

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-026695-052
ESTATE NO.: 41-332479

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE BANKRUPTCY OF:

Norbourg Groupe Financier Inc.

a body politic and corporate, duly incorporated according to law and having its head office and principal place of business at:
615 René Lévesque West, Suite 510
Montreal, Québec H3B 1P5

Bankrupt

– and –

RSM Richter Inc.

Trustee

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On October 13, 2005, Norbourg Groupe Financier Inc. (hereinafter “NGF” or the “Company”) filed an assignment in bankruptcy pursuant to the *Bankruptcy and Insolvency Act* and RSM Richter Inc. (“Richter” or “Trustee”) was appointed as Trustee to the bankruptcy.

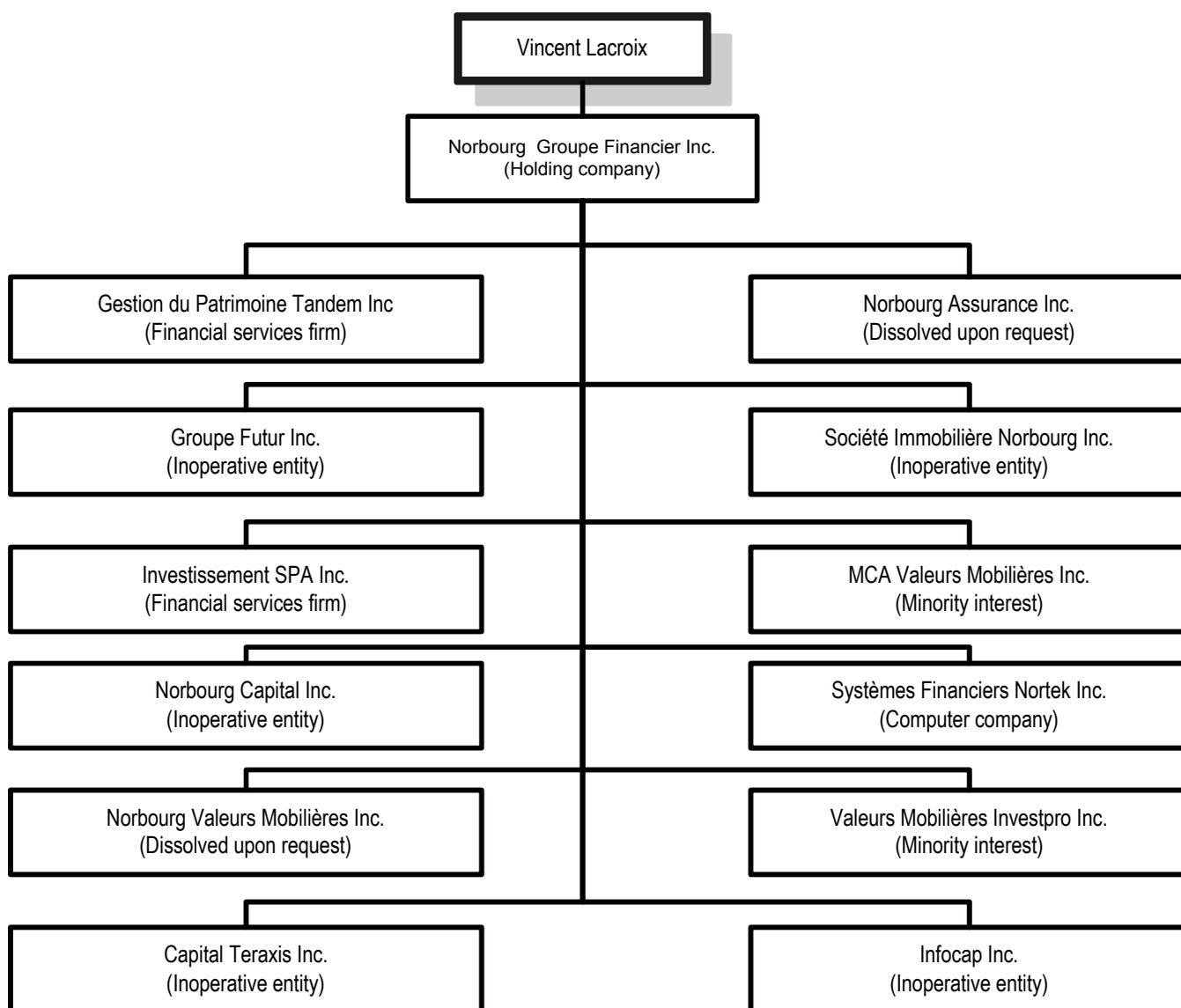
NGF is part of a large group of companies controlled directly or indirectly by Vincent Lacroix. We refer to this group under “Norbourg Group” or “Group”.

