name of the Bank**

There are several clients of the Bank whose assets were invested with various investment firms, which were not included in the Bank's financial statements, and therefore regarded as "off-balance sheet" assets, but are held in the name of the Bank with these investment firms.

Discussions with these clients revealed that they regard these assets as held in trust by the Bank. In several instances no documents support the position that these assets are held in trust for clients of the Bank.

- **Off Balance Sheet Assets held in the name of the Bank (continued)**

I attended court on March 13, 2006 with Counsel, Callenders & Co., before Her Ladyship, Justice Jeannie Thompson on the subject matter. Counsel had delivered a copy of my affidavit to Justice Thompson on Friday March 10, 2006 for her perusal. At the hearing Justice Thompson agreed that the Liquidator should proceed to release off balance sheet assets held on behalf of the various clients outlined in my affidavit, ensuring that these assets were excluded from the Bank's balance sheet.

- **Meetings with Creditors**

The first meeting of the Creditors of the Bank was held at the British Colonial Hilton Hotel, Nassau, Bahamas on January 23, 2006 at 2:00 o'clock in the afternoon with 32 persons in attendance including the Liquidator and his team.

The following members of the Liquidator's team were present:

Mr. Craig A. (Tony) Gomez, Liquidator  
Mr. Sidney A. Cambridge, Jr., Counsel, Callenders & Co.  
Mr. J. Michael Saunders, Counsel, Callenders & Co.  
Mr. Edward R. Rolle  
Mr. Stafford Greene  
Miss Aisha Ferguson

The following Shareholders were present:

Mr. William Saunders  
Mr. David Rounce

The meeting was called to update Creditors on the progress of the liquidation to date and to present Creditors with the opportunity to address any questions they may have had directly to the Liquidator. I presented the Creditors with details of the liquidation to date, as noted in the Liquidator's First Report dated December 9, 2005.

- **Meetings with Creditors (continued)**

The issue of the Creditors Committee was raised but Attendees decided not to commence a creditors committee at that time.

The issue of a February 28, 2006 deadline for claim submittal was also raised. Attendees were concerned about claims submitted after the deadline date. They wondered if those claims would be excluded from the list of Creditors to receive distributions from the Bank. I responded, stating that by law, the Creditors have until before the last dividend is paid to submit a claim, but they would have lost funds distributed in the previous dividend payments. I also mentioned that only creditor's balances that are known to me would be recognized and provided for in the dividend payments.

I advised the Attendees that the report was on the Bank's website and that all future updates will be posted thereon.

Mr. Sidney Cambridge, Counsel, gave a brief overview of the 'Cash 4 Titles' matter and the progress thus far.

- **Statement of affairs**

See Appendix 2 for the unaudited statement showing assets at estimated realizable values and liabilities as they are expected to rank, as at April 7, 2006.

- **Receipts and disbursements**

The receipts and disbursements made during the period from December 10, 2005 to April 7, 2006 are shown at Appendix 3.

- **Customer Communications**

We continue to receive a large volume of emails, telephone calls and correspondence, via mail from customers of the Bank. Their main concerns are the Bank's ability to repay their deposits and the lack of access to their funds. We are returning all calls/correspondence as soon as possible and we are formulating responses to customers who request information regarding the status of the Bank.

- **Website**

The Bank's website is updated to include matters pertinent to the liquidation and a claim form for the Bank's creditors to complete and submit. The website's address is [www.leadenhallbahamas.com](http://www.leadenhallbahamas.com).

## **CONCLUSION**

I will continue to take customer calls and respond to their concerns and requests and to realize the assets of the Bank and generally, to move the liquidation forward. The primary challenges facing the liquidation are:

- Resolution of the Axxess matter between the Bank and FFCTC for which litigation and discussions are continuing.
- Resolution of the Cash 4 Titles matter.
- Collection of funds from Mastercard.
- Collection of the funds in connection with the claims filed with Carib Insurance.

It is necessary that I seek the court's approval of the following:

- Retaining the full proceeds from Dimethaid/Nurvo.

