



**In the Matter of the Bankruptcy of  
Portus Alternative Asset Management Inc. (“PAAM”)  
REPORT OF TRUSTEE’S PRELIMINARY ADMINISTRATION – JUNE 18, 2006**

**Table of Contents**

	<u>Page</u>
Notice.....	ii
Background.....	1
Overview of Investment Structure.....	1
Receivership of PAAM and the Portus Group Entities and Assets.....	2
<i>Tracing and Securing of Assets</i> .....	3
Bankruptcy of PAAM.....	3
Principal Factors Contributing to the Bankruptcy of PAAM.....	4
Claims Process.....	4
<i>Calculation of Quantum of Claims</i> .....	4
<i>Purchase of Investor Claims</i> .....	4
<i>Investment Statements</i> .....	4
<i>Mailing of the Notice Documents</i> .....	5
<i>Processing of Proofs of Claim</i> .....	5
Liabilities of PAAM.....	5
<i>Observations – Liabilities</i> .....	6
Assets of PAAM.....	6
<i>Cash and Investments</i> .....	6
<i>SGC Notes</i> .....	6
<i>Other Assets</i> .....	7
<i>Customers and the Customer Pool</i> .....	7
<i>General Pool</i> .....	7
<i>Observation – Assets</i> .....	7
Preliminary Estimation of Realizations.....	8
Conservatory and Protective Matters.....	9
Carrying on Business.....	10
Reviewable Transactions and Preference Payments.....	10
Potential Legal Claims.....	10
Hardship.....	10
Other Matters.....	10
<i>Receivership</i> .....	10
<i>Indemnities</i> .....	10
<i>SGC Confidentiality Agreement</i> .....	10
<i>MNPF</i> .....	10
<i>RCMP</i> .....	11
<i>Memorandum of Understanding between OSC and Dealers</i> .....	11
<i>Leased Premises</i> .....	11
<i>Taxes</i> .....	11
<i>OSC Proceedings</i> .....	11
<i>Additional Information</i> .....	11
Appendix A – Description of Principal Protected Notes Issued by Société Générale (Canada) and Related Matters.....	12
Schedule I – Preliminary Estimate of Realizations on Investors’ Claims before Additional Costs of Realization and Potential Additional Recoveries.....	14

**NOTICE**

**In preparing this report, the Trustee has relied upon information and records available from the Portus Group and from third parties. The Trustee's review of this information does not encompass an audit of the financial position or operating results of PAAM. In addition, any financial information, including the preliminary estimate on realization, presented by the Trustee is preliminary and the Trustee is not yet in a position to project the ultimate outcome of the administration of the estate.**

**In view of the uncertainties surrounding an entity in bankruptcy, the ultimate financial position of the estate and the ultimate realizations will undoubtedly differ from the information provided in this report.**

**The preliminary estimate of realizations discussed later in this report is not an estimate of the fair market value at which any Investors' claims should be transferred.**

## BACKGROUND

The Portus Group<sup>1</sup> was established by Boaz Manor ("Manor") and Michael Mendelson ("Mendelson") in early 2003. The entities within the Portus Group that were responsible for its operation and administration were Portus Alternative Asset Management Inc. ("PAAM") and Portus Asset Management Inc. ("PAM").

PAAM was originally known as Paradigm Alternative Asset Management Inc. It changed its name to PAAM on May 17, 2004. PAAM was controlled by Manor. It was registered as an investment counsel and portfolio manager or their equivalent under the securities legislation of all provinces and territories other than Quebec and as a limited market dealer under the Securities Act (Ontario). When PAAM was fully operational, it had nine employees including Manor.

PAM was the product of the amalgamation of Paradigm Asset Management Inc. and Portus Asset Management Inc. that took place on May 27, 2004. PAM was controlled by Mendelson. PAM was not registered in any capacity under Canadian securities legislation. When PAM was fully operational it had approximately ninety employees.

PAAM carried on the business of a portfolio manager and it developed financial products for direct and indirect distribution to both accredited and retail investors. PAM was responsible for the marketing and distribution of PAAM's portfolio management services and the financial products that were developed by PAAM. PAM was also responsible for maintaining the books and records of the Portus Group.

Pursuant to the requirements of the *Bankruptcy and Insolvency Act* (Canada) (the "BIA"), the Trustee, through its counsel, served Manor's Israeli counsel with the appropriate notification of the first meeting of creditors, his duties and a blank examination form. Additionally, Manor was requested to attend the meeting in person as is required by the BIA. As the officer of PAAM, Manor is required to attend the first meeting and to be examined as to the causes of the bankruptcy of PAAM. The court has also confirmed that it would be acceptable for Manor to attend by video conference. The Trustee, through its counsel, has written to communicate this to Manor's Israeli counsel. The Trustee has not received a reply to either of these letters. Because of Manor's lack of cooperation, the Preliminary Statement of Affairs which was included in the Notice Documents (as defined below) was not signed by Manor.