The information contained herein was prepared from the available books and records of NGF. The majority of the books and records have been seized by the RCMP, which has slowed down the Trustee's investigation of the Bankrupt's affairs. The Trustee did not audit the available books and records. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, accuracy or reliability of the information contained herein.

1. CORPORATE STRUCTURE

The Company was founded in 2001 by Mr. Vincent Lacroix and, according to him, its mission was to set up an investment portfolio in collective saving (mutual funds) in order to develop a complete and integrated financial services network.

The following is an overview of the corporate structure of NGF, in accordance with the information available as at October 13, 2005:



The operations of the various entities indicated above is summarized as follows:

- **Gestion du Patrimoine Tandem Inc. (“Tandem”)**

This company operated as a financial services firm. It was acquired on January 26, 2004 from the Caisse de Dépôt et Placement (“CDP”) for the sum of \$6 million. This transaction seems to have been made without any financing. Further to the acquisition, NGF would have acquired various portfolios of representatives for a total amount of over \$7 million. These transactions were also carried out without any outside financing. All such acquisitions were therefore made with sums taken from the mutual funds managed by Norbourg Asset Management Inc. (“NGA”). We have not yet analyzed these various transactions in order to determine whether they were made according to industry standards and for reasonable economic values.

As at the bankruptcy date, the trust of the various investors dealing with Tandem had been broken and the survival of this company was at risk. Accordingly, the Trustee completed the negotiations begun by Ernst & Young, the Appointed Liquidator for the mutual funds (“Liquidator”) and entered into a transaction on November 1, 2005 with Promutuel Capital société en fiducie inc. for the sale of the clientele of Tandem. The details of the agreement in question will be given to the Inspectors, given that the purchaser wishes to keep the information confidential. Other client lists have been the object of similar transactions. The Trustee is currently carrying out the transition of the operations of Tandem to Promutuel.

- **Groupe Futur Inc.**

This company was acquired without any financing in April 2003 for the sum of \$1.8 million. It operated a financial services firm, the operations of which were suspended in May 2005 following the integration of its clientele in Tandem. According to information available to date, no major asset is found in this subsidiary.

- **Investissement SPA Inc.**

This company also seems to have been acquired without any financing in August 2004 for the sum of \$0.9 million. Its operations consist of a group savings plan brokerage firm. At the time of the bankruptcy of NGF, the assets under management were some \$111 million, of which approximately \$65 million was invested in the Évolution and Perfolio funds. Most of the assets under management come from a clientele made up primarily of businessmen and professionals who signed a discretionary management mandate with Gestion Perfolio.

Interest has been shown recently for the acquisition of an important portion of NGF's client list managed by SPA. This subsidiary is currently financially independent and operating with a reduced team until the clientele is sold. Our role is to supervise its operations as Trustee of NGF, which is its sole shareholder.

- **Norboung Capital Inc.**

This company was founded in 2001 and operated a business providing various financial services. The entire clientele was transferred to Tandem in May 2005. That company is currently inoperative and does not appear to hold any major assets, except approximately \$75,000 in bank accounts including \$30,000 which might be in trust funds.

