

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

IN THE MATTER OF PIIKANI INVESTMENT
CORPORATION

AND IN THE MATTER OF THE *WINDING-UP
AND RESTRUCTURING ACT*, R.S.C. 1985, C.
W-11 (AS AMENDED)

BETWEEN:

PIIKANI NATION and CHIEF REG CROW SHOE

Petitioners

-and-

PIKANI INVESTMENT CORPORATION

Respondent

**INVESTIGATOR'S PRELIMINARY REPORT ON THE FINANCIAL AFFAIRS
OF
PIIKANI INVESTMENT CORPORATION**

November 30, 2009

Alger & Associates Inc.

Executive Summary

- This is the preliminary report of Alger & Associates Inc. conducted on the financial affairs and business of Piikani Investment Corporation (“PIC”) and related Piikani Business Entities (“PBEs”):
 - Piikani Energy Inc. (“PEC”)
 - Oldman Irrigation Inc. (“OIL”)
 - Piikani Land Holdings Corporation (“PLHC”)
 - Piikani Oldman Hydro LP. (“POHLP”)
- \$14,025,000 in six loans has been advanced from the Piikani Trust to PIC which in turn advanced all but \$1,840,000 to various PBEs.
- It is the Investigator’s opinion that advancing loans from the Trust to PIC is problematic and likely contrary to the terms of the Trust.
- All six loans are in default which, by itself, renders PIC insolvent.
- The financial and accounting records of PIC, and all PBEs are incomplete, inaccurate and confusing. Most have never been subjected to independent audit.
- The Investigator has identified 15 legal actions currently underway and most, if not all of which, arise from disputes between, PIC, the Piikani Nation, a PBE or shareholders and directors of these entities. Almost all legal costs for these lawsuits are being funded either directly or indirectly with assets belonging to the Piikani people.
- On a combined basis this report identifies and accounts for the use of approximately \$19 million in receipts for the PBEs and PIC since inception of the Trust in 2002 to October 31, 2009 as detailed on page 38 of the report.
- At the application on October 30, 2009 the Investigator was requested by the Court to consider a preliminary budget of \$75,000 for the costs of its investigations and a total budget of \$150,000. To provide meaningful information to the Court for this report, the Investigator estimates it has incurred costs for itself and counsel, at normal billing rates of \$125,000 plus GST.

- Given its investigations to date, the Investigator recommends that the Court give serious consideration to placing PIC and all PBEs under the control of a Court appointed and supervised Officer of the Court with a clear mandate to:
 - Restructure the financial affairs and loans of the various companies in conjunction with negotiation with the Trustee and Piikani Nation;
 - Recommend changes required in structure of the operation of PIC and PBEs within the existing Trust framework;
 - Provide guidance in eliminating any inconsistent or unclear terms in the Trust Agreement;
 - Control disbursements over an interim period;
 - Bring all financial statements, minute books and regulatory filings up to date;
 - Provide recommendations on the resolution of outstanding legal actions;
 - Assist in the selection of directors; and
 - Assist the Court as might otherwise be directed.
- The Court may consider exercising its powers under section 13(2) of the Judicature Act and section 13 and 28 of the Winding Up and Restructuring Act.
- It is also recommended that an Order be made freezing the \$480,000 which PEC has placed in Escrow on May 29, 2009 until such time as a determination be made regarding the legitimacy of this Escrow Agreement.

Background

1. Alger & Associates Inc. (the "Investigator") was appointed Investigator of the conduct and financial affairs of Piikani Investment Corporation ("PIC") on October 22, 2009 pursuant to the Order of Honourable Justice R.A. Graesser of the Queen's Court of Alberta and a subsequent Order of Honourable Justice R.A. Graesser granted on October 30, 2009. The October 22, 2009 Order, made pursuant to section 14 of the Winding up and Restructuring Act, R.S.C. 1985, c. W-11 (the "Act") appointed the Investigator to "prepare a statement of the assets, debts and liabilities" of PIC and "inquire into the financial affairs" of PIC and may include "an investigation of the conduct and financial affairs of the Piikani Energy Corporation ("PEC"), Oldman Irrigation Ltd. ("OIL"), Piikani Land Holdings Corporation ("PLHC") or the Oldman Hydro Limited Partnership ("OHLP"), collectively called the "Companies". A copy of the October 22, 2009 Order is attached as Exhibit 1. At the time of finalizing this report, the October 30, 2009 Order had yet to be provided to the Investigator.

Report Limitations

2. The information contained in this report has been obtained from the records of the Companies, pleadings filed in this litigation, and discussion and inquiry with various officials of the Companies and third parties. The information has not been audited or otherwise verified for accuracy or completeness by the Investigator. The Investigator does not express an opinion or any other form of assurance regarding the accuracy or completeness of the information provided except as expressly stated in this report. Further, the Investigator may alter or refine its observations as further information is brought to its attention after the date of this report.

Condition of Books and Records

3. The Investigator's work has been severely impacted by status of the books and accounting records for PIC and related Companies. The lack of accurate and complete current financial statements and supporting documentation for any of the Companies has necessitated considerable Investigator time working from bank statements,

cancelled cheques and other source documents to compile meaningful, current information. Further, this information has been scattered amongst various sources and had to be accumulated on a piecemeal basis, taking a significant amount of the time.

4. Specific comments regarding the condition of PIC's accounting records are as follows:
 - Financial statements have been audited only up to 2006 and required adjustments to record Trust loans to PIC.
 - The general ledger and bank statements for the 2005 to 2007 were provided by Mercer Wilde Moltz, Chartered Accountants who had been retained to perform the 2007 audit.
 - The 2008 general ledger was received from Dexter Archibald, PIC's bookkeeper.
 - The Investigator also received 2009 source documents from Archibald which necessitated the entry of all transactions to create an accounting synopsis for 2009.
 - The 2007 working paper file was incomplete and the Investigator waited several days and made repeated requests for 2007 source documents.
 - The 2009 source documents were incomplete with bank statements missing, which had to be requested from the Royal Bank and Bank of Montreal.
 - Cheques have been handwritten and are often illegible. This has resulted in cheques clearing the bank for amounts that differ from the recorded amounts.
 - Cheques are missing which makes the accurate recording of disbursements impossible, particularly as source documents for 2007, 2008 and some for 2009 are missing.
 - PIC maintained five bank accounts with no apparent legal or accounting logic and in some cases created a separate set of identical overlapping accounts linked to each bank account. This results in more than one account with the same name and purpose making account reconciliation difficult and time consuming.

5. Specific comments regarding the condition of PEC's accounting records are as follows:
 - The financial records of PEC have never been audited.

- PEC's records have required significant adjustments to record assets and obligations, income and expenses from inception in 2005 up until 2009. An external bookkeeper prepared a general ledger for 2005 – 2009, but it was never reviewed with anyone from PEC.
 - In 2008 PEC, in the initial instance, completed its own bookkeeping, but ignored the previous year's carry forward balances. It was necessary to perform analysis on the adjustments required to the opening 2008 trial balance.
 - It took considerable time to obtain the ledgers and bank reconciliations from the external bookkeeper.
 - PEC was unable to locate all the source documents and bank statements, requiring the Investigator to directly contact the bank to acquire bank statements.
 - It has taken a significant amount of time for PEC to turnaround requests to provide source documents and answer questions on specific transactions.
 - A significant number of paid cheques are missing, and the bank reconciliation at the end of 2007 had to be adjusted for errors in the bookkeeper's records.
 - PEC maintained four bank accounts with no apparent legal or business reason.
6. Significant time has been spent obtaining financial records for other Piikani Business Entities ("PBEs") subject to investigation, Oldman Irrigation Ltd. and Piikani Land Holdings Corp. To date, complete records have not been received for these entities. Oldman Hydro LP records, prepared by PEC, are not complete as only the general ledgers have been received.

