

## Second Reporting Letter of the Trustee – September 1, 2006



Through this second reporting letter, the Trustee, KPMG Inc. wishes to advise all PAAM Creditors of recent developments in the PAAM Bankruptcy with respect to offers from third party investment companies to purchase the claims of PAAM Creditors. As well, the Trustee must inform PAAM Creditors that the Trustee cannot advise Creditors on the merits of selling their claims to third parties, as that is not within the mandate of the Trustee. Below, we will provide you with context and background for, and discuss these matters, in greater detail.

### *List of PAAM Creditors*

The Trustee has been advised that third party investment companies have approached PAAM investors, now Creditors of the Estate, with offers to purchase their PAAM claims. The Trustee has knowledge that the following three companies have expressed an interest in buying PAAM claims:

- Davidson Kempner Capital Management LLC,
- Primeshares World Markets LLC and,
- Silver Point Finance LLC.

The Trustee has been advised by one of these investment companies that it has purchased a PAAM claim. The company, in turn, has asked the Trustee for a list of PAAM Creditors, including the names, addresses, account numbers and amounts of each claim against the Estate.

Under the requirements of the *Bankruptcy and Insolvency Act* (the “BIA”) the Trustee is required to provide this information to this investment company because it is now a Creditor of the Estate. Section 126 of the BIA provides that every Creditor who has lodged a proof of claim with the Trustee is entitled to review the list of Creditors and to review the proofs of claim lodged by every other Creditor.

It is possible that once any investment companies or third parties who purchase claims and obtain the list of Creditors will use the list for their own marketing purposes to approach other or all PAAM Creditors. Therefore, the Trustee wishes to advise PAAM Creditors that over the next weeks and months they may receive multiple unsolicited offers to purchase their claims from a variety of third parties.

### *Bankruptcy Order of March 24, 2006*

The list of Creditors has not, to date, been available to PAAM Creditors. For the reasons discussed below, the Trustee, for cost and privacy concerns, has not been required to make this information public.

Sections 102(1) and 102(2) of the BIA requires that the Trustee send the names and addresses of the Creditors with claims amounting to \$25.00 or more, and the amounts of their claims of a Bankrupt, to every other known Creditor of the Bankrupt. However, KPMG Inc., in its capacity as the Court Appointed Receiver of PAAM, as part of its application for the Bankruptcy Order made on March 24, 2006, recommended to the Court that the cost of delivering a list of 26,000 parties to every party with a claim against PAAM, prior to the first Meeting of Creditors, would be prohibitive. Additionally, the Receiver advised the Court that it was concerned about protecting the privacy of the PAAM Creditors.

The Court accepted the Receiver's recommendation and dispensed with the delivery of the list to all Creditors prior to the first Meeting of Creditors. However, the Court did require that the Trustee make the list available to any Creditor of PAAM who lodged a proof of claim with the Trustee.

### Sale of PAAM claims to Third Parties

Because of the interest expressed by third parties to purchase claims from PAAM Creditors, the Trustee wishes to communicate that:

- 1) with respect to PAAM Creditors who hold **non-registered** PAAM claims, the Trustee cannot advise Creditors on the merits of selling their PAAM claims to third parties, as giving such advice is not within the mandate of, or an appropriate role for, the Trustee. **Investors and their advisors must make their own decisions as to retaining, selling or otherwise dealing with their PAAM claims; and,**
- 2) with respect to PAAM Creditors who hold **registered** PAAM claims (such as RRSPs and RRIFs), the Trustee cannot advise Creditors on the merits of selling their PAAM claims to third parties, as giving such advice is not within the mandate of or an appropriate role for the Trustee. **Investors and their advisors must make their own decisions as to retaining, selling or otherwise dealing with their registered PAAM claims.**

With respect to registered PAAM claims, the Trustee wishes to advise Creditors of two important additional factors to be taken into consideration prior to negotiating a possible sale of a registered claim to a third party:

- The Trustee is in the process of establishing a procedure, **which is not yet in place**, where registered products could be transferred to another registered plan or to another Trustee administering a registered plan;
- Until procedures are in place to properly transfer registered products that meet the requirements of the *Income Tax Act*, selling a registered PAAM claim to a third party **will** de-register the tax protected investments and **will** trigger tax on the sale.

