

INFORMATION BROCHURE on the Norbourg affair intended for investors

produced by the Autorité des marchés financiers (AMF)

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TABLE OF CONTENTS

1. AMF investigation and actions	2
2. AMF launches suit on behalf of investors	3
3. AMF application for provisional administrator and funds liquidator allowed with appointment of Ernst & Young	5
4. AMF manages financial services compensation fund	6
5. Bankruptcy proceedings in respect of Norbourg companies	9
6. Bankruptcy proceeding in respect of Vincent Lacroix	11
7. Three channels for recovering funds	12
APPENDIX – Chronology of Events in Norbourg Affair	15

Introduction

As you know, several major developments in the Norbourg affair have taken place over the past few months that are of particular interest to you.

The *Autorité des marchés financiers* (AMF) is sending this document to you personally in order to give additional information on this matter, answer some of your questions and provide an overview of events to date and steps planned for the future.

This information brochure contains seven sections that summarize the various actions taken since October 2004. For reference purposes, a chronology of the main events relating to the Norbourg affair is appended to this document.

1

AMF investigation and actions

- In October 2004, the AMF mandated its investigators to conduct an examination and attempt to obtain documents from individuals involved in the Norbourg affair. It was only on August 9, 2005 that the former Vice-President, Finance at Norbourg Asset Management Inc., Éric Asselin, revealed for the first time to the AMF that the documents obtained in the course of its investigation had been falsified and that Vincent Lacroix misappropriated assets from the Norbourg and Evolution funds.

On August 25, 2005, the AMF and the Integrated Market Enforcement Team (IMET) carried out searches at several locations associated with the activities of the Norbourg group of companies and Vincent Lacroix.

On November 28, 2005, after several challenges, the court finally allowed the AMF to access the documents seized at KPMG, the external auditor for some of the Norbourg entities.

After analyzing the seized documents, AMF investigators identified 137 irregular withdrawals from the Norbourg and Evolution funds, totalling more than \$115 million, between March 2000 and August 2005. These amounts mainly served to acquire and prop up unprofitable companies.

On March 9, 2006, on the basis of its investigation, the AMF filed 51 charges against Vincent Lacroix, the former CEO of Norbourg. The charges related to two broad types of infraction:

- manipulating the price of mutual fund units (27 counts);
- providing the AMF with documents containing false or misleading information, in particular financial statements, annual reports and annual information forms (24 counts).

The penalties being sought consist of prison terms of up to five years less a day, as well as fines ranging from \$20,000 to \$5 million on each count.

In filing penal charges under the *Securities Act*, the AMF was very careful not to hinder the main criminal proceedings that might be launched by police forces. IMET is currently conducting a criminal investigation into this affair.

Summary

- *August 25, 2005: Norbourg is ordered to cease all activities; search warrants are executed at various locations associated with the activities of the Norbourg group and Vincent Lacroix.*
 - *Identification of 137 irregular withdrawals from the Norbourg and Evolution funds between March 2000 and August 2005, for a total of \$115 million.*
 - *March 9, 2006: AMF files 51 charges against Vincent Lacroix, seeking various penal sanctions.*
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2 | AMF launches suit on behalf of investors

- Under the *Securities Act*, the AMF may initiate legal proceedings in Superior Court against individuals or legal persons that it deems liable for losses incurred by investors.

The AMF can avail itself of such recourse when it believes that it is in the public interest, that the integrity of the financial markets has been undermined or that the *Securities Act* or a regulation has been violated.

On October 24, 2005, the AMF therefore launched a suit on behalf of investors against Vincent Lacroix for more than \$84 million, alleging that he was liable for the losses incurred by investors. The AMF claimed an additional \$10 million in punitive damages from Vincent Lacroix personally.

Based on the findings of the AMF's investigation, the suit against Vincent Lacroix was amended on March 9, 2006, and the claim now totalled \$115 million. This amount represents the portion that was allegedly misappropriated by Vincent Lacroix for his own benefit and that of his relatives and companies.