History

Settlement and Trust

7. On July 16, 2002 a Settlement Agreement was entered into among the Piikani Nation, the government of Canada, and the government of Alberta which in part settled a Trust (the "Trust") into which Canada and Alberta made payments totaling \$64.3 million from 2002 to 2008 and continued to make annual payments of \$567,000

increasing to \$800,000 in 2010. A copy of the Piikani Trust Agreement is attached as Exhibit 2.

8. Of the amounts paid into the Trust, \$36.3 million plus the annual payments are to be kept in a separate "Investment Account" per section 6 of the Trust Agreement. It is an expressed provision of the Trust (6.2) that no funds from the Investment Account be expended until PIC was established. Accordingly, it is clear that PIC was set up as a key control over the use of Trust funds from the Investment Account.

9. CIBC Trust Corporation ("CIBC" or the Trustee) has acted as Trustee for the Trust since inception and in accordance with subsection 6.1 of the Trust Agreement. In part the Trust Agreement reads:

"The Settlement Funds paid into the Investment Account shall only be used by the Trustee, as directed by the Piikani Nation as beneficiary, for the purpose of permitting the Trustee:

 - To enable the purchase of Authorized Investments in accordance with Section 10.
 - To loan funds to a Piikani Business Entity pursuant to Section 6.3.
 - To provide guarantees for loans to a Piikani Business Entity pursuant to Section 6.3.
 - To loan funds, pursuant to Section 6.4, to the Piikani Nation for the purpose of enabling the Piikani Nation to purchase Shares or a controlling interest in a specified Piikani Business Entity ("PBE").
 - To pay, as directed by Band Council Resolution, the Piikani Investment Corporation in an amount not to exceed Three Hundred Thousand (\$300,000.00) Dollars in each Fiscal Year to be used for annual operating costs.
 - To enable the Piikani Nation to pay Authorized Expenses of the Trustee pursuant to Section 11."

Piikani Business Entity (“PBE”)

10. Fundamental to the Trust is the concept of a Piikani Business Entity (“PBE”) as defined in 1.2.16 of the Trust Agreement,
“a joint venture, partnership, trust, or corporation or other business organization in which a majority of shares and/or the controlling interests is held by or for the benefit of the Piikani Nation and which is intended to engage in commercial activities to generate profits and revenues for the benefit of the Piikani Nation or acquire lands to become Piikani Nation Lands and whose financing by the Piikani Nation as beneficiary is one of the specific purposes for which this Trust has been formed. A Piikani Business Entity does not include corporations, partnerships or business organizations owned by individual Members or groups of Members.”

Piikani Investment Corporation

11. As indicated in the preceding paragraph, the Trust, contemplates the incorporation of Piikani Investment Corporation (“PIC”), whose purposes, ownership and board of directors’ composition is outlined in part in Schedule 2 to the Trust Agreement. PIC, originally named Peigan Investment Corporation, was incorporated on October 16, 2002. It is a requirement of the Trust (Schedule “2”, II, (a)) that PIC be 100% owned by the Piikani Nation and accordingly all of PIC shares are currently held in trust for the Piikani Nation by Chief Reg Crow Shoe. PIC is defined in the Trust Agreement as “the mandate purposes, ownership and directors of which are established in accordance with Schedule “2”. The formation and development of this Corporation by the PIIKANI Nation, as the beneficiary of this Trust, is one of the specific purposes for which this Trust has been formed.”
12. An Originating Notice of Motion Application (Action No. 0801-07171, Exhibit 10a) made in October 2008 resulted in Reasons for Judgment of the Honourable Justice P.J. McIntyre issued on December 17, 2008, which in part finds the Trust Agreement technically fulfilled the requirements of a Unanimous Shareholders Agreement under Section 146 of the CBCA. The Court considered the Trust Agreement to be a

“foundational document”, unique in nature and some of the Courts more important conclusions include:

- a) (Page 10, paragraph 44) – Clause 1.2.17 of the Trust Agreement calls for the formation and development of PIC by the Nation, which is one of the specific purposes for which the Trust has been formed.
- b) (Paragraph 46) – Changes to Schedule 2 of the Trust Agreement with respect to the mandate of PIC require a referendum of the Band.
- c) (Paragraph 48) – PIC is not wholly independent of the Chief and Council and is required to accept direction from Council on many issues – example, holding shares in PBEs and appointing Directors.
- d) (Page 17, paragraph 78) – In case of conflict between current or proposed amended articles and by-laws of PIC and the requirements of the Trust Agreement, the Trust Agreement will govern and articles or by-laws must be amended accordingly.
- e) (Page 18, paragraph 84) – Neither Band Council nor the Board of PIC have the authority to change the specific requirements of Schedule 2 of the Trust Agreement in respect of the Board of Directors of PIC, which shall consist of 7 Directors, 3 of which will be non-members of the Band and will include 1 chartered accountant, 1 lawyer, 1 experienced businessman and only 1 member of Band Council. Additionally, it is required that the term for each Director appointed by Council is 4 years and a Director is only removable by Council for a breach of his duties and obligations as a Director.
- f) (Page 320, paragraph 150) – The Court found that the Trust Agreement was silent in respect of director remuneration, which resulted in a finding that the Shareholder/ Trustee (in accordance with Band Council's directions) has the power to set director remuneration.
- g) (Page 31-32) – The Court also considered the issue of Shareholder/ Trustee remuneration and found that Band Council's ability to call for such remuneration was limited by the Trust Agreement.

- h) (Page 33-34, paragraphs 177-180) – The Court determined that it was mandatory for Chief and Council to pay the annual operating costs of PIC up to a maximum of \$300,000 per year and that Chief and Council were entitled to receive reasonable budgetary documentation from PIC in order to justify the payment of operating costs.

PIC Directors

13. A history of the directors for PIC is:

	<u>Joined</u>	<u>Resigned</u>
Angela Grier	Dec 3 03	Jan 31 06
Dale McMullen	Dec 3 03	Dec 3 07
Brian Jackson	Dec 3 03	Jan 31 06
Wilfred Willier	Nov 29 04	Jan 31 06
	Dec 4 08	
Stephanie Ho Lem	Nov 29 04	Nov 30 08
Shelley Small Legs	Nov 29 04	Nov 30 08
Quinton Crow Shoe	Nov 29 04	Jan 31 06
Rick Yellow Horn	Jan 31 06	May 16 07
Adam North Peigan	Apr 17 07	Jun 17 08
Stan Knowlton	Aug 31 07	
Corbin Provost	Aug 31 07	Apr 10 08
Derek Smith	Dec 3 07	
Herman Many Guns	Jun 17 08	
Patrick Provost	Jun 17 08	
Laurier Caron	June 17 08	June 26 08
Allen Vaughn	Dec 1 08	
Karen English	Dec 1 08	
Cyril Bright	Dec 1 08	Dec 4 08

14. The directorships of PIC have been the subject of at least two legal challenges. The first challenge occurred in November 2005 and resulted in Reasons for Judgment of Madame Justice Kent issued in Action No. 0501-17326 (Exhibit 10b) on January 6, 2006. The application proceeded by way of Notice of Motion pursuant to which PIC and several others sought a declaration that Piikani Chief Peter Strikes with a Gun as the Shareholder/ Trustee of PIC did not have the power to fire directors of PIC. Madame Justice Kent concluded that the firing was contrary to the terms of the Trust.

She also determined that cause for dismissal of PIC directors was not established simply by reason of the directors disagreeing with Chief and Council concerning the expenditure of funds from the Trust. The second legal action resulted in a finding regarding the tenure of PIC directors and was made by Order of the Honourable J.D.B. McDonald on July 24, 2008 in Action No. 0801-07071 (Exhibit 10a) where it was ordered in part that the four year term of director Dale McMullen continue to November 30, 2008 without prejudice to the Respondents' right to reargue the issue at a special hearing on October 10, 2008.