## OVERVIEW OF INVESTMENT STRUCTURES

Prior to the appointment of the Receiver (as defined below) in March 2005, PAAM had developed and marketed three distinct investment structures to investors. Common characteristics of the purported investment structures included the intention to provide a principal-protected investment with an economic exposure to hedge fund returns in lieu of interest. The first investment structure was the Market Neutral Preservation Fund ("MNPF") structure (the "MNPF Structure") that was sold to accredited investors only,

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<sup>1</sup> The Portus Group includes Portus Alternative Asset Management Inc, Portus Asset Management Inc, BancNote Corp, Market Neutral Preservation Fund, Southview Asset Management Inc., Southview Capital Corp., MNB Trust, BancNote Trust Series II, BancNote Trust Series III, BancNote Trust Series IV, BancNote Trust Series V, BancNote Trust Series VI, BancNote Trust Series VI(a), BancNote Trust Series VIII, BancNote Trust Series VIII(a), BancNote Trust Series X, BancNote Trust Series X(a), BancNote Trust Series XII, BancNote Trust Series XII(a), BancLife Trust Series I, BancLife Trust Series II, Premiers Derives Paris Inc., BNote Management Inc., AR Pioneer Fund, PDP Prudent Growth Fund, Ltd., Portus Alternative Asset Management Inc. (BVI), BNote Ltd., PDP Trust, PDP Prudent Growth Management Inc., Eidolon Inc./S.A., Galway Trust S.A., Preservation Fund Series II, and Preservation Fund Series III.

in reliance upon exemptions from the dealer registration and prospectus requirements of applicable Canadian securities legislation. The second investment structure was the BancNote Trust/BancLife Trust Structure (the "BNT/BLT Structure") comprising twelve different series of BancNote Trust units (the "BNT Series Structures") and two different series of BancLife Trust units (the "BLT Series Structures"). The third investment structure was the U.S. dollar investment structure (the "U.S. Dollar Structure"). The BNT/BLT Structure and the U.S. Dollar Structure were marketed to investors as managed accounts.

Based on the records available to the Receiver, the Receiver identified in its Ninth and Seventeenth Reports that the book value of the outstanding investments in or through PAAM is the following amounts:

<u>Structure</u>	<u>Investments (\$ millions)</u>
MNPF Structure	<u>\$ 14.8</u>
BNT/BLT Structure	\$ 730.6
US Dollar Structure	<u>\$ 61.5</u> (\$52.8 US\$ @ 1.1652)
	<u>\$ 792.1</u>

The Investors in the BNT/BLT Structure and the US Dollar Structure are referred to as the Managed Account Investors (or the "Investors"). Converting the USD investments into Canadian dollars at an exchange rate of 1.1652, the best estimate of the outstanding amounts invested by Managed Account Investors is approximately \$792.1 million.

Of note, based upon the information in the Portus Group electronic records of book value investments by account before redemptions, more than 50% of the BNT/BLT Investors invested in the BNT/BLT Structure through tax deferred plans, such as RRSPs and RRIFs ("Registered Products"), with RRSPs accounting for more than 35% of that total.

#### RECEIVERSHIP OF PAAM AND THE PORTUS GROUP ENTITIES AND ASSETS

Pursuant to an application of the Ontario Securities Commission, KPMG Inc. ("KPMG") was appointed as Receiver of all of the assets, undertakings and properties of PAAM, PAM and BancNote Corp. (the "Receiver") pursuant to the Orders of the Honourable Mr. Justice Campbell of the Ontario Superior Court of Justice (Commercial List) (the "Ontario Court") dated March 4, 2005. The appointment of the Receiver was extended to the property, assets and undertaking of the MNPF as well as to the property, assets and undertaking of other entities and other assets within the Portus Group pursuant to a series of Orders made by the Ontario Court.<sup>2</sup> The primary mandate of the Receiver has been to preserve and protect the property, assets and undertakings (collectively, the "Property") of the Portus Group. The Receiver has no mandate to distribute funds other than in hardship cases.

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<sup>2</sup> The mandate of the Receiver is set out in the Second Amended and Restated Order of the Honourable Mr. Justice Colin Campbell dated June 23, 2005.

### *Tracing and Securing of Assets*

The Receiver has conducted a wide-ranging investigation and analysis of the property and affairs of the Portus Group. This investigation has included efforts to follow the flow of Investors' funds through the complex Portus structures and to third parties. The Receiver has attempted to identify and understand the business purpose for the complex movement of funds through the Portus structures in its efforts to locate and recover the property. Using information obtained from records available at Portus and information obtained from other sources, the Receiver engaged in extensive efforts to trace property of the Portus Group or its proceeds through a large number of entities in over a dozen jurisdictions. The Receiver has been able to secure the majority of funds that originated with the Investors ("Investors' Assets")

The Receiver has located and/or taken control of assets consisting primarily of cash and investments, deposit notes issued by Société Générale (Canada) ("SGC") that provide for principal-protection at their respective maturity dates (the "SGC Notes") and 140 cash-settled call options sold by Société Générale ("SGP") (the "SGP Call Options"), the parent of SGC (the "Portus Assets"). The Receiver has located and secured over 130 bank and investment accounts in the name of various Portus Group entities, including PAAM, at numerous financial institutions located in Canada, the Cayman Islands and the Turks and Caicos Islands. The majority of the Canadian funds were physically located in Canada. The majority of the USD funds were formerly located in the Turks and Caicos Islands. The Receiver obtained Court Orders in Canada and other off-shore jurisdictions authorizing the Receiver to return the majority of these funds to Canada. The SGC Notes are held in a prime brokerage account with RBC Dominion Securities in the name of MNPF c/o Paradigm Asset Management Inc.