In addition, the AMF claimed various amounts from legal persons associated with the matter as follows:

- KPMG – \$21.7M
- Beaulieu Deschambault – \$74M
- Northern Trust – \$115M
- Concentra Trust – \$115M
- *Placements Norbourg* – \$79M

Other amounts were also claimed from individuals with ties to Vincent Lacroix. However, these amounts cannot be aggregated. Indeed, were the AMF to win its case against each of the defendants, the total amount they might be required to pay could not exceed \$115 million, which corresponds to the individual liability of the defendants established by the court.

All unitholders of Norbourg and Evolution funds, including Perfolio funds, are automatically included in the suit.

As an investor, you therefore do not need to take any steps in this regard. What's more, the AMF will pay all costs related to the suit. By launching this action, the AMF is making its resources and expertise available to you, along with the evidence gathered during its investigation. This should help accelerate the proceedings.

All of the amounts recovered will be distributed to investors. However, it is not possible at this stage to say when a judgment will be rendered or what amounts will be recovered.

Also, measures were taken by the firm Lauzon Bélanger for the purpose of launching a class action against the individuals involved in this affair. The AMF was added to the list of defendants. The court must approve the class action, and a hearing in this regard is slated for June 2006. Should the court allow the suit to proceed, a hearing date will be set. However, it is not possible to anticipate when a judgment will be rendered. The costs associated with the class action will be borne by the investors themselves.

However, on April 25, 2006, Québec Superior Court disqualified the firm Lauzon Bélanger from representing investors in the class action because M^e Yves Lauzon was deemed to be in a conflict-of-interest situation.

In the decision, the judge expressed confidence that an attorney could soon be designated to replace M^e Lauzon and that the attorney would be able to benefit from the work already accomplished.

Summary

- *October 24, 2005, the AMF launches a suit on behalf of investors in Norbourg and Evolution funds.*
 - *The AMF will pay costs associated with the suit. You will not have to pay any of these costs.*
 - *Information gathered by the AMF during its investigation is placed at your disposal.*
 - *All amounts recovered as a result of the AMF's suit will be paid to defrauded investors.*
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3

AMF application for provisional administrator and funds liquidator allowed with appointment of Ernst & Young

- Further to revelations concerning the Norbourg affair, the AMF's application for a provisional administrator in respect of four companies in the Norbourg group was allowed with the appointment of Ernst & Young on August 25, 2005.

With the filing of the provisional administrator's report and in accordance with its recommendations, the AMF initiated proceedings before the *Bureau de décision et de révision en valeurs mobilières* (BDRVM) in order for this administrative tribunal to submit a recommendation to the Finance Minister for the liquidation of Norbourg's assets. In this context, the liquidator's role is to distribute to unitholders the remaining assets held in the Norbourg and Evolution funds.

The liquidation was ordered on October 25, 2005 and Ernst & Young was appointed liquidator. The firm served as provisional administrator in this affair.

As the liquidator, Ernst & Young contacted each fund investor to confirm unit holdings. To date, approximately 800 confirmations are still pending.

On December 8, 2005, the liquidator petitioned for approval of the liquidation plan, which provided for a fund-by-fund liquidation process. In other words, the amounts held in each of the 29 funds would be distributed solely to the unitholders of each fund concerned. As at March 31, 2006, these amounts totalled \$76,994,841 and were invested mainly in Treasury bills.

The liquidation plan provided conservatively for a reserve equal to 10% of these assets for the purpose of covering various claims received and receivable with regard to amounts held in the funds as well as fees and expenses related to liquidation of the funds.

Some unitholders made representations to the liquidator for consideration of a consolidated liquidation rather than a fund by fund liquidation process. This would involve combining all the assets remaining in the 29 funds and dividing them among investors in proportion to their Norbourg investments. Upon being notified of this development, the court decided to appoint two independent attorneys to make representations and present their arguments before the court in support of the two proposed options. The court must render a judgment on this issue.