Piikani Energy Corporation

15. Piikani Energy Corporation ("PEC"), originally named 1086817 Alberta Ltd., was incorporated on January 20, 2004. At that time shares were issued to seven individuals to be held in trust for the Piikani Nation. Subsequently, on June 15 2005 PIC subscribed for 930 shares of PEC and the certificate was issued on July 7, 2005. In February 2007, the 70 shares to the original seven nominee shareholders appear to have been cancelled by PEC as evidenced by a letter to each party and entries to the share register.
16. On June 5, 2008 the records of PEC indicate that 1000 shares were issued to Edwin Yellow Horn. There is a further director's resolution for PEC dated on June 5, 2008, in addition to the shares for Yellow Horn, which indicates that 1000 shares were to be issued to Kerry Scott. There is no indication in the information received by the Investigator that these shares were ever issued.
17. The issuance of these shares to Mr. Yellow Horn is controversial and the subject of litigation pursuant to Action No. 0901-07214 (Exhibit 10c). The issuance of these shares has the effect of removing control of PEC by PIC and resting it with Mr. Yellow Horn. The Investigator has conducted a lengthy telephone interview with Mr. Yellow Horn who confirms that while not indicated as such on the shares, or evidenced in a trust agreement, he holds these shares in trust for the Piikani Nation.

That these shares are held in trust should be documented on both the share certificate and in a written agreement between Mr. Yellow Horn and the Piikani Nation.

PEC Directors

18. A history of the directors for PEC is:

	<u>Joined</u>	<u>Resigns</u>
Daniel Northman	Jan 20 04	June 17 05
Peter Strikes with a Gun	Jan 20 04	Sept 9 05
Neil Sharp Adze	Jan 20 04	June 17 05
Edwin Small Legs	Jan 20 04	June 17 05
Brian Jackson	Jan 20 04	Dec 9 05
Rod North Peigan	Jan 20 04	June 17 05
Janet Potts	Jan 20 04	June 17 05
Kerry Scott	May 30 05	
Stan Knowlton	May 30 08	
Dale McMullen	Sept 13 5	
Stephanie Ho Lem	June 11 07	
Doane Crow Shoe	June 11 07	May 30 08
Rick Yellow Horn	Dec 9 05	June 11 07
Edwin Yellow Horn	Oct 25 06	May 17 07

It is noteworthy that the board of PEC was last changed on May 30, 2008 at which time Doane Crow Shoe resigned and was replaced by Stan Knowlton.

Oldman Irrigation Ltd. (OIL)

19. OIL was incorporated on March 10, 2005 to develop and implement an irrigation strategy for the Piikani Nation.

20. A recent search conducted by the Investigator indicates that Reg Crow Shoe holds 100% of OIL's shares in trust for the Piikani Nation. This search also indicates that there are three directors, Erwin Bastien, Corbin Provost and Lance Yellow Face.

21. In June 2008 OIL made a request to borrow \$7.8 Million for a 4300 acre irrigation project, which was approved in a BCR June 13, 2008. These funds were not loaned by the Trustee as the loan approval was not endorsed by the requisite PIC directors?

resolution as required by section 6 of the Trust agreement. In a letter to Chief and Council dated July 18, 2008 the Trustee indicated that until the legal dispute over membership on the PIC board of directors was resolved the Trustee would not be comfortable accepting any resolution from PIC.

22. In August 2008, PIC filed a Statement of Claim, Action No. 0801-09301 (Exhibit 10d) against OIL, its shareholder and directors and Bank of Montreal alleging among other things that OIL was in breach of the terms of a \$275,000 loan from PIC and that the loan was in default.

Piikani Land Holding Corporation (PLHC)

23. PLHC was incorporated on August 3, 2004 and struck by Alberta Corporate Registry for failing to file annual returns on February 2, 2007.
24. PLHC was established as a PBE for the sole purpose of purchasing lands to add to the Piikani reserve in accordance with an agreement reached in 1987 regarding the surrender of lands from a 1909 Surrender between the Piikani Nation and Canada.
25. The Investigator understands that PLHC was to receive 20% of the annual income from the Trust in accordance with the Piikani Settlement Revenue Account Bylaw ("SRBL") made August 28, 2002. The efficacy of this SRBL has been challenged by the current Chief and Council in a Statement of Defense which has been filed in Action No. 0801-04735 (Exhibit 10e).
26. Mr. McMullen has informed the Investigator that the annual income which is allocated for land purchases by the SRBL has been used by the Chief and Council for other purposes. The Investigator has not investigated this issue as it is currently outside the scope of the Order of October 22, 2009.

Piikani Oldman Hydro Limited Partnership ("POHLP")

27. POHL was established as a limited partnership pursuant to a written agreement entered into June 4, 2007 and the partnership has entered into a joint venture with ATCO Power Alberta Limited Partnership to purchase a 25% interest in a hydro-electric power plant at the Oldman River Dam and related transmission facilities. This purchase was completed for \$7.44 million and a joint venture agreement signed on July 1, 2007.
28. PEC is the general partner, owning 1% and the Piikani Nation as the only limited partner owns the remaining 99% of the limited partnership.
29. PEC has never called a meeting of the partnership or provided financial statements to the Piikani Nation. The Piikani Nation has now incorporated a new company, Piikani Resource Development Ltd. and it is intended that at a partnership meeting called for December 17, 2009 by the Piikani Nation. PEC will be replaced by this new company as general partner.

Loans and Payments from Piikani Trust - Settlement Account

30. Since formation, the Trust has made six loans with principal advances totaling \$14,025,000 and paid PIC six annual operating cost payments of \$300,000 (section 6 (v)). The Investigator has confirmed that there has been only one interest payment of \$104,000 which occurred in 2006. Since 2006, there have been no interest or principal repayments to the Trust and all loans are currently in default.
31. A table summarizing the loans, the recipient of the loan and date advanced is provided in the table on the next page.

Loans Made to Piikani Business Entities As at Dec 31, 2008					Prepared by Investigator with information from the Trust			
Loan	Agreement Amount	Advanced Amount	Recipient of Loan Advance	Date of Advance	Repayment Start Date	Face Interest Rate	Default Interest Rate	Accrued Interest
1	\$ 2,000,000	\$ 2,000,000	PEC	15-Jul-05	15-Dec-08	8%	12%	\$ 793,736
2	1,000,000	500,000	PLHC	23-Sep-05	15-Sep-06	7%	12%	204,517
3	3,000,000	2,000,000	PIC	26-Jul-06	06-Feb-08	7%	12%	550,640
4	7,800,000	7,800,000	PIC	27-Jun-07	31-Aug-08	7.5%	12%	709,052
5	1,450,000	1,450,000	PEC	05-Nov-07	15-Sep-07	7%	12%	219,656
6	250,000	275,000	OIL	05-Nov-07	15-Dec-07	8%	10%	42,700
	<u>\$ 15,500,000</u>	<u>\$ 14,025,000</u>						<u>\$ 2,520,301</u>

32. All of the loans are currently in default because repayments have not been received by the Trust as of the repayment dates for each loan. Subsequently interest on all of the loans is being accrued at the default interest rate applicable for each loan.

33. All loans have been structured in a similar, cumbersome manner:

- PIC is the borrower in all cases;
- PIC in turn loans the funds to a PBE, originally upon terms and rates the same as it receives from the Trust;
- PIC takes back security from its borrower in the form of a general security agreement charging all present and after acquired property of the borrower; and
- The loan from PIC and the security are assigned to the Trustee as security for the Trust loan to PIC.

A sample copy of the loan documentation and copies of all related BCRs for the six loans are attached as Exhibit 3.

