

**Lindquist
Avey
Macdonald
Baskerville**

The Forensic & Investigative Accountants

Lindquist Avey Macdonald
Baskerville Inc.
One Financial Place
One Adelaide Street East
30th Floor
Toronto, Canada M5C 2V9

Tel: (416) 777-2440
Fax: (416) 777-2441
TDX 131

Todd Shoalts

Direct: (416) 777-2458

September 16, 1997

PRIVATE & CONFIDENTIAL

Mr. Patrick Hylton
Managing Director
FINSAC Limited
11 - 15 Oxford Road
Kingston 5
Jamaica, W.I.

Tedd Avey CA, CPA, CFE
Robert Macdonald CA, CFE
Ted Baskerville CA, CFE
Roddy Allan CA, CFE
Michael Beber CA, CFE
Farley Cohen MBA, CA, CIP, CBV
Brian Crockatt CA, CFE
Hazel de Burgh CA, CFE
Ross Hamilton CA, CFE
Peter McFarlane ACA, CA, CFE
Linda Robinson CA, CFE
Todd Shoalts CA, CFE
Jim Szarka MBA, CFE

John Beer BA
Wayne Blackburn BA, CFE
Stephanie Collins ACA
Penny Cookson BSc, CA, CFE
Dave Horner BComm, CFE
Nancy Howe CA, CBV, CFE
Ajay Jurnarkar MAcc, CA
Jane McFarlane ACA, CA, CFE
Jayesh Patel ACCA, CA, CFE
Jennifer Perry CA
Bonnie Prussky BBM
Michael Rudanycz CA
Virginia Scott CA
Joanne Shatka CA, CFE
Glenn Stadtegger LLB, CA
Peter Steger CA, CBV, CFE
Alan Stewart CA
Susan Tremayne CA
Teresa Warus CA, CFE
Howard Williams CFE

Dear Mr. Hylton:

EAGLE FINANCIAL ENTITIES

During the course of our review of the investment by Crown Eagle Life Insurance ("Crown Eagle") in the Fort Belle project, we have identified issues that warrant further review and investigation in order to determine how and why construction costs for the project have risen from approximately J\$216 million to in excess of J\$850 million.

Chris Mather of our firm recently attended in Kingston to review the background of the project, carry out preliminary discussions with the major professional advisors and assist in the assessment of risk areas for further forensic review and investigation. Chris has a significant amount of construction related experience, specifically in the areas of financial investigations and analyses pertaining to construction disputes and litigation.

Based on our initial review and assessment we have set out in this letter and attachment an assessment of:

- the forensic issues that we have identified to date and the related procedures that should be carried out; and
- certain construction management issues that should be addressed by FINSAC.

At this point in our review, the major areas that need to be further reviewed and analyzed related to Fort Belle are as follows:

- inappropriate payments, if any, which may have been made by Crown Eagle to related parties of companies in the Eagle Financial Network or which are affiliated with Dr. Paul Chen-Young;
- parties that provided services for Fort Belle who may have been related to companies in the Eagle Financial Network or which are affiliated with Dr. Paul Chen-Young, and whether or not this relationship impacted on the services provided and extent of costs incurred for Fort Belle;
- usage of financing monies received by Crown Eagle and determine whether these funds were used to fund Fort Belle related expenditures;
- inappropriate payments, if any, which may have been made by CFC to suppliers to the project or related parties of companies in the Eagle Financial Network (i.e. potential overpayments for goods and services, apparent excess quantities purchased); and
- valuations prepared for the Fort Belle project, how these were prepared and for what purpose.

The forensic procedures that we would recommend be carried out related to the Fort Belle project are as follows:

- the documents in the possession of M. Stoppi, Quantity Surveyor should be analyzed to identify increases/decreases in original planned unit quantities vs. total number of procured units;
- the total number of procured units should then be compared to the total number of installed units. Variances will need to be explained by CFC;
- "As built" drawings to be prepared by M. Stoppi (Quantity Surveyors) and Apec Consultants (Architects) should be compared to the installed and procured quantities to validate quantities procured;
- review the costs incurred for Fort Belle and identify unusual payments to related parties and others to be followed up on to assess the amount of the payment and the apparent services received;
- review financing received by Crown Eagle for the Fort Belle project and assess how these monies were used;



- the construction contract entered into between Crown Eagle and CFC does not contain an "audit" clause allowing Crown Eagle to access CFC's records related to Fort Belle. It must be determined what legal requirements have to be met in order to obtain and review CFC's documents from 1993 to date;
- if available from CFC's records, compare unit rates used by CFC on Fort Belle and similar jobs during the same time frame;
- identify and investigate any relationships between Crown Eagle, its agents and any of its suppliers for products or services provided on the Fort Belle project;
- Norman Lai stipulated that the mix between material and labour on Fort Belle was approximately 60%/40%. This should be verified and explained;
- review the valuations of Fort Belle prepared to date for Crown Eagle, interview the preparers, and assess how the valuations have been prepared and how they were used by Crown Eagle;
- identify the significant areas of cost growth on a dollar value and quantity basis by comparing the planned quantities and values against the most recent payment certificate; and
- review the costs incurred by a trade (i.e. electrical, mechanical etc.) that has exhibited moderate growth in both unit costs and quantities over the life of the project. Based on these results, we would review the costs related to other trades. Performing this type of analysis will help explain the reasons that the construction costs have increased so substantially from inception to date.

The above noted procedures would involve both a review and analysis of the available documentation and interviews of involved parties.

We have already started our assessment of how financing monies were used by Crown Eagle and our detailed analysis of expenses incurred on Fort Belle to identify and follow up on unusual payments. We would propose to begin the other procedures immediately and we would initially rely on the records in the possession of Crown Eagle and M Stoppi. However, it is critical that the issue of accessing CFC's records be addressed as soon as possible. Given the current acceleration claim being pursued by CFC against Crown Eagle and the lack of an "audit" clause in the contract, this access may be difficult to obtain.



Page 4
Mr. Patrick Hylton
September 16, 1997

We have also identified construction management issues during the course of our review to date as noted on the attached memo. We are bringing these items to FINSAC's attention so that they can be considered as the Fort Belle project is completed in the most timely and cost effective manner.

If you have any questions or comments about our workplan, please call me at my above-noted direct line or Peter McFarlane at (416) 777-2464. Peter and I can also be reached at our local Kingston number 968-0338.

LINDQUIST AVEY MACDONALD BASKERVILLE INC.



Per: Todd Shoalts, CA, CFE
Principal

Encl.





Lindquist
Avey
Macdonald
Baskerville

Forensic Financial Investigations

Memo to: File
Office:

Date: September 16, 1997

From: Chris Mather
Office:

cc:

Subject: FORT BELLE RESIDENTIAL DEVELOPMENT

Lindquist Avey Macdonald Baskerville Inc. ("Lindquist Avey") has conducted a preliminary assessment of the construction development of the Fort Belle Residential Development project ("Fort Belle"). This memo sets out our comments specifically related to the construction management of Fort Belle.

Background

Fort Belle commenced on March 26, 1993 when Crown Eagle Life Insurance Co., Ltd. ("Crown Eagle") entered into a contract with CFC Construction, Limited ("CFC") for \$216,242,533.68, to build a residential development consisting of eight buildings. The construction was to include a 32-unit, 10 floor apartment block, gate house, services building, pavilion, and two car park buildings (Type A and B). Shortly after the project's commencement in May 1993, there was a downturn in Jamaica's economy. As a result, parties that had expressed an interest in the initial development withdrew their deposits.

In July 1993 the project's architects, Apec Consultants Ltd., changed the original design of the building by increasing the number of rooms and reducing their size. In early 1994 it was decided to convert the original apartment construction project into a "generic" hotel. It should be noted that the life and safety requirements for a hotel are more sophisticated than those required for an apartment building (for example fire code, alarm systems). The requirement to meet life and safety codes would have increased the construction cost of the initial building. At this time, an analysis has not been performed to quantify how much these requirements would have added to the base cost of the building.

By October 1995 Dr. Chen-Young was negotiating with Holiday Inn Crowne Plaza ("Holiday Inn") to have them manage the property. In March, 1996 Crown Eagle entered into a management agreement with Holiday Inn, whereby the Fort Belle property would be marketed and operated as a Crowne Plaza Hotel once the facility

met all of Holiday Inn's requirements. The first seven floors of the building are completed and are being operated by the Holiday Inn management team.

At this time, Lindquist Avey has not yet evaluated the increase in construction costs, including how much of the increase in the base construction costs is attributable to factors such as the annual increase of the labor rate (determined by the Jamaican Industry Council) and the devaluation of the Jamaican dollar over the construction period.

Parties Interviewed and Documents Reviewed

As part of Lindquist Avey's initial assessment, we reviewed Crown Eagle's contract with CFC and other documents maintained by Crown Eagle. In addition, various documents were provided by the following individuals during interviews we conducted:

- Norman Lai (Eagle Merchant Bank - Special Projects);
- Mr. Ray McIntyre and Mr. John Thomson (Apec Consultants Ltd. - Architects);
- Mr. Maurice Stoppi and Mr. Wilbur Gayle (Stoppi Cairny Bloomfield - Quantity Surveyors); and
- Mr. Alston G. Stewart (Nevalco Consultants Ltd. - Project Manager - August, 1996 to May, 1997).

The following key documents were provided to us during the interviews:

- Stoppi's Reconciliation of Cost Report Nos. 4 and 5 (dated November 7, 1996);
- Stoppi's projected estimates to complete floors eight and nine into either hotel rooms or apartments (dated March 5, 1997);
- CFC's claim for stonework rates, profit and attendance percentage, builders work and plumbing work (dated July, 1996); and
- Current pay Certificate No. 64, dated August 12, 1997, authorizing total expenditures to date (excluding interest) of J\$811,269,860.41.