Because the AMF has no control or influence over the time required for these proceedings, it is not possible to anticipate when the claims will be paid to investors.

The liquidator will be able to carry out the distribution of funds when all litigation and possible appeals regarding the distribution method have been settled.

In addition, investors have raised numerous issues about the costs associated with the provisional administration and liquidation of the funds. In this regard, the *Securities Act* stipulates that costs associated with provisional administration and liquidation are paid out of the assets administered.

Summary

- *Ernst & Young is appointed provisional administrator in respect of four companies in the Norbourg group on August 25, 2005.*
 - *Upon a recommendation by the Québec Minister of Finance, Ernst & Young is also appointed as the liquidator of Norbourg assets.*
 - *The remaining amount of \$76,994,841, as at March 31, 2006, will be distributed. A reserve equal to 10% of this amount is set aside to cover various claims as well as fees and expenses related to liquidation of the funds in question.*
 - *A decision is to be rendered regarding liquidation on a fund-by-fund or consolidated fund basis.*
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4

AMF manages financial services compensation fund

- Through the *Fonds d'indemnisation des services financiers*, a financial services compensation fund established under section 258 of the *Act respecting the distribution of financial products and services*, the AMF protects consumers who have been defrauded. Financed by members of the distribution industry, the fund is intended for victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership is responsible. The maximum compensation payable under the fund is \$200,000 per claim.

In the Norbourg affair, the misappropriation of funds was committed by a fund manager. In such cases, the compensation fund cannot be used to pay indemnities because only fraud associated with the distribution of financial products and services (and not fund management) is covered.

To date, however, the compensation fund has received more than 1,000 claim applications in connection with Norbourg. The AMF is reviewing the information provided by investors and will respond to each application.

To receive an indemnity under the fund, you as a claimant must prove that:

- you conducted business, at the time of the facts at issue, **with a representative or firm duly registered with the AMF in the group savings brokerage sector;**
- you were a victim of fraud, fraudulent tactics or embezzlement **committed by** your representative and/or group savings firm;
- there is a link between the loss you sustained directly and the wrongdoing that could be assigned to your group savings representative or firm.

Consequently, if your Norbourg, Evolution or Perfolio fund units were acquired through a representative of an unrestricted securities adviser, you are not eligible for an indemnity under the compensation fund. Likewise, if you acquired Norbourg and Evolution fund units from firms not controlled by Vincent Lacroix at the time of purchase, you will not be eligible for an indemnity, because nothing suggests that wrongdoing was committed by such firms at the time the Norbourg, Evolution or Perfolio funds were sold.

The fact that Vincent Lacroix exercised control over Tandem Wealth Management Inc. and SPA Investments Inc. is not of itself sufficient to conclude that wrongdoing was committed as a result of their liability. Only a more detailed analysis of all the facts in this matter will determine whether wrongdoing was committed. The Norbourg affair reveals, first and foremost, that the misappropriation of funds was committed by a fund manager.

If the funds at issue were sold to you by a group savings representative attached to a firm controlled by Vincent Lacroix, you may complete the Norbourg Claim Form available on the AMF website at www.lautorite.qc.ca, or request a copy from our Information Centre.¹

To submit a claim, you must comply with the following formalities:

- complete the sworn statement section on the claim form;
- specify the claim amount;
- specify the name of the group savings representative and firm that sold you the funds;
- indicate, if applicable, the facts you are alleging against the group savings representative and firm;
- specify the fund purchase date.

1. Page 14 of this document gives contact details for the Information Centre.

In addition to this information, you must provide the following documents:

- copy of the statements of account detailing your investments (firm and fund manager);
- copy of the purchase form(s) signed when acquiring the funds;
- copy of the fund redemption form, if applicable.

These formalities and documents are all required so that the AMF can determine whether fraud was committed in this matter with regard to distribution. It is therefore very important that you carefully set out all facts pertaining to the purchase of your fund units.