34. Structuring loans from the Trust in this fashion is problematic for several reasons:

- PIC is liable to the Trust for repayment of all loans but dependent on the solvency of the ultimate funds recipient to have the loan repaid. Therefore the financial failure of any ultimate borrower will likely render PIC insolvent;

- PIC, as established in accordance with the terms of the Trust was set up to provide business advice to Council regarding these loans, help develop business plans for PBEs and report back to the Piikani Band Council on these same loans and is clearly conflicted if reporting on loans for which it is liable; and
 - The current lending structure is cumbersome and confusing, thus making any financial reporting difficult to follow.
35. The Investigator, as supported by the preliminary advice of its legal counsel, is of the opinion that the terms of the Trust establish PIC as other than a PBE and therefore ineligible to receive loans from the Trust. This opinion is consistent with the problems identified above and accordingly, as it might be unclear to various parties that PIC is not and should not be considered a PBE, the Investigator recommends that steps should be taken to have the Court clarify this issue pursuant to the jurisdiction provided to the Court by the Trustee Act, R.S.A. 2000, c.T-8, particularly in view of clause 1(c)(ii) of Schedule 2 to the Trust Agreement.
36. All loan agreements contain reporting requirements, including the provision of either monthly or quarterly financial statements, annual financial statements and projected operating budgets to be delivered within specified deadlines. The Investigator found no evidence that these reporting requirements were enforced or adhered to. The Investigator's detailed comments regarding each loan are provided below.

Loan #1 - \$2 million (PEC)

37. The first loan in the amount of \$2,000,000, while made to PIC, was advanced directly to PEC from the Trust on July 15, 2005. The purpose of the loan was to allow PEC to acquire a 50% interest in a wind turbine named Weather Dancer I, for up to \$1.2 million plus costs, and to provide financing for PEC's operations in the amount of \$800,000 for the period of July 15, 2005 through to March 31, 2006. This is supported by a Piikani Band Council Resolution ("BCR") dated February 30, 2005. This BCR also

specifies that funds were to be "held in the Investment Account and allocated to PEC but [only] drawn as directed by the Board of Directors of PEC".

38. A review of PEC's financial records shows that PEC spent approximately \$1 million of the loan advance on operating costs, primarily legal, accounting and consulting expenses, and are discussed in more detail later in this report. In addition to operating expenses, PEC also advanced \$1 million to the Piikani Nation on February 11, 2006 pursuant to a Memorandum of Understanding accepted by Chief and Council February 6, 2006 between PIC, PEC and the Piikani Nation.
39. The Investigator found no evidence that an interest in the Weather Dancer I wind turbine was purchased with these loan funds. While PEC spent more than the \$800,000 allotted for this purpose, it is unclear from the information available if legal, accounting or consulting fees would properly be allocated to the acquisition of Weather Dancer I and thus form part of the costs authorized by this BCR.

Loan #2 - \$500,000 (PLHC)

40. The second loan in the amount of \$500,000 was advanced directly to PLHC from the Trust on September 23, 2005. The purpose of the loan was to assess, evaluate and acquire land to be designated as Reserve Lands pursuant to an option granted by the Federal government for 10,300 acres to be added to the Piikani Reserve.
41. The Investigator has not been provided with the complete financial records of PLHC, and there is no evidence that the funds were used to assess, evaluate or acquire land.

Loan #3 - \$2 million (PEC)

42. The third loan was approved in the amount of \$3,000,000, however only \$2,000,000 was advanced to PIC on July 26, 2006. The purpose of this loan, as outlined in the related BCR was two-fold: to advance \$2,000,000 to PEC so that it could secure a lease

agreement with Piikani Nation for the development of a wind park on the reserve, and \$1,000,000 for PEC to use for a wind park development plan.

43. The loan was to be advanced in two payments. The first payment of \$2,000,000 was advanced to PIC but the second payment of \$1,000,000 was not advanced. According to a Memorandum of Understanding signed February 6, 2006 between PIC and the Piikani Nation, the second payment was to have been advanced once a lease agreement was reached with the Piikani Nation on February 17, 2006. A lease agreement has not been produced, and the Investigator understands that a lease agreement was not reached.
44. PIC received \$2,000,000 from the Trust and ultimately advanced only \$160,000 of this amount to PEC, albeit that PEC did not spend the amount advanced as specified by the BCR. The remaining \$1,840,000 appears to have been spent by PIC for ongoing expenses.

Loan #4 - \$7.8 million (POHLP)

45. The fourth loan in the amount of \$7,800,000 was advanced to PIC July 27, 2007. The purpose of the loan was to acquire a 25% joint venture interest in the Oldman River hydro project with ATCO through the Piikani Oldman Hydro Limited Partnership ("POHLP"). POHLP is owned 99% by the Piikani Nation and 1% by the General Partner, PEC. This is supported by the BCR related to this loan.
46. The joint venture interest was purchased in 2007 for \$7.44 million plus costs. Revenue from the joint venture was first received by POHLP in October 2007.

Loan #5 - \$1.45 million (PEC)

47. The fifth loan in the amount of \$1,450,000 was advanced to PEC on November 5, 2007. The purpose of the loan was to purchase a 50% interest in the Weather Dancer I test turbine and is the same project that was approved by the Piikani Nation in the

BCR dated February 3, 2005 which was the subject of Loan 1. This BCR authorized the purchase of a joint venture interest in Weather Dancer I for up to \$1,200,000 plus costs.

48. The 50% interest in Weather Dancer I has yet to be purchased. In May 2008 PEC loaned \$700,000 to PIC pursuant to a loan agreement executed on May 22, 2008 and the balance of the loan advance of \$750,000 has been retained by PEC.

Loan #6 - \$275K (OIL)

49. The last loan in the amount of \$275,000 was advanced directly to OIL on November 5, 2007. The purpose of the loan was to pay for preliminary studies required to apply for a permit from Indian Northern Affairs Canada to further develop irrigation on Piikani Nation lands. This is supported by a BCR undated but executed by Chief and Council.
50. According to documentation reviewed by the Investigator, the irrigation studies were performed. In addition, the financial records show that deposits were made for the installation of irrigation equipment, and irrigation equipment was purchased. However, the Investigator has not been able to verify that these assets are still held by OIL at this time.

Financial Information by Company

PIC

Receipts and Disbursements

51. A statement of receipts and disbursements for the period January 1, 2004 to October 31, 2009 has been compiled by the Investigator and is presented on the next page.

Piikani Investment Corporation	
Receipts and Disbursements	
January 1, 2004 to October 31, 2009	
Receipts	
Advances from Trust	\$ 9,800,000
Advance from PEC	700,000
Annual operating payment from Trust	1,800,000
Interest income	16,820
	<u>12,316,820</u>
Disbursements	
Payments on behalf of third parties	159,215
Payments on behalf of PBE's, PN and PUC	1,732,170
Loans to PEC	7,960,000
Professional and management fees	1,946,744
Legal fees	342,303
Office rent	9,462
Office expenses	100,793
Travel, accomodation and meals	188,289
Other expenses/unclassified	(126,201)
	<u>12,312,776</u>
Cash on hand, October 31, 2009	<u><u>\$ 4,045</u></u>

52. Advances from the Trust - \$9,800,000. PIC directly received two loans from the Trust in the amounts of \$2,000,000 and \$7,800,000.

53. Advance from PEC - \$700,000. In May 2008 PIC borrowed funds from PEC which was subsequently paid to employees of PIC and described in more detail later in this report starting at paragraph 72.

54. Annual operating payment from Trust – \$1,800,000. PIC was entitled to receive \$300,000 annually from the Trust and received this amount for six years.

55. Payments on behalf of others - \$159,000. PIC has accrued a GST receivable in the amount of \$43,000 and amounts receivable from Lone Wolf Gas and Grub in the amount of \$116,000. The Investigator has not performed an analysis of these receivables to determine their accuracy or collectability.
56. Payments of behalf of PBEs, PN and PUC - \$1,732,170. PIC paid various expenses which were subsequently accrued as receivable from various related entities. A breakdown of these amounts is provided in the analysis of PIC's financial position contained in this report.
57. Loans to PEC - \$7,960,000. PIC advanced, from loans funded to it, two loans to PEC in the amounts of \$7,800,000 and \$160,000. The first advance relates to the investment in POHLP, and the second advance of \$160,000 was loaned to PEC as part of loan #3 for \$2,000,000 from the Trust which was advanced in whole to PIC but only \$160,000 of which was ultimately advanced to PEC.
58. Professional and management fees - \$1,946,744. The Investigator has performed a preliminary review of amounts paid employees, contractors, auditors, consultants and directors and has compiled the following summary of these fees:

Piikani Investment Corporation	
Summary of Professional and Management Fees	
October 31, 2009	
Employee/contractor compensation	\$ 1,571,285
Honorarium	277,301
Accounting, audit and consulting fees	98,159
	<u>\$ 1,946,744</u>

It should be noted that the Investigator has determined that in addition to the director and employee compensation identified above there are further amounts that have been recorded as recoverable expenses related to lawsuits. A complete analysis of payments

by each individual has not yet been completed owing to the state of accounting records and the manner in which these amounts have been paid.