- **Norboung Valeurs Mobilières Inc.**

This company was founded in 2001 and no operation has been identified for it so far.

- **Capital Teraxis Inc.**

This company was incorporated in 1997. We do not have any other information about it, neither about its liquidation or dissolution.

- **Norboung Assurance Inc.**

This company was incorporated on August 28, 2000 and was wound up on demand on January 26, 2005 following a voluntary liquidation. We do not have any other information about it neither about its liquidation or dissolution.

- **Société Immobilière Norbourg Inc.**

This company owned a building at 55 St-Jacques in Montreal which was purchased in December 2003 at a cost of \$6.7 million without financing and sold it in November 2004 for the sum of \$6.9 million. This company is currently inoperative and at this stage we have not identified any residual assets. We will analyze the details of these transactions in the near future in order to determine whether they were carried out at a fair market value and pursuant to law.

- **MCA Valeurs Mobilières Inc.**

This company is an independent brokerage firm with an unrestricted practice founded in 1992. NGF only holds 9.67% of the Class “A” common voting shares. NGF also holds 100% of the Class “D” and “G” preferred shares. This transaction took place in 2004 for the sum of \$2.8 million and was not financed. This transaction will be analyzed pursuant to law.

- **Systèmes Financiers Nortek Inc.**

This company has developed and operates a software (“Octan”) used by Évolution Funds Inc. to manage client portfolios. This subsidiary is a cost centre now made up mainly of two employees hired on a temporary basis by the Liquidator, to its expense, to help it perform its duties.

- **Valeurs Mobilières Investpro Inc.**

We understand that this company is the second largest independent securities firm in Quebec. Founded in 1989, Investpro is 8% held by NGF. This transaction was carried out in 2004, without financing, for the sum of \$0.4 million.

- **Infocap Inc.**

This company was incorporated in 2001 and we do not have any other information about it for the moment.

Events Immediately Preceding the Bankruptcy

On August 24, 2005, the Autorité des marchés financiers (“AMF”) obtained a freeze, cease-trade and a suspension of the rights conferred by registration (broker) order under the Securities Act (Quebec).

On August 25, 2005, the Quebec Minister of Finance rendered an Order appointing a provisional administrator in accordance with the Securities Act.

Also, on August 25, 2005, the Integrated Market Enforcement Team of the Royal Canadian Mounted Police (“RCMP”) conducted searches in the offices of the Norbourg Group and on the premises of certain other parties involved, seizing all the archives of the entire Norbourg Group for the period from June 2002 to August 2005.

Subsequently, on October 25, 2005, Ernst & Young was appointed liquidator of the sums held in trust for investors in the Norbourg and Evolution families of funds.

2. FINANCIAL INFORMATION

The financial information contained herein was extracted from the unconsolidated and audited financial statements as at June 30, 2003 and 2004 and from the unconsolidated and unaudited in-house financial statements as at June 30, 2005. The October 13, 2005 Statement of Affairs reflects the Company's best estimate of its affairs, as declared under oath by Vincent Lacroix. This financial information is unaudited and may be subject to adjustments.

2.1 Historical Financial Results

The following is an overview of the financial results of NGF for the last three (3) fiscal years ended June 30, 2003, 2004 and 2005, respectively. It should be noted, however, that the data set out in the following table is not necessarily representative of reality, given the many allegations of fraud, misappropriation, transfer of funds and doubtful transactions existing in this file.

Norbourg Groupe Financier Inc. Historical Financial Information (\$000's)			
	<i>June 30, 2003</i> <i>(Audited)</i>	<i>June 30, 2004</i> <i>(Audited)</i>	<i>June 30, 2005</i> <i>(Unaudited)</i>
Revenues			
Promotion/rent	\$ 4,000	\$ 8	\$ 2
Interest	1	2	4
	4,001	10	6
Expenses			
Fees and transfer bonuses	1,600	821	777
Professional fees	533	368	592
Representation, advertising and sponsorships	296	489	610
Salaries and employee benefits	559	164	1,307
Other charges	570	235	848
	3,558	2,077	4,134
Earnings (Loss) before taxes	\$ 443	\$ (2,067)	\$ (4,128)