As discussed above, the Trustee cannot recommend or advise Creditors as to the merits of selling or retaining their claims.

It is important however, that Creditors and their financial advisors remain aware and fully informed of existing information and potential future developments in the PAAM Bankruptcy. The Trustee has and will continue to make periodic information updates to the website. Creditors and their advisors should consult the website on a regular basis for developments, especially prior to taking any actions with respect to their PAAM claims.

Additionally, Creditors and their advisors who are contemplating selling PAAM claims should take particular note of three important considerations contained in the "[Report of the Trustee's Preliminary Administration](#)" dated June 18, 2006, which is currently available on the website [www.portusgroup.ca/bankruptcy.html](http://www.portusgroup.ca/bankruptcy.html).

Schedule I and the section entitled “Preliminary Estimation of Realizations, (pages 8 and 9) of the Report outline:

- the factors and uncertainties the Trustee considered when calculating the preliminary estimate of realizations;
- the Trustee’s preliminary estimate of realizable value before additional costs of recovery and potential additional recoveries (85.8% as of June 18, 2006) and,
- a sensitivity analysis regarding the net gain of any possible future asset recoveries, before costs of realization.

For ease of access, this information has also been added on to the end of this letter (see Addendum).

**Finally, please note that the KPMG Portus Call Centre staff cannot offer callers advice on the retention or selling of Creditor claims to third parties.**

The following are “Schedule I” and the “Preliminary Estimation of Realizations” excerpted from the “[Report of the Trustee’s Preliminary Administration](#)” dated June 18, 2006. To completely understand the scope of the attached schedules, please review the June 18<sup>th</sup> Trustee Report in its entirety, including its notices.

## **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.**

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:**

1. The above analysis is before consideration of possible tax consequences with respect to the ultimate disposition of the SGC Notes
2. 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 MNPF 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.

### **Preliminary Estimate of Realizations**

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.

## **TERMS AND CONDITIONS OF SITE USE**

### **PORTUS ALTERNATIVE ASSET MANAGEMENT INC. (In Receivership / In Bankruptcy)**

#### **KPMG Inc., Receiver / KPMG Inc., Trustee in Bankruptcy**

These website terms and conditions of use (the "Terms of Use") is a legal agreement between the visitor to this Site ("you") and Portus Alternative Asset Management Inc. by its Receiver and Trustee in Bankruptcy, of the estate of Portus Alternative Asset Management Inc., KPMG Inc. (the "Site Operator") concerning your access to and use of this Site.

BY ACCESSING AND USING THIS SITE YOU ARE ACKNOWLEDGING YOUR ACCEPTANCE OF AND AGREEMENT TO THESE TERMS OF USE AND THAT YOU INTEND TO BE LEGALLY BOUND BY THEM.

IF YOU DO NOT AGREE WITH ONE OR MORE OF THESE TERMS OF USE YOU MAY NOT ACCESS OR USE THE SITE OR ANY INFORMATION CONTAINED ON THE SITE.

In consideration of the mutual covenants contained in these Terms of Use and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), you and the Site Operator agree as follows:

#### Purpose

The Site contains legal documents, information and data pertaining to the receivership of Portus Alternative Asset Management Inc. (the "Site Content") and is presented by the Site Operator solely and exclusively as a public service for informational purposes only. The Site Operator hereby grants you a personal, non-transferable and non-exclusive right to access, read and download the Site Content which shall only be used by you solely and exclusively for your personal and private use. You agree that you acquire absolutely no rights or licenses to the Site or any Site Content other than the limited right to access and use the Site and Site Content in accordance with these Terms of Use. Transmissions to the Site by you are not protected and no confidentiality will be maintained with respect such transmissions by you which are made at your sole risk.