You must submit your claim form to the AMF before **August 26, 2006**, after which date your claim will no longer be admissible. Indeed, under section 2 of the Regulation respecting the eligibility of a claim submitted to the *Fonds d'indemnisation des services financiers*, all claims must be filed within one year of the date on which the claimant becomes aware of the fraud, fraudulent tactics or embezzlement.

If our analysis determines that an offence took place when the funds at issue were sold, the AMF will take all necessary steps to ensure you receive an indemnity, as provided for under compensation fund regulations.

Summary

- *The financial services compensation fund is intended for victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership is responsible.*
 - *The maximum compensation payable under the fund is \$200,000 per claim.*
 - *The fund has received over 1,000 claim applications concerning Norbourg.*
 - *Claim forms must be completed carefully so that the AMF can determine, based on all the facts set out, whether an offence took place.*
 - *Claim forms must be received by the AMF no later than August 26, 2006.*
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5

Bankruptcy proceedings in respect of Norbourg companies

- On October 13, 2005, the companies in the Norbourg group placed themselves under bankruptcy protection with RSM Richter Inc., on the initiative of Vincent Lacroix.

Regardless of who launches bankruptcy proceedings, the trustee is an officer of the court who has a fiduciary responsibility to creditors, under the direction of and in accordance with instructions from inspectors who are made up of creditors and other persons with interests to assert. In the case at hand, the AMF and the liquidator of the funds, Ernst & Young, are acting as bankruptcy inspectors. The primary role of a trustee is to maximize the realization of a bankrupt's assets for the benefit of creditors. The unitholders, represented by the liquidator, are the principal creditors.

Fees charged by the trustee and its lawyers are paid out of the proceeds of the sale of a bankrupt's assets. However, such fees must be approved in advance by the inspectors and eventually by the court.

CURRENT SITUATION

In the case at hand, the main assets to be administered by the trustee, RSM Richter Inc., are the following:

- Buildings belonging to the bankrupt companies;
- Portfolios of various representatives;
- Fixed assets, such as furniture and equipment;
- Receivables such as claims under loans granted by the companies, and other accounts receivable;
- Miscellaneous investments.

INQUIRY

In the course of its investigation, the trustee examined key players in this affair under oath. Based on these examinations and information gathered, the trustee identified transactions deemed to be reviewable under the *Bankruptcy and Insolvency Act*. As a result, the trustee has initiated and will initiate proceedings aimed at recovering assets for the benefit of creditors.

LEGAL PROCEEDINGS

Considering the fraudulent nature of this affair, the trustee has initiated and will initiate proceedings aimed at recovering various amounts:

- Intervention in the petition filed by the Minister of Revenue seeking a bankruptcy order in respect of Vincent Lacroix.
- Proceeding launched against the spouse of Vincent Lacroix for approximately \$1.5 million, representing amounts belonging to the bankrupts that were used to acquire various properties and jewellery in the spouse's name.
- Proceedings to be launched against various individuals for unjust enrichment and other reasons.
- Proceedings against other parties that benefited from funds in the form of loans, donations, etc.
- Proceedings to be launched against various parties to recover loans granted by an entity in the Norbourg group.

DISTRIBUTION OF NET PROCEEDS

The *Bankruptcy and Insolvency Act* stipulates three types of creditor:

- secured creditors;
- preferred creditors;
- ordinary (unsecured) creditors.

Most creditors are ordinary (unsecured) creditors. Investors affected by the bankruptcy of the companies account for over 95% of the unsecured debts to be processed by the trustee.

Any funds distributed to ordinary creditors will be prorated based on respective claims.

Given the litigation aspects of this affair, a significant amount of information is being kept confidential and is available only to inspectors. However, RSM Richter Inc. will release a more detailed preliminary report by the end of May, and it will be available on the trustee's website (www.rsmrichter.com).