Norbourg Groupe Financier Inc. Historical Financial Information (\$000's)			
	<i>June 30, 2003</i> <i>(Audited)</i>	<i>June 30, 2004</i> <i>(Audited)</i>	<i>June 30, 2005</i> <i>(Unaudited)</i>
Assets			
Short-term			
Cash	\$ 30	\$ 271	\$ (4,619)
Accounts receivable	213	63	24
Related parties	1,362	13,759	18,358
Income tax and sales tax receivable	0	152	919
Fees paid in advance	0	237	267
	1,605	14,482	14,949
Capital assets	1,624	0	253
Investments	621	13,035	13,683
Intangible assets	0	0	3,025
	\$ 3,850	\$ 27,517	\$ 31,910
Liabilities			
Short-term			
Accounts payable and accrued liabilities	128	796	80
Related parties	3,097	1,076	10,155
	3,225	1,872	10,235
Shareholders' equity			
Capital stock	500	28,616	28,616
Retained earnings (Deficit)	125	(2,971)	(6,941)
	625	25,645	21,675
	\$ 3,850	\$ 27,517	\$ 31,910

The historical balance sheet of NGF reflects an increase over 3 years of over \$28 million in assets without any outside financing. The funds used for these acquisitions seem to have been accounted for in related accounts and capital stock. These increases likely come from sums taken from the mutual funds managed by NGA.

The financial statements of NGF were audited by the firm of external auditors, Beaulieu Deschambault.

2.2 Statement of Affairs as at October 13, 2005

The following is the sworn Statement of Affairs as at October 13, 2005 (bankruptcy date), as declared by Mr. Vincent Lacroix, President and sole shareholder of NGF:

Norboung Groupe Financier Inc. Statement of Affairs as at October 13, 2005 (\$000's)	
<i>As declared under oath by Vincent Lacroix</i>	
Liabilities	
Secured creditors	\$ -
Preferred creditors	-
Unsecured creditors	200
Contingent liabilities	90,000
	90,200
Assets	
GST/QST and tax receivable	900
Capital assets	100
Investments	3,702
	4,702
Deficit	\$ 85,498

i. Assets

The principal assets of NGF are summarized as follows:

- **GST/QST and Tax Receivables**

NGF filed its GST and QST reports up to December 31, 2004. The amount receivable reflected in the books of the Company totals \$0.86 million. The government authorities will not process this account as long as the reports for the period from January 1, 2005 to October 13, 2005 have not been remitted by the Trustee. We have reason to believe that a significant additional reimbursement could result for fiscal year 2005. The Trustee is currently working with representatives of the Company to complete the statutory reports in question. In addition, the books reflect a balance of additional provincial tax receivable of \$56,184.

- **Capital Assets**

The capital assets are made up of equipment and computer equipment having a cost of \$55,000 and leasehold improvements of \$194,000. We believe that the realizable value of these goods will be nominal.

- **Investments**

NFG has the following subsidiaries:

- **Gestion du Patrimoine Tandem Inc.**

This company was shown at a cost of \$2 million. This subsidiary results from the merger of various companies and the acquisition of several portfolios of various representatives. One of these companies having merged with this subsidiary is Investissement BBA Inc. which was reflected in the financial statements at the cost of \$6.2 million. Another merged company is Services Financiers

(Français – au verso)

Teraxis Inc., which investment was reflected in the books at a cost of \$2 million. The value of this company resides in the assets under management held by its clients and its network of affiliated representatives. As mentioned above, the client lists were sold on November 1, 2005 to Promutuel Capital société en fiducie inc. for a sum substantially less than the recorded value of the investment. Given the confidentiality of this transaction, the data will only be given to the Inspectors named at the meeting.

