

INFORMATION BROCHURE

on the Norbourg affair intended for investors

produced by the Autorité des marchés financiers (AMF)

MAY 2006 TO JANUARY 2007



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Introduction

In May 2006, the *Autorité des marchés financiers* (AMF) sent you an information brochure on the Norbourg affair, summarizing the main aspects of this affair for the period from October 2004 to April 2006.

Committed to keeping you informed of any new