Summary

- *The companies in the Norbourg group file for bankruptcy protection with RSM Richter Inc., on the initiative of Vincent Lacroix.*
 - *Proceedings are and will be initiated by RSM Richter Inc., whose mission is to recover funds.*
 - *Defrauded investors in the bankruptcy of the Norbourg group represent 95% of ordinary (unsecured) creditors.*
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6

Bankruptcy proceeding in respect of Vincent Lacroix

■ PROCESS

On October 18, 2005, the Québec Deputy Minister of Revenue filed a bankruptcy petition against Vincent Lacroix. Because the petition was challenged, Ernst & Young was appointed interim receiver for the assets of Vincent Lacroix on December 2, 2005.

ROLE OF INTERIM RECEIVER

The role of the interim receiver is outlined in the Superior Court judgment and essentially consists of safeguarding the assets of Vincent Lacroix.

In the case at hand, the role of the interim receiver can be summarized as follows:

- Take possession Vincent Lacroix's assets and implement conservatory measures needed to safeguard the assets;
- Draw up an inventory of Vincent Lacroix's assets (with investigative powers to trace these assets);
- Sell three real estate properties belonging to Vincent Lacroix with approval of the court;
- Collect any amounts payable to Vincent Lacroix.

The task performed by the interim receiver is supervised by the court. The receiver's fees and disbursements are paid out of Vincent Lacroix's assets.

LENGTH OF MANDATE

Under these circumstances, the interim receiver's mandate will extend from its appointment by the court, i.e. December 2, 2005, until final judgment is rendered on the bankruptcy petition against Vincent Lacroix.

ASSETS AND DEBTS

Following is a list of Vincent Lacroix's main creditors:

- Trustee in bankruptcy for companies in the Norbourg group (approximately \$36 million);
- Québec Minister of Revenue (approximately \$18 million);
- Canada Revenue Agency (amount to be determined);
- Claim relating to AMF's recourse on behalf of investors;
- Penal fines resulting from proceedings initiated by the AMF.

NEXT STEPS

A hearing will be held on the bankruptcy petition and challenges will likely be launched by Vincent Lacroix. The hearing was scheduled for the week of May 15, 2006.

Meanwhile, Ernst & Young, the interim receiver, will continue its investigation into Vincent Lacroix in order to complete the asset inventory, monitor his investments and take conservatory measures with respect to his assets, as necessary. The interim receiver will apply to the court to dispose of some of Mr. Lacroix's assets, finalize the sale of properties by May 22, 2006, and collect amounts owed by creditors.

7

Three channels for recovering funds

- All of the previously mentioned actions are designed to maximize the recovery of funds through three different channels:
 - 1 ■ Redistribution of the remaining assets in the mutual funds. As at March 31, 2006, a total of \$76,994,841 must be redistributed. The redistribution will be carried out by the liquidator, Ernst & Young, and must take place in accordance with the liquidation plan approved by the court. The plan provides for a 10% reserve to cover various claims received or receivable with regard to assets held in the funds as well as fees and expenses related to liquidation of the funds.
 - 2 ■ Maximizing asset realization (sale of properties, accounts receivable, loans granted, etc.). The amounts collected will be earmarked for the creditors of companies in the Norbourg group, including the unitholders, who are represented by the liquidator, Ernst & Young. The unitholders account for 95% of all ordinary (unsecured) creditors.

- 3 ■ The recourse launched by the AMF on behalf of investors. The recourse is intended to determine who is liable, in whole or in part, for the events surrounding the Norbourg affair. All funds recovered will be distributed to investors.

The class action undertaken by a private law firm also seeks to recover funds. However, the cost of this suit will be borne by investors.

In addition, some investors may be eligible in whole or in part for an indemnity under the financial services compensation fund. However, the potential for compensation is limited because the payment of indemnities is contingent upon the ability to prove that fraud was committed in connection with the distribution of funds. The vast majority of people who lost money were, first and foremost, victims of fraud committed by a fund manager; this is not covered by the compensation process. The AMF is continuing with its analysis of the situation. It intends to respond, as soon as possible, to all claimants who contacted the AMF.