PVC Pipe Issue

One of the outstanding problems that has not been resolved to date involves a previously installed six inch PVC (plastic) water pipe which has failed at least two tests to date. The pipe was originally encased in concrete to meet Holiday Inn's life and safety requirements. Holiday Inn has recently indicated that it would like the

plastic PVC pipe replaced with a six inch black iron pipe which is a more expensive proposition. We discussed this matter with Maurice Stoppi, the project's Quantity Surveyor, and he estimated that the replacement work would cost approximately J\$1,000,000.

Should the black pipe be installed, Holiday Inn should be held responsible for these "betterment" costs. We have recently been informed that two estimates have been requested to perform the above work and the first quote that has been received came in at J\$1,300,000.

Cost and Performance Issues

Norman Lai provided us with a cost report dated November 7, 1996 with a total expected construction cost of J\$850,235,110. During our interviews with Mr. Stoppi and Wilbur Gayle, they indicated the projected final "hard money" construction costs would approximate J\$956,292,865 (see Table 1). Certain assumptions have been made in this projection as set forth in Table 1. FINSAC could reduce these costs by not completing the 8th, 9th and 10th floors of the building.

We noted that Certificate No. 64 shows authorized costs of J\$811,269,860 and a Contract Sum of J\$751,000,000 (revised). We are not aware who, on behalf of FINSAC, is authorizing the payment of funds that exceed the Contract Sum shown on the most current Payment Certificate. During our interviews, we inquired about the authorizations. Both Apec and Stoppi indicated they reported to Mr. Geoffrey Messado of Crown Eagle, and that both Apec and Stoppi recognize Mr. Messado as their point of contact.

However, Stoppi and Apec are not clear on Mr. Messado's roles and responsibilities as an "authorized representative" of FINSAC. This may have an impact on the pace of the construction's completion and should be clarified as soon as possible. Funds are being expended with little focus on what needs to be done to actually complete the project. Both Apec and Stoppi feel the project could be completed within a two to three month time frame.

Appraisals

We asked Apec and Stoppi about the appraisals for Fort Belle prepared by Robkovi Associates. Both parties stated they were not aware of the valuations and neither of them had furnished information contained in the appraisals. Stoppi believed the information was probably furnished by CEL.

Lindquist Avey has not yet discussed with Robkovi the assumptions used to develop the appraisals. However, it appears that the September 1995 Robkovi appraisal which valued Fort Belle at J\$746,600,000 was based on nine floors inclusive

age 4
of 133 rooms and five - three and four bedroom suites. If this is the case, and with floors 8, 9 and 10 currently on "hold", these appraisals likely overstate the value of the current uncompleted structure. FINSAC needs to decide whether it wants to complete these floors and if so at what cost and to what level of completeness.

"Punch List" Work

We recommend that a meeting be scheduled with Holiday Inn's technical personnel and FINSAC representatives. The purpose of the meeting would be to instruct Holiday Inn to submit a final "punch list" of work that needs to be completed to bring the hotel in compliance with the hotel's requirements. At the present time, there is no final punch list. Crowne Plaza appears to be adding additional items to the list as existing items are completed. The development of a final punch list would mitigate FINSAC's continuous exposure to additional work items being added to the list before the official "hand over" of the property is completed. Once work on the joint- list has been completed and approved by Holiday Inn, Holiday Inn should then agree to take over the entire facility. The same entity that FINSAC selects to oversee the completion of construction (i.e. the last three floors of the building) could also coordinate the completion of these Holiday Inn punch list items.

Acceleration Claim

At this time, Stoppi has informed us that CFC has an acceleration claim of approximately J\$30,000,000 and disputed items relating to material escalation prices and a plumbing dispute (Table 1).

Recently, Stoppi settled with CFC on two items identified in CFC's July 1997 claim. We do not know whether FINSAC was a party to these negotiations or if they approve of the final outcome of these negotiated items. If FINSAC was not involved in these negotiations, we recommend they should be involved in the CFC claim as well as any new items that CFC may raise in the future.

Recommendations

In summary we recommend that FINSAC should consider the following action items:

- Confirm to Apec, Stoppi and CFC the identity of the individual that can represent FINSAC's interests and who will be responsible for getting the building complete;
- To what extent should floors 8, 9 and 10 be completed to;

- Develop a punch list of items in conjunction with Crowne Plaza personnel that need to be completed before Holiday Inn will take over the structure;
- Identify, centralize and index all construction documents in preparation of a defense against CFC's current claim and also to prepare an affirmative claim against CFC should CFC press their current claim;
- FINSAC (or its representative) should be involved with the PVC pipe issue if it is exercised by the Holiday Inn technical personnel;
- Review all factors that were incorporated into the various appraisals that were prepared for Fort Belle; and
- Develop a construction/turnover schedule at which time it is clearly identified when construction is to be completed, and a date when it is anticipated Fort Belle will be officially handed over to Holiday Inn.

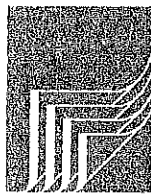
We would be happy to meet with FINSAC to discuss these issues in more detail and other possible options available.

FORT BELLE RESIDENTIAL DEVELOPMENT

Projected File Construction Costs

No.	Description	Final Construction Costs																														
1	Stoppi Cairney Bloomfield (11/7/96) Anticipated Final Construction Costs	\$850,235,110																														
2	Deduct: CFC SOW (8, 9 and 10th Floors)	(13,000,000)																														
3	Add: Completion of Floors 8, 9 and 10 by follow-on contractor (T&M Basis)	16,000,000																														
4	Add: CFC Claim Items:																															
	<table><tr><td></td><td>CFC Claim</td><td>STOPPI Disputed</td><td>STOPPI Negotiated</td><td>Current Exposure</td></tr><tr><td>Acceleration</td><td>\$30.00</td><td>\$30.00</td><td></td><td>\$30.00</td></tr><tr><td>Profit & Attendance</td><td>\$8.52</td><td>\$2.12</td><td>\$6.40</td><td>\$6.40</td></tr><tr><td>Stone Rate(*1)</td><td>\$1.50</td><td>(\$4.50)</td><td>\$0.60</td><td>\$0.60</td></tr><tr><td>Plumbing</td><td>\$6.40</td><td>\$3.00</td><td></td><td>\$6.40</td></tr><tr><td></td><td><u>\$46.42</u></td><td><u>\$30.62</u></td><td><u>\$7.00</u></td><td><u>\$43.40</u></td></tr></table>		CFC Claim	STOPPI Disputed	STOPPI Negotiated	Current Exposure	Acceleration	\$30.00	\$30.00		\$30.00	Profit & Attendance	\$8.52	\$2.12	\$6.40	\$6.40	Stone Rate(*1)	\$1.50	(\$4.50)	\$0.60	\$0.60	Plumbing	\$6.40	\$3.00		\$6.40		<u>\$46.42</u>	<u>\$30.62</u>	<u>\$7.00</u>	<u>\$43.40</u>	
	CFC Claim	STOPPI Disputed	STOPPI Negotiated	Current Exposure																												
Acceleration	\$30.00	\$30.00		\$30.00																												
Profit & Attendance	\$8.52	\$2.12	\$6.40	\$6.40																												
Stone Rate(*1)	\$1.50	(\$4.50)	\$0.60	\$0.60																												
Plumbing	\$6.40	\$3.00		\$6.40																												
	<u>\$46.42</u>	<u>\$30.62</u>	<u>\$7.00</u>	<u>\$43.40</u>																												
	Potential Maximum Exposure	43,400,000																														
5	Miscellaneous Additional Costs:																															
	Material Escalation Dispute (to be resolved)	(TBD)																														
	Volume of Work	13,000,000																														
	Labor Rate Adjustment (from 2/1/97 forward)	500,000																														
	PVC v. Black Pipe Issue	1,000,000																														
		<u>911,135,110</u>																														
6	Contingency @ 10% (*2)	<u>91,113,511</u>																														
	Anticipated Final "Hard Money" Cost of Construction	<u>\$1,002,248,621</u>																														

(*1) Needs to be verified with Stoppi
(*2) Contingency rate applied is that used by Stoppi in its PVC estimate



**Lindquist
Avey
Macdonald
Baskerville**

The Forensic & Investigative Accountants

Lindquist Avey Macdonald
Baskerville Inc.
One Financial Place
One Adelaide Street East
30th Floor
Toronto, Canada M5C 2V9

Tel: (416) 777-2440
Fax: (416) 777-2441
TDX 131

Todd Shoalts

Direct: (416) 777-2458

PRIVATE AND CONFIDENTIAL

November 21, 1997

Mr. Patrick Hylton
Managing Director
Financial Institution Services Limited
9 Trinidad Terrace
Kingston 5
Jamaica, West Indies

Dear Mr. Hylton:

EAGLE INTERACTIVE INC.

As requested by Ken Tomlinson, we have reviewed the circumstances surrounding the payments in August 1994 totalling approximately US\$425,000 by Eagle Merchant Bank ("EMB") to Eagle Engineering & Communications Group Inc. ("Eagle Engineering"), for the apparent benefit of Eagle Interactive Inc. ("EI").

We have set out in this letter our summary of findings and our recommendations for further work to be conducted. We have set out in the attached Appendix our detailed findings related to this matter.

BACKGROUND

Eagle Capital, Inc. ("Eagle Capital") of Atlanta, Georgia and EMB entered into an agreement dated August 5, 1994 to form Eagle Interactive Inc. in order to purchase Interactive Video and Data Services ("IVDS") licenses which were sold by the US FCC. Eagle Capital was to own 60% of EI and EMB was to own 40%. The principals of Eagle Capital and Eagle Interactive were Fred Tullis, Dennis Henry and Andrena Tullis of Atlanta, Georgia.

EMB was to invest US\$800,000 in share capital of EI and Eagle Capital was to invest US\$400,000; in addition, these monies were to be held on deposit at EMB. It appears that EMB's investment in EI was approved by the EMB Board of Directors on August 30, 1994. However, Geoffrey Messado informed us that EMB's investment in EI did not take place.