I will continue to have the client accounting records made current to facilitate the various transfer requests and to assist clients in making their claims with the Bank.

Additionally, incomplete corporate records are being made current to help expedite the transfers.

Very truly yours

Craig A. (Tony) Gomez  
April 7, 2006  
Liquidator  
Nassau, Bahamas  
Leadenhall Bank and Trust Company Limited (In Voluntary Liquidation)

**LEADENHALL**  
BANK & TRUST  
(In Voluntary Liquidation)

Appendix 1

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1 Cumberland Street  
P.O. Box N-1965, Nassau, Bahamas  
Telephone (242) 323-0640/8/9    Telefax (242) 323-0641

February 22, 2006

Mr. Raynard Rigby  
Partner  
Gibson Rigby & Co.  
East Bay Shopping Centre  
East Bay Street  
P.O. Box SS-6836  
Nassau, Bahamas

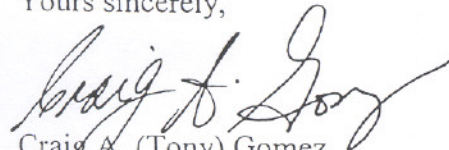
Dear Mr. Rigby,

**Re: First Financial vs. Leadenhall Bank & Trust Company Limited**

As per your letter dated September 6, 2005, your client agreed to assist the Liquidator with the confirmation of bank balances with respect to the subject litigation.

Please find enclosed a draft confirmation letter for your review and approval and as time is of the essence, your client's reply to this matter is greatly appreciated.

Yours sincerely,

  
Craig A. (Tony) Gomez  
Liquidator

Encl.



February 22, 2006

Chase Manhattan Bank  
191 Mamaloneck Avenue  
White Plains  
NY 10601

Dear Sirs,

**Re: First Financial vs. Leadenhall Bank & Trust Company Limited**

Please confirm directly to Mr. Craig A. (Tony) Gomez, the Liquidator of Leadenhall Bank & Trust Company Limited the balance held by you, as of August 31, 2002, for the accounts listed below:

<u>Account name</u>	<u>Account number</u>
Leadenhall Bank & Trust Company Limited	261-6072421-19
Leadenhall Bank & Trust Company Limited	261-6078268-19
Leadenhall Bank & Trust Company Limited	261-6095105-19

You have our permission to communicate directly with the Liquidator for the purpose of resolving all discrepancies expeditiously. In addition, it would be appreciated if you would provide the Liquidator with a copy of the statement of account as of August 31, 2002. The Liquidator's address is as below.

Craig A. (Tony) Gomez  
Gomez Partners & Co.  
The Deanery  
Cumberland Hill St.  
P.O. Box N-1991  
Nassau, Bahamas

Your prompt attention to this request is appreciated.

Yours sincerely,

First Financial Caribbean Trust Company Ltd.

**LEADENHALL BANK & TRUST COMPANY  
LIMITED (In Voluntary Liquidation)**

Statement of Assets at Estimated Realized Values  
And Liabilities As Expected to Rank

As at April 7, 2005  
(Expressed in Bahamian dollars)

<b>ASSETS</b>	
Cash and due from banks	\$20,899,308
Investments securities	4,598,981
Loan receivable, net	3,458,485
Accounts receivable	363,528
Fixed assets, net	68,131
	29,388,433
<b>Liabilities</b>	
Amount due to Creditors	28,262,970
	ESTIMATED SURPLUS AS REGARDS MEMBERS \$ 1,125,463

**Leadenhall Bank & Trust Company Limited (In Voluntary Liquidation)**

Cash and Due from Banks

As of April 7, 2006  
(Expressed in Bahamian dollars)**Cash and due from Banks (BSD)**

Cash on hand			X-Rate	
Royal Bank of Canada	C/A	404,032	1.0000	404,032
FCIB (Barclays)	C/A	217,704	1.0000	217,704
<b>Total BSD Cash</b>		<b>621,736</b>		<b>621,736</b>