For additional details, please contact the AMF Information Centre at any of the following numbers:

INFORMATION CENTRE

Québec City: (418) 525-0311

Montréal: (514) 395-0311

Elsewhere in Québec: 1 866 526-0311

Fax: (418) 647-0376

renseignements-consommateur@lautorite.qc.ca

You can also visit the AMF website at www.lautorite.qc.ca.

Chronology of Events in Norbourg Affair

OCTOBER 2004

- The AMF launches an investigation into Norbourg Asset Management Inc., Vincent Lacroix and related companies.
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AUGUST 2005

- In the course of an investigation, the AMF mandates its investigators to conduct examinations and attempt to obtain documents from individuals involved in the Norbourg affair. On August 9, 2005, the former Vice-President, Finance at Norbourg Asset Management Inc., Éric Asselin, reveals for the first time to the AMF that the documents obtained in the course of its investigation were falsified and that Vincent Lacroix misappropriated assets from the Norbourg and Evolution funds.
 - These revelations prompt the AMF to initiate various proceedings and to obtain the following decisions on August 24 and 25, 2005:
 - Cease trading order against Vincent Lacroix and certain related companies;
 - Freeze order issued on the bank accounts and assets of Vincent Lacroix and certain related companies;
 - Suspension of registration rights conferred upon Vincent Lacroix and certain related companies;
 - Appointment of Ernst & Young as provisional administrator for four companies in the Norbourg group;
 - Search warrants;
 - Appointment of Ernst & Young to monitor Tandem Wealth Management, a company related to Vincent Lacroix.
 - On August 26, 2005, a motion seeking authorization to launch a class action is filed by the firm Lauzon Bélanger on behalf of investors in the Norbourg and Evolution funds.
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SEPTEMBER AND OCTOBER 2005

- On September 26, 2005, the provisional administrator, Ernst & Young, files a report recommending liquidation of the funds.
- On October 13, 2005, Norbourg Asset Management Inc., Perfolio Asset Management Inc. and Evolution Funds Inc. declare bankruptcy on the initiative of Vincent Lacroix. RSM Richter Inc. is appointed trustee in bankruptcy for the companies in question.

- On October 18, 2005, the Québec Deputy Minister of Revenue files a petition against Vincent Lacroix for personal bankruptcy.
 - On October 24, 2005, the AMF initiates a proceeding against Vincent Lacroix on behalf of investors.
 - On October 25, 2005, Pierre Laporte from the firm Ernst & Young is appointed liquidator of the Norbourg, Evolution and Perfolio funds by the Québec Minister of Finance. The purpose of this appointment is to proceed with a distribution of funds to unitholders.
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DECEMBER 2005

- On December 2, 2005, Ernst & Young is appointed interim receiver for the assets of Vincent Lacroix in the matter of his personal bankruptcy.
 - On December 8, 2005, the liquidator, Ernst & Young, files a motion for approval of its liquidation and fund distribution plan.
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FEBRUARY AND MARCH 2006

- On February 2, 2006, in response to a challenge from the AMF, the court dismisses Vincent Lacroix's motion to release his funds to help pay legal fees and living expenses.
- On March 2, 2006, the class action filed by the firm Lauzon Bélanger is amended to add the AMF to the list of defendants.
- On March 9, 2006, the AMF files 51 charges against Vincent Lacroix in the Court of Québec. It seeks penal sanctions comprising prison terms of up to five years less a day, as well as fines ranging from \$20,000 to \$5 million on each count.

The names of other individuals associated with the affair are added to that of Vincent Lacroix.

APRIL 2006

- On April 7, 2006, Vincent Lacroix enters a plea of not guilty to each charge brought against him, in addition to filing preliminary motions intended, among other things, to suspend penal proceedings. A judge from the Court of Québec will set a trial date after the preliminary motions have been heard.
- On April 25, 2006, the Superior Court disqualifies the firm Lauzon Bélanger from representing investors; M^e Yves Lauzon is deemed to be in a conflict of interest.



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