### **BANKRUPTCY OF PAAM**

As described above, the majority of the Portus Assets secured by the Receiver were not in bank and investment accounts in the name of PAAM. In order that the Investor Funds were directly available to the Investors through an insolvency proceeding involving PAAM, the Ontario Court made an order on November 9, 2005 (the "Declaratory Order"), among other matters, declaring that all property, assets and undertakings, including, without limitation, the Investors' funds, ostensibly held in the name of or for the benefit of PAM, MNPF and other related Portus Group entities are and have always been from the outset the property of PAAM and are free and clear of all claims or claimants of other entities in the Portus Group.

In addition, prior to seeking the authority to make an assignment in bankruptcy in respect of PAAM, the Receiver sought and obtained clarification from the Ontario Court by way of an order dated February 28, 2006 declaring that the Investors are and always have been the beneficial owners of the Securities defined as all cash and securities, including SGC Notes and including the proceeds of all property taken into the possession and control of the Receiver. This Court also declared that the relationship between the Investors and PAAM was not or would not be altered by the appointment of the Receiver, the making of the Declaratory Order and/or a bankruptcy of PAAM. Pursuant to the Order of the Ontario Court dated March 24, 2006 (the "Bankruptcy Order"), PAAM was adjudged bankrupt and a bankruptcy order was made against PAAM. KPMG Inc. was appointed as Trustee (the "Trustee") of the Estate of PAAM ("the Estate"). Additionally the Bankruptcy Order provides that the Estate is to be administered pursuant to and in accordance with Part XII of the BIA.

Pursuant to an Order of the Ontario Court dated March 21, 2006 (the "MNPF Order"), the Receiver was deemed to hold the proceeds from the sale of the Government of Ontario bond and the SGP Call Options both acquired in the MNPF structure (together, the "MNPF Assets") for the benefit of the unitholders of the MNPF (the "MNPF Investors") on a segregated basis. The effect of this order is to segregate the

assets and liabilities of the MNPF Investors and for the value thereof to be distributed to the MNPF Investors separate from the PAAM bankruptcy. Therefore MNPF Investors are not included as part of the bankruptcy of PAAM.

### PRINCIPAL FACTORS CONTRIBUTING TO THE BANKRUPTCY OF PAAM

The principal factors contributing to the insolvency of PAAM are as follow:

1. Misappropriation of Investors' funds that were used to finance operations of the Portus Group; and
2. Misappropriation of Investors' funds that were used for personal use of the principals and related parties.

### CLAIMS PROCESS

#### *Calculation of Quantum of Claims*

Proof of claim forms are to be filed for each account held by an Investor. Claims are to be calculated in Canadian dollars on the basis that the amount of an Investor's claim shall be the amount invested by the Investor, less any redemption proceeds received by the Investor, for each account.

Where any person invested funds through PAAM by way of a RRSP, RRIF, LIF or other registered plan, Investors means the Trustee of that registered plan.

Any amounts received by the Investor from the Hardship Committee shall be deducted from the distribution to which such Investor would otherwise be entitled.

#### *Purchase of Investor Claims*

Pursuant to an Offering Memorandum, Manulife Securities International Ltd. ("Manulife") has acquired the Portus investments from approximately 6,652 Manulife clients on the basis of 100% of the amount invested by such client. Manulife has advised the Trustee that it will be filing a single proof of claim for the amount of approximately \$245 million.

The Trustee understands that some other investment dealers who referred their clients to Portus investments are also in the process of acquiring the claims of their clients. The Trustee also understands that there are additional third parties who may be interested in purchasing claims from Investors.

**THE PRELIMINARY ESTIMATE OF REALIZATIONS DISCUSSED LATER IN THIS REPORT IS NOT AN ESTIMATE OF THE FAIR MARKET VALUE AT WHICH ANY INVESTORS' CLAIMS SHOULD BE TRANSFERRED.**

#### *Investment Statements*

The Trustee prepared statements setting out the Trustee's calculation of each Managed Account Investor's claim ("Investment Statements") using information from the Portus Group books and records. The Investment Statements included a summary of all amounts invested by the Managed Account Investor and any redemption proceeds received by the Managed Account Investor. The Investment Statements and list of creditors were prepared using recovered and reconstituted portions of the Portus

Group's electronic records, including listings of book value investments by investor account. This information was reviewed and adjusted for any corrections or changes determined by the review process. The review process was based mainly on the information and records available from the Portus Group and from third parties. While this information was reviewed for reasonableness by the Trustee, the Trustee did not conduct an audit and its work will not necessarily disclose any errors or irregularities. Any differences arising from the call for claims will be investigated by the Trustee.

