

1 COURT FILE NUMBER 1501-11817
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 3 COURT COURT OF QUEEN'S BENCH OF ALBERTA
 4
 5 JUDICIAL CENTRE CALGARY
 6
 7 PLAINTIFF(S) EASYLOAN CORPORATION AND MIKE
 8 TERRIGNO
 9 DEFENDANT(S) BASE MORTGAGE & INVESTMENTS LTD. AND
 10 BASE FINANCE LTD., ARNOLD
 11 BREITKREUTZ, SUSAN BREITKREUTZ,
 12 SUSAN WAY AND GP ENERGY INC.
 13

14 _____
 15 DOCUMENT Transcript of Oral Questioning of
 16 ARNOLD BREITKREUTZ on Affidavit
 17 sworn March 24, 2016
 18

19 HELD AT Billington Barristers,
 20 Calgary, Alberta
 21

22 DATE April 19, 2016
 23

24 _____
 25 CLERK OF THE COURT
 26 FILED
 27 APR 22 2016
 JUDICIAL CENTRE
 OF CALGARY

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29 (Proceedings commenced at 10:08 a.m.)

30 **ARNOLD BREITKREUTZ, affirmed, questioned by Mr. Billington:**

31 Q. Sir, you have just been affirmed in this action in
32 respect to questioning which is to occur today on an
33 affidavit which we understand you swore on March 24th,
34 2016. Do you have a copy of that affidavit before you?

35 A. Yes, I do.

1 Q. And is that your signature on the -- or a copy of your
2 signature on the third page of this document?

3 A. Yes, it is.

4 Q. What is the nature of your relationship with Base
5 Finance Ltd. and Base Mortgage & Investments Ltd.?

6 A. I'm the president.

7 Q. And how long have you been the president?

8 A. Of what?

9 Q. Of those two corporations.

10 A. Base Finance -- Base Mortgage since 1978, and Base
11 Finance I believe 1984, or something like that.

12 Q. Okay. What is the nature of the relationship of the
13 two Base corporations that I've just mentioned with
14 Brian Fox?

15 A. Base Mortgage did the Administration Order, and Base
16 Finance was the investment company.

17 Q. I'm sorry. How does that answer the question of what
18 their relationship with Brian Fox is?

19 A. Base Finance -- Mr. Fox borrowed money from Base
20 Finance. I guess Base Mortgage had no involvement with
21 Mr. Fox.

22 Q. So given that Base Mortgage had no relationship with
23 Brian Fox, the balance of my questions will be in
24 respect to the relationship -- that is the balance of
25 my questions which relate to Brian Fox will be in
26 relation to his relationship with Base Finance. Unless
27 you are of the view that there are any other dealings

1 between Base Mortgage and Brian Fox that come to mind,
2 we'll just operate on that presumption.

3 How much money did Brian Fox borrow from Base
4 Finance?

5 A. I believe the number that we came up with was
6 120 million.

7 Q. He borrowed \$120 million?

8 A. That's right. I think that's the number that they came
9 up with final.

10 MR. BILLINGTON: Take a break here.

11 (DISCUSSION OFF RECORD)

12 Q. MR. BILLINGTON: Sir, you were saying that Brian
13 Fox borrowed \$120 million from Base Finance. Over what
14 period of time?

15 A. I believe about 35 years.

16 Q. And what was the purpose of these loans?

17 A. They were investments or loans regarding oil and gas
18 properties.

19 Q. And where were those oil and gas properties?

20 A. In the United States. Specific, Oklahoma, Texas,
21 Louisiana.

22 Q. And what security documentation would Base Finance
23 obtain from Mr. Fox for these loans?

24 A. Mortgages. First mortgages on these properties.

25 Q. Did you maintain records of those first mortgages?

26 A. Yes.

27 Q. And have you provided copies of those first mortgages

1 to the receiver as part of their investigation?

2 A. I haven't provided them. I believe they have them in
3 their possession.

4 Q. Have they seized those first mortgage documents from
5 you?

6 A. Yes.

7 Q. Now, I understand, sir, that you have attended at the
8 premises of the receiver's office in order to review
9 documentation that they have seized; is that correct?

10 A. Yes.

11 Q. Did you see copies of those first mortgages in the
12 papers that you reviewed?

13 A. No.

14 Q. Did you ask for copies of those first mortgages?

15 A. Not at that time I don't believe.

16 Q. Now, in respect to the mortgages, what do you mean by
17 mortgage? Was it a true first mortgage evidenced by a
18 document registered against a Title somewhere or was it
19 some other form of security documentation?

20 A. I believe it to be a first mortgage registered against
21 the subject property.

22 Q. In whose name?

23 A. The mortgage would be in favour of Base Finance.

24 Q. Sir, I'll refer you to paragraph 8 of your affidavit.

25 A. Mmm hmm.

26 Q. You've indicated that Base Finance has always held
27 security for the assignments of mortgages issued to

1 investors at the time of the Receivership Order of
2 first mortgage, or to use the Texas terminology, a deed
3 of trust on oil and gas leases in the County of Goliad,
4 Texas. Who drew up that deed of trust?

5 A. A solicitor by the name of Carl Bedgood.

6 Q. And who did he act for?

7 A. Base Finance.

8 Q. What are the properties that are covered by that deed
9 of trust?

10 A. I don't have that information here.

11 Q. Do you have a copy --

12 A. They were --

13 Q. Sorry?

14 A. They were oil and gas leases in Goliad, Texas in the
15 County of Victoria.

16 Q. How much was lent in respect to those oil and gas
17 properties in Goliad?

18 A. The loan that was outstanding?

19 Q. Yes.

20 A. The total loan?

21 Q. Yes.

22 A. The amount that the receiver has determined is
23 outstanding, which I believe was 120 million Canadian.

24 Q. When was that money given?

25 A. It was given to him over the course of 35 years.

26 Q. And was that only secured by the one deed of trust?

27 A. No. It was secured by different mortgages on different

1 properties over the years.

2 Q. At the time of the receivership, were any of the wells
3 on these oil and gas leases producing?

4 A. Not at the time of the receivership I don't believe.

5 Q. And why were they not producing?

6 A. Mr. Fox had obtained a mortgage commitment from a
7 private Chinese investment group, and he was waiting
8 for those funds to be advanced to continue the
9 production.

10 Q. What was the commitment from the Chinese group?

11 A. 50 million U.S.

12 Q. Has documentation about this been provided to or seized
13 by the receiver?

14 A. Yes.

15 Q. Was it provided to the receiver?

16 A. No. It was seized.

17 Q. And to whom were the Chinese group intending to advance
18 their money?

19 A. The Saddle Lake Energy LLC.

20 Q. Sir, I'm going to refer you to Exhibit 'C' of your
21 affidavit.

22 A. Do I have a copy of that here?

23 Q. Yes, you do. It's at the very back. The last page.

24 A. Okay. Got it.

25 Q. What is this document? It's dated July 8th, 2013 on
26 letterhead of LMP Petroleum Inc. to Lincoln Energy
27 Partners. What is this document?

1 A. It was a covering letter from the appraiser on the oil
2 and gas leases.

3 Q. Whose oil and gas leases?

4 A. Saddle Lake's.

5 Q. Why is Saddle Lake not mentioned in this?

6 A. I don't know.

7 Q. Why are the legal descriptions of the locations of the
8 leases or wells not mentioned in this?

9 A. They are. They were attached to the letter.

10 Q. Why did you not attach those?

11 MR. SMYTH: Well, I think we can answer that.

12 We were given a 40-page --

13 MR. BILLINGTON: I'm not asking you to answer the
14 question, Mr. Smyth. The witness is under examination.
15 I'm asking him the question.

16 MR. SMYTH: What was the question again?

17 Q. MR. BILLINGTON: Why did you not attach those --

18 A. They were attached.

19 Q. So you're saying your affidavit is incomplete?

20 A. I don't know. Why would my affidavit be incomplete?

21 Q. What good does this document do us to tell us whether
22 this relates to any of the wells that you're speaking
23 of?

24 A. It was an appraisal on the oil wells that we had
25 security against.

26 Q. Sir, there's nothing that says which the oil wells are
27 that are being appraised by this letter, is there?

1 A. Well, they were attached to the -- all of the
2 properties that were described in the appraisal.

3 Q. And you've not produced that appraisal in its entirety,
4 have you, sir?

5 A. The receiver has that appraisal in its entirety.

6 Q. This is dated July 8th, 2013. Have you had an
7 appraisal done since then?

8 A. No.

9 Q. How long have the wells in respect to the properties
10 that you invested through the deed of trust in Goliad,
11 Texas not been in production for?

12 A. I believe it's over a year now.

13 Q. And is it true, sir, that in July of 2015 they were not
14 in production?

15 A. I don't know.

16 Q. Is it true, sir, that in about July of 2015 they were
17 not in production and \$7 million was being sought from
18 Easyloan or from members of the Terrigno family to help
19 put them back into production?

20 A. No. It had nothing to do with these leases.

21 Q. What did that potential investment have to do with?

22 A. It had to do with the Pettus leases which was a
23 completely different project.

24 Q. And who holds the Pettus leases?

25 A. Who holds them? No one, other than the owners.

26 Q. And who owns the Pettus leases?

27 A. I don't know the exact name of the firm that held them.

1 We were dealing with the Pettus family.

2 Q. And where were these leases?

3 A. They were in Goliad, Texas.

4 Q. But they're not the ones that are referred to by the
5 one page --

6 A. Appraisal, no.

7 Q. -- appraisal, Exhibit 'C' to your affidavit?

8 A. No.

9 Q. Was any written material given to -- I'm sorry -- was
10 it the Terrigno family or Easyloan when you were
11 discussing the Pettus leases with them?

12 A. Terrigno family, Rocco Terrigno.

13 Q. Was any written material given to Rocco Terrigno then?

14 A. I don't recall. There was subsequent documentation
15 given to him later.

16 Q. And was any advancement made by Rocco Terrigno or his
17 family or his company?

18 A. Not in that particular project, no.

19 Q. Sir, I'm showing you a copy of the first report of the
20 receiver in respect to this action, and I'm drawing
21 your attention to Exhibit 'B' thereof. I'll give you a
22 moment to review that. It's several pages long. It
23 appears to me to be a \$30 million deed of trust in
24 Goliad, Texas. Is that the deed of trust that you
25 spoke of earlier in this examination?

26 A. I believe so.

27 Q. Take a moment to look through it. You've only looked

1 at the first page so far.

2 A. Yes, I believe that's correct. It's got Base Finance's
3 name on it.

4 Q. And it evidences or purports to evidence a \$30 million
5 advance made on or about December 2nd, 2014. Were
6 those funds advanced to --

7 A. They weren't advanced at that time. They were just
8 security against the loan that Mr. Fox in Saddle Lake
9 had with Base Finance.

10 Q. So that loan, had it been advanced prior to
11 December 2nd, 2014?

12 A. Yes.

13 Q. When was it actually advanced?

14 A. The entire loan was advanced over 35 years. We can go
15 back to 1984, '85. I'm not sure of the dates.

16 Q. And what security documentation did you have to support
17 the --

18 A. Mortgages.

19 Q. -- earlier advances? What security documentation did
20 you have to evidence those advances over the --

21 A. First mortgages against various oil and gas leases that
22 he owned at that time.

23 Q. He being whom?

24 A. Mr. Fox.

25 Q. And were they all held in the name of Saddle Lake
26 Energy LLC?

27 A. No, they weren't.

1 Q. What were the names under which they were held?

2 A. There is various companies that he had. Arcana
3 Resources, as I say, Renco Resources, different
4 companies.

5 Q. Do you have a list of those companies?

6 A. Yes, we do.

7 Q. Okay. I would ask you to undertake to provide us with
8 a list of all the companies to whom --

9 A. You have a list of all the companies, sir.

10 Q. The receiver has all of those?

11 A. Yes. You have all of that documentation.

12 Q. Okay. So you're saying that such documentation as
13 exists to evidence security for the advances, the
14 loans, over those prior 35 years will be found in the
15 hands of the receiver; is that correct?

16 A. They should be.

17 Q. Where did you obtain the money that was lent out to
18 Mr. Fox and his companies over those 35 years?

19 A. Various investors.

20 Q. And where did those investors reside?

21 A. In Canada, Calgary, different places.

22 Q. And how were the funds solicited from those investors?

23 A. As a first mortgage investment.

24 Q. And what was told to them about the nature of the first
25 mortgage investment?

26 A. What was told to them? That they had an interest in
27 the first mortgage that Base Finance held.

1 Q. And were they ever provided with a copy of the first
2 mortgage?

3 A. No.

4 Q. None of the investors ever were?

5 A. No.

6 Q. Were they ever told that this was in relation to
7 residential mortgages held in Alberta?

8 A. No.

9 Q. They were never told anything to that effect?

10 A. No.

11 Q. Were they ever told that they were investing in oil and
12 gas properties in the United States?

13 A. No.

14 Q. What written information was provided to them in order
15 to solicit their investments?

16 A. The investor received an irrevocable first mortgage
17 assignment from Base Finance against the first mortgage
18 that Base Finance held.

19 Q. Did Base Mortgage actually hold a first mortgage?

20 A. Base Finance actually held the first mortgage, yes.

21 Q. Sorry. Just to be clear then, Base Finance actually
22 held a first mortgage?

23 A. Yes.

24 Q. And are those first mortgages in the hands of the
25 receiver now?

26 A. Yes.

27 Q. So to be clear, when you're speaking of first mortgages

1 now, you're not referring to the deed of trust, which
2 was Exhibit 'B' to the first report of the receiver; is
3 that correct? You're speaking of some other document?

4 A. Can you repeat that question?

5 Q. To be clear, you're not referring to the deed of trust
6 dated December, 2014 that we just looked at, which was
7 Exhibit 'B' or Appendix 'B' to the first receiver's
8 report?

9 A. I'm not referring to the deed of trust in what regard?

10 Q. Well, it's dated December 2nd, 2014.

11 MR. SMYTH: Excuse me, sir. You are asking
12 him about over the 35 years.

13 MR. BILLINGTON: That's correct.

14 MR. SMYTH: And he said there were mortgages.
15 No. They wouldn't be the deed of trust because that
16 was 2014, but there were prior mortgages. That's the
17 evidence I believe he has given.

18 Q. MR. BILLINGTON: And such mortgages as existed, who
19 prepared those mortgage documents over those 35 years?

20 A. Various lawyers, legal firms in Oklahoma, Texas,
21 Louisiana.

22 Q. Did you ever report to the people who provided you with
23 these funds as to the status of their investments in
24 these oil and gas properties in the United States?

25 A. No.

26 Q. And why did you not do so?

27 A. It wasn't a requirement.

1 Q. It wasn't whose requirement?

2 A. Our requirement.

3 Q. Our being whom?

4 A. Base Finance.

5 Q. Did you ever suffer a loss in respect to any of these
6 investments?

7 A. I don't know how to answer that.

8 MR. SMYTH: I can't tell you how to.

9 Q. MR. BILLINGTON: Let me put it this way, sir.

10 A. I can't answer that question the way it's placed -- the
11 way it's worded.

12 Q. Did Base Finance ever make investments in these oil and
13 gas properties with investors' money from the persons
14 who you were previously referring to that was then
15 lost? For example, through Powder River?

16 A. Well, it wasn't lost. We had to obtain different
17 security at that time because of the bankruptcy of
18 Powder River.

19 Q. So had you invested some of your investors' money in
20 Powder River?

21 A. Yes.

22 Q. And it went through, as you say, bankruptcy. If I were
23 to suggest it went --

24 A. It went --

25 Q. -- through Chapter 11 proceedings, does that assist?

26 A. I'm not quite sure. It could have been.

27 Q. Okay.

1 A. But they went through what was called at that time a
2 hostile takeover, and then they were placed under
3 receivership. And so at that point in time we had to
4 then change our security.

5 Q. And what was the security changed from?

6 A. It went from the current oil and gas leases that we
7 were holding, the receiver actually took those
8 properties, sold them, and we then acquired them back
9 again from the buyer.

10 Q. And what did you pay to acquire them back?

11 A. Originally we had made an offer to purchase those
12 leases, I believe, for a million and a half, or Saddle
13 Lake made an offer, and paid them a \$30,000 deposit.
14 It was then later ascertained that Mr. Ehrman, who was
15 selling these leases, didn't have proper Title to them
16 and wasn't in the position to sell them. So Saddle
17 Lake went directly to the landowners, and we made a
18 deal with them and were subsequently able to put our
19 mortgage against those properties again.

20 Q. And how much did you pay in order to reacquire those
21 properties?

22 A. I can't give you an exact number on it.

23 Q. Can you give me an approximate number?

24 A. When you say pay to acquire the properties, we paid
25 landowners money, legal fees. Would you include that?
26 I'm not sure. Or is it just money that you're
27 referring to --

1 Q. It was part of the transaction to acquire these lands.
2 That's what I want to know.

3 A. It could have been in the area of about 3 to \$500,000.
4 I'm not sure.

5 Q. How much money had been paid to Powder River to invest
6 in these properties?

7 A. All of that money that I've just spoken to. They
8 borrowed all of that money to acquire the properties.

9 Q. And how much money was that?

10 A. As I say, I think between 300 and 500,000. I'm not
11 sure.

12 Q. So the initial payment to Powder River before they went
13 through whatever the bankruptcy proceeding in the
14 United States was was only 300 to \$500,000?

15 A. No, that's not correct.

16 Q. How much money was advanced to Powder River to make the
17 initial acquisition of these properties?

18 A. Again I'm only guessing. It's around 300 to 500,000.

19 Q. And was that advanced to Powder River by Base Finance?

20 A. It wasn't advanced to Powder River. It was payments
21 that Base Finance made on behalf of Saddle Lake Energy.

22 Q. My question, sir, is not about the subsequent
23 acquisition of these properties by Saddle Lake. It's
24 about the investment that went into Powder River to
25 acquire these properties in the first place?

26 A. What's the question?

27 Q. The question is how much money was paid to acquire the

1 interest in these properties by Powder River that was
2 financed by Base?

3 A. Well, those properties that Powder River had was the
4 culmination of all the years of borrowing money from
5 Base Finance. So you could say the entire loan except
6 for the last, I guess -- up until that time you could
7 say probably a hundred million dollars in order to
8 acquire those properties.

9 Q. So you initially paid through financing advanced to
10 Powder River approximately \$100 million for the
11 properties?

12 A. That wasn't advanced in a lump sum, sir.

13 Q. Well, I'm not --

14 A. It was monies that was advanced over the years.

15 Q. I'm not asking you if it was advanced in a lump sum.
16 I'm asking what the totals were that were advanced and
17 that you gave me an answer --

18 A. At that time I think it was about a hundred million.
19 It might have been that.

20 Q. And you say that company then went through some form of
21 bankruptcy process or restructuring?

22 A. Yes.

23 Q. There was a \$30,000 deposit that was paid to a
24 Mr. Ehrman?

25 A. Correct.

26 Q. And it turned out that was a mistake because he didn't
27 have Title to the properties?

1 A. Yes.

2 Q. And that you then went to the owners of these same oil
3 and gas properties and reacquired your interest upon
4 payment of somewhere between 300 and \$500,000?

5 A. Correct.

6 Q. Did you ever advise the investors that Powder River had
7 gone through some form of bankruptcy process or
8 restructuring in the United States?

9 A. No.

10 Q. Did you ever tell them that the approximately
11 \$100 million that had been paid out over the years had
12 been lost and an additional sum would have to be spent
13 in order to reacquire these properties from the owners?

14 A. No.

15 Q. Did you ever provide an explanation as to why
16 properties that you had invested \$100 million in over
17 time were now valued by the owners at only 300 to
18 \$500,000?

19 A. Who evaluated them at that?

20 Q. Well, you required those interests for that amount, so
21 it appears that the market evaluated them at that
22 amount?

23 A. Well, that's not correct. When he -- when we
24 repurchased the property, they were still appraised at
25 over a hundred million dollars.

26 Q. Do you have a copy of that appraisal?

27 A. You do, sir.

1 Q. And what is the date of that appraisal?

2 A. I don't know.

3 MR. SMYTH: We do have a -- are you talking
4 the original appraisal, Exhibit 'C'?

5 MR. BILLINGTON: No. I'm talking about the
6 appraisal that justified the initial investment in
7 Powder River of over a hundred million dollars paid out
8 over the years.

9 MR. SMYTH: Well, I have the full appraisal,
10 that we just attached exhibit -- the first page of
11 Exhibit 'C'. Do you want that?

12 Q. MR. BILLINGTON: Is that the appraisal upon which
13 you paid out the \$100 million over approximately 35
14 years?

15 A. That's not exactly correct.

16 Q. What is the appraisal?

17 A. That was based on appraisals on numerous oil and gas
18 leases over that period of time, and the appraisal that
19 you have in front of you there, that represents the
20 last properties that we have a security against as a
21 first mortgage and the evaluation of those properties
22 at that time.

23 Q. Okay. So you've just referred to an appraisal that I
24 have before me. I have before me Exhibit 'C' to your
25 affidavit of March 24th which is the one page?

26 A. That's just the letter -- covering letter. It's not
27 one page.

1 Q. But it's the only document that you chose to disclose?

2 A. Well, you have all of my documents, sir.

3 Q. Well, to be clear, sir, in your affidavit at
4 paragraph 8, you have very deliberately only produced
5 one page of that; have you not, sir?

6 MR. SMYTH: Yes. That was done on the advice
7 of counsel to show value of the security. One page was
8 sufficient. We have the entire appraisal here if you
9 want to review it. A copy of it.

10 Q. MR. BILLINGTON: Sir, the document that you've just
11 handed me, you say that that is the appraisal which as
12 of July 8th, 2013 provided Base Finance with the
13 assurance that its properties were worth approximately
14 \$112 million; is that correct?

15 A. Correct.

16 Q. And what use was made of this appraisal, sir?

17 A. It was used to support our loan that we had security
18 for our mortgage that we gave Mr. Fox and Saddle Lake
19 Energy.

20 Q. Who commissioned this appraisal?

21 A. I don't know if Mr. Fox obtained the appraisal. I
22 would presume he did. He probably would have had to
23 pay for it.

24 Q. In other words, you didn't commission the appraisal?

25 A. I didn't, no. I asked Saddle Lake to obtain the
26 appraisal for me.

27 Q. What percentage working interest was being obtained for

1 the investment that was made in these properties?

2 A. Saddle Lake would have had a hundred percent working
3 interest in the properties less royalty payments.

4 Q. And to whom were royalty payments being made?

5 A. The royalty payments would have been paid to the
6 landowners.

7 Q. I have reviewed this document, sir. It appears as
8 though there is utterly nothing in this to identify who
9 the landowners are. Is there anything that you can
10 show me that proves me wrong?

11 A. You have the documents, sir.

12 Q. Well, the document you've handed me in no way refers to
13 the identity of the landowners, unless I'm wrong and
14 I'll provide you an opportunity --

15 A. That's the appraisal of the properties. The mortgage
16 and the leases that we have mortgages against are in
17 our file, which you have.

18 Q. Now, by the mortgage, do you mean the \$30 million deed
19 of trust?

20 A. I mean the entire mortgage. The entire loan Mr. Fox
21 has.

22 Q. Sir, you have produced and did not have any documents
23 in your possession which in any way suggested that
24 there was any mortgage other than the \$30 million
25 document which is referred to as deed of trust; isn't
26 that correct?

27 A. No. Again you have those documents.

1 Q. And you didn't see those documents when you conducted
2 your review of the documents that were received by the
3 receiver, did you?

4 A. I didn't conduct a review of my documents. I was never
5 asked to do that.

6 Q. Well, you've attended at the receiver's office in order
7 to examine documents; have you not?

8 A. Different documents, yes.

9 Q. Sir, none of the documents that were seized from your
10 possession establish proof of ownership for the leases
11 in which you say investments were made?

12 A. You're not right there, sir. You're wrong. We have
13 mortgage documents. We have leases that were
14 registered by our solicitor Carl Bedgood. You have all
15 of those documents.

16 Q. I take it then, sir, you would feel that Carl Bedgood
17 would be in possession of copies of all of the proofs
18 of ownership?

19 A. I do not know that.

20 Q. Is there any reason that he wouldn't?

21 A. I don't know.

22 Q. Sir, the LMP Petroleum appraisal that you have handed
23 me dated July 8th, 2013, page 1 of which is Exhibit 'C'
24 to your affidavit, it refers to GP Petroleum. Who is
25 GP Petroleum?

26 A. It was a company that Mr. Fox had at the time.

27 Q. Sir, was GP Petroleum the lessee of these properties?

1 A. No. I don't believe at that time. I think it was just
2 an interim company that he used.

3 Q. He being whom?

4 A. Mr. Fox.

5 Q. And who were Lincoln Energy Partners?

6 A. I don't know. I don't know offhand.

7 Q. Do you have any relationship with them?

8 A. Not that I know of.

9 Q. The deed of trust dated December 2nd, 2014 is with
10 Saddle Lake Energy LLC. Do you know who controlled
11 Saddle Lake Energy LLC?

12 A. Brian Fox.

13 Q. Sir, through your counsel you have provided to me what
14 you say is the entire appraisal that was referred to in
15 the one-page letter, which is Exhibit 'C' to your
16 affidavit, and this contains a series of charts which
17 are paginated up to page 39 and then there are five
18 pages of maps attached to it after that page 39. Is
19 this the entirety of the appraisal that you say was
20 referenced by your Exhibit 'C'?

21 A. I believe so.

22 Q. Okay. Could we have that marked as an exhibit in this
23 examination, please. Exhibit 1.

24 MR. SMYTH: No objection.

25 MR. BILLINGTON: Thank you.

26 EXHIBIT 1 - the entire appraisal that
27 was referred to in the one-page letter,

1 Exhibit 'C' to Mr. Breitkreutz's
2 affidavit, and it contains a series of
3 charts which are paginated up to page
4 39 and then five pages of maps attached
5 to it after page 39

6 Q. MR. BILLINGTON: Sir, do you know why Base Finance
7 paid for legal fees of Brian Fox over the years?

8 A. He borrowed the money to do so.

9 Q. And whose money was he borrowing?

10 A. Base Finance's money.

11 Q. And when you say he borrowed the money, who exactly was
12 it that was borrowing the money?

13 A. Mr. Fox and his various companies.

14 Q. Did you know why he was borrowing money from you for
15 living expenses?

16 A. He may have been, yes.

17 Q. Did you ever tell your investors that their money would
18 be used to help fund his legal fees and living
19 expenses?

20 A. No.

21 Q. And why not?

22 A. Didn't believe it was a requirement.

23 Q. Sir, are you familiar with a company called Renard
24 Resources Inc.?

25 A. Yes.

26 Q. And would you agree with me that in 2003 Base Finance
27 had invested in Renard Resources Inc.?

1 A. Yes.

2 Q. And what happened to that company?

3 A. I don't know. We dissolved it, started another
4 company.

5 Q. Did they go through a proposal in bankruptcy?

6 A. I don't know at this time.

7 Q. Do you know if Base Finance filed a Proof of Claim for
8 \$13,313,392 in respect to Renard Resources Inc.?

9 A. I don't know. May have.

10 Q. And do you know what the properties were that were held
11 by Renard Resources Inc. in which Base had invested?

12 A. I don't know that right now, no.

13 Q. Were they the same oil and gas properties that are
14 dealt with by the \$30 million deed of trust?

15 A. I don't believe so.

16 Q. What properties were they, sir?

17 A. I can't tell you that without looking at the documents.

18 Q. And which documents is it that you would look at in
19 order to make that determination?

20 A. My mortgage security file.

21 Q. Are you aware whether assets of Renard Resources Inc.
22 were transferred into Powder River Basin Gas Corp.?

23 A. I believe they were.

24 Q. And it was that Powder River corporation which went
25 through some form of bankruptcy process? I understand
26 it to be a Chapter 11 proceeding, but I understand
27 you're not quite certain, but it was some sort of

1 bankruptcy process in the United States?

2 A. Yes. Caused by the hostile takeover.

3 Q. And, sir, did you become aware that there were
4 proceedings taken by the SEC, the United States
5 Security Exchange Commission, against Brian Fox in the
6 course of the Powder River matters?

7 A. I became aware of that, yes, at the time.

8 Q. And what was it that you became aware of in respect to
9 those proceedings?

10 A. Mr. Fox indicated that during the course of the hostile
11 takeover the -- one of the principals, I guess, of the
12 companies that was doing the hostile takeover had
13 accused him of wrongdoing.

14 Q. And were you aware that the SEC ended up sanctioning
15 him? That is, finding him guilty of an offense?

16 A. No, I wasn't.

17 Q. What was your understanding of the disposition of that?

18 A. My understanding was that all of those charges were
19 dropped subsequently. We did have some documentation
20 in that regard in our file.

21 Q. Sir, would you agree that Base paid for Mr. Fox's legal
22 bills during that fight?

23 A. Yes. I think we helped him with that, yes.

24 Q. Sir, were you aware that after the Powder River events
25 that Brian Fox returned to Canada and that an
26 investigation was continued by the Alberta Securities
27 Commission against him and his companies Renco, Renard

1 and Powder River?

2 A. No, I was not aware of that.

3 Q. Were you aware that Base helped to pay the legal fees
4 for those inquiries in respect to --

5 A. Paid to who?

6 Q. To Brian Fox to support him in responding to those
7 inquiries?

8 A. Wouldn't be aware of that, no.

9 Q. So Powder River Basin Gas Corp. acquired some
10 properties from Renard Resources; is that correct?

11 A. I believe so. They acquired all the properties from
12 Renard Resources or his companies at that time in order
13 to go public.

14 Q. And do you know what they paid for those properties?

15 A. No, I don't. That would have been, I believe, an
16 internal thing between Powder River and Renco or
17 whoever.

18 Q. Okay. And do you know whether Base provided financing
19 to Powder River to acquire those properties?

20 A. We would have, yes. It was merely one company then
21 taking over for another.

22 Q. And --

23 A. And acquiring the debt that Mr. Fox through his
24 companies had accumulated.

25 Q. You acquired the debt that Mr. Fox had accumulated?

26 A. Yes.

27 MR. SMYTH: No. He said he acquired the debt.

1 The companies acquired the debt that Mr. Fox had
2 accumulated is how I understood things.

3 Q. MR. BILLINGTON: Let me just ask you just to
4 clarify. Who acquired which debts, sir?

5 A. Powder River would have acquired the debt of -- that he
6 had with Base Finance.

7 Q. So Powder River, do I understand you to mean that
8 Powder River Basin Gas Corp. would have assumed
9 liability for the debt that he had incurred?

10 A. Yes.

11 Q. And what agreement did Base Finance have with Powder
12 River Basin Gas Corp. to that effect?

13 A. I believe we had documentation to that effect that they
14 were assuming all of the liabilities of Mr. Fox and his
15 companies.

16 Q. And what assets did they obtain along the way for that?

17 A. I don't know that at this time. All the assets that he
18 had went into Powder River.

19 Q. And by all the assets that he had, do you mean Mr. Fox?

20 A. Yes.

21 Q. Through --

22 A. Through his companies. Those properties which Base
23 Finance had a mortgage against.

24 Q. Would you agree with me, sir, that Powder River Basin
25 Gas Corp. changed its name to Powder River Petroleum
26 International Inc. in December of 2007?

27 A. Would I agree to what?

1 Q. That they changed their name from Powder River Basin
2 Gas Corp. to Powder River Petroleum International Inc.?

3 A. If they did, they did. I have nothing else that I can
4 say.

5 Q. Do you know, sir, whether Powder River Petroleum
6 International Inc. went through a court appointed
7 receivership in July of 2008?

8 A. I believe that was due to the hostile takeover, yes.

9 Q. In any event, Powder River Petroleum International Inc.
10 at one point held six leases in Goliad, Texas on oil
11 and gas properties; is that correct?

12 A. No.

13 Q. Did they ever acquire six leases in Goliad?

14 A. Well, the six leases would have been part of the
15 overall package, yes.

16 Q. Okay. And then were those six leases then transferred
17 to Mr. Ehrman?

18 A. No. Mr. Ehrman acquired them through the receivership.

19 Q. Okay. So he obtained those through --

20 A. He obtained those through the receivership. We
21 subsequently -- then he contacted Mr. Fox and said he
22 would sell those -- because he was aware of the
23 situation. He wanted to sell the leases back to
24 Mr. Fox, and plus he wasn't in a position to do that.
25 That's where we had then registered a \$50 million
26 mortgage and he wasn't in a position, of course, to
27 sell them, so then we went directly to the landowners.

1 That's why that \$50 million lease was null and void.

2 Q. Did you ever advise the investors that you had invested
3 in a \$50 million mortgage which was null and void?

4 A. No.

5 Q. And why not?

6 A. Because we were changing it at the time, acquiring the
7 proper mortgaging that we needed.

8 Q. Did you continue soliciting investments from investors
9 while you were going through that process?

10 A. Probably.

11 Q. Sir, is it the case that Base Finance at the time of
12 the receivership held a bank account at the Royal Bank
13 of Canada?

14 A. Yes.

15 Q. And it had approximately \$1,080,000 in it at the time
16 that the Alberta Securities Commission froze that
17 account?

18 A. Is that a question or --

19 Q. Yes.

20 A. I believe that -- I'm not sure of the number.

21 Q. Okay. Approximately that amount?

22 A. Approximately.

23 Q. Okay.

24 A. It was over a million dollars. I know that.

25 Q. It was somewhere between 1 and \$1.1 million?

26 A. Could have been.

27 Q. Okay. And, sir, how long had Base held that account at

1 the Royal Bank of Canada?

2 A. I'm not sure how long. Maybe three or four years. I'm
3 not sure.

4 Q. Okay. Base had conducted its financing through the
5 Bank of Montreal prior to that time; is that correct?

6 A. That's correct.

7 Q. And why was it that the account at the Bank of Montreal
8 was switched over to the RBC?

9 A. The Bank of Montreal asked us to close our account.

10 Q. And what reason did they give for asking you to close
11 the account?

12 A. They didn't give a reason.

13 Q. Did you ever receive any advice or any indication that
14 they considered that the use of the account by Base
15 Finance was viewed as being inappropriate by the Bank
16 of Montreal?

17 A. Their documentation to us indicated that -- I'm not
18 clear of the wording, but I do believe we have that in
19 our file also, and that the business dealings or
20 whatever in the account were not in their -- in their
21 favour and weren't interested in carrying our account
22 any longer.

23 Q. Did you ever discuss with them what they meant by these
24 are not in their favour?

25 A. We tried to but they wouldn't discuss it.

26 Q. Did you ever report that to your investors that the
27 Bank of Montreal had closed their account because they

1 viewed them as not being in their favour?

2 A. No.

3 Q. And why not?

4 A. Didn't feel it was necessary.

5 Q. Did you ever report to RBC that you were opening an
6 account with them because the Bank of Montreal had
7 closed their account on the basis that it was viewed by
8 them as not being in their favour?

9 A. No.

10 Q. Did you ever advise the receiver, sir, that you didn't
11 know how much has been invested by Base Finance in
12 Mr. Fox and his related companies but that it was in
13 the range of 30 million to \$80 million?

14 A. Could you repeat that question?

15 Q. Did you ever advise the receiver that you weren't
16 certain of how much had been invested by Base Finance
17 in Mr. Fox and his companies but that it was in the
18 range of 30 million to \$80 million?

19 A. May have. I'm not sure.

20 Q. What is your estimate of how much money was lost when
21 Powder River Petroleum International Inc. went through
22 its bankruptcy proceedings in the United States?

23 A. I don't believe we lost anything really.

24 Q. And why is that?

25 A. We were able to get our properties back.

26 Q. And you viewed those properties as being of the same
27 value as they were prior to the bankruptcy proceedings

1 of Powder River; is that correct?

2 A. I viewed them as being worth what they were appraised
3 at in 2013.

4 Q. What income was earned from those properties after they
5 were acquired from Powder River?

6 A. We had some income come. I'm not sure of that exactly.
7 Might have been -- it was a very small amount because
8 he started to produce one lease. Then he obtained the
9 mortgage commitment from the Chinese group. We decided
10 at that time we would wait until they would advance our
11 funds, and we weren't going to advance any more funds
12 in that regard until we got a partial payout from that.

13 Q. Who were the principals of the Chinese group that you
14 were dealing with?

15 A. That I don't know.

16 Q. And why do you not know?

17 A. Because I was never privy to that documentation. All
18 we got was a confirmation from one of the principals, I
19 believe, as to the date of payment that we should
20 expect payment that they would be depositing in our
21 account. That documentation you have.

22 Q. And when was that payment to have been made?

23 A. We were anticipating it to be paid sometime, if my
24 memory serves me correctly, in June or July.

25 Q. Of 2015?

26 A. That's correct.

27 Q. And did you ever come to an understanding of why it was

1 not paid in June or July of 2015?

2 A. Yes. Subsequently we did. The Chinese group couldn't
3 get their money out of China. From what we understood,
4 through our investment group is that the Chinese
5 government froze all funds going out of the country at
6 that time.

7 Q. To this particular group or in general?

8 A. In general. To everyone.

9 Q. To all international investments?

10 A. Yes. They froze all the accounts. This was our
11 understanding.

12 Q. Sir, if I were to suggest that in the past seven years
13 that Base Finance had received deposits from investors
14 of approximately \$137 million, does that sound about
15 right to you?

16 A. I don't know. I can't hazard a guess on that.

17 Q. Are you aware of in that period of time payments being
18 made by Base to yourself in the amount of
19 \$1,152,268.75?

20 A. No.

21 Q. Do you have any estimate of how much you have taken out
22 of Base in that period of time?

23 A. No.

24 Q. Who is GP Energy Inc.?

25 A. It was a company we formed in order to, I guess,
26 receive funds from production initially.

27 Q. And that was from production where?

1 A. From the oil and gas leases in Texas. The funds were
2 -- from production were going to be deposited directly
3 to that account and then dispersed through Base Finance
4 to the investors.

5 Q. And what documentation do you have to evidence that
6 agreement?

7 A. I don't know that I have any documentation to that.

8 Q. Was any documentation ever created to evidence that
9 agreement?

10 A. No.

11 Q. And why not?

12 A. We didn't proceed with that.

13 Q. Are you aware of payments having been made to GP Energy
14 Inc. by Base of \$61,940?

15 A. No. I -- I'd have to look at that, and I don't know
16 why. I don't think they were paid to GP Energy. They
17 wouldn't have been.

18 Q. Are you familiar with a prior numbered company by the
19 name of 334103 Alberta Ltd.?

20 A. Yes. That's my company.

21 Q. And is it now the company known as GP Energy Inc.?

22 A. No. Now it's known as the numbered company.

23 Q. Was it --

24 A. As I say, GP Energy, we found that because of the
25 Chinese commitment, we weren't going to go down that
26 road, so we changed it back and dropped that.

27 Q. So was your numbered company formerly known as

1 GP Energy Inc.?

2 A. No. It was just a name we created in order to receive
3 funds from Saddle Lake Energy. As I say, when that
4 didn't happen, we didn't need that company, so I
5 reverted it back to my numbered company.

6 Q. Who is Ldi Realty Western Ltd.?

7 A. An investor.

8 Q. And are you aware of funds being paid out to Ldi Realty
9 Western Ltd. in the sum of \$1,297,178?

10 MR. SMYTH: When?

11 Q. MR. BILLINGTON: Over the course of the last seven
12 years by Base Finance?

13 A. I'm not aware of that number, no.

14 Q. Do you know who the principal or principals of Ldi
15 Realty Western Ltd. are?

16 A. I believe it was Lyle Hogaboam.

17 Q. And what's the nature of your relationship with Lyle
18 Hogaboam?

19 A. He was an investor and also a -- he was a client, an
20 investor.

21 Q. I'm aware of records indicating the sum of \$483,590
22 being paid out directly to Lyle Hogaboam by Base
23 Finance over the course of the last seven years. Do
24 you know why those sums would have been paid apart from
25 any that were paid from Ldi Realty Western Ltd.?

26 A. Probably as a referral fees.

27 Q. And referral earned on what basis?

1 A. Referring an investor or bringing in investment money.

2 Q. Okay. Sir, in the course of the last seven years, it
3 appears from the banking records of Base Finance with
4 both the BMO account and the RBC account that
5 \$1,478,519.14 of cash was withdrawn from the Base
6 Finance account. As I say, that's the account of both
7 BMO and RBC. There appears to be no record of how
8 these funds were used once withdrawn from the account.
9 Do you know what use was made of those cash withdrawal
10 funds?

11 MR. SMYTH: Withdrawals by who?

12 MR. BILLINGTON: Well, from the account.

13 MR. SMYTH: Cash withdrawals.

14 Q. MR. BILLINGTON: Cash withdrawals.

15 A. I believe those cash withdrawals would have been
16 charged to the borrower. That would have been paid to
17 Mr. Fox.

18 Q. Would you have had a record of who withdrew and what
19 the purposes were for the cash withdrawals --

20 A. Yes, we would have.

21 Q. -- from the bank account?

22 A. Yes.

23 Q. And if that exists, would it be in the hands of the
24 receiver?

25 A. Yes.

26 Q. Sir, I'm going to refer you to paragraph 3 of your
27 affidavit.

1 A. Yes.

2 Q. You say Base Finance Ltd. is a private investment
3 company which operated successfully since 1984 without
4 any losses to its clientele until September 29th, 2105.
5 I presume you meant actually 2015; is that correct?

6 A. Yes.

7 Q. But let's go to the statement that it was operated
8 successfully without any losses to its clientele.
9 After the review we've conducted today, wouldn't you
10 agree with me, sir, that that was without any losses
11 that were reported to its clientele?

12 A. There were no losses to its clientele.

13 Q. Sir, would you agree with me that the investment in
14 Powder River was loss and that you had to pay further
15 money to reacquire the assets that ought to have been
16 secured in Powder River?

17 A. No.

18 Q. Without having made those payments, would there have
19 been any residual investment left in Powder River?

20 A. Probably not.

21 Q. Sir, in respect to the Renard company, that is Renard
22 Resources Inc., would you agree that Base filed a
23 thirteen-and-a-half million dollar Proof of Claim in
24 respect of that?

25 A. I don't know that exactly. I'd have to look at my
26 documents. If -- if you have that, that may be
27 correct.

1 Q. If I were to suggest -- well, let's assume a figure
2 within approximately a million dollars of that
3 \$13.5 million amount, would you agree with that?

4 A. Could be.

5 Q. So --

6 A. I can't say for certainty, no.

7 Q. In excess of \$10 million?

8 A. I can't say. I'd have to look at my documents.

9 Q. In excess of \$5 million?

10 A. Again I don't know.

11 Q. You'd agree that Base filed a Proof of Claim in respect
12 to Renard Resources Inc.?

13 A. I believe so.

14 Q. And what is your best estimate as to the amount of that
15 Proof of Claim?

16 A. I don't know what it is.

17 Q. \$5?

18 A. I don't -- I think it would be more than that, yes.

19 Q. More than a million?

20 A. Yes, I would think so.

21 Q. More than 4 million?

22 A. Again I don't know.

23 Q. So we have an investment of more than a million
24 dollars, which our records indicate is approximately
25 13.5 million, and you don't have a sense as to how much
26 more than a million dollars it was?

27 A. I can't say to you, sir, with any certainty as to the

1 number.

2 Q. Okay. Would you agree with me, sir, that no recovery
3 was received in respect of that Proof of Claim?

4 A. No.

5 Q. What recovery was received in respect to the Proof of
6 Claim?

7 A. I'm not sure if there was any recovery regarding the
8 Proof of Claim. Again I don't know.

9 Q. The amount of the Proof of Claim was lost to Base,
10 wasn't it? Sir?

11 A. No.

12 Q. Was that loss ever reported to investors?

13 A. What loss are you referring to?

14 Q. The amount that wasn't recovered from the Proof of
15 Claim in Renard Resources?

16 A. We had no -- we sustained no loss because of that.

17 Q. What was the recovery that you received after the Proof
18 of Claim?

19 A. I don't know.

20 Q. So you don't know how much the Proof of Claim was for,
21 other than it was for more than a million, and you
22 don't know what the recovery was?

23 A. No, I don't.

24 Q. Sir, once the Chinese government froze all
25 international investment, which as I understand you
26 said was in about June or July of 2015, what other
27 efforts were made to obtain financing through Saddle

1 Lake's operations?

2 A. Mr. Fox was attempting to get financing elsewhere
3 through various companies. I don't recall their names,
4 but we would have that information in our file.

5 Q. At paragraph 9 of your affidavit you say that Brian
6 Fox, Saddle Lake and you were in the process of raising
7 investment capital. What efforts were you making?

8 A. I was attempting to remortgage my own properties.

9 Q. And what do you mean by your own properties? Are those
10 Base Finance properties?

11 A. No. My own property, my personal property.

12 Q. And which personal properties were you trying to
13 remortgage?

14 A. Specifically I was trying to remortgage 7 --
15 735-55th Avenue South West.

16 Q. Yes. And whose property is that?

17 A. My property.

18 Q. Held in your name personally?

19 A. I think so. My name or my wife's name. I'm not sure.

20 Q. And what of 724-55th Avenue South West, were you trying
21 to remortgage that?

22 A. Yes. It was involved in that.

23 Q. What of 728-55th Avenue South West?

24 A. Not at that specific time, no.

25 Q. What of 63 Suncastle Bay South East, Calgary?

26 A. That's my wife's residence.

27 Q. Were you trying to remortgage that?

1 A. No.

2 Q. What of 27 Ceduna Park South West, Calgary?

3 A. No. That's not my property.

4 Q. Not your property. Okay. Sir, would you agree with me
5 that the Ceduna Park property is Susan Way's house?

6 A. Yes.

7 Q. And what is Base's relationship with Susan Way?

8 A. She's our secretary.

9 Q. And would you agree, sir, that Base paid for Susan
10 Way's Ceduna Park house?

11 A. I'd agree we helped her buy it.

12 Q. And on what basis?

13 A. We took back a caveatable mortgage interest.

14 Q. And how much was the value of the assistance you
15 provided to her in obtaining that property?

16 A. I don't know.

17 Q. If I were to suggest that you paid Susan Way, or on
18 behalf of Susan Way, over the course of the last seven
19 years \$717,626.88, does that sound appropriate?

20 A. No.

21 Q. How much do you think you've paid to her or advanced by
22 way of assistance to her?

23 A. I don't know. You asked me if I thought that was
24 appropriate. I don't. I don't know the number, but it
25 doesn't sound right to me.

26 Q. Do you know how much Base has paid to Susan Way or on
27 her behalf in that time?

1 A. Well, she received a monthly paycheque.

2 Q. Would you agree that Base paid \$325,000 on May 31st,
3 2010 through your lawyer's trust account in respect to
4 that property at 27 Ceduna Park South West?

5 A. I don't know.

6 Q. Are you collecting any rental or any sort of payment
7 from Susan Way in respect to that property?

8 A. No.

9 Q. And why not?

10 A. We didn't have an agreement as such with her.

11 Q. Were the investors ever advised that they were
12 providing their investment funds by way of a gift to
13 Susan Way for that purpose?

14 A. It was no gift.

15 Q. Well, the money has been paid. Is there any security
16 to evidence that she has to repay it?

17 A. I believe we do have security, yes.

18 Q. And is there any effort made to collect payments of
19 interest or principal in respect to that security?

20 A. Not at this time, no.

21 Q. And why not?

22 A. Because it's her property and we never had that type of
23 an agreement with her. We had a -- for the balance I
24 think that Base Finance assisted her with, we had a
25 caveatable interest on her property.

26 MR. BILLINGTON: I see it's quarter-to-twelve. Why
27 don't we take a ten-minute break right now.

1 MR. SMYTH: Okay.

2 (ADJOURNMENT)

3 Q. MR. BILLINGTON: Sir, since the Proof of Claim was
4 filed in Renard Resources Inc., what revenue did Base
5 Finance earn from mortgage payments, or for that
6 matter, oil and gas revenues?

7 A. Can you just backup? What are you referring to?

8 Q. Well, you established earlier before that Base Finance
9 filed a Proof of Claim in respect to Renard Resources
10 Inc.?

11 A. Yes.

12 Q. And I'm wondering, since that time what revenues has
13 Base earned from mortgage payments?

14 A. I don't know. I'd have to look at my files.

15 Q. And if your files don't disclose any mortgage payments,
16 then you'd agree that there was no mortgage payments
17 that were not disclosed by your files?

18 MR. SMYTH: Well, let's cross that bridge when
19 we get there. Are you asking for an undertaking?

20 Q. MR. BILLINGTON: No. I'm wanting to know, sir, are
21 your records entirely those of the files which are in
22 the hands of the receiver? In other words, there is no
23 other records that you would have cause to examine?

24 A. I have no other records other than the records that you
25 have.

26 Q. Okay. Are you aware of whether there was substantial
27 revenues received from persons to whom mortgage funds

1 had been advanced since that Renard Proof of Claim?

2 A. I don't follow your question.

3 Q. So you've solicited investments from the various
4 investors to go into first mortgages?

5 A. Yes.

6 Q. And the period of time we're talking about is around
7 the time that you filed the Proof of Claim with Renard
8 Resources and after. When you advanced in mortgages,
9 one would expect that the owners of the properties are
10 going to be making payments on those mortgages
11 resulting in revenues coming back to Base Finance?

12 A. Yes.

13 Q. Did you receive substantial mortgage payments back from
14 those owners after the time in which you filed the
15 Proof of Claim in Renard Resources?

16 A. I don't know that. I would have to look at my
17 documents.

18 Q. Okay. Did you receive substantial oil and gas revenues
19 from any of the properties in Texas or Oklahoma or
20 Louisiana after that time?

21 A. Again I would have to look at my records.

22 Q. So if you were investing the funds in first mortgages,
23 I'm curious as to how it is that these investments did
24 not come out whole in any kind of bankruptcy process,
25 whether it's a Chapter 11 or Chapter 7 in the United
26 States or any other kind of process. Do you know why
27 that would be?

1 A. No.

2 Q. I asked you some questions earlier about the nature of
3 your relationship with Brian Fox. I'll show you an
4 affidavit from Brian Fox which he has sworn in separate
5 but related proceedings, and it is in Action
6 1501-12147. It's an affidavit he swore on March 8th,
7 2016. I'll read you a portion of this, and then I'll
8 give you a copy of that affidavit so that you can
9 review it.

10 MR. SMYTH: Can we have a copy before you read
11 it? It might make it easier.

12 Q. MR. BILLINGTON: I'll let you read the affidavit
13 right now. It's 14 paragraphs long and there's
14 attachments which are also in there. Go ahead and read
15 it right now.

16 A. What specific questions do you have on this?

17 Q. I'll have questions for you as soon as you and your
18 lawyer are finished reading it. And he's referred to
19 three exhibits. You have the right to examine those
20 three exhibits.

21 Sir, in respect to this affidavit, Mr. Fox
22 identifies a property in Strathmore. Are you familiar
23 with that property?

24 A. Yes.

25 Q. And is that owned by Base?

26 A. Yes.

27 Q. And what do you say in respect to Mr. Fox's statement

1 that he's been making the payments on it?

2 A. He hasn't made any payments on it. He's paid taxes
3 from time to time, but as far as making payments, none
4 were received. Base Finance held that property in --
5 as additional security to his other borrowings.

6 Q. At paragraph 5 Mr. Fox -- and this is the same Brian
7 Fox with whom you had placed investments over the
8 course of several decades now; is it not?

9 A. Yes.

10 Q. He says that he is informed and he believes that Arnold
11 Breikreutz and Base Mortgage & Investments Ltd. and
12 Base Finance Ltd. and 334103 Alberta Ltd. are parties
13 to a Ponzi scheme that involves almost 300 investors
14 and in excess of \$122 million of funds that were
15 advanced and now lost. He also says immediately after
16 that, (As Read)

17 I'm also informed and believe that
18 although the investors believed they
19 were investing in Alberta mortgages and,
20 in fact, there was only one Alberta
21 mortgage that existed, and that mortgage
22 was filed on the lands once they were
23 fraudulently transferred and converted
24 to 334103 Alberta Ltd. and Arnold
25 Breikreutz, Base Mortgage & Investment
26 Ltd. and Base Finance Ltd.

27 That is paragraph 5. What do you say in respect to

1 Mr. Fox's allegations?

2 A. They're untrue, totally.

3 Q. Was there more than one Alberta mortgage?

4 A. Yes.

5 Q. And where is that Alberta mortgage --

6 A. I don't know. I'd have to look at my documents.

7 You're talking about 35 years.

8 Q. How many valid Alberta mortgages does Base Finance hold
9 as of the date on which the ASC froze its account?

10 A. I believe we had one Alberta mortgage at that time.

11 Q. Have you ever discussed with Mr. Fox his concerns about
12 whether Base was running a Ponzi scheme?

13 A. No.

14 Q. Do you recall being interviewed by a representative of
15 the receiver, Sarah Hawco, on or about October 19th,
16 2015 in this matter?

17 A. May have been, yes.

18 Q. And do you recall at that time discussing the deed of
19 trust for the oil and gas properties in Goliad, Texas?

20 A. We may have.

21 Q. And do you recall telling her at that time that that
22 deed of trust was worthless?

23 A. No.

24 Q. Do you recall telling her at that time that for some
25 period of time payments that had been solicited for
26 investors were not going into mortgages but rather they
27 were being used to keep up interest payments to other

1 investors?

2 A. Mr. Fox borrowed money to make payments, yes.

3 Q. And I'm speaking not only of Mr. Fox, but I'm speaking
4 of investors in Base Finance generally. Do you recall
5 telling her that payments were not being used to invest
6 in mortgages but rather they were being used to keep up
7 interest payments to other investors?

8 A. I don't recall that.

9 Q. Is that the case that funds would be solicited from
10 some investors in order to be applied towards the
11 payments to other investors?

12 A. Mr. Fox borrowed money in order to make payments from
13 time to time, yes.

14 Q. Mr. Fox borrowed money from whom?

15 A. Base Finance.

16 Q. In order to make payments to whom?

17 A. To investors and to the various people he owed money
18 to.

19 Q. So you were aware that Mr. Fox was borrowing money
20 through Base Finance and its investors in order to make
21 payments to Base Finance and its investors?

22 A. Can you repeat that question?

23 Q. You were aware that Mr. Fox was borrowing money from
24 Base Finance and its investors in order to make
25 payments to Base Finance and its investors?

26 A. Yes.

27 Q. I'm going to take you to an affidavit which was sworn

1 by Vi Pickering of the Alberta Securities Commission,
2 and I have a copy of it here for your review.

3 MR. SMYTH: I think we might have that.

4 MR. BILLINGTON: Okay. This is an affidavit sworn
5 on September 28th, 2015.

6 MR. SMYTH: September 28th, 2015, is that the
7 one?

8 MR. BILLINGTON: September 28th, 2015, that's
9 correct.

10 MR. SMYTH: Again our copy is somewhat marked
11 but --

12 Q. MR. BILLINGTON: That's fine. I'll take you, sir,
13 to paragraph 4.2 which is on the first page of this,
14 specifically paragraph 4.2.2.

15 A. Yes.

16 Q. She gives a background and she indicates that the RBC
17 investigator had contacted you, referred to as
18 Breitkreutz, a short time ago and was provided the
19 following information. And then we skip down to 4.2.2,
20 (As Read)

21 Base Finance Ltd. had approximately 100
22 mortgages that were secured on Title.

23 A. That's not correct that statement.

24 Q. It is not correct?

25 A. No.

26 Q. What would be a correct statement?

27 A. That we had done hundreds of mortgages, period.

1 Q. When did you first see the affidavit of Vi Pickering of
2 September 28th, 2015?

3 A. I guess around that time.

4 Q. Did you ever take steps to correct that statement or to
5 refute it?

6 A. Yes. I corrected the statement to my solicitor.

7 Q. Did you ever file an affidavit or send anything to the
8 Alberta Securities Commission to contradict this?

9 MR. SMYTH: He was examined by the Securities
10 Commission in early January, and I believe, although we
11 don't have a transcript, that they covered that point.

12 Q. MR. BILLINGTON: Okay. And between the time of
13 this affidavit on September 28th, 2015 and that
14 examination they conducted, did you ever send anything
15 to the Securities Commission to contradict this
16 statement?

17 A. I don't believe so.

18 Q. I'll take you to paragraph 11 of Ms. Pickering's
19 affidavit, and specifically to paragraph 11.1.2. Take
20 a moment to review paragraph 11 and let me know when
21 you've done so, please.

22 A. Okay.

23 Q. Was the statement correct that very little brokering
24 had occurred since 2009 and for the past two years no
25 brokering had occurred because of plans for retirement?

26 A. Yes.

27 Q. And by brokering, what did you mean?

1 A. Brokering in -- I broker a mortgage for an individual
2 and place it with someone else.

3 Q. And by I, you meant you through Base Finance?

4 A. I meant through Base Mortgage.

5 Q. Through Base Mortgage? Okay.

6 A. The broker.

7 Q. And any mortgage brokering occurring through Base
8 Finance?

9 A. No.

10 Q. Okay. Any new mortgages being solicited or obtained in
11 the past two years then by either Base corporation?

12 A. Not by Base Mortgage.

13 Q. Or Base Finance?

14 A. Solicited?

15 Q. Yes. Or obtained?

16 A. I don't think so.

17 Q. Okay. Thank you. Sir, earlier in your examination
18 today you mentioned a meeting with Rocco and I believe
19 Mike Terrigno, which occurred at some point I believe
20 and you suggested it was June or July of 2015. I may
21 stand corrected on the date. Do you recall that?

22 A. Not that date.

23 Q. What date do you recall meeting with them?

24 A. I think around -- it could have been '14.

25 Q. 2014?

26 A. Yeah.

27 Q. 2014? Okay. And what was the purpose of that

1 discussion again please?

2 A. We were looking to raise money -- Mr. Fox and I were
3 looking to raise money on the Pettus lease.

4 Q. And where is the Pettus property again?

5 A. It's in Texas.

6 Q. In Texas?

7 A. Yes.

8 Q. And did you at that point give either of the Terrignos
9 that you were meeting with the copy of the \$30 million
10 deed of trust for the properties in Goliad, Texas?

11 A. No. It had nothing to do with that.

12 Q. If I were to suggest that that is what you discussed
13 and that you gave that document to them because that
14 was the purpose of your discussion, does that refresh
15 your memory?

16 A. No, that's not correct.

17 Q. Sir, do you have ongoing business interests in the
18 United States?

19 A. None other than what we have here.

20 Q. Do you have ongoing interests elsewhere outside of
21 Canada?

22 A. No.

23 Q. Did you ever have any business interests that would
24 have taken you to Spain to recover an amount?

25 A. No.

26 Q. Did you ever go to Spain?

27 A. Yes.

1 Q. On business?

2 A. Yes.

3 Q. And what was the nature of that business?

4 A. Mr. Fox and I went to Spain and -- trying to
5 investigate the possibilities of him being able to get
6 a loan.

7 Q. And what was the purpose of that loan to be for?

8 A. In order to refinance his oil and gas projects to pay
9 Base Finance out.

10 Q. And when did that occur?

11 A. I don't know specifically. Last year sometime.

12 Q. Sometime in --

13 A. Prior to our account being frozen.

14 Q. Sometime in 2015 before the account was frozen?

15 A. Yes.

16 Q. And did he succeed in obtaining that financing?

17 A. No, he didn't.

18 Q. Did you discuss with him why that was necessary to
19 obtain that financing?

20 MR. SMYTH: Discuss with who?

21 Q. MR. BILLINGTON: Mr. Fox.

22 A. Certainly would have because he was looking -- because
23 of the Chinese deal not coming through, we were looking
24 at any and all alternatives to pay us out.

25 Q. Well, do you know when it was that China put a
26 temporary moratorium on increasing its quotas for
27 foreign -- for external investment?

1 A. No. I was informed by that by two of my investors that
2 I had lunch with subsequently after that, and one of
3 them informed me -- Mr. Leslie Lis informed me that he
4 had checked on the Internet, I believe, and had
5 discovered that that was probably the reason why the
6 Chinese couldn't advance their mortgage because the
7 funds were frozen. That information I got from Leslie
8 Lis and Bill Janman, both customers of mine.

9 Q. So that was speculation on their part I take it?

10 A. Well, he didn't believe it was speculation. He said
11 that that was evidenced by -- in the Internet.

12 Q. And the Internet advised that there was a five-month
13 moratorium commencing on September 5th, 2015 on an
14 increase in external investment quotas; is that
15 correct?

16 A. I don't know that.

17 Q. So you never found out and did the Chinese ever tell
18 you why it was that they didn't proceed?

19 A. I don't know if Mr. Fox ever determined that.

20 Q. And is it true then that up until September 5th, 2015,
21 the Chinese looked like they were a live possibility
22 for this investment?

23 A. Up until what date?

24 Q. September 5th, 2015?

25 A. I don't believe so because again I think we had
26 correspondence from them that they were going to be
27 funding in June or July I believe of '15. And then

1 there was no more -- according to Mr. Fox, there was no
2 more communication to him.

3 Q. Are you familiar with these individuals or did you ever
4 identify to the Terrignos or Easyloan Corporation that
5 their money would be going to the following
6 individuals: Michener and Lee Campbell?

7 A. No.

8 Q. Or maybe Campbell Michener and Lee. I'm not sure.

9 A. No.

10 Q. Or any business by that name, Campbell Michener and
11 Lee?

12 A. No.

13 Q. Two sums supposedly went to them, one by way of
14 cheque 113 on June 20th, 2014 for \$40,750, and the
15 other is on June 18th, 2015, cheque number 1379 for
16 \$13,125?

17 A. What did it say on the cheque? There would have been a
18 description on the cheque describing what the payment
19 was for.

20 Q. And would that be shown in the records that would have
21 been maintained by Base Finance?

22 A. Yes.

23 Q. Are you aware of whether a sum of \$146,019.61 was paid
24 to a Linda Zbryski, Z-B-R-Y-S-K-I, on August 12th, 2014
25 by way of cheque 299?

26 A. Am I aware of it?

27 Q. Yes.

1 A. Not specifically.

2 Q. Do you know Linda Zbryski?

3 A. She was an investor, a client.

4 Q. She was?

5 A. She is. Currently.

6 Q. And do you have any reason to dispute that Base paid
7 that amount to Linda Zbryski on that date?

8 MR. SMYTH: Don't answer that. If you want to
9 produce a cheque and ask about it, he can be questioned
10 in that regard.

11 **OBJECTION TAKEN to answering the question: And do you**
12 **have any reason to dispute that Base paid that amount to**
13 **Linda Zbryski on that date?**

14 Q. MR. BILLINGTON: Sir, do you know a Steve Nemeth,
15 N-E-M-E-T-H?

16 A. Yes.

17 Q. And who was he?

18 A. He was an investor.

19 Q. And are you aware of whether \$100,000 of Easyloan's
20 money was paid to him on or about June 20th, 2014?

21 A. I'm not aware of that, no.

22 Q. Why would money have been -- oh, I've been advised that
23 Campbell Michener and Lee is actually an advertising
24 agency in North York. Does that assist your memory at
25 all?

26 A. No.

27 Q. Did you have any cause to be using an advertising

1 agency?

2 A. No.

3 Q. Do you know if you received investment funds from an
4 advertising agency?

5 A. I don't know that.

6 Q. Do you know if you advanced mortgage funds to an
7 advertising agency --

8 A. No.

9 Q. -- by that name? Sir, if I were to suggest to you that
10 no freeze has ever been put in place re: China's
11 outbound investments, do you have any actual
12 information to contradict that?

13 A. What did you -- I didn't get what you said.

14 Q. If I were to suggest that no freeze has ever been put
15 in place in respect to China's outbound investments, do
16 you have any information to contradict that?

17 A. Well, the information that I have to contradict that
18 was the information I got from Leslie Lis and Bill
19 Janman, investors of mine.

20 Q. And that was after the Chinese group had pulled out of
21 their investment?

22 A. Yes, after that.

23 Q. And that was based on their speculation from perusing
24 the Internet and not from any conversation they'd had
25 with --

26 A. From what I understand Leslie Lis had perused the
27 Internet and had discovered that and thought that that

1 was -- could have been the reason.

2 (DISCUSSION OFF RECORD)

3 Q. MR. BILLINGTON: Okay. Sir, you answered earlier
4 that you were aware that Mr. Fox or his corporation
5 were borrowing money from Base Finance in order to make
6 payments to investors of Base Finance. How long had
7 that been going on for?

8 A. It had been going on for years. As long as we've been
9 doing business he'd borrow and he'd repay, he'd borrow.

10 Q. To be clear, sir, he's borrowing money from an investor
11 in order to make a payment to another investor; is that
12 what was happening?

13 A. Well, he was borrowing money from Base Finance.

14 Q. Yes?

15 A. All right? I don't think Mr. Fox particularly cared
16 where we were getting our money from. He was borrowing
17 it from Base Finance for which we had a mortgage on and
18 Base Finance facilitated that mortgage to him.

19 Q. And how long had that been going on?

20 A. As long as we've been doing business.

21 (DISCUSSION OFF RECORD)

22 Q. MR. BILLINGTON: Sir, in respect to that, did the
23 money ever leave Base's account or was there simply an
24 internal accounting entry to evidence that that
25 transaction had occurred within Base?

26 MR. SMYTH: You mean the money going to Fox?

27 Q. MR. BILLINGTON: Yes.

1 A. It would all be in the books. It would be identified
2 on the cheque if it was paid to him by cheque, or if we
3 paid a bill for him on his behalf it would have been
4 identified and charged back to his company.

5 Q. And in your conversation with Sarah Hawco of the
6 receiver on October 19th, 2015, do you recall stating
7 that Base continued to solicit investments in order to
8 meet the Base investor interest payments?

9 A. I don't recall that specifically.

10 Q. Is that what was occurring though? Did that occur in
11 only some circumstances that Base would solicit
12 investments in order to meet the Base investor interest
13 payments?

14 A. Base was raising funds in order to facilitate the
15 development and the remortgaging of the oil and gas
16 leases.

17 Q. Were those funds applied towards the remortgaging or
18 were they applied towards meeting the interest payments
19 of --

20 A. Whoever -- wherever Mr. Fox required them.

21 Q. And did he require them sometimes to make direct
22 repayments to Base investors on their interest?

23 A. Sometimes he did, yes.

24 MR. BILLINGTON: Thank you. I have no further
25 questions.

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(Proceedings ended at 12:55 p.m.)

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4 Certificate of Transcript

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I, the undersigned, hereby certify that the foregoing pages

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1 to 62 are a complete and accurate transcript of the

8

proceedings taken down by me in shorthand and transcribed

9

from my shorthand notes to the best of my skill and

10

ability.

11

Dated at the City of Calgary, Province of

12

Alberta, this 20th day of April, A.D. 2016.

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Gayle Ikert, CSR(A)

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Official Court Reporter

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- I N D E X -

ARNOLD BREITKREUTZ

April 19, 2016

The following is a listing of exhibits, undertakings and objections as interpreted by the Court Reporter.

The transcript is the official record, and the index is provided as a courtesy only. It is recommended that the reader refer to the appropriate transcript pages to ensure completeness and accuracy.

EXHIBITS

EXHIBIT 1 - the entire appraisal that was referred 24
to in the one-page letter, Exhibit 'C' to
Mr. Breitkreutz's affidavit, and it contains a
series of charts which are paginated up to page 39
and then five pages of maps attached to it after
page 39

UNDERTAKINGS REQUESTED

NONE REQUESTED

OBJECTIONS

OBJECTION TAKEN to answering the question: And do 58
you have any reason to dispute that Base paid that
amount to Linda Zbryski on that date?