59. Travel, accommodation, and meals - \$188,289. Relates to expenses incurred for director's meetings.

Current Financial Position

60. PIC's estimated financial position as at October 31, 2009 has been compiled by the Investigator and is presented below:

Piikani Investment Corporation		
Estimated Financial Position		
October 31, 2009		
	<u>Book Value</u>	<u>Estimated Realization</u>
Assets		
Cash	\$ 4,045	\$ 4,045
Accounts receivable from others	159,215	159,215
Accounts receivable from PLHC and PUC	87,034	-
Capitalized lawsuit costs	616,641	-
Due from PEC	555,459	555,459
Due from Piikani Nation	439,360	unknown
Due from OIL	33,675	30,000
Loans receivable from PEC	11,410,000	11,410,000
Accrued interest receivable from PBEs	1,969,661	1,969,661
	<u>15,275,091</u>	<u>14,128,380</u>
Liabilities		
Accrued interest on loans to Trust	2,520,301	2,520,301
Loans payable to Trust	14,025,000	14,025,000
Loans payable to PEC	700,000	700,000
	<u>17,245,301</u>	<u>17,245,301</u>
Estimated Shortfall	<u>\$ (1,970,210)</u>	<u>\$ (3,116,921)</u>

61. Accounts receivable - \$159,215. Comprised of GST receivable in the amount of \$43,000 and a loan advanced to Lone Wolf Gas and Grub in the total amount

\$116,000, which was recently approved by PIC. The Lone Wolf loan appears to be in the amount of \$503,000 based on information made available, however only \$116,000 has been advanced to date. Repayment of the loan is secured by a general security agreement and supported by a personal guarantee.

62. Accounts receivable from PLHC and PUC - \$87,034. This amount is comprised of expenses paid by PIC and allocated as receivable from PLHC in the amount of \$65,000 and PUC in the amount of \$22,000. There is no expected realization on this amount.
63. Capitalized lawsuit costs - \$616,641. This amount is comprised of legal fees, payments to directors and other amounts paid and capitalized. The Investigator has not been able to review source documentation or perform an analysis of these costs. It is unknown how any of these costs might be recovered and accordingly no recovery has been estimated. Further, the Investigator's preliminary review of this account indicates that most of the amounts paid were either legal fees or directors fees.
64. Due from PEC - \$555,459. This amount relates to legal and other expenses paid for by PIC and indicated as receivable from PEC. Where not previously recorded, the Investigator has adjusted the amounts to agree both sets of financial records. Subject to further analysis this amount may be recoverable from PEC.
65. Due from Piikani Nation - \$439,360. This amount relates to legal and other expenses paid for by PIC and allocated to the Piikani Nation. The Investigator has not verified this amount with the Piikani Nation, and at this time it is unknown if it is realizable.
66. Due from OIL - \$33,675. This amount is comprised of \$30,000 advanced to OIL to fund operations before OIL received loan #6 from the Trust. The Investigator has not determined what the remainder of this amount relates to, but has estimated the realization to be \$30,000.
67. Loans receivable from PEC - \$11,410,000. Comprised of the following amounts:

Piikani Investment Corporation		
Loans receivable from PEC		
October 31, 2009		
<u>Loan from Trust</u>	<u>Book Value</u>	<u>Estimated Realization</u>
Loan #1	\$ 2,000,000	\$ 2,000,000
Loan #3	160,000	160,000
Loan #4	7,800,000	7,800,000
Loan #5	1,450,000	1,450,000
	<u>\$ 11,410,000</u>	<u>\$ 11,410,000</u>

68. On June 12 and 13, 2008 PEC and PIC restructured all loans due from PEC to PIC extending the date for the first repayment to December 15, 2011 and restating the interest rate to the pre-default rate as indicated below. This restructuring was done using two loan agreements which are attached as Exhibits 4 and 5.

<u>Per Original Loan Agreement</u>		<u>Per Amended Loan Agreement</u>			<u>Default rate</u>
<u>1st Payment Due</u>	<u>Rate</u>	<u>1st Payment due</u>	<u>Rate</u>	<u>Actual Amount</u>	
Dec. 15 08	8.0%	Dec. 15 2011	8.0%	\$ 2,000,000	12.0%
Feb. 6 08	7.0%	Dec. 15 2011	7.0%	160,000	12.0%
Sept.15 07	7.0%	Dec. 15 2011	7.0%	1,450,000	12.0%
Aug. 31 08	7.5%	Dec. 15 2011	7.5%	7,800,000	12.0%
				<u>\$ 11,410,000</u>	

69. The restructuring of these loans is controversial and has been challenged by PIC in a Statement of Claim filed under Action No. 0901-15268 (Exhibit 10f).
70. Accrued interest on loans due to Trust – \$2,520,301. This amount is accrued interest on the loans from the Trust and has been accrued by the Investigator according to amounts provided by the Trust.
71. Loans payable to Trust - \$14,025,000. This amount is comprised of loans #1-6 due to the Trust.
72. Due to PEC - \$700,000. The \$700,000 advance from PEC was made pursuant to a loan agreement entered into on May 22, 2008 and a copy of this agreement is attached as Exhibit 6. The loan agreement includes the granting of a security interest in all of the present and after acquired property of PIC and the first repayment amount of \$133,533 was due December 15, 2008. No payment was made and on October 1, 2009 PEC demanded repayment of the full amount of the loan.
73. PIC has filed a Statement of Claim under Action No. 0901-15268 (Exhibit 10f), which in part seeks an Order to have the loan and security agreement pertaining to this loan be set aside. A copy of this filed, but un-served Statement of Claim is included in Exhibit 10f.
74. The loan from PEC was used the next day to make payments as follows:

	<u>Contract</u>	<u>Retention</u>	<u>Total</u>
Stephanie Ho Lem	\$ 87,500	\$ 150,000	\$ 237,500
Dale McMullen	119,000	204,000	323,000
Shelley Small Legs	48,000	96,000	144,000
	<u>\$ 254,500</u>	<u>\$ 450,000</u>	<u>\$ 704,500</u>

PEC

Receipts and Disbursements

75. A statement of receipts and disbursements for July 15, 2005 to October 31, 2009 has been compiled by the Investigator and is presented below:

Piikani Energy Corporation	
Receipts and Disbursements	
July 15, 2005 to October 31, 2009	
Receipts	
Loans from PIC	\$ 7,960,000
Loans from PIC advanced by Trust	3,450,000
Interest income	124,865
Receipts from POHLP	2,615,000
	<u>14,149,865</u>
Disbursements	
Investment in POHLP	7,800,000
Loan to Piikani Nation	1,000,000
Loan to PIC	700,000
Funds held in escrow	480,000
Funds held in trust	250,000
Accounts receivable from third parties	88,041
Professional and management fees	1,979,846
Legal fees	1,135,078
Office rent	360,144
Office expenses	176,710
Travel, accomodation and meals	152,570
Other expenses / paid by PIC	(483,508)
	<u>13,638,882</u>
Cash, October 31, 2009	<u><u>\$ 510,984</u></u>

76. Loans from PIC and Trust - \$7,960,000 and \$3,450,000. These amounts are separated to reflect the fact that \$7,960,000 of the loans, discussed previously, was advanced by PIC to PEC and \$3,450,000 was advanced directly from the Trust to PEC.