*Mailing of the Notice Documents*

The Trustee engaged an outside service provider to print and mail the notice of bankruptcy and the first meeting of creditors as well as certain other documents, including the Investment Statements (collectively the "Notice Documents"). On April 7, 2006, the Trustee mailed, via regular mail, approximately 18,250 Notice Documents (representing approximately 21,600 Investor Accounts) to all known Managed Account Investors (excluding accounts assigned to Manulife). Where Notice Documents have been returned to the Trustee, the Trustee has re-mailed all Notice Documents to Investors using updated address information where available.

*Processing of Proofs of Claim*

The Trustee currently has a team of 20 individuals reviewing and processing the returned proof of claim forms. In addition, the Trustee has maintained a call centre in order to answer Investor questions, including providing assistance with completing proof of claim forms.

As of June 15, 2006, the Trustee had processed 17,755 proof of claim forms totalling \$437,552,540 where the Investor has claimed the same amount as set out on the Investment Statement provided by the Trustee. The following is a detailed breakdown of these claims:

	<b>Number of Claims</b>	<b>CDN Dollar Value of Claims</b>
Total Claims Processed and accepted for voting purposes (this does not include the Manulife claim)	17,755	\$437,552,540
Total Proxies to Date	14,698	\$361,049,307
Total Proxies where Representative Counsel has been appointed	13,212	\$327,244,915

The above numbers will be updated at the first meeting of creditors for claims filed after June 15, 2006.

**LIABILITIES OF PAAM**

The Trustee is uncertain of the liabilities of PAAM Investors and other creditors ("Non-Investor Liabilities") due to the complexity of the affairs of the Portus Group, the deliberate destruction or removal of certain of the Portus Group's records and the lack of cooperation of the principles of the Portus Group.

The Trustee is not aware of significant amounts of Non-Investor Liabilities. However, the Trustee notes that there may be substantial additional liabilities not reflected in the records available to the Trustee.

The known liability for the Investors is \$792.1 million based upon the reconstructed Portus records. As described above, the Trustee has relied upon the Portus records for the final Proof of Claim process. To date the Trustee has not received any information to indicate that these records are not the best estimate available for the liabilities of PAAM.

There is no final date set by which claims forms must be filed with the Trustee. Claims can be filed up until the expiration date of the Trustee's 30 day notice of a final dividend distribution from the Estate.

### *Observations – Liabilities*

*The Trustee makes the following observations with respect to the liabilities of PAAM:*

- *The Trustee has relied upon the reconstituted Portus records and information from third parties for its current estimates of the PAAM liabilities;*
- *The claims process should provide further information about the reliability of the Portus records; and*
- *The total amount of the liabilities will not be known with certainty until the time of the last distribution.*

### ASSETS OF PAAM

The Receiver has previously reported that it has secured assets consisting primarily of cash and investments and the SGC Notes. Assets relating to the MNPF are excluded from this Report as a decision rendered by the Ontario Court on March 21, 2006 resulted in the MNPF Investors and specific related assets being excluded from the bankruptcy of PAAM.

#### *Cash and investments*

At the outset of the receivership, the Receiver secured cash balances of approximately \$132.9 million in accounts in financial institutions. Subsequently, the Receiver secured approximately \$35.2 million US in off-shore accounts which were later returned to Canada through a series of Court Orders. The costs of the receivership proceedings have since been paid out of these cash balances.

Pursuant to a court order dated April 19, 2006, the US dollar denominated funds have been converted to Canadian dollars to fund future distributions as Investors' claims are denominated in Canadian dollars. The cash has been invested in short-term money market instruments such as treasury bills and guaranteed investment certificates, as appropriate, and the Receiver's bank accounts are interest-bearing pursuant to arrangements in place with Royal Bank of Canada.

#### *SGC Notes*

SGC issued fifteen SGC Notes in the name of various subscribers forming part of the Portus Group that are linked to the Portus Alternative Investment Master Fund (the "PAIMF"), a fund of hedge funds established and maintained as part of the Lyxor platform in Jersey that contains a number of distinct funds that are managed by Lyxor Asset Management S.A., (a wholly-owned subsidiary of SGP). The SGC Notes are direct, unsecured deposit obligations of SGC and payment in full of all amounts due under the SGC Notes is guaranteed by SGP at maturity. In each case, the SGC Note is a single instrument that provides for a return at maturity that is dependent upon the performance of the PAIMF throughout the term of the SGC Note and is determined in accordance with a formula that is embedded in the SGC Note.

Each holder of a SGC Note has no interest in the PAIMF or any of its underlying hedge funds but only a right to receive a payment at maturity from SGC in accordance with the terms of the SGC Note.

With respect to each SGC Note, SGC issued a global certificate to the Canadian Depository for Securities ("CDS") with instructions for the SGC Note to be entered into the records of CDS in the name of RBC Dominion Securities and the SGC Note was deposited to a prime brokerage account at RBC Dominion Securities.