#### Limitations

This Site is not an official reporter, and the Site Operator does not guarantee that any Site Content is error free, complete, accurate, reliable or current. The Site Operator uses reasonable efforts to update the Site on the day in which new material is filed with the Court. The Site Operator recommends that all postings be reviewed by you at least 48 hours after posting in order to determine whether any amendments have been made to the posted document. In addition, all Court materials will generally be posted on the Site prior to the hearing of the relevant motion or other proceeding. However, be advised that, due to size restrictions, certain of these materials may be removed from the Site subsequent to the expiry of the relevant appeal period. All materials will continue to be available for public review through the Commercial List Office, 10th Floor, 393 University Avenue, Toronto, Ontario in Court File No. 05-CL-5792 of the Ontario Superior Court of Justice (Commercial List). You acknowledge and agree that this Site does not purport to provide complete records of all litigation and legal documentation (or any other information) pertaining to Portus Alternative Asset Management Inc., in Receivership and/or in Bankruptcy and that the Site contains no legal (or other professional) advice and nothing on the Site or in these Terms of Use shall be taken, implied or construed as an offer to provide, or a provision of, legal advice or as a recommendation for any specific course of action. Changes may be periodically made to the Site and/or the Site Content and may be made at any time. Site Operator reserves the right to change, modify, suspend, or discontinue the Site or any Site Content at any time without notice and may suspend or terminate your access to the Site immediately without prior notice at its sole discretion and for any reason and without further obligation or liability to you.

YOU AGREE THAT THE SITE AND SITE CONTENT ARE PROVIDED ON AN "AS IS" BASIS, AND IS FOR YOUR PERSONAL USE ONLY WITHOUT ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE WHATSOEVER. THE SITE OPERATOR, TO THE FULLEST EXTENT PERMITTED BY LAW, DISCLAIMS ALL EXPRESS OR IMPLIED CONDITION, REPRESENTATIONS AND WARRANTIES, OF ANY KIND OR NATURE AND MAKES NO WARRANTIES ABOUT THE ACCURACY, RELIABILITY, COMPLETENESS, OR TIMELINESS OF ANY SITE CONTENT OR THE SITE OR ANY THIRD PARTY INFORMATION. SITE OPERATOR IS NOT RESPONSIBLE FOR ERRORS OR DELAYS IN TRANSMISSION OVER THE INTERNET AND DOES NOT WARRANT THAT THE SITE WILL OPERATE ERROR-FREE OR UNINTERRUPTED OR THAT THE SITE OR ANY SITE CONTENT IS FREE OF COMPUTER VIRUSES AND OTHER HARMFUL ELEMENTS.

IN NO EVENT SHALL THE SITE OPERATOR, OR ANY AFFILIATES OF KPMG INC. OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS, BE LIABLE FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL, EXEMPLARY OR PUNITIVE DAMAGES, HARM, INJURY, COST, EXPENSE OR OTHER LOSSES OR ANY KIND OR NATURE WHATSOEVER (WHETHER BASED ON WARRANTY, CONTRACT, TORT, EQUITY, STRICT LIABILITY, PATENT OR COPYRIGHT INFRINGEMENT OR ANY OTHER LEGAL THEORY) RESULTING FROM THE USE OF, OR THE INABILITY TO MAKE USE OF, THE SITE OR ANY SITE CONTENT (INCLUDING IN ANY CONNECTION WITH THE TRANSMISSION OR DOWNLOADING OF ANY SITE CONTENT FROM THE SITE OR SUBMISSIONS TO THE SITE) OR THE USE OF, OR RELIANCE ON, ANY SITE CONTENT OR OTHER INFORMATION CONTAINED ON THE SITE, WHETHER OR NOT SITE OPERATOR OR ITS AFFILIATES ARE ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

You acknowledge and agree that KPMG LLP is not the Site Operator and has no responsibility for this Site or any Site Content.