➤ **Groupe Futur Inc.**

Futur was accounted for in the books of NGF at a cost of \$1.9 million. This entity is no longer operating since the transfer of its clientele to Tandem. The cash on hand as at October 31, 2005 was of \$124,000. The capital assets should only generate a nominal realizable value.

➤ **Investissement SPA Inc.**

SPA was accounted for in the books of NGF at a cost of \$0.9 million. We are currently trying to find a buyer for SPA's clientele. No acceptable offer had been received at the time this report was prepared. We will inform the Inspectors of any development in this regard.

➤ **Norboung Capital Inc.**

This subsidiary was accounted for in the books of NGF at a cost of \$0.5 million. It ceased operations following the transfer of its clientele to Tandem. There was a bank balance of \$45,000 as at October 31, 2005. Certain reimbursements of sales tax could produce some \$5,000 of additional funds. Other than an account owed to NGF, we have little information concerning the debts owed. Certain of the accounts with suppliers of utilities are still in the name of this subsidiary despite the fact that the services are used by the branches of Gestion du Patrimoine Tandem Inc.

➤ **Capital Teraxis Inc.**

This company was incorporated in July 1997. We have very few information to this stage on this enterprise. We however understand that the latter would not be presently operating or have any asset.

➤ **Systemes Financiers Nortek Inc.**

Nortek was reflected in the books of NGF at a value of \$100. Its only value lies in the Octan software used by Fonds Évolution Inc. to manage the clientele ("back office"). Other than this software, this subsidiary owns few assets and should not generate any substantial realizable value. The largest creditor seems to be NGF for \$3 million. According to the books of the company as at June 30, 2005, the other claims would represent less than \$100,000.

➤ **Other Investments**

The books of NGF reflect other investments such as Investissement Infocap, Investissement Participation GV, Norbourg Valeurs Mobilières Inc. (dissolved), Société Immobilière Norbourg Inc. and Corporation Eloria which are either dissolved, merged or inactive and thus likely of no value.

ii. Liabilities

It should be noted that the exact quantum of the liabilities which existed as at October 13, 2005 will only be determined once all proofs of claim are submitted to the Trustee and that the latter will have full access to the books and records of the Company. Nonetheless, the following are our comments regarding the Company's liabilities as declared in the Statement of Affairs as at October 13, 2005:

- **Secured Creditors**

As at the bankruptcy date, the books and records of the Company and its subsidiaries in the possession of the Trustee did not reflect any amounts owing to secured creditors. However, as previously mentioned, the Trustee will only be able to determine the extent of the secured claims, if any, once all proofs of claim have been filed, reviewed and collocated by the Trustee. At the time this report was prepared, the Trustee had received secured claims from certain suppliers of equipment.

- **Preferred Creditors**

As at the bankruptcy date, the Company's and its subsidiaries' books and records in the possession of the Trustee did not reflect any amounts owing to potential preferred creditors. However, as previously mentioned, the Trustee will only be able to determine the extent of preferred claims, if any, once all the proofs of claim have been filed. Certain preferred claims could exist with respect to a few employees. At the time this report was prepared, the Trustee had received preferred claims totalling \$4,000.

- **Ordinary Creditors**

According to the Company's Statement of Affairs, the total owed to ordinary creditors is approximately \$0.2 million. At the time this report was prepared, the Trustee had received ordinary claims totalling \$0.6 million.

- **Contingent Liabilities**

The amount reflected in the Statement of Affairs represents the estimated deficit arising from mutual funds showing a deficit which will likely be claimed by the Liquidator. This deficit originates mainly from the unlawful withdrawal of various amounts, possibly totalling between \$92 million and \$97 million, from the mutual funds under management. It is our understanding that the Liquidator will file a proof of claim at the meeting of creditors.

- **Other**

The Trustee has received certain proofs of claim for property from various creditors. The Trustee is currently analyzing such claims and will make its recommendations to the Estate Inspectors.