The SGC Notes were purchased for an aggregate subscription price of approximately \$529 million between October 31, 2003 and December 17, 2004. Assuming the SGC Notes are held until their maturity dates, which range from September 30, 2008 to December 31, 2011, their aggregate value at maturity would be the principal amount of the Notes, approximately \$611 million, plus the potential return, if any, that in each case is dependent upon the performance of the PAIMF and determined in accordance with the formula prescribed for the relevant SGC Note.

See Appendix A for a more detailed description of the SGC Notes and related matters.

#### *Other Assets*

The Receiver previously reported that capital assets had been identified with a book value of approximately \$1.2 million. The Receiver sold certain surplus office furniture, equipment and other assets to OEM Corporation pursuant to a Bill of Sale dated July 25, 2005 which provides for a purchase price for the surplus equipment in the amount of approximately \$21,000 inclusive of all applicable taxes. The Receiver does not currently anticipate significant realizations with respect to the remaining capital assets relative to their book values.

#### *Customers and the Customer Pool*

PAAM is a "securities firm" within the meaning of Part XII of the BIA. Accordingly the distribution of its assets and the proceeds thereof are governed by Part XII of the BIA.

Part XII of the BIA provides that "securities" are segregated into a "customer pool" and distributed first to "customers".

The Ontario Court has made orders that the cash and the SGC Notes are "securities" and form part of the "customer pool" of PAAM. The Ontario Court has further made an order that Investors are "customers" of PAAM.

Accordingly the Investors are entitled to the cash and the proceeds of the SGC Notes, and any other "securities" in priority to any other creditors of PAAM.

#### *General Pool*

Pursuant to Part XII of the BIA, the proceeds of other assets form part of a "general pool". Those proceeds total approximately \$21,000.

#### **Observations - Assets**

***The Trustee makes the following observations with respect to assets of PAAM:***

- ***The SGC Notes are the most significant assets secured by the Receiver to date;***
- ***It is difficult to predict with certainty the value of the SGC Notes;***
- ***The SGC Notes are only redeemable at maturity;***

- *The value of the SGC Notes depends on many factors, including how and when they are monetized;*
- *If the SGC Notes are held to maturity, their value will be equal to the greater of (a) the principal amount of each SGC Note and (b) the principal amount of each SGC Note plus a return that is dependent upon the performance of the PAIMF throughout the term of the SGC Note and that is determined in accordance with a complex mathematical formula that is embedded in the SGC Note. Given the inherent difficulty in predicting the performance of the PAIMF, it is difficult to predict the ultimate realizable value of each SGC Note with certainty;*
- *If the SGC Notes are liquidated prior to their respective maturity dates and sold to Société Générale Securities Inc. ("SGSI") in a secondary market transaction, there are a number of factors that could affect the price including, but not limited to, the performance of the PAIMF, prevailing interest rates and the remaining time to maturity; and*
- *While SGC has advised that SGSI will exercise its best efforts to acquire any SGC Notes that a holder of SGC Notes wishes to sell, the price at which the SGC Notes are sold and SGSI's ability to acquire the SGC Notes are dependent upon prevailing market conditions at the time the purchase and sale is actually conducted. Any bid prices for SGC Notes that are quoted by SGSI from time to time are historic bid prices only that are indicative of the price that a holder of SGC Notes would have received had the holder actually sold the SGC Notes to SGSI on the date for which the bid price is quoted. Accordingly, notwithstanding the bid prices that are quoted for SGC Notes by SGSI from time to time, the price that a holder of SGC Notes would actually receive for SGC Notes sold to SGSI can only be determined after an order for a sale of SGC Notes has been received by SGSI. The price that is actually received by a seller of SGC Notes is likely to vary from the most recently quoted bid price at the date the order is given and that variance could be significant. Accordingly, the prices quoted by SGSI from time to time may not be representative of realization value. In addition, quoted bid prices may not reflect the price that would have been paid on the date for which the price was quoted had all, or a large portion of the SGC Notes, been sold on that date.*

#### PRELIMINARY ESTIMATION OF REALIZATIONS

Due to a large number of uncertainties, discussed in greater detail below, the Trustee is unable to project with certainty the amount of, or the timing of, any distributions to Investors in the Estate.

There are a number of factors that affect, and uncertainties associated with, any estimates of the amount of or the timing of distributions to Investors. The two most significant factors likely to influence the ultimate realizations for Investors are the value obtained for the SGC Notes, including the timing of the realization, and the total amount of provable claims filed with the Trustee.

With respect to the SGC Notes, the Trustee will review with the Inspectors the possible alternative courses of action with respect to the SGC Notes. These options will include holding some or all of the SGC Notes until maturity or selling some or all of the SGC Notes prior to maturity.

With respect to the liabilities figure used in the estimates, there is the possibility that the provable claims filed will be either greater or less than the figure recorded in the Portus records.