#### Links

The Site may include hypertext links to third party web sites solely for the purpose of helping you identify and locate other sources of information that may be of interest. Hypertext links do not imply an endorsement of (including that the Site Operator has reviewed such sites) or association with such third party web sites and the Site Operator, its affiliates and related companies are not responsible for such third party web sites or the information contained on such third party web sites. Use of third party web sites is entirely at your sole discretion and risk and You may not create links from other web sites to this Site. Any copying, republication or redistribution of any part of the Site, including by caching, framing or similar means, is expressly prohibited without the prior written consent of the Site Operator.

#### Conformance with Law

In addition to complying with these Terms of Use, you agree to use the Site and Site Content for lawful purposes only and in a manner consistent with all applicable local, national or international laws and regulations. The Site shall not be used where, and to any extent, such use is prohibited by law. Your use of the Site from any location is subject to your compliance with all applicable laws and regulations that may be applicable to you. You agree, and confirm, that your use of the Site is in full compliance with the laws of the jurisdiction(s) to which you are subject, and that you are not prohibited from using the Site due to any restriction whatsoever.

#### Location and Law

The Site is physically located at, and is administered by the Site Operator from its offices in Province of Ontario, Canada. By accessing the Site, you and the Site Operator agree that all matters relating to access to, or use of the Site and all of the communications, transmissions and transactions associated with the Site shall be deemed to have occurred in the Province of Ontario and shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein, without regard to the conflicts of laws principals thereof. You and the Site Operator also agree and hereby irrevocably submit and attorn to the exclusive personal jurisdiction and venue of the courts of the Province of Ontario with respect to such matters.

### Indemnity

You agree to defend, indemnify, and hold harmless the Site Operator, its affiliates and their respective officers, directors, employees, professional advisors and agents, from and against any claims, actions, demands, losses, liabilities, damages, costs and expenses, including without limitation, reasonable legal and accounting fees, alleging or resulting from your access of the Site, your use of the Site Materials or your breach of these Terms of Use.

### Severability

If, in any jurisdiction, any of these Terms of Use are held to be unenforceable by a court of competent jurisdiction, such Terms of Use shall be restricted or eliminated to the minimum extent necessary and the remaining Terms of Use shall otherwise remain in full force and effect. A printed version of the Terms and Conditions and any notice given in electronic form shall be admissible in judicial proceedings or administrative proceedings based upon or relating to the Terms of Use to the same extent and subject to the same conditions as other business documents and records originally generated and maintained in printed form.

### Entire Agreement

These Terms of Use constitute the entire agreement between you and the Site Operator relating to the access to and use of the Site and the Site Content. Anything on the Site inconsistent with these Terms of Use is superceded by these Terms of Use.

### Amendment and Waiver

The Site Operator reserves the right to modify these Terms of Use at any time. It is your responsibility to review these Terms of Use each time you visit the Site and you are deemed to be aware of such amendments. No supplement, modification or amendment to these Terms of Use proposed by you shall be binding on the Site Operator unless agreed to by the Site Operator in writing. No waiver of any of these Terms of Use shall be deemed a further or continuing waiver of such Term of Use or any other term or condition. All waivers by the Site Operator must be in writing and signed by an authorized representative of the Site Operator.

### Language

English shall be the language of the Site, and all contents, information and communication in connection with the Site, and the parties waive any right to use and rely upon any other language or translations. Il est la volonté express des parties que le présent Site et tous les affaires qui s'y rapportent soient rédigés en langue anglaise, exception faite des documents pour lesquels la loi exige l'usage exclusif du français.

### Termination

The effective date of these Terms of Use is the date on which you have accepted the Terms of Use in accordance with the procedures set out herein. These Terms of Use are effective until terminated by the Site Operator, with or without cause, in the Site Operator's sole and unfettered discretion. The disclaimers, limitations on liability, termination, interpretative provisions, your warranties and indemnities shall survive any termination of these Terms of Use.