77. Receipts from POHLP - \$2,615,000. These funds were paid by POHL to PEC during 2008 and 2009. The Investigator is of the preliminary view that these receipts, less reasonable and agreed on expenses incurred by PEC re POHLP are likely payable to the Piikani Nation, since Piikani Nation owns 99% of the POHLP partnership.
78. Investment in POHLP - \$7,800,000. This amount was advanced to POHLP in order to purchase the 25% interest in the ATCO joint venture.
79. Loan to Piikani Nation - \$1,000,000. This amount was loaned to Piikani Nation in February, 2006 and is described by PEC as an accountable advance to secure land leases on Piikani Nation lands that were to be used for a large scale wind farm.
80. Loan to PIC - \$700,000. This amount was loaned to PIC in May 2008 and is discussed in greater detail later in this report starting at paragraph 72.
81. Funds held in Escrow - \$480,000. This amount has been set aside with Davis LLP for compensation of Dale McMullen to be disbursed on January 2, 2010 and 2011, pursuant to an Escrow agreement in Exhibit 7.
82. Funds held in Trust - \$250,000. This amount was advanced to Peace Hills Trust to fund agricultural loans to Piikani Nation members pursuant to the Trust agreement in Exhibit 8. Correspondence between Peace Hills Trust and PIC indicates that ownership and control of these funds is in dispute. The Investigator has not been able to confirm the account balance with Peace Hills Trust.
83. Accounts receivable third parties - \$88,041. This amount is comprised of \$84,000 of GST receivable and a \$4,000 loan receivable. The Investigator has not reviewed details of the \$4,000 receivable at this time.
84. Professional and management fees - \$1,979,846. The Investigator has prepared the following table summarizing these expenses:

Piikani Energy Corporation
Summary of Professional and Management Fees
October 31, 2009

Employee/contractor compensation	\$ 2,101,514
Honorarium	83,000
	<u>\$ 2,184,514</u>

To date, no analysis by individual recipient has been prepared.

Current Financial Position

85. PEC's estimated financial position as at October 31, 2009 has been compiled by the Investigator and is presented below:

Piikani Energy Corporation
Estimated Financial Position
October 31, 2009

Assets

Cash	\$ 510,984
Accounts receivable from third parties	88,041
Property, plant and equipment	11,639
Funds held in Trust	250,000
Funds held in escrow	480,000
Investment in POHLP	7,800,000
Loan receivable from PN	1,000,000
Loan receivable from PIC	700,000
	<u>10,840,663</u>

Liabilities

Accounts payable to PIC	555,459
Accounts payable to thrid parties	141,369
Loans payable to PIC	11,410,000
Accrued interest payable to PIC	1,722,444
	<u>13,829,272</u>

Estimated Shortfall \$ (2,988,608)

86. Cash - \$510,984. This amount consists of cash on deposit at Bank of Montreal as confirmed by the October 31, 2009 bank statement for PEC. A reconciliation of PEC's bank balances has not been completed by the Investigator.
87. Accounts receivable third parties - \$88,041. This amount is comprised of \$84,000 of GST receivable and a \$4,000 loan receivable. The Investigator has not reviewed details of the \$4,000 receivable at this time.
88. Property, plant and equipment - \$11,639. This is the book value of office furniture and equipment. PEC has applied inconsistent accounting treatment to these assets, having expensed some prior year purchases and capitalized others. Amortization has not been taken on these assets.
89. Funds held in Trust - \$250,000. These funds, held at Peace Hills Trust, have been described by PEC as security for the land lease program with the Piikani Nation. According to an agreement between the Piikani Nation and Peace Hills Trust Company attached as Exhibit 8, under this program Piikani Nation band members who have agricultural cash permits available will be able to apply for loans from this Trust, which has been funded by PEC. Correspondence between PIC and Peace Hills Trust indicates there is a dispute between the parties over ownership of these funds. A representative from Peace Hills Trust was contacted by the Investigator, however confirmation of these funds or the status of the ownership from Peace Hills Trust's perspective has not yet been ascertained.
90. Funds in Escrow - \$480,000. On August 24, 2009 \$480,000 was paid to Davis LLP to be held in Escrow and paid to Dale McMullen for services rendered in accordance with an Escrow agreement, a copy of which is attached as Exhibit 7. The funds are to be disbursed in two equal payments of \$240,000 on January 2, 2010 and 2011. These funds appear to be irrevocably assigned to Dale McMullen, even in the event of dismissal of McMullen or the insolvency or winding-up of PEC.

91. Investment in POHLP – \$7,800,000. PEC has advanced this amount to the POHLP which has in turn used the money to acquire an interest in a hydro-electric dam on the Oldman River. The joint venture is generating approximately \$1,200,000 of income per year for POHLP, and it is likely that this loan can be repaid from the proceeds of the joint venture interest.
92. Loan receivable from Piikani Nation – \$1,000,000. This loan was made pursuant to the Memorandum of Understanding (“MOU”) signed February 6, 2009 between the Piikani Nation and PIC. These funds were advanced to secure Piikani Nation lands for the construction of a wind park that would generate payments to the Piikani Nation similar to a property tax that would be generated on non First Nations lands. The advance was purportedly to be secured by an assignment of the proceeds expected from the proceeds of a lease for the 240 kV power-line the Piikani Nation was negotiating with Altalink. A copy of this assignment has not been received by the Investigator.
93. Loan receivable from PIC - \$700,000. PEC advanced a loan to PIC in May 2008. Repayment was to start on December 15, 2008, however this has not occurred and the loan is in default. This loan is discussed in detail starting at paragraph 72 of this report.
94. Accounts payable to PIC – 555,459. This amount relates to expenses such as legal and professional fees paid by PIC and allocated to PEC. The appropriateness of such allocations has not yet been assessed.
95. Loans payable to PIC - \$11,410,000. These loans are discussed in detail in paragraphs 67 and 68 above.
96. Accrued interest payable to PIC – \$1,722,444. Relates to the interest payable to PIC on loans #1, 4 and 5 made from the Trust to PIC and subsequently loaned to PEC. This amount is based on accrued interest calculated by the Trust.

OIL

Receipts and Disbursements

97. A statement of receipts and disbursements for the period April 1, 2007 to November 18, 2009 has been compiled by the Investigator and is presented:

Oldman Irrigation Ltd.	
Receipts and Disbursements	
April 1, 2007 to November 18, 2009	
Receipts	
Loan from PIC	\$ 275,000
Advances from PIC	30,000
Grant income	100,000
Interest Income	3,820
	<u>408,820</u>
Disbursements	
Payments to third parties	170,215
Payments on behalf of PIC	3,675
Professional and management fees	83,989
Legal fees	9,681
Other expenses	82,953
	<u>350,512</u>
Cash, October 31, 2009	<u>\$ 58,308</u>

98. Loan from PIC - \$275,000. This amount is loan #6 from the Trust.

99. Advances from PIC - \$30,000. OIL received an earlier advance from PIC to fund operations before the loan from the Trust was received, which flowed from the Trust to PIC to OIL.

100. Grant income - \$100,000. OIL received a government grant for their activities.

101. Payments to third parties - \$170,215. Comprised of retainers for consulting engagements on irrigation and land use studies, deposits on irrigation equipment, and accounts payable for accounting services.
102. Professional and management fees – \$83,989. Comprised of fees paid for soil, irrigation and land use studies.
103. Other expenses – \$82,953. The Investigator has been unable to classify these amounts due as OIL's accounting records have not been completed or reconciled since March 31, 2009.

Current Financial Position

104. Financial statements for OIL were last prepared for the year ended March 31, 2009 by external accountants under a notice to reader engagement. The Investigator was able to obtain recent banking information to confirm that as of October 31, 2009 OIL had \$58,308 in the bank. As OIL's accounting records have not been completed and reconciled since March 31, 2009 the Investigator has been unable to accurately determine the nature of the approximately \$92,000 which has been spent from April 1, 2009 to October 31, 2009.
105. OIL's estimated financial position as at October 31, 2009 has been compiled by the Investigator and is presented on the next page.