Other factors and uncertainties include, but are not limited to:

- Potential recoveries, including from litigation and/or from locating or securing additional assets or proceeds arising from Investors' monies, net of costs;
- Possible tax consequences;
- Ongoing costs of the receivership and bankruptcy proceedings;
- Interest income;
- The final allocation of assets between the MNPF Investors and the PAAM estate; and
- External economic conditions.

Attached as Schedule I is a Preliminary Estimate of Realizations on Investors' Claims.

**In view of the uncertainties surrounding an entity in bankruptcy, the ultimate financial position of the Estate and the ultimate realizations will undoubtedly differ from the information provided in this Report. This estimate must be considered in the context of the entire Report.**

The Trustee's preliminary estimate of realizations on Investors' claims before additional costs of realization and potential additional recoveries is 85.8%.

A summary of the estimated financial impact to Investors of additional asset recoveries, before costs of realization, is provided in the table below:

<b>For Additional Recoveries of:</b>	<b>Financial Impact Per dollar of claim</b>
\$10 million	\$0.012
\$20 million	\$0.025
\$30 million	\$0.037
\$40 million	\$0.050

As illustrated above, it is currently estimated that, based on an estimate of total Investors' claims of approximately \$792.1 million, for every \$10 million of additional recoveries this would translate into approximately 1.2 cents per dollar of an Investor's claim. For example, if an Investor's claim is approximately \$30,000 and there are additional recoveries in the range of \$10 million to \$40 million, this is currently estimated to result in approximately \$360 to \$1,500 more to that investor before taking into consideration costs of realization.

### CONSERVATORY AND PROTECTIVE MATTERS

As described in the Receiver's Reports, immediately upon gaining access to the premises of Portus after the appointment of the Receiver, steps were taken to locate, protect and preserve available records and documentation (both hardcopy and electronic), and to secure PAAM's premises. Additionally, as described briefly above and in fuller detail in the Receiver's Reports, the Receiver has been able to secure the majority of the assets under administration by PAAM.

The property of PAAM remains under the control of the Receiver.

### CARRYING ON BUSINESS

After its appointment as Receiver, the Receiver did not operate the business of PAAM. The Trustee has not commenced nor will it commence operations of the business.

### REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

The Receiver has identified a number of reviewable transactions and preference payments both domestic and international. A plan of recovery will be discussed with the Inspectors.

### POTENTIAL LEGAL CLAIMS

A high level synopsis and review of potential legal claims will be presented to and discussed with the Inspectors as soon as practicable. Any legal action to be commenced will be authorized by the Inspectors after a detailed analysis which will include a cost benefit review.

### HARDSHIP

The court approved the continuation of the Hardship Committee post bankruptcy. The status of the Hardship Committee will be discussed with the Inspectors.

### OTHER MATTERS

#### *Receivership*

The Receiver's mandate as receiver of PAAM and other entities in the Portus Group is ongoing. Pursuant to an order of the Ontario Court dated April 19, 2006, the Court ordered that the Receiver's mandate is not affected by the Bankruptcy Order dated March 24, 2006, and that the Receiver's mandate continues to include, among other things, the preservation and protection of the property in the hands of the Receiver and any further property that the Receiver may subsequently identify, locate and secure.

The continuation of the receivership will be discussed at a future meeting of Inspectors.

#### *Indemnities*

Pursuant to court proceedings undertaken by the Receiver in Israel, the Receiver was required to provide certain indemnities.

#### *SGC Confidentiality Agreement*

As discussed in Appendix A, the Receiver entered into an agreement with SGC ("Confidentiality Agreement") in order to obtain certain information and documentation pertaining to its business and affairs and those of its affiliates that SGC believes is proprietary and/or confidential in nature. The Confidentiality Agreement, which was approved by the Court on February 16, 2006, both binds and benefits the Trustee and Inspectors of PAAM. In order to gain access to SGC confidential information, Inspectors will be required to sign a letter agreeing to be bound by the Confidentiality Agreement.

#### *MNPF*

The claims of the MNPF and the PAAM Estate as against one another have yet to be resolved.

*RCMP*

The Receiver made a complaint with the Royal Canadian Mounted Police (RCMP) and has been advised by the RCMP that it commenced a criminal investigation into the affairs of the Portus Group and that the investigation is ongoing.

*Memorandum of Understanding between OSC and Dealers*

The Receiver is aware that, pursuant to an agreement between the OSC and certain investment dealers, certain Investors will receive payments from dealers equal to the amounts of commissions and/or referral fees received by the investment dealer from PAAM in respect of those Investors. The Receiver is not party to this agreement and has reserved its rights.

*Leased Premises*

The Receiver entered into overhold agreements with the landlord of BCE Place for the continued use of part of the Portus premises until October 31, 2006. The Receiver also entered into a six month lease at another office facility to allow for detailed forensic investigations to be performed on the books and records of Portus by specific third parties.

*Taxes*

There may be tax issues that will be considered by the Trustee and the Inspectors as they arise.

*OSC Proceedings*

The OSC has laid charges against Manor and Mendelson in the Ontario Court of Justice in the Portus matter and has also launched proceedings with respect to PAAM, PAM, Manor, Mendelson and others. The Trustee is not a party to these matters.