3. TRUSTEE'S PRELIMINARY ADMINISTRATION

a) Hiring of Employees and Administration

The Trustee has not continued the Company's operations. However, the Trustee did retain the services of a former employee of the Norbourg Group to assist the Trustee in its administration and, more particularly, in updating the accounting records and overdue government filings (GST/QST and deductions at source).

b) Conservatory Measures

Since the bankruptcy date, the Trustee has taken various conservatory measures, including:

- Changing the locks and controlling access to the Company's premises;
- Carrying out a physical count of equipment and other assets;
- Insuring the Company's assets given the refusal of the Company's insurer to add the Trustee to the existing insurance policies, which policies were to expire on December 1, 2005;
- Opening trust bank accounts;
- Steps and proceedings to take possession of the books, records and other documents of NGF;
- Guarantee to the various services required, such as electricity, telephones and the alarm system.

c) Sale of Assets

The Trustee has initiated an informal call for tenders to sell certain assets of the NGF, which include the office furniture, office equipment and computer equipment as well as an automobile. The offers will be given to the Inspectors. As sole shareholder, the Trustee also holds the first instalment of the proceeds of sale of the clientele of Gestion du Patrimoine Tandem Inc. to Promutuel Capital Société en fiducie inc. cashed when the agreement was signed. The orders approving the said transaction provide that the proceeds of sale be held by the Trustee of NGF in trust, for and on behalf of the shareholder of Gestion du Patrimoine Tandem Inc. We are currently reconciling the debts of Tandem to determine the use of the funds in question.

Certain contracts of purchase of client lists made between NGF and various representatives in group saving during the past year have been cancelled and the Trustee thus collected a substantial portion of the price paid to these representatives by NGF. To date, the Trustee collected approximately \$1.1 million.

d) Review of Preferential Payments and Reviewable Transactions

The Trustee has begun its review of the various transactions which took place in NGF in order to determine the extent of the reviewable transactions and preferential payments and other doubtful transactions. It is clear that several of these transactions took place. Once completed, this review will be presented to the Inspectors who will instruct the Trustee in this regard.

However, in light of the litigious nature of the transactions which took place and in order not to jeopardize ongoing legal proceedings, the Trustee's review will only be dealt with in private with the Inspectors.

4. ESTIMATED REALIZATION

The following is a summary of the gross proceeds of realization estimated by the Trustee with respect to the assets belonging to NGF:

Norbourg Groupe Financier Inc. Preliminary Statement of Estimated Realization as at October 13, 2005	
Income tax and GST/QST 2004 fiscal year	\$ 900,000
Income tax and GST/QST 2005 fiscal year	<i>to be determined</i>
Investments	500,000
Capital assets	20,000
Surplus arising from subsidiaries	<i>to be determined</i>
Recovery of reviewable transactions	<i>to be determined</i>
	<u><u><i>to be determined</i></u></u>

It is important to note that the above-mentioned values relate only to the identifiable assets as of the bankruptcy date and do not take into account any realization with respect to reviewable transactions or preferential payments. In addition, the estimated realization proceeds do not take account of the proceeds of realizing assets of the subsidiaries which will eventually devolve to NGF.

5. DIVIDEND TO CREDITORS

Given the preliminary stage of the Trustee's administration, it is currently impossible to determine the extent of the dividend to be paid to the creditors of NGF. However, it should be noted that the investors in the various mutual funds, who are represented by the Appointed Liquidator, will represent by far the largest claim in the Bankruptcy and will receive the majority of the dividend eventually paid out.

6. CONCLUSION

During recent meetings, the Autorité des marchés financiers, the Appointed Liquidator, namely Ernst & Young, and the Trustee, namely RSM Richter Inc., agreed to pool their resources and work together in order to maximize recovery efforts for the benefit of all those adversely affected in this file. This approach will avoid a duplication of tasks and will allow a better cost control, a concerted action and an investigation and efficient attack of various transactions having adversely affected the various stakeholders.

DATED AT MONTREAL, this 23rd day of November 2005.

RSM Richter Inc.
Trustee