In July 1994, 15 IVDS licenses were apparently bought by EI for approximately US\$3.7 million. A downpayment of US\$362,125 was paid by Eagle Capital to the FCC. This was funded by a payment of US\$362,125 from EMB to Eagle Engineering (Eagle Engineering

Tedd Avey CA, CPA, CFE
Robert Macdonald CA, CFE
Ted Baskerville CA, CFE
Roddy Allan CA, CFE
Michael Beber CA, CFE
Farley Cohen MBA, CA, CIP, CBV
Brian Crockatt CA, CFE
Hazel de Burgh CA, CFE
Ross Hamilton CA, CFE
Peter McFarlane ACA, CA, CFE
Linda Robinson CA, CFE
Todd Shoalts CA, CFE
Jim Szarka MBA, CFE

John Beer BA
Wayne Blackburn BA, CFE
Stephanie Collins ACA
Penry Cookson BSc, CA, CFI
Dave Horner BComm, CFE
Nancy Howe CA, CBV, CFE
Ajay Jurnarkar MAcc, CA
Jane McFarlane ACA, CA, CFI
Jayesh Patel ACCA, CA, CFE
Jennifer Perry CA
Bonnie Prussky BBM
Michael Rudanycz CA
Virginia Scott CA
Joanne Shatka CA, CFE
Glenn Stadtegger LLB, CA
Peter Steger CA, CBV, CFE
Alan Stewart CA
Susan Tremayne CA
Teresa Warus CA, CFE
Howard Williams CFE

then paid these funds to Eagle Capital). We are not aware whether EI or Eagle Capital paid all or any portion of the remaining purchase price to the FCC. In addition, EMB also paid US\$63,450 to Eagle Engineering related to the purchase of a 20% interest in Shaker Partners IV Partnership ("Shaker Partners"), which also owned IVDS licenses.

Promissory notes were received by EMB related to both of these payments and both promissory notes were personally guaranteed by Phillip Tullis, President and Chief Executive Officer of Eagle Engineering. Eagle Capital apparently repaid US\$100,000 of these monies to EMB in August 1994, such that the remaining balance outstanding under the promissory notes was approximately US\$326,000.

SUMMARY OF FINDINGS

Based on our review of the available documentation, we have concluded that:

- EMB has not received repayments totalling approximately US\$325,000 under the promissory notes from Eagle Engineering or Eagle Capital. These amounts currently remain outstanding and no interest has been paid. A debenture totalling J\$11,021,000 due from Eagle Engineering was written off by EMB in the year ended June 30, 1996;
- There is no apparent connection between PCY, Phillip Tullis and Dennis Henry or the Eagle Financial Entities in Jamaica and the Eagle Group of companies operated by Tullis and Henry from Atlanta, Georgia. However, certain additional inquiries should be made as noted below;
- 15 IVDS licenses were apparently purchased by EI utilizing funds advanced by EMB. We are not aware as to the current status of EI or these IVDS licenses, in terms of current ownership or value. The IVDS licenses may have been sold to WINCOM Corporation, a US public company;
- In December, 1994 EMB retained Holland & Knight, Attorneys of Atlanta, Georgia to attempt collection of monies owed by Eagle Engineering. Although a statement of claim has been filed in Georgia against Phillip Tullis, Eagle Capital, Eagle Engineering and EI, no collection has resulted.

RECOMMENDED WORK TO BE COMPLETED

Based on our review of the available documentation, we recommend that the following additional work be completed:

- Charles Stutts of Holland & Knight should be contacted to provide an update as to the status of the IVDS licenses, EMB's investment, if any, in Shaker Partners and any continuing actions to collect monies owed to EMB by Eagle Engineering or



Page 3
Mr. Patrick Hylton
November 21, 1997

Eagle Capital. We will draft a letter of introduction that can be sent by FINSAC to Holland & Knight;

- Carry out a detailed background review of Phil Tullis, Dennis Henry and Andrena Keese (nee Tullis) and the activities of the "Eagle Group of Companies", Shaker Partners and Y. P Seaton & Associates International based in Atlanta Georgia;
- Make inquiries of the FCC related to the current status of the IVDS licenses apparently purchased by EI in August 1994, in terms of ownership and current value, if any;
- Make inquiries of Dennis Henry to determine the current status of the IVDS licenses, including ownership and the status of any sale of these licenses to WINCOM Corporation;
- Obtain supporting documentation from ECB related to the apparent transfer of US\$424,575 to Bank South of Atlanta, Georgia in August 1994 for the benefit of Eagle Engineering and the subsequent repayment of US\$100,000 to EMB;
- Interview members of the EMB Board of Directors to determine their understanding of EMB's involvement with EI or the Shaker Partners.

We will await your direction before we carry out the above noted procedures.

If you have any questions regarding any of the above-noted information, please contact me or Peter McFarlane at 968-0338 in Kingston.

Yours very truly,

LINDQUIST AVEY MACDONALD BASKERVILLE INC.



Per: Todd Shoalts, CA
Principal

Encl.

cc. Mr Ken Tomlinson, FINSAC



EAGLE MERCHANT BANK - PAYMENTS TO EAGLE ENGINEERING

A. EMB'S FINANCIAL EXPOSURE

1. On approximately August 5, 1994 US\$424,575 was transferred by EMB to Bank South (Atlanta, Georgia) for benefit of Eagle Engineering & Communications Group
 - a) This transfer was apparently approved by PCY
 - b) The transfer apparently consisted of US\$362,125 and US\$63,450 advanced to Eagle Engineering. (The difference of \$1,000 is unexplained)
2. It appears that US\$100,000 was repaid to EMB on August 16, 1994
3. A promissory note dated August 5, 1994 was entered into between Eagle Engineering and EMB whereby Eagle Engineering agreed to repay EMB US\$362,125 plus interest on August 12, 1994
 - a) Phillip Tullis gave his personal guarantee to repay these monies
4. A promissory note dated August 5, 1994 was entered into between Eagle Engineering and EMB related to Eagle Engineering's payment of US\$63,450 to Shaker Partners IVDS Partnership. This payment was funded by EMB.
 - a) Phillip Tullis, Chairman and President of Eagle Engineering gave his personal guarantee to repay the note
 - b) These monies were apparently refunded by Shaker Partners to Phillip Tullis who then paid them to his Attorney's trust account .
5. No other monies have been repaid to EMB. EMB retained Holland & Knight, Attorneys in Atlanta, Georgia in December 1994 to attempt to recover these monies.
 - a) It appears that litigation was commenced by EMB against Tullis, Eagle Capital, Eagle Engineering and EI in mid 1997 seeking repayment of the US\$362,125 promissory note plus interest.
 - b) We are not certain if litigation has commenced regarding the return of the US\$63,450 invested in Shaker Partners
6. In the year ended June 30, 1996, EMB wrote off a 9% debenture of J\$11,021,000 due from Eagle Engineering
7. We understand that shares of EI or Eagle Capital may have been sold to WINCOM Corporation, a US public company, for 500,000 preferred shares of WINCOM which may be valued at US\$10 million.

B. CHRONOLOGY OF EVENTS

1. June 28, 1994 - At the EMB Board meeting, PCY informed the Board that he, Daisy Coke and Senator Harding met with Phillip Tullis and Dennis Henry

regarding an FCC auction for satellite communication licenses and EMB's participation in a joint venture.

- a) The EMB Board requested more information before a decision was made
2. July 22, 1994 - Letter from PCY to Phillip Tullis, President of "The Eagle Group" confirming that:
 - a) investment of EMB will be directly in the Corporation [Eagle Interactive] to be created for purposes of future IVDS business development
 - b) US\$500,000 to be invested by EMB in preference shares paying 8% per annum. EMB will receive a 33 1/3 ownership interest and consider providing a loan of US\$300,000 for purposes of future IVDS business development
 - c) EMB will have 2 seats on the Board of the Corporation
 - d) EMB will provide a letter of credit of US\$900,000 once Eagle Capital has transferred US\$400,000 into an account at EMB. The letter of credit will be drawn down for the downpayment to the FCC for licenses won and for expenditures on behalf of the Corporation as approved by the Board
3. July 26, 1994 - At the EMB Board meeting, Board authorization was given for EMB's purchase of 500,000 preference shares in the Company (Eagle Capital?) which represented 33 1/3 interest.
 - a) EMB would also consider a loan of \$300,000 to Eagle Capital but only after "a deposit of \$400,000 was lodged to the Cayman Account, after which, a letter of credit would be issued by EMB"
 - b) The Board noted that the investment was considered favourable and no money would be payable unless Eagle Capital won the bid; as a result, Eagle could participate.
4. July 28, 29, 1994 - Eagle Interactive Partners, LLP purchased 15 IVDS licenses from the FCC. Apparently, US\$362,125 was to be paid as a downpayment to the FCC for these licenses. US\$7,500 was also paid as a deposit.
 - a) The winning bids for these 15 licenses totalled approximately US\$3.7 million
5. August 5, 1994 - Eagle Capital Inc. of Atlanta, Georgia and EMB entered into an agreement to form a corporation - Eagle Interactive Inc - for the purpose of "engaging in the business of wireless interactive technology, engineering and management services..."
 - a) Eagle Interactive was to "own and control all IVDS licenses granted or obtained...". We understand that IVDS licenses are granted by the FCC.

- b) Dennis Henry, President of Eagle Capital, and PCY, Executive Chairman of EMB, signed the agreement
 - c) Eagle Capital would own 60% of Eagle Interactive (100% of 6,000 common shares) and EMB would own 40% of Eagle Interactive (100% of 4,000 preferred shares)
 - d) Eagle Capital shall deposit US\$400,000 into EMB and EMB shall deposit US\$800,000 into EMB. These payments will be used by Eagle Interactive to purchase FCC licenses and to fund start up costs.
 - e) Eagle Capital shall deposit funds by August 5, 1994 and if not, EMB will pay the FCC US\$362,125, if Phillip Tullis promises to repay EMB plus interest.
6. August 5, 1994 - Double Eagle Ventures Inc of Atlanta, Georgia (jointly owned by EMB and Eagle Engineering) agrees to purchase 20% of Shaker Partners IVDS partnership. Shaker Partners will transfer 20% of its interest in IVDS licenses to Double Eagle.
 - a) US\$126,000 will be paid to Shaker Partners, with US\$63,450 being paid within 5 business days of obtaining FCC licenses
 7. August 5, 1994 - Eagle Engineering agreed to pay US\$63,450 to Shaker Partners IVDS Partnership within 5 business days of obtaining FCC licenses
 - a) A promissory note dated August 5, 1994 was entered into between Eagle Engineering and EMB. Phillip Tullis, Chairman and President of Eagle Engineering gave his personal guarantee to repay the note
 8. August 5, 1994 - Memo from Sylbert Samough of ECB to Las Talbot of EMB indicating that PCY gave instructions to transfer US\$424,575 to Bank South, for credit of Eagle Engineering (ie \$362,125 + \$63,450 - \$1,000 (?))
 9. August 5, 1994 - Letter from L. Talbot and Laurie-Ann Taylor of EMB to Espirito Santo providing instructions to transfer US\$424,575 from EMB account #0106904863 to Bank South account #52486420
 10. August 12, 1994 - Promissory note from Eagle Engineering to EMB became due and payable.
 11. August 16, 1994 - Wire transfer confirmation from Bank South related to Eagle Engineering account #01-0052456420 transfer of US\$100,000 to ECB account #0106904061
 12. August 30, 1994 - At the EMB Board meeting, Board approval was granted for the investment of US\$500,000 [in Eagle Interactive] and possibly another US\$300,000. The Executive Chairman has agreed to use the \$300,000 as preference shares and increase EMB's shareholding to 40%

13. undated (approx September 1994) - Memo to Robert McNamara of FCC regarding Eagle Interactive Partners, LLP
 - a) It is described as a "domestic" limited partnership with one general partner (Eagle Capital) owning 51% and two limited partners, Consolidated Mobile Dispatch Services Inc. (30%) and Pacck Financial Management, Inc (19%)
 - i) There is no reference to EMB
 - b) The shareholders of Eagle Capital are Dennis Henry and Andrena Keesee (wife of Tullis); Consolidated Mobile Dispatch Services Inc.- Eric Glasscott, Terence Burden and Andrena Keesee (wife of Tullis) and Pacck Financial Management, Inc - Andrena Keesee (wife of Tullis) and Dennis Henry
14. September 27, 1994 - At the EMB Board meeting, PCY reported that EMB had advanced \$400,000 to Eagle Interactive, of \$800,000 committed . Approximately \$100,000 had been repaid to EMB.
 - a) EMB claimed it had an entitlement to ownership of 40% of Eagle Interactive.
15. November 21, 1994 - Letter from Dennis Henry of Eagle Capital to Phillip Tullis of Eagle Consolidated Resources regarding Eagle Management Interactive Technologies Inc. ("EMIT")
 - a) Tullis made a written solicitation for investors in the new company which Henry feels may be problematic in raising capital because of misleading representations made by Tullis to potential investors
 - b) Henry also notes that Tullis had a felony conviction within the past five years
16. November 21, 1994 - Letter from Grier Newlin of Stribling, Cunningham, Newlin & Porter to Dennis Henry and Andrena Keesee of Eagle Capital
 - a) Newlin had received a copy of a letter dated May 26, 1994 from Tullis to potential investors soliciting funds to invest in IVDS licenses. In excess of \$664,000 was raised in this manner.
 - b) This may have been a general solicitation and public offering of securities which is in violation of various laws. Apparently none of these funds were used to purchase IVDS licenses.
 - c) In addition, no action has been taken to incorporate Eagle Interactive
 - d) Tullis also raised \$170,000 of investments in EMIT. This may also be a general solicitation and public offering of securities which is in violation of various laws
 - e) Newlin asks that all these transactions be unwound or Newlin will resign

17. December 21, 1994 - Letter from Charles Stutts of Holland & Knight to Dennis Henry of Eagle Capital indicating that Holland & Knight have been retained by EMB to recover US\$362,125 loaned by EMB to Eagle Engineering.
 - a) EMB asserts that they have an equitable lien and are the beneficial owner of the licenses.
18. March 6, 1995 - Cheque of US\$63,400 was paid from Wireless Ventures Inc of Cleveland, Ohio to Eagle Interactive. The cheque was deposited to the benefit of Sutherland, Asbell and Brennan of Atlanta, Georgia
 - a) It appears that Shaker Partners refunded US\$63,450 to Tullis who may have then paid it through his Attorney's trust account at Sutherland, Asbill & Brennan
19. May 11, 1995 - Letter from Dennis Henry, President of YP Seaton & Associates International of Atlanta, Georgia to George Greene of Sable Communications
20. February 27, 1996 - Letter from Dennis Henry, General Partner of Eagle Interactive on YP Seaton & Associates International letterhead to PCY confirming interest of EMB (?) in Eagle Interactive of US\$325,450 (\$262,000 + \$63,450)
21. February 28, 1996 - Letter from Jonathan Currerri of Cohig & Associates to PCY with an attached investment proposal from WIN-TV whereby US\$500,000 would be invested by EMB into WIN-TV
 - a) This appears to be related to proposed purchase by Strothers of IVDS licenses from EI. EMB did not make this investment.
22. September 6, 1996 - Letter from Steven Cunningham of Nelson Mullins Riley & Scarborough LLP to Edward Hales of Sutherland Asbill & Brennan requesting return of funds to EI that were obtained improperly by Mr. Tullis
23. July 29, 1996 - Letter from Charles Stutts of Holland & Knight to Steve Cunningham, counsel for Eagle Capital regarding EMB's awareness that the IVDS licenses may be sold to Strothers Energy and asserting EMB's ownership rights
24. December 23, 1996 - Letter from Charles Murphy of Vaughan & Murphy to Geoffrey Messado of CEL indicating that Murphy would have a conflict of interest that would permit him to act for EMB against Tullis et al for the return of the monies paid by EMB to EI or Shaker Partners
25. (undated approx January 27, 1997) Amended and Restated Complaint by EMB against Phillip Tullis, Eagle Capital, Eagle Engineering and EI filed by Holland & Knight seeking payment of promissory note of US\$362,125 plus interest

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

A. EXECUTIVE SUMMARY

1. Our preliminary findings to date are as follows:

2. Bank of Jamaica Inspection Reports for EMB, ECB and EPBS

a) The significant issues and transactions identified by the Bank of Jamaica ("BOJ") during their inspections from 1990 to date are as follows:

- i) The assets transferred from the EFE's to the Eagle Premium Growth Fund ("EPGF") in November 1995 had a value of approximately \$6.2 billion. The BOJ expressed "grave concerns" with the value of these assets since they were established by Eagle management.
- ii) The generally high level of intercompany transactions, including loans and purchases of share capital, between the EFE's.
- iii) The issuance of share capital within the EFE's for little or no apparent cash consideration.
- iv) Regarding the operations of EPBS, the BOJ concluded that Eagle Permanent Building Society ("EPBS") was "controlled by and intertwined with Crown Eagle Life ("CEL"). In investing funds with CEL, EPBS "placed funds at undue and extreme risk".
- v) Eagle Merchant Bank ("EMB") may have carried out certain transactions which may be "double leveraging" whereby EMB would finance share purchases made by a related party.
- vi) From 1993 forward, BOJ identified that EMB had committed numerous statutory violations including the extent of loans to related parties, accrual of interest on non-performing loans, and the acquisition of foreign assets.

b) We are following up on each of these issues. However, our primary focus are the significant share capital transactions amongst the EFE's to determine whether cash consideration has been exchanged for the purchase of share capital.

3. Superintendent of Insurance reports for CEL

a) CEL was involved in a significant number of transactions with the other EFE's, including purchases and sales of share capital, investments, and

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

intercompany loans.

- i) Certain of these transactions may have occurred in order to improve the financial results or capital base of the EFE's while transferring assets to CEL, outside the regulatory authority of the BOJ.
- b) Access has not yet been provided to the files maintained by the Superintendent of Insurance.

4. Ajax Investments Ltd. ("Ajax")

- a) Ajax is beneficially owned by Paul Chen-Young ("PCY") and appears to have been utilized by PCY primarily as a property investment company. Ajax was the recipient of significant funds due to PCY from the Eagle Group.
- b) Transactions currently under investigation include the following:
 - i) Mortgage granted by Ajax to Workers Bank Trust on June 23, 1985 on 24 - 26 Granada Crescent in the amount of J\$3 million. This mortgage was subsequently transferred to EMB and in turn to Mount Investments, a related company.
 - ii) Purchase of Lot Nos. 23 and 53 at Fairfield Estate during 1990. Under the original Memoranda of Sale, Ajax was to acquire Lot No. 23 and Eagle Holdings & Investments Limited ("EHIL") was to acquire Lot No. 53. Subsequently, this was changed with EHIL acquiring Lot No. 53 and Ajax acquiring Lot No. 23. In addition, Hugh Croskery apparently arranged a loan to Ajax by Mount Investments which was secured by a first mortgage on the property acquired.
 - iii) In June 1991, EMB authorized a loan to Ajax of up to J\$116,000,000, including existing advances of J\$9,504,047 dating back to October 1989, to purchase land at 66 Half Way Tree Road, Kingston and to finance construction of the Eagle Financial Centre office building at 66 Half Way Tree Road, Kingston. The loan was to be personally guaranteed by PCY. The owner of the land was Woodpecker Limited, a related company. We were advised that Ajax did not proceed with this loan.
 - iv) Under the Professional Services Agreement dated February 5, 1993 relating to the Fort Belle/Crowne Plaza project, Ajax was to receive a fee of 0.5% of the Contract Sum. We were advised that this fee related to provision of interior design services. On August 7, 1996, an invoice

EAGLE FINANCIAL ENTITIES ("EFE") INTERIM STATUS REPORT

was issued by Ajax to CEL for fees of J\$3 million plus GCT for work certified to June 1996. We are currently pursuing the following issues in regard to this transaction:

- The calculation of the 0.5% fee appears to be incorrect and not in accordance with the Professional Services Agreement.
 - Given that interior design services were provided by Dorit Hutson, either Ajax should not have received any payment since no services were provided or Dorit Hutson should have received her payments from Ajax.
- v) Ajax transferred an investment in Hill Haven Limited to EHIL for J\$10 million. J\$5.6 million appears to have been paid by EHIL and the balance of J\$4.4 million recorded in the books of EHIL on "Due to Ajax". This amount was subsequently applied to the amount due from Ajax in regard to the purchase of penthouse apartment No. 802 in the Crowne Plaza complex (see below). We are investigating whether the value attributed to the investment in Hill Haven at the time of transfer was appropriate and tracing the source of funds paid by EHIL to Ajax.
- vi) On June 22, 1996, Ajax acquired penthouse apartment No. 802 in the Crowne Plaza complex for J\$10 million on behalf of PCY. J\$1 million was paid as a deposit and J\$4.4 million due to Ajax from EHIL applied to the purchase price, leaving J\$4.6 million outstanding. We understand that this amount currently remains outstanding. This transaction was approved by the Board of CEL. We are currently tracing the source of the J\$1 million deposit and whether the value attributed to the apartment was reasonable.
- vii) Eagle Banque House (subsequently renamed Dary Investments) was a joint venture between EMB and two individuals. We were advised that significant losses were incurred relating to an investment by Eagle Banque House in debt issued by the Russian Government (Venish Paper) and that PCY was required by the Board of EMB to assume the Venish Paper in order to avoid any further losses. This transaction was effected by a 3 way transaction between Ajax, EHIL and CEL whereby Ajax transferred two properties (17 St. Lucia and Duke Street) to CEL and in return took back the Venish Paper). No cash appears to have changed hands with any balancing transactions undertaken by journal

EAGLE FINANCIAL ENTITIES ("EFE") INTERIM STATUS REPORT

entry through the intercompany account between EHIL and CEL and the general ledger account for Ajax recorded in the books of EHIL.

- viii) Under the Management Contract between EMB and PCY dated November 12, 1993 and subsequently amended on March 4, 1996, PCY was to receive various amounts including management fees, profit participation on group profits before taxation and extraordinary items but excluding either realized gain/losses on intergroup sale of assets and various other expense reimbursements and benefits. These amounts due to PCY appear to have been paid by EMB to Ajax. We are currently attempting to locate documentation to ascertain what amounts were paid by EMB under this contract, the recipients of those payments and details of any calculations particularly in regard to the profit participation component which may reveal the "true" profitability of the Eagle Group.

5. Phoenix Trade Finance/Eagle Trade Services

- a) In 1985, Phoenix Trade Finance, a Miami based corporation, and Eagle Trade Services, a Jamaican based company, were established to facilitate overseas procurement of supplies and services for EFE customers during the period of foreign exchange control.
 - i) Phoenix Trade Finance is a subsidiary of Blue Bay Finance, a Miami based company which in turn is a subsidiary of Nicot Trading Inc., a company incorporated in the Bahamas. We are advised that PCY is the beneficial owner of the Nicot Trading/Blue Bay/Phoenix Group.
- b) We were advised that significant pressure was exerted by PCY to ensure that Eagle Group companies purchased all their overseas supplies, particularly US purchases, through Phoenix. The method of purchasing varied where in some instances the vendor was Phoenix, but in other cases Phoenix brokered the transaction and added a commission charge of between 5% to 7-1/2% on the purchase price. The preliminary findings from our investigations to date include the following:
 - i) Purchases totalling approximately US\$1,500,000 were made through Phoenix in regard to the Fort Belle/Crowne Plaza project. Phoenix earned a commission of 7-1/2% on these transactions and, in addition, accrued interest and charged handling and banking fees. To date, we have seen no third party documentation such as vendor invoices to support the cost of the products purchased through Phoenix. Further,

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

we note that a number of vendors may be related to PCY or other individuals connected to PCY including Dorit Hutson.

ii) Debts owing between Ciboney Group/EHIL/CEL/Phoenix was consolidated resulting in an amount owing to Phoenix by CEL of approximately US\$1 million. A loan agreement formalized the terms and conditions of this loan which was repayable by CEL over a period of 20 years. The loan was dated December 31, 1995 although not formalized until April 1996. Albeit that loan repayments were made by CEL on January 31, 1997, Phoenix wrote to CEL alleging that the loan agreement had been breached and demanding repayment of the loan in full although offering a discount of 20% if payment was received within 10 days of the date of the demand letter. We were advised that CEL denied that a breach had occurred and rejected the demands of Phoenix. Subsequently, it is alleged that PCY arranged for the Phoenix loan to be converted to a CEL Asset Investor Policy with a value equivalent to the outstanding balance of the debt and, subsequently, the Asset Investor Policy was encashed. On the basis of our preliminary investigative work, this issue is being pursued as a potential preferential creditor payment and/or a potential fraudulent transaction.

iii) In March 1995, approximately US\$475,000 was paid by EMB for artwork apparently owned by PCY. This transaction was apparently recorded as a purchase of artwork from Nicot Trading (refer to Section 9 on Artwork).

6. Mayberry/Mint/Mansfield

a) A payment of J\$10,025,000 was made to Mayberry Investments, a brokerage company, and recorded as a cost of the Fort Belle/Crowne Plaza project. Mayberry Investments advised FINSAC that they had no knowledge of the transaction.

b) Based on our investigation to date, it appears that:

i) The payment relates to US\$250,000 advanced to CFC Construction (Engineers) Limited ("CFC"), the contractor for the Fort Belle/Crowne Plaza project in March 1996.

ii) There are procedural irregularities regarding the manner in which the transaction was undertaken, particularly relating to the cheque for

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

J\$10,025,000 payable to Mayberry Investments which was exchanged for two Eagle Commercial Bank ("ECB") Manager's cheques payable to Mint Investment Limited (J\$2,005,000) and Mansfield Enterprises Limited (J\$8,020,000) rather than being cancelled.

- iii) Receipt of the funds by CFC was not reflected on Payment Certificates prepared by Stoppi Cairney Bloomfield until August 1996 and then recorded over the period August 1996 to July 1997.
- iv) We were advised that the authorization for provision of the US currency to CFC and the deferral of the recording of receipt of funds on the payment certificates was provided by PCY.

7. Fort Belle/Crowne Plaza

- a) Our significant findings to date are as follows:
 - i) In December 1996, US\$2.3 million was lent to CEL by the NDB/CNB Consortium to be utilized for the "construction and development of Fort Belle". CEL transferred these funds to EMB's bank account at Espirito Santo in Miami to apparently offset a loss of approximately US\$3.5 million related to the sale of IBM shares.
 - ii) CEL is withholding \$7 million of retention monies from CFC under the contract. These retention monies are understated and no monies available to offset against affirmative claims by CEL against CFC.
 - iii) CFC has an outstanding claim of J\$40 to \$50 million against CEL for additional costs and acceleration of work performed. Stoppi is apparently negotiating directly with CFC to resolve these issues; however, Stoppi may be in a conflict of interest position as they are currently working with CFC on a hotel project in Runaway Bay.
 - iv) \$5.1 million has been paid to Dorit Hutson by CEL for consulting services.
- b) Regarding construction management issues, we have issued separate recommendations in this area under a document for FINSAC's consideration. (see attached Recommendations)
- c) CEL does not currently have access to the books and records of CFC in order to carry out a detailed review and analysis of CFC's usage of J\$800 million paid to them by CEL. Counsel to FINSAC should consider as to how access to CFC's books and records can be affected.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

- 8. Transactions Between the EFE's and Paul Chen-Young & Co. ("PCYCo")**
- a) PCYCo is a registered stockbroker that handled stock trading and money market transactions on behalf of the EFE's.
 - b) Nine trading accounts were maintained at PCYCo by CEL and EMB during the period February 1994 to date.
 - i) As of June 1997, the relevant PCYCo trading account where money market transactions took place had a zero balance.
 - ii) As at June 30, 1997, CEL, Eagle Unit Trust and PCYCo (i.e. short positions) held stock certificates totalling \$373 million.
- 9. EMB US \$ account at Espirito Santo Bank of Florida**
- a) Lindquist Avey Macdonald Baskerville Inc. ("Lindquist Avey") would like to review the transactions in this bank account to determine if there are any unusual transactions which should be followed up on. Due to confidentiality concerns, we have not yet received access to this bank account.
- 10. Artwork**
- a) EMB apparently owned approximately J\$27 million of artwork as at May 31, 1997.
 - i) It appears that in March 1995, Nicot Trading (an affiliated company to Phoenix Trade Services) sold approximately J\$15.5 million (US\$475,000) of art to EMB.
 - b) Of the 541 pieces of art noted on the EMB listing totalling J\$27 million, 11 pieces with a total value of approximately J\$394,000 have been identified. A further 126 pieces have been inventoried which cannot be valued nor matched to the EMB listing. The majority of the art noted on the EMB listing has not been located.
- 11. Cayman Islands and United States based Eagle companies**
- a) We have not yet been granted access to the books and records of the Cayman Islands based companies since there are confidentiality/access issues similar to the EMB US\$ bank account at Espirito Santo.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

B. LINDQUIST AVEY RETAINER

1. Lindquist Avey has been retained by FINSAC to review the activities of the companies in the Eagle Financial Network, including but not limited to: CEL, EPGF, EMB, ECB and EPBS.
2. We are seeking to identify whether any transactions have occurred within the EFE's which may have resulted in any benefits to present or past Directors.
 - a) The transactions that we have identified for further review and analysis are discussed in section D below.
3. We will report such transactions to FINSAC and liaise with and advise Counsel, as required, so that appropriate actions can be taken.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

C. ACCESS ISSUES

1. We have set out in this status report our preliminary findings based on the results of our investigations to date.
2. We have reviewed the available books and records of the EFE's in formulating our preliminary findings; however, we are still awaiting access to certain documentation that will be important in the completion of our work, as follows:
 - a) Review the files of the Superintendent of Insurance, including actuarial and inspection reports, related to CEL.
 - b) Access to the bank statements, including supporting deposit slips and cancelled cheques, for EMB's US\$ account at the Espirito Santo Bank of Florida.
 - c) Access to the books and records of the Cayman Islands based companies in the Eagle group of companies.
 - d) Intercompany reconciliations for transactions between the EFE's.
 - e) Access to CFC's books and records to review their usage of monies paid to them by CEL in relation to Fort Belle.
 - f) Access to files currently in the possession of the EFE's in-house counsel related to matters involving companies owned/controlled by PCY.
 - g) Hold discussions with KPMG and Coopers & Lybrand and review their audit working papers prepared for the EFE's.
3. We would seek FINSAC's assistance in addressing and resolving each of these access issues.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

D. PRELIMINARY FINDINGS

1. Bank of Jamaica Inspection Reports for EMB, ECB and EPBS

- a) We have reviewed the available BOJ inspection reports and correspondence files for EMB, ECB and EPBS during the period 1990 to date.
- b) The introduction of the Banking Act and Financial Institutions Act in 1992 and the revision to the Building Societies Act in 1995 defined prohibited business activities and the capital and reserve requirements for financial institutions, including ECB, EMB and EPBS.
- c) The significant issues and transactions identified by the BOJ are as follows:
 - i) The assets transferred from the EFE's to the EPGF in November 1995 had a value of approximately J\$6.2 billion. The BOJ expressed "grave concerns" with the value of these assets since they were established by Eagle management.
 - ii) The generally high level of intercompany transactions, including loans and purchases of share capital, between the EFE's.
 - iii) The issuance of share capital within the EFE's for little or no apparent cash consideration.
 - iv) EPBS has two aspects of operations - mortgage operations and CEL funding operations, which are 93% of EPBS assets. Regarding the operations of EPBS, the BOJ concluded that EPBS was "controlled by and intertwined with CEL". In investing funds with CEL, EPBS "placed funds at undue and extreme risk".
 - v) EMB may have carried out certain transactions which may be "double leveraging" whereby EMB would finance share purchases made by a related party.
 - vi) From 1993 forward, BOJ identified that EMB had committed numerous statutory violations including the extent of loans to related parties, accrual of interest on non-performing loans, and the acquisition of foreign assets.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

d) The significant share capital transactions that we have identified for further follow up and review are as follows:

i) In 1992, EMB sold its 49% interest in ECB to CEL for J\$220.5 million. The shares were valued at J\$4.50 per share, or twelve times ECB earnings. The BOJ concluded that the valuation of the ECB shares was "exorbitant". The resultant capital gain of J\$167.7 million recorded by EMB funded the increase to their reserve fund of J\$191 million.

- These ECB shares were apparently sold back to EMB by CEL in 1995 at the same value.

ii) In 1993, EMB purchased 20 million shares in ECB for J\$40 million, including a share premium of J\$20 million.

iii) In 1994, EMB invested J\$332 million in 1 million CEL preference shares which may be related to EMB's sale of 4,800 shares to CEL for J\$182 million.

iv) In 1994, EMB invested J\$150 million in EPBS "B" shares.

v) In 1994, EMB purchased 25 million shares in ECB for J\$70 million, including a share premium of J\$45 million.

vi) In 1995, EMB purchased 25 million shares in ECB for J\$75 million, including a share premium of J\$50 million.

e) For each of the above noted transactions, we are continuing our inquiries to determine how these share purchases were recorded by each party and whether the issuance of share capital resulted in a cash injection by the purchaser.

2. Superintendent of Insurance reports for CEL

- a) CEL is regulated by the Superintendent of Insurance, not the BOJ.
- b) CEL was involved in a significant number of transactions with the other EFE's, including purchases and sales of share capital, investments, and intercompany loans.
- c) Certain of these transactions may have occurred in order to improve the financial results or capital base of the EFE's while transferring assets to CEL, outside the regulatory authority of the BOJ.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

- d) In order to determine how the activities of CEL were viewed by the Superintendent of Insurance, we would like to review the available Superintendent of Insurance inspection, financial or actuarial reports and any correspondence files prepared for CEL.
- e) A letter has been written to the Superintendent of Insurance requesting access to their files; however, access has not yet been provided.

3. Ajax Investments Ltd.

- a) Ajax is beneficially owned by PCY and appears to have been utilized by PCY primarily as a property investment company. Ajax was the recipient of significant funds due to PCY from the Eagle Group.
- b) Transactions currently under investigation include the following:
 - i) Mortgage granted by Ajax to Workers Bank Trust on June 23, 1985 on 24 - 26 Grenada Crescent in the amount of J\$3 million. This mortgage was subsequently transferred to EMB and in turn to Mount Investments, a related company.
 - ii) Purchase of Lot Nos. 23 and 53 at Fairfield Estate during 1990. Under the original Memoranda of Sale, Ajax was to acquire Lot No. 23 and EHIL was to acquire Lot No. 53. Subsequently, this was changed with EHIL acquiring Lot No. 53 and Ajax acquiring Lot No. 23. In addition, Hugh Croskery (former EMB employee) apparently arranged a loan to Ajax by Mount Investments which was secured by a first mortgage on the property acquired.
 - iii) In June 1991, EMB authorized a loan to Ajax of up to J\$116,000,000, including existing advances of J\$9,504,047 dating back to October 1989, to purchase land at 66 Half Way Tree Road, Kingston and to finance construction of the Eagle Financial Centre office building at 66 Half Way Tree Road, Kingston. The loan was to be personally guaranteed by PCY. The owner of the land was Woodpecker Limited, a related company. We were advised that Ajax did not proceed with this loan; however, this is to be confirmed.
 - iv) Under the Professional Services Agreement dated February 5, 1993 relating to the Fort Belle/Crowne Plaza project, Ajax was to receive a fee of 0.5% of the Contract Sum. We were advised that this fee related to provision of interior design services. On August 7, 1996, an invoice

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

was issued by Ajax to CEL for fees of J\$3 million plus GCT for work certified to June 1996. Our examination of the costs of the Fort Belle/Crowne Plaza project indicated that Dorit Hutson received significant payments totalling up to J\$5 million for apparent interior design services. We were further advised that PCY initiated the issue of the invoice by Ajax to CEL in August 1996. We are currently pursuing the following issues in regard to this transaction:

- The calculation of the 0.5% fee appears to be incorrect and not in accordance with the Professional Services Agreement.
 - Given that interior design services were provided by Dorit Hutson, either Ajax should not have received any payment since no services were provided or Dorit Hutson should have received her payments from Ajax.
- v) Ajax transferred an investment in Hill Haven Limited to EHIL for J\$10 million. J\$5.6 million appears to have been paid by EHIL and the balance of J\$4.4 million recorded in the books of EHIL as "Due to Ajax". This amount was subsequently applied to the amount due from Ajax in regard to the purchase of penthouse apartment No. 802 in the Crowne Plaza complex (see below). We are investigating whether the value attributed to the investment in Hill Haven at the time of transfer was appropriate and tracing the source of funds paid by EHIL to Ajax.
- vi) On June 22, 1996, Ajax acquired penthouse apartment No. 802 in the Crowne Plaza complex for J\$10 million on behalf of PCY. J\$1 million was paid as a deposit and J\$4.4 million due to Ajax from EHIL applied to the purchase price, leaving J\$4.6 million outstanding. We understand that this amount currently remains outstanding. This transaction was approved by the Board of CEL. We are currently tracing the source of the J\$1 million deposit and whether the value attributed to the apartment was reasonable.
- vii) Eagle Banque House (subsequently renamed Dary Investments) was a joint venture between EMB and two individuals. We were advised that significant losses were incurred relating to an investment by Eagle Banque House in debt issued by the Russian Government (Venish Paper) and that PCY was required by the Board of EMB to assume the Venish Paper investment in order to avoid any further losses. This transaction was effected by a 3 way transaction between Ajax, EHIL

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

and CEL whereby Ajax transferred two properties (17 St. Lucia and Duke Street) to CEL and in return took back Venish Paper. No cash appears to have changed hands with any balancing transactions undertaken by journal entry through the intercompany account between EHIL and CEL and the general ledger account for Ajax recorded in the books of EHIL.

- viii) Under the Management Contract between EMB and PCY dated November 12, 1993 and subsequently amended on March 4, 1996, PCY was to receive various amounts including management fees, profit participation on group profits before taxation and extraordinary items but excluding either realized gain/losses on intergroup sale of assets and various other expense reimbursements and benefits. These amounts due to PCY appear to have been paid by EMB to Ajax. We are currently attempting to locate documentation to ascertain what amounts were paid by EMB under this contract, the recipients of those payments and details of any calculations particularly in regard to the profit participation component which may reveal the "true" profitability of the Eagle Group.
- ix) Our review of files held at EMB identified a number of files relating to Ajax which we were advised by in-house counsel that we could not review as they were the property of Ajax and the transactions involved did not include any EFE's. The files included subleases granted by Ajax for retail outlet at the Holiday Inn, Montego Bay and the transfer of shares in EMB from Ajax to Jellapore Investments. We feel that all documents on the premises of the EFE's should be available for our review. We requested that in-house counsel retain these files until a decision is obtained from counsel regarding access to these files.
- x) Documentation supporting the transactions recorded in the general ledgers of EFE's and identified through the EY tracer system are being located for review.

4. Phoenix Trade Finance/Eagle Trade Services

- a) In 1985, Phoenix Trade Finance, a Miami based corporation, and Eagle Trade Services, a Jamaican based company, were established to facilitate overseas procurement of supplies and services for EFE customers during the period of foreign exchange control.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

- b) Phoenix Trade Finance is a subsidiary of Blue Bay Finance, a Miami based company which in turn is a subsidiary of Nicot Trading Inc., a company incorporated in the Bahamas. We are advised that PCY is the beneficial owner of the Nicot Trading/Blue Bay/Phoenix Group.
- c) Eagle Trade Services is a subsidiary of EMB. On the removal of foreign exchange controls, Eagle Trade Services became dormant. There remained some activity relating to collection of outstanding receivables from a number of customers including Caribbean Cement Company. Phoenix continued with its operations.
- d) We were advised that significant pressure was exerted by PCY to ensure that Eagle Group companies purchased all their overseas supplies, particularly US purchases, through Phoenix. The method of purchasing varied where in some instances the vendor was Phoenix, but in other cases Phoenix brokered the transaction and added a commission charge of between 5% to 7-1/2% on the purchase price. Significant purchases were made through Phoenix in regard to the Ciboney and Fort Belle/Crowne Plaza projects. In addition, Eagle Information Systems acquired significant amounts of computer hardware and software through Phoenix. The preliminary findings from our investigations to date include the following:
 - i) Purchases totalling approximately US\$1,500,000 were made through Phoenix in regard to the Fort Belle/Crowne Plaza project. Phoenix earned a commission of 7-1/2% on these transactions and, in addition, accrued interest and charged handling and banking fees. To date, we have seen no third party documentation such as vendor invoices to support the cost of the products purchased through Phoenix. Further, we note that a number of vendors may be related to PCY or other individuals connected to PCY including Dorit Hutson.
 - ii) Debts owing between Ciboney Group/EHIL/CEL/Phoenix were consolidated resulting in an amount owing to Phoenix by CEL of approximately US\$1 million. A loan agreement formalized the terms and conditions of this loan which was repayable by CEL over a period of 20 years. The loan was dated December 31, 1995 although not formalized until April 1996. Albeit that loan repayments were made by CEL on January 31, 1997, Phoenix wrote to CEL alleging that the loan agreement had been breached and demanding repayment of the loan in full although offering a discount of 20% if payment was received within

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

10 days of the date of the demand letter. We were advised that CEL denied that a breach had occurred and rejected the demands of Phoenix. Subsequently, it is alleged that PCY arranged for the Phoenix loan to be converted to a CEL Asset Investor Policy with a value equivalent to the outstanding balance of the debt and, subsequently, the Asset Investor Policy was encashed. On the basis of our preliminary investigative work, this issue is being pursued as a potential preferential creditor payment and/or a potential fraudulent transaction.

- iii) In March 1995, approximately US\$475,000 was paid by EMB for artwork apparently owned by PCY. This transaction appears to have been recorded as a purchase of artwork from Nicot Trading (refer to Section 9 on Artwork).

5. Mayberry/Mint/Mansfield

- a) A payment of J\$10,025,000 was made to Mayberry Investments, a brokerage company, and recorded as a cost of the Fort Belle/Crowne Plaza project. Specifically, the concern was the reason why a payment to a brokerage company would be recorded as a construction expense. We further note that Mayberry Investments advised FINSAC that they had no knowledge of the transaction.
- b) Based on our investigation to date, it appears that:
 - i) The payment relates to US\$250,000 advanced to CFC, the contractor for the Fort Belle/Crowne Plaza project in March 1996.
 - ii) There are procedural irregularities regarding the manner in which the transaction was undertaken, particularly relating to the cheque for J\$10,025,000 payable to Mayberry Investments which was exchanged for two ECB Manager's cheques payable to Mint Investment Limited (J\$2,005,000) and Mansfield Enterprises Limited (J\$8,020,000) rather than being cancelled.
 - iii) Receipt of the funds by CFC was not reflected on Payment Certificates prepared by Stoppi Cairney Bloomfield until August 1996 and then recorded over the period August 1996 to July 1997.
 - iv) We were advised that the authorization for provision of the US currency to CFC and the deferral of the recording of receipt of funds on the payment certificates was provided by PCY.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

c) The following issues remain to be investigated:

- i) Verifying that ECB did not have US currency available, thus requiring the use of Cambio's (Mint and Mansfield) to obtain foreign currency.
- ii) Verifying the authorization for the granting of the advance of foreign currency to CFC and deferral of recognition of receipt of funds on Payment Certificates.
- iii) Review of CFC books and records to determine the use of the funds by CFC.

6. Fort Belle/Crowne Plaza

- a) Regarding the Fort Belle/Crowne Plaza project, the significant issues to be addressed are as follows:
 - i) An explanation for the increase in costs from J\$216 million to in excess of J\$1 billion.
 - ii) The sale of a penthouse apartment to PCY for J\$10 million.
 - iii) The valuation of Fort Belle for the purpose of its transfer into EPGF in 1995.
 - iv) The purpose of, and amounts paid to, Phoenix, Ajax or other related parties to the EFE's (see Sections 3 and 4).
 - v) The identification of construction management issues.
 - vi) The usage of financing monies raised by CEL related to the construction of Fort Belle.
- b) In carrying out our work to date, we have reviewed various payment and other documentation and held discussions with Norman Lai of CEL Special Projects, Ray McIntyre of APEC Consultants (Architect) and Maurice Stoppi of Stoppi Cairney Bloomfield (Quantity Surveyors).
- c) Our significant findings to date are as follows:
 - i) In December 1996, US\$2.3 million was lent to CEL by the NDB/CNB Consortium to be utilized for the "construction and development of Fort Belle". CEL transferred these funds to EMB's bank account at Espirito Santo in Miami.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

- We were informed that these funds were transferred to this EMB account in order to offset a loss of approximately US\$3.5 million incurred by Eagle Holdings (Cayman) Ltd. related to the sale of IBM shares in May 1996.
- ii) As of September 1997, CEL is withholding J\$7 million of retention monies from CFC under the contract. Approximately J\$10 million may be spent by CEL in correcting deficiencies at the site. As a result, these retention monies are understated by at least J\$3 million with no monies available to offset against affirmative claims by CEL against CFC.
- iii) CFC has an outstanding claim of J\$40 to J\$50 million against CEL for additional costs and acceleration of work performed. Stoppi is apparently negotiating directly with CFC to resolve these issues; however, it appears that Stoppi may be in a conflict of interest position as Stoppi and CFC are currently working together on a 225 room J\$723 million hotel project in Runaway Bay.
- iv) J\$5.1 million has been paid to Dorit Hutson by CEL for "consulting services". We have not yet obtained supporting documentation related to these amounts.
- v) Robkovi Associates valued Fort Belle on a completed basis (including floors 8 and 9) in September 1995 at J\$746.6 million. Since floors 8 and 9 are not yet completed, this valuation is likely significantly overstated.
- vi) There are many relationships between parties who provided services on the project which may have impacted on the value received by CEL. Examples include CFC and Stoppi, APEC and an electrical contractor operated by Ray McIntyre's brother which was used by CFC and transactions with Dorit Hutson, Ajax and Phoenix.
- d) Regarding construction management issues, we have issued separate recommendations in this area under a document for FINSAC's consideration (see attached Recommendations). These recommendations should be fully considered in light of CFC's apparent termination at September 30, 1997, the outstanding CFC claim and since additional monies are still being approved by Stoppi for payment to CFC under the contract.
- e) CFC has been paid approximately J\$800 million on the Fort Belle project and neither Stoppi nor CEL have detailed information as to how these amounts were utilized by CFC.

EAGLE FINANCIAL ENTITIES ("EFE") INTERIM STATUS REPORT

- i) We recommend that a detailed review and analysis be conducted of CFC's usage of amounts paid to them by CEL. This would allow us to determine whether any amounts have been paid by CFC to companies associated with the EFE's and whether goods purchased by CFC were utilized on Fort Belle.
- ii) However, under the contract, there is no "audit" clause and CEL does not currently have access to the books and records of CFC. Counsel to FINSAC should consider as to how access to CFC's books and records can be affected.
- f) We are continuing our work in the above noted areas and are awaiting direction from FINSAC as to what additional assistance we can provide in relation to the construction management issues that we have identified.

7. Transactions Between the EFE's and PCYCo

- a) PCYCo is a registered stockbroker that handled stock trading and money market transactions on behalf of the EFE's.
 - i) PCYCo is apparently owned outside the Eagle Group of companies.
- b) Nine trading accounts were maintained at PCYCo by CEL and EMB during the period February 1994 to date.
- c) The money market transactions were such that "Custodian Certificates" were issued on EMB paper in trust for CEL. CEL would then provide a promissory note to EMB consistent with the value of the certificate.
 - i) The majority of transactions carried out by PCYCo involve the issuance and encashment of these certificates.
 - ii) As of June 1997, the relevant PCYCo trading account where these transactions took place had a zero balance.
- d) Regarding money market transactions, the resultant risk relates to whether there was a proper exchange of cash for value received.
 - i) We have identified a sample 3 month period whereby we will review the money market transactions in order to assess this exchange of value. Documentation is currently being gathered for this exercise.
- e) As at June 30, 1997, CEL, Eagle Unit Trust and PCYCo (i.e. short positions) held stock certificates totalling J\$373 million.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

- f) Regarding stock trading, the resultant risks are as follows:
 - i) The quantum of commissions earned by PCYCo, delivery to CEL of securities purchased by PCYCo, whether there was churning of trades by PCYCo, and whether dividend income or bonus issues has been received by CEL.
 - g) We are continuing our inquiries in these areas with the assistance of FINSAC personnel.
- 8. **EMB US \$ account at Espirito Santo Bank of Florida**
 - a) Lindquist Avey would like to review the transactions in this bank account to determine if there are any unusual transactions which should be followed up on.
 - b) A letter to counsel is to be drafted by E&Y seeking access to this account and the supporting documentation.
- 9. **Artwork**
 - a) EMB apparently owned approximately J\$27 million of artwork as at May 31, 1997.
 - i) It appears that in March 1995, Nicot Trading (an affiliated company to Phoenix Trade Services) sold approximately J\$15.5 million (US\$475,000) of art to EMB. We are not yet certain how these values were determined.
 - ii) We have requested, but have not received, the supporting vouchers for the significant purchases of art.
 - b) The artwork is currently insured for J\$28.8 million under a specific rider on EMB's insurance policy. The insurance broker informed us that they have not received a listing of the artwork.
 - i) However, any claim under this policy would be hindered by this lack of supporting documentation.
 - c) The descriptions provided for the artwork are extremely nebulous making it extremely difficult to compare the listing to the artwork located on the EMB premises:
 - i) Vivian Crawford of FINSAC has been assisting us in this reconciliation process.

**EAGLE FINANCIAL ENTITIES ("EFE")
INTERIM STATUS REPORT**

- d) Artwork has been identified at EMB and at two rental locations. A physical inventory was completed for the EMB premises, except for a rental location at Spanish Court.
 - i) An inventory has not yet been completed for the EMB branch locations or the Crowne Plaza. We have recommended that this inventory be undertaken and that all artwork be secured in one location under FINSAC's control.
 - ii) We have been informed that little, if any, artwork is located at EPBS, ECB or CEL offices.
 - e) On September 17, 1997, approximately 35 pieces of artwork were removed from the EMB premises and Spanish Court storage by Dorit Hutson, without any written approval to do so, as follows:
 - i) 30 pieces of art from the Spanish Court location before they were inventoried.
 - ii) 5 pieces of art from the EMB offices after they were inventoried.
 - f) Of the 541 pieces of art or art descriptions noted on the EMB listing totalling J\$27 million, 11 pieces with a total value of approximately J\$394,000 have been identified. A further 126 pieces have been inventoried which cannot be valued nor matched to the EMB listing. The majority of the art noted on the EMB listing has not been located.
10. Cayman Islands and United States based Eagle companies
- a) Lindquist Avey would like to review the significant transactions between the EFE's and the US and Cayman Islands based related companies or operations which include:
 - i) Eagle Holdings (Cayman) Limited.
 - ii) Eagle Insurance Co. Cayman.
 - iii) First Equity Corporation of Florida.
 - iv) EMB branch operations in the Cayman Islands.
 - b) We have not yet been granted access to the books and records of the Cayman Islands based companies since there are confidentiality/access issues similar to the EMB US\$ bank account at Espirito Santo.



**Lindquist
Avey
Macdonald
Baskerville**

The Forensic & Investigative Accountants

Lindquist Avey Macdonald
Baskerville Inc.
One Financial Place
One Adelaide Street East
30th Floor
Toronto, Canada M5C 2V9

Tel: (416) 777-2440
Fax: (416) 777-2441
TDX 131

Todd Shoalts

Direct: (416) 777-2458

December 10, 1997

PRIVATE AND CONFIDENTIAL

Mr. Patrick Hylton
Managing Director
Financial Institution Services Limited
9 Trinidad Terrace
Kingston 5
Jamaica, West Indies

Tedd Avey CA, CPA, CFE
Robert Macdonald CA, CFE
Ted Baskerville CA, CFE
Roddy Allan CA, CFE
Michael Beber CA, CFE
Farley Cohen MBA, CA, CFP, CBV
Brian Crockett CA, CFE
Hazel de Burgh CA, CFE
Ross Hamilton CA, CFE
Peter McFarlane ACA, CA, CFE
Linda Robinson CA, CFE
Todd Shoalts CA, CFE
Jim Szarka MBA, CFE

John Beer BA
Wayne Blackburn BA, CFE
Stephanie Collins ACA
Penny Cookson BSc, CA, CFE
Dave Horner BComm, CFE
Nancy Howe CA, CBV, CFE
Ajay Junnarkar MAcc, CA
Jane McFarlane ACA, CA, CFE
Jayesh Patel ACCA, CA, CFE
Jennifer Perry CA
Bonnie Prusky BSM
Michael Rudanyez CA
Virginia Scott CA
Joanne Shatka CA, CFE
Glenn Stadigger LL.B., CA
Peter Steger CA, CBV, CFE
Alan Stewart CA
Susan Tremayne CA
Teresa Warus CA, CFE
Howard Williams CFE

Dear Mr. Hylton

ARTWORK OWNED BY EAGLE MERCHANT BANK

We are writing to confirm our understanding of how the identification and cataloguing of the artwork owned by Eagle Merchant Bank is to be carried out. We understand that Mrs. Margaret Bernal has been retained by FINSAC to conduct a thorough identification and cataloguing of the artwork that is owned, or may be owned, by Eagle Merchant Bank. As of the date of this letter, Mrs. Bernal has not yet begun this cataloguing procedure although we have spoken to her regarding her proposed methodology and about how it will be carried out.

WORK PERFORMED TO DATE BY FINSAC AND LINDQUIST AVEY

To date, the following work has been performed by FINSAC and Lindquist Avey relating to artwork owned by Eagle Merchant Bank and related entities:

- 1) Vivian Crawford of FINSAC, has prepared a handwritten inventory of artwork located at the former offices of Eagle Merchant Bank at 24 - 26 Grenada Crescent and at the Spanish Court storage facility.
- 2) Documentation relating to artwork including artwork listings, extracts from accounting records, disbursement records, collection catalogues and insurance records have been retrieved by FINSAC and Lindquist Avey. Our searches for relevant documentation are ongoing. In addition, FINSAC and Lindquist Avey have interviewed a number of individuals who have knowledge of the art collection.

Page 2

Mr. Patrick Hylton

December 10, 1997

- 3) During the process of vacating the former offices of Eagle Merchant Bank at 24 - 26 Grenada Crescent, Lindquist Avey personnel prepared a video tape of all artwork and antique furniture located in the offices during the week of November 24, 1997. Our understanding is that the artwork has been relocated to the offices of Eagle Permanent Building Society and the antique furniture together with other contents of Dr. Paul Chen-Young's office have been moved to the Spanish Court storage facility.
- 4) Discussions have been held between Vivian Crawford, Lindquist Avey, Keith Senior and Mrs. Bernal on the location of artwork and the methodology to be employed by Mrs. Bernal to complete her mandate.

All relevant documentation and information obtained by Lindquist Avey has been forwarded to Mrs. Bernal and we continue to be available to her should she have any further documentation requests.

OUR UNDERSTANDING OF THE ROLE OF MRS. BERNAL

Further to our discussions with FINSAC and Mrs. Bernal, we understand that she has been retained by FINSAC to undertake the following procedures:

- 1) As a result of the lease expiring at the 24-26 Grenada Crescent location, all of the artwork at that premises was moved to the Eagle Permanent Building Society location on Grenada Crescent during the week of November 24, 1997. The artwork now stored at Eagle Permanent Building Society will be identified and catalogued by Mrs. Bernal.
- 2) In identifying the artwork, Mrs. Bernal will visit the other Eagle Group locations in New Kingston, namely Eagle Commercial Bank, Crown Eagle Life, Eagle Unit Trust, Eagle Permanent Building Society, and the new Kingston branch of the Eagle Commercial Bank. Mrs. Bernal will also attend at the Crowne Plaza and all Eagle branch locations in Jamaica, including Ocho Rios, Montego Bay, Kingston, and any other branch locations.
- 3) As part of this cataloguing process we understand that Mrs. Bernal will take a photograph of each piece of art to assist in its identification and possible valuation. Mrs. Bernal will also make recommendations as to the disposal process, if any, for the significant pieces of art.



Page 3

Mr. Patrick Hylton

December 10, 1997

- 4) Mrs. Bernal will review available documentation and, to the extent possible, identify artwork which was apparently purchased by EMB and related entities, the location of which is currently unknown.
- 5) Subsequent to a request by FINSAC to Dr. Paul Chen-Young to identify and all artwork and other items of value currently in his possession or control (including those in the possession and/or control of Dorit Hutson), Mrs. Bernal will view same and identify, to the extent possible, artwork which may be the property of Eagle Merchant Bank and related entities. Dr. Chen-Young will be requested to provide proof of ownership for the balance of artwork which Mrs. Bernal cannot specifically identify as property of Eagle Merchant Bank and related entities.
- 6) On completion of her cataloguing process, Mrs. Bernal will prepare a document setting out her recommendations regarding storage and liquidation of the artwork collection by FINSAC.

OTHER ISSUES AND RECOMMENDATIONS

During the course of videotaping the artwork held at the former offices of Eagle Merchant Bank, Mrs. Bernal identified a number of pieces of artwork which had suffered some deterioration. We recommend that Mrs. Bernal be consulted by FINSAC to ensure that the artwork is stored in a suitable location that there is no further deterioration in the condition of the artwork.

Finally, we recommend that FINSAC consider expanding the mandate of Mrs. Bernal to include all artwork of all entities currently under the control of FINSAC including, for example, the Ciboney Group of Companies.

At the completion of this cataloguing process the art work will be summarized, and discussions should then be held with Dr. Chen-Young in order to determine the location of all art as noted on the Eagle Merchant Bank listing dated approximately May 31, 1997, totalling \$27,000,000.

We also recommend that Miss Martine Fontaine of the insurance broker, Fraser, Fontaine & Kong Ltd. (#926-3560) be informed that the artwork has been moved from the Eagle Merchant Bank premises to the Eagle Permanent Building Society premises, so that proper insurance coverage is in place.



Page 4
Mr. Patrick Hylton
December 10, 1997

FUTURE ROLE OF LINDQUIST AVEY

Based on the results of the ongoing review of documentation, interviews of relevant individuals and the results of Mrs. Bernal's work, Lindquist Avey will prepare a report setting out our findings regarding the artwork collection of Eagle Merchant Bank and related entities detailing, in particular, its ownership.

Once you have had an opportunity to review this letter and you wish to discuss it further, please contact me at my direct line or Peter McFarlane at (416) 777-2464.

Yours truly,

LINDQUIST AVEY MACDONALD BASKERVILLE INC.



Per: Todd Shoalts, CA
Principal

cac

cc: Mr. Ken Tomlinson, FINSAC Limited
Mr. Keith Senior, Eagle Merchant Bank
Mrs. Margaret Bernal