*Additional Information*

For additional information from the Receiver and/or the Trustee, please refer to the following website: [www.portusgroup.ca](http://www.portusgroup.ca).

Dated at Toronto this 18<sup>th</sup> Day of June, 2006

KPMG Inc. in its capacity as Trustee of the Estate of Portus Alternative Asset Management Inc., a bankrupt.



Robert M. Rusko  
Senior Vice President



I. George Gutfreund  
Vice President

**APPENDIX A**

**Portus Alternative Asset Management  
Description of  
Principal Protected Notes Issued by  
Société Générale (Canada) and Related Matters**

*Northwater Capital Management Inc. ("Northwater")*

Northwater has been retained by KPMG to prepare a report setting out recommendations relating to Portus Alternative Asset Management Inc., the PAIMF and certain related entities and assets as set out in a consulting agreement entered into by Northwater and KPMG dated May 31, 2005. In the course of its review, Northwater was also asked to examine the terms of the SGC Notes, the return on which is dependent upon the performance of the PAIMF, and to offer its assessment as to whether or not the SGC Notes should be sold and the investment structure unwound and what, if any, arrangements should be made to replace PAAM as the investment advisor of the PAIMF.

*Confidentiality Agreement with SGC*

SGC advised the Receiver that it would deliver certain information and documentation pertaining to its business and affairs and those of its affiliates that SGC believes is proprietary and/or confidential in nature, to the Receiver on the condition that such information and documentation be held in confidence. After an extensive period of negotiations, the Receiver and Northwater entered into a court approved Confidentiality Agreement with SGC following court approval of the agreement which was obtained on February 16, 2006.

*Review of SGC Information*

Following court approval of the Confidentiality Agreement, the Receiver requested and received additional information from SGC, some of which has been classified as confidential. Northwater is in the process of reviewing the information obtained from SGC in order to complete its mandate. SGC has fully cooperated with the Receiver in fulfilling its mandate.

*Description of the SGC Notes*

The terms of the SGC Notes are contained in the relevant closing documentation executed for each SGC Note. The majority of the SGC Notes mature by December 31, 2009 with the earliest maturity date being September 30, 2008 and the latest maturity date being December 31, 2011.

*Purchase Price*

The aggregate purchase price for all the SGC Notes was approximately \$529.3 million.

*Maturity values*

The subscription price for each SGC Note is not comprised of or broken down into a principal protection component and a component involving an instrument in a fund of hedge funds. In each case, the SGC Note is one single instrument that provides for a return at maturity equal to the higher of: (a) the principal amount of the SGC Note; and, (b) a return that is dependent upon the performance of a reference fund throughout the term of the SGC Note and that is determined in accordance with a complex mathematical formula that is embedded in the SGC Note. The "reference fund" is, in the case of all the SGC Notes, a fund of hedge funds established and maintained as part of the Lyxor platform of hedge funds in Jersey.

The mathematical formula varies from SGC Note to SGC Note, although they all share a common methodology. The holder of the SGC Note has no interest in any fund of hedge funds, but only a right to receive a payment at maturity from SGC calculated in accordance with the terms of the SGC Note.

The aggregate principal amount of the SGC Notes at maturity is approximately \$611 million. This amount is before the potential return, if any, calculated with reference to the performance of the PAIMF.

*Liquidity and realizable values of the notes prior to maturity*

The SGC Notes are not redeemable before maturity. However, SGSI, a securities dealer affiliate of SGC, does act as a purchaser under a secondary market arrangement for the SGC Notes. SGC has advised that SGSI "exercises best efforts under normal market conditions to purchase Notes". SGSI quotes weekly bid prices for the SGC Notes. The bid prices quoted are determined by SGCI with reference to, among other things, the net asset value of the PAIMF. Additional interrelated factors affect the quoted prices, including, but not limited to, prevailing interest rates, the time remaining to maturity, and political and economic factors. The relationship among all these factors is complex.

The weekly bid prices that are quoted by SGSI are historic prices only that are indicative of the price that a holder of SGC Notes would have received had the holder actually sold the SGC Notes to SGSI on the date for which the bid price is quoted. Accordingly, notwithstanding the bid prices for the SGC Notes that are quoted by SGSI on a weekly basis, the price that a holder of SGC Notes would actually receive for any SGC Notes sold to SGSI can only be determined after an order for a sale of SGC Notes has been provided to SGSI. The price that is actually received by a seller of SGC Notes is likely to vary from the most recently quoted bid price at the date the order is given, and the variance could be significant. Accordingly, the prices quoted by SGSI from time to time may not be representative of the actual realization value of the SGC Notes. In addition, quoted bid prices may not reflect the price that would have been paid on the date for which the price was quoted had all, or a large portion of the SGC Notes, been sold on that date.

Thus in order to avoid pricing adjustments that may occur due to liquidity considerations, the Trustee anticipates that if the SGC Notes were to be sold prior to maturity a managed exit over a period of time may be required in an effort to minimize the potential discount.