**Cash and due from Banks (CAD)**

Generali International	Call	36	.8723	31
FCIB (Barclays)	C/A	24,185	.8723	21,097
Generali International	F/D	1,275,978	.8723	1,113,036
FCIB (Barclays)	F/D	758,047	.8723	661,244
<b>Total CAD Cash</b>		<b>2,058,246</b>		<b>1,795,408</b>

**Cash and due from Banks (GBP)**

FCIB (Barclays)	F/D	132,510	1.7407	230,660
Generali International	C/A	31	1.7407	54
HSBC Bank	C/A	115,146	1.7407	200,435
HSBC Bank	F/D	1,529,530	1.7407	2,662,453
Generali International	F/D	1,467,215	1.7407	2,553,981
FCIB (Barclays)	F/D	411,231	1.7407	715,830
<b>Total GBP Cash</b>		<b>3,655,663</b>		<b>6,363,413</b>

**Cash and due from Banks (USD)**

FCIB (CIBC)	C/A	9,124	1.0000	9,124
FCIB (CIBC)	C/A	242,557	1.0000	242,557
FCIB (Barclays)	C/A	50,279	1.0000	50,279
Royal Bank of Canada	C/A	2,351,027	1.0000	2,351,027
Canaccord Capital Corp	C/A	(29)	1.0000	(29)
MasterCard	C/A	1,875,628	1.0000	1,875,628
Generali International	Call	2,390,366	1.0000	2,390,366
Generali International	F/D	5,199,799	1.0000	5,199,799
<b>Total USD Cash</b>		<b>12,118,751</b>		<b>12,118,751</b>

<b>Total</b>				<b>20,899,308</b>
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**Leadenhall Bank & Trust Company Limited (In Voluntary Liquidation)**

## Statement of Receipts &amp; Disbursements

For the period from December 10, 2005 to April 7, 2006

(Expressed in Bahamian dollars)

**OPENING CASH POSITION** **\$20,392,160.86****Receipts**

Kalila Inc – loan repayment	536,204.31
Neil Mactaggart – loan repayment	53,706.76
Interest earned on HSBC GBP deposit	51,402.66
Interest earned on Generali USD deposits	49,586.20
Sale of 5 paintings	44,500.00
Sale of fixed assets	44,010.00
Funds received from clients' investments	38,714.00
Interest earned on Generali GBP deposit	27,368.89
Funds received from client to cover overdrawn current account	19,200.88
Interest earned on bank account at IDB	17,475.00
Fees collected	12,750.00
Funds collected from credit card receivable	11,270.95
Interest earned on Generali CAD deposit	7,783.97
Fees collected for credit card research	2,501.50
	<b>916,475.12</b>

**Disbursements**

Fund returned to ESGI – per Court Order	157,388.22
4 <sup>th</sup> . quarter fees paid to Generali International	118,156.46
Liquidator's remuneration	86,704.00
Legal fees – Callenders & Co.	53,184.00
Rent expense – One Montague Place & Rangers	52,551.64
Salaries - financial controller & messenger	13,968.14
Relocation expense – moving company	12,516.45
IT system maintenance – Providence Technology	5,880.00
BEC – electricity	4,736.58
BTC – telephone	4,277.82
Bank car insurance and repair services	2,978.33
Cable Bahamas – internet	1,731.98
Petty cash – office expense	669.57
Creditors' meeting – hotel charges	538.00
Bank charges – RBC & FCIB	172.25
<b>Balance Carried Forward</b>	<b>\$515,453.44</b>

**Leadenhall Bank & Trust Company Limited (In Voluntary Liquidation)****Statement of Receipts & Disbursements**

For the period from December 10, 2005 to April 7, 2006  
 (Expressed in Bahamian dollars)

<b>Balance brought forward</b>	<b>\$ 515,453.44</b>
Data System – disaster recovery	1,800.00
Notices - advertising	991.00
FedEx - courier expense	560.35
	<b>518,804.79</b>
<b>Add: mark to market unrealized forex difference on CAD\$ and GBP</b>	<b>109,476.81</b>
<b>CLOSING CASH POSITION</b>	<b>\$20,899,308.00</b>