Oldman Irrigation Ltd.	
Estimated Financial Position	
October 31, 2009	
Assets	
Cash	\$ 58,308
Deposits and retainers	156,193
	<u>214,501</u>
Liabilities	
Accounts payable to third parties	19,074
Accounts payable to PIC	30,000
Loans payable to PIC	275,000
Accrued interest payable to PIC	42,700
	<u>366,774</u>
Estimated Shortfall	<u><u>\$ (152,272)</u></u>

106. Cash – \$58, 308. This amount is on deposit at the Bank of Montreal.
107. Capital assets – \$156,193. Comprised of deposits for project management services, irrigation equipment, and other costs. The Investigator has not been able to confirm every deposit or retainer.
108. Accounts payable to third parties - \$19,074. Comprised of amounts payable to Meyers Norris Penny for accounting fees of \$13,000 and various amounts payable to other consultants.
109. Accounts payable to PIC – \$30,000. Relates to the amount received to fund operations before the loan from the Trust was received.
110. Loans payable to PIC – \$275,000. Relates to loan #6 from the Trust.

PLHC

111. On September 23, 2005 \$500,000 was advanced from the Trust directly to PLHC to an account with Peace Hills Trust. The Investigator has been unable to locate any books of original entry, bank statements or paid cheques. The only accounting available to date is a type written summary and photocopies of supporting documents. A copy of this summary is attached as Exhibit 9.
112. The Investigator has contacted Peace Hills Trust to obtain copies of banking records. Given the lack of information and the status of PLHC, it is projected that there will be no recovery available to PIC on this \$500,000 loan.
113. Significant additional forensic investigation appears to be necessary to determine the source and use of all funds applicable to PLHC. The Investigator has not undertaken these investigations as they are outside the mandate and budget of the Investigator.
114. A statement of the known receipts and disbursements as summarized from Exhibit 9 for the period January 1, 2004 to October 31, 2009 has been compiled by the Investigator and is presented on the next page.

**Piikani Land Holdings Corporation
Receipts and Disbursements
January 1, 2004 to October 31, 2009**

Receipts

Unknown source of funds	\$ 101,361
Loans from Trust	500,000
	<hr/>
	601,361

Disbursements

Loans to Piikani Nation	240,000
Loans to Piikani Housing Corp and PUC	29,000
Loans to third parties	13,038
Honorariums	45,719
	<hr/>
	327,757

Funds unaccounted for, October 31, 2009	<hr/> <hr/>
	\$ 273,604

115. Loans from Trust – \$500,000. Relates to loan #2 from the Trust.
116. Loans to Piikani Nation – \$240,000. Comprised of loans to Chief and Council.
117. Loans to Piikani Housing Corp and PUC – \$29,000. \$25,000 to Piikani Housing Corporation, \$4,000 to Piikani Utility Corp.
118. Loans to third parties – \$13,038. Comprised of loans to 13 individuals.
119. Honorariums – \$45,719. Paid to directors.

Current Financial Position

120. The Investigator has not prepared an estimated financial position for PLHC due to the lack of financial records available on this Company.

POHLP

Receipts and Disbursements

121. A statement of receipts and disbursements for the period April 1, 2007 to November 18, 2009 has been compiled by the Investigator and is presented below:

Piikani Oldman Hydro LP	
Statement of Receipts & Disbursements	
April 1, 2007 to November 18, 2009	
RECEIPTS	
Investment from PEC	\$ 7,800,000
Income from ATCO joint venture	2,800,000
Interest income	1,309
	<u>10,601,309</u>
DISBURSEMENTS	
Investment in ATCO joint venture	7,444,968
Advances to PEC	2,615,000
Loans to Piikani Nation	267,181
ATCO operating fund	50,000
Office expenses	1,806
Travel, accomodation and meals	2,600
Other expenses / unclassified	193,005
	<u>10,574,559</u>
Cash on hand, October 31, 2009	<u>\$ 26,749</u>

122. Investment from PEC – \$7,800,000. Relates to loan #4 from the Trust advanced to PIC and then to PEC.

123. Income from ATCO joint venture – \$2,800,000. Cash from the ATCO joint venture received beginning in December 2007 to date.

124. POHLP has advanced \$2,615,000 to PEC, which PEC claims as a reimbursement for various legal, management and general partner expenses and fees. It will be necessary to perform a detailed analysis of these expenses before it is possible to comment further on the legitimacy of these claimed reimbursements and charges by the general partner.
125. Advances to Piikani Nation - \$267,181. The Investigator has seen no detail on what this advance relates to, however Piikani Nation holds 99% of the limited partner units.
126. ATCO operating fund - \$50,000. Payments made to ATCO for an operating fund for the joint venture.
127. Other expenses / unclassified – \$193,005. Comprised primarily of \$104,000 interest paid to PEC on the \$7,800,000 loan it received from PEC. This was an adjustment necessary to reflect the fact that loan #4 from the Trust was advanced before the official interest start date. The remaining \$89,005 is unclassified at this time.

Current Financial Position

128. An estimated financial position for POHLP as at October 31, 2009 has been compiled by the Investigator and is presented on the next page.

Piikani Oldman Hydro LP	
Estimated Financial Position	
October 31, 2009	
Assets	
Cash	\$ 26,749
Investment in ATCO joint venture	7,445,130
	<u>7,471,879</u>
Liabilities	
Investment from PEC	7,800,000
Accounts payable	9,421
	<u>7,809,421</u>
Equity in POHLP	<u><u>\$ (337,542)</u></u>

Consolidated Statement of Trust Funds Received and Disbursed by PIC and Related Entities

129. Based on work completed to date, the Investigator has compiled a combined statement of funds received and disbursed, which accounts for the use of Trust loans, annual operating payments received from the Trust and funds received from the ATCO joint venture. This statement eliminates advances and payments between entities and provides a more concise report of where funds were received and disbursed. The statement is provided on the next page.

Piikani Business Entities and Piikani Investment Corporation	
Combined Receipts and Disbursements	
Inception to October 31, 2009	
Receipts	
Loans from Trust	\$ 14,025,000
Annual operating allowance from Trust	1,800,000
Income from ATCO joint venture	2,800,000
Interest income	146,814
Other income	101,361
Grant income	100,000
	18,973,175
Disbursements	
Investment in ATCO joint venture	7,444,968
Advances to Piikani Nation	1,946,541
Funds held in escrow	480,000
Funds held in trust	250,000
Professional and management expenses	4,131,258
Legal expenses	1,487,063
Capitalized lawsuit costs	616,640
Payments to third parties	599,838
Office rent	369,607
Office expenses	279,309
Travel, accomodation and meals	343,459
Loans to third parties and unknown amounts	317,780
Loan to Lone Wolf	116,000
	18,382,462
Cash, October 31, 2009	\$ 590,713

On-going Litigation

130. The Investigator conducted a search at the Calgary Court Centre, sought information from all counsel and reviewed material provided by all parties to compile a list of actions taken by and against 'Piikani'. The originating document for each Action in

which Piikani is involved are attached collectively as Exhibit 10. Below is a list of the fifteen Actions identified:

- 0801-07171 Piikani Investment Corporation and Dale McMullen Vs. Chief and Council of the Piikani First Nation and Chief Reginal Crow Shoe
- 0501-17326 Piikani Investment Corporation, Piikani Energy Corporation, Dale McMullen, Stephanie Ho Lem, Shelly Small Legs and Rick Yellow Horn Vs. Peter Strikes With A Gun and Bank of Montreal
- 0901-07214 Piikani Investment Corporation Vs. Piikani Energy Corporation, Dale McMullen, Stephanie Ho Lem, Stan Knowlton, Kerry Scott and Edwin Yellow Horn
- 0801-09301 Piikani Investment Corporation Vs. Oldman Irrigation Limited, Reg Crow Shoe, Erwin Bastien, Lance Yellowface, Corbin Provost, and Bank of Montreal
- 0801-04735 Kerry Scott Vs. Piikani First Nation, Piikani First Nation Chief and Council, Piikani Land Holdings Corporation and CIBC Trust Corporation
- 0901-15268 Wilfred Willier, Derek Smith, Karen English, Allen Vaughn, Pat Provost, Herman Many Guns and Piikani Investment Corporation Vs. Stan Knowlton, Dale McMullen, Stephanie Ho Lem, Shelly Small Legs and Piikani Energy Corporation
- 0901-45291 Piikani Nation and Chief Reg Crow Shoe Vs. Piikani Investment Corporation

0901-03549	Shelly Small Legs Vs. Piikani Investment Corporation
0901-15396	Piikani Energy Corporation Vs. Piikani Nation
0801-13639	Nordic Petroleum ASA Vs. Piikani Nation
0601-13081	Piikani Nation and Piikani Investment Corporation Vs. Raymond James Ltd., Liliana Kostic, Peter Strikes With A Gun, Rod North Peigan, Brian Jackson, Daniel Northman, Janet Potts, Dexter Junior Smith, Neil Sharp Adze, deceased, Ron S. Maurice, and Dale S. Szakacs of the Law Firm, Maurice Law
0901-05220	Stan Knowlton Vs. Piikani Investment Corporation
0601-14313	Piikani Trust Agreement Vs. Trustee Act

The Investigator was unable to obtain a Statement of Claim for one Actions, Action No. 0801-05039 Piikani Nation Vs. Kostic, Liliana and Action No.

131. Given the budget limit set by the Court, the Investigator has not been able to perform a detailed review of these legal actions. However, in a letter to all counsel, it has been requested that the Investigator be advised of any currently existing Orders, Directions, and Reasons for Judgment etc. in any related litigation about which the Investigator should be informed. At the time of writing this report, the Investigator has not heard from any counsel regarding this request. It is likely that a comprehensive independent review of all related litigation involving PIC and any PBE will be required to provide a thorough and complete report to the Court.

Observations and Recommendations

132. It is fundamental for management control that regular monthly financial statements be prepared on a timely basis and that a year end review or audit be conducted for each corporation by independent accountants. PIC is the only entity ever audited, which was last performed for the December 31, 2006 year end.

133. Given the nature of PIC and the related PBEs as non-operating holding companies, very simple records, likely maintained on a cash basis and using year end accrual adjustments provided by external accountants, would provide meaningful and accurate information. As long as the ledger account balances for bank accounts, term deposits and loans are reviewed and reconciled, this would be sufficient. Unfortunately the records for PIC and PEC have been set up on an accrual basis with funds being placed in multiple bank accounts. The accounts are not reconciled regularly, if at all, and the volume and complexity of the records is substantially greater than required. In fact, the Investigator's work has been significantly increased because of the cumbersome manner that accounts are maintained and the multiple bank accounts where one account would suffice.

134. The Trust contains definitions for PBE and PIC that appear to indicate that PIC is not a PBE. However, that is not the manner in which the Trust has been administered as amounts have been advanced as loans to PIC.

135. PIC's annual operating costs appear to be limited to \$300,000 by provision 6.1 (v) of the Trust Agreement which may or may not be adequate but, in any event, this amount has not been indexed or increased by any provision to account for inflation.

136. To date, all loan advances from the Trust have been to PIC who in turn enters into loan and security agreements with the ultimate loan recipient. This structure, as commented on in this report is cumbersome and problematic.

137. The solvency of PIC is jeopardized whenever any of the ultimate loan recipients default on a loan. Clearly this is unacceptable as PIC is a fundamental control feature over the investment of Trust funds in PBE loans and guarantees.
138. The Trust Agreement contemplates loans only to entities controlled by the Piikani Nation. This type of structure inhibits entrepreneurial attitude as profits from extra effort are not necessarily accruing to the business owner.
139. PIC's purpose, in accordance with Schedule 2 to the Trust Agreement is clearly in assessing and safeguarding loans made by the Trust, however there is no provision to ensure that the composition of management and board of directors any of PBEs over which PIC is to watch is comprised of individuals dealing at arm's length to PIC.
140. While permitted under the Trust, it is the Investigator's view that it is not advisable for shares in a PBE to be owned by PIC. If PIC holds a controlling interest in a corporation, accounting rules require that PIC's financial statements be consolidated with the owned company. This reporting makes it difficult to determine or assess the performance of the subsidiary on its own.
141. The board of PIC should be separate from that of any PBE. While it would be advisable to have perhaps one director in common with PIC, all PBE boards should be independent.
142. There appears to be very little oversight into whether loans advanced are ever used for the original purpose of the loan.

Other Matters

143. At the application on October 30, 2009 the Investigator was requested by the Court to consider a preliminary budget of \$75,000 for the costs of its preliminary investigations and a total budget of \$150,000. To provide meaningful information to the Court for

this report, the Investigator estimates it has incurred costs at normal billing rates of \$125,000.

144. On the afternoon of Friday November 27, 2009 the Investigator received two special reports from Dale McMullen: one report on PEC and one report on Walsh Wilkins Creighton. Owing to the timing of receipt of these reports and the volume of material contained therein, the Investigator has not had the opportunity to consider the impact, if any, that these reports might have on its observations and conclusions to date.

Recommended Next Steps

145. A multitude of legal actions have commenced regarding a number of matters all of which appear to be about the improper actions of one party or another. Most, if not all of these actions involve protracted expensive legal action, the majority of which will be funded by money either from the Piikani Nation, advanced from a Trust for which the Piikani are the beneficiary or from corporate entities beneficially owned by the Piikani Nation.
146. The records of PIC and the various Piikani Business Entities have not been independently audited or scrutinized for a number of years, if ever. The Investigator's report provides information and reports on a number of conflict of interest matters and payments which, by their size alone raise serious question regarding their propriety.
147. PIC and PEC appear to be insolvent, PLHC has been struck, and OIL is likely to become insolvent. There are also serious issues regarding the manner in which loans from the Trust have been structured.
148. Given its investigations to date, the Investigator recommends that the Court give serious consideration to placing PIC and all PBEs under the control of a Court appointed and supervised Officer of the Court with a clear mandate to:

- Restructure the financial affairs and loans of the various companies in conjunction with negotiation with the Trustee and Piikani Nation;
- Recommend changes required in structure of the operation of PIC and PBEs within the existing Trust framework;
- Provide guidance in eliminating any inconsistent or unclear terms in the Trust Agreement;
- Control disbursements over an interim period;
- Bring all financial statements, minute books and regulatory filings up to date;
- Provide recommendations on the resolution of outstanding legal actions;
- Assist in the selection of directors; and
- Assist the Court as might otherwise be directed.

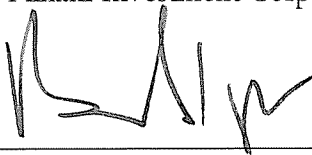
The Court may consider exercising its powers under section 13(2) of the Judicature Act and section 13 and 28 of the Winding Up and Restructuring Act

149. It is also recommended that an Order be made freezing all funds in the PEC Escrow agreement of May 29, 2009 until such time as a determination may be made regarding its legitimacy.

Respectfully submitted on this 30th day of November, 2009

Alger & Associates Inc.

In its capacity as Court Appointed Investigator of
the Piikani Investment Corporation, and not in its personal capacity.



Per: Bruce E. Alger
President

Action No. 0901-15297

IN THE COURT OF QUEEN'S BENCH OF
ALBERTA
JUDICIAL DISTRICT OF CALGARY

IN THE MATTER OF PIIKANI INVESTMENT
CORPORATION

AND IN THE MATTER OF THE WINDING-
UP AND RESTRUCTURING ACT, R.S.C. 1985,
c. W-11 (AS AMENDED)

BETWEEN:

PIIKANI NATION and CHIEF REG CROW SHOE
Petitioners

-and-

PIIKANI INVESTMENT CORPORATION
Respondent

INVESTIGATOR'S PRELIMINARY REPORT

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