The aggregate quoted prices of the SGC Notes as at June 9, 2006 was approximately \$561.5 million. As reported in the Receiver's Ninth Court Report, the aggregate quoted prices of the SGC Notes as at August 19, 2005 was approximately \$545.6 million.

**For the reasons identified above, however, these quoted prices are historic indicative prices only and may not be representative of ultimate realizable values.**

## Schedule I

**PRELIMINARY ESTIMATE OF REALIZATIONS ON INVESTORS' CLAIMS,  
BEFORE ADDITIONAL COSTS OF REALIZATIONS AND POTENTIAL  
ADDITIONAL RECOVERIES (note 1)  
As at June 18, 2006, unless otherwise noted  
(in \$millions, Canadian \$)**

Item Description	Amount/ Estimate
Cash and short-term investments as at the commencement of the receiverships and after conversion of \$US to \$CAD pursuant to court order dated April 19, 2006 (note 2)	\$ 158.6
SGC Notes - at aggregate purchase price (note 3)	529.3
Fixed Assets	0.02
Total Estimate of Assets <i>before</i> costs of realization and potential additional recoveries	\$ 687.92
<i>Add:</i> Estimate of Additional Recoveries and Interest Income as at March 31, 2006 (note 4)	3.9
<i>Less:</i> Estimate of receivership costs as at March 31, 2006 (note 5)	(13.3)
<i>Less:</i> Additional costs of Receivership and Bankruptcy proceedings	<i>Unknown</i>
<b>TOTAL ESTIMATE OF ASSETS before costs of realization including additional costs associated with the receivership and bankruptcy proceedings and before potential additional recoveries</b>	<b>\$ 678.52</b>
Total Investor Claims Per Portus records (before completion of claims process)	\$ 792.1
<i>Less:</i> Hardship payments made to investors as at March 31, 2006 (note 6)	(1.3)
<b>TOTAL INVESTOR CLAIMS AT BOOK VALUE after Hardship payments</b>	<b>\$ 790.8</b>
<b>PRELIMINARY ESTIMATE OF REALIZATIONS ON INVESTORS' CLAIMS BEFORE ADDITIONAL COSTS OF REALIZATION AND POTENTIAL ADDITIONAL RECOVERIES</b>	<b>85.8%</b>

**Notes:**

- The above analysis is before consideration of possible tax consequences with respect to the ultimate disposition of the SGC Notes
- The total cash reported in the Preliminary Statement of Affairs included approximately US \$35.9 million that was reflected in Canadian dollars using an exchange rate of 1.1652. Pursuant to a court order obtained by the Receiver on April 19, 2006, the US dollar funds were converted to Canadian dollars at an exchange rate of 1.1368 for future distribution to investors. The cash balance excludes an amount of approximately \$14.9 million representing the sales proceeds associated with an asset related to the MNP Structure that has been deemed not to form part of the assets of the estate of PAAM pursuant to a court order dated March 21, 2006 (the "March 21 Order"). Certain issues associated with the implementation of the March 21 Order need to

*be resolved before final determination can be made of the amount available to the MNP Investors. These issues may further impact the assets and liabilities of PAAM, although the impact is not expected to be material.*

*The cash balance also excludes approximately \$213,000 that was maintained by PAAM in two investment accounts at Royal Bank of Canada ("RBC") in guaranteed investment certificates (the "GICs"). The GICs were pledged by PAAM to RBC as security in connection with two letters of credit totalling \$210,000 issued by RBC to the Guarantee Company of North America ("GCNA"), which stood as security for performance bonds issued by GCNA on behalf of PAAM. RBC received a demand for payment under the letters of credit and made payment in respect thereof. With the consent of the Receiver, RBC has applied the proceeds of the GICs to fund PAAM's obligations to RBC in connection with the letters of credit. As RBC has realized on its security, an amount of \$213,000 has been removed from the cash balance to reflect this event.*

- 3. For purposes of the above analysis, the SGC Notes have been shown at their aggregate purchase price. As at June 9, 2006, the aggregate prices for the SGC Notes quoted by Société Générale Securities Inc. was approximately \$561.5 million. However, this amount may not represent the effective realizable value of the SGC Notes. Ultimate realizations for the SGC Notes will depend on a number of factors, including, but not limited to, the performance of the PAIMF to the maturity date or sale date of the various notes and, if the notes are sold prior to maturity, market conditions. If the SGC Notes are all held until maturity, the SGC Notes provide that aggregate payments on the SGC Notes will be at least approximately \$611 million. Further discussions regarding the options available with respect to the SGC Notes and the implications of same will be held with the inspectors of the estate of PAAM once appointed.*
- 4. The majority of this amount relates to interest earned with respect to funds secured since the commencement of the receiverships of the entities within the Portus group.*
- 5. On June 20, 2006, the Receiver will, among other things, be requesting court approval of the receivership costs incurred to March 31, 2006 which are estimated at approximately \$13.3 million, the majority of which relate to professional fees and expenses.*
- 6. Payments made to hardship claimants will be treated as distributions and therefore have the effect of reducing the total amount of the claims for purposes of the above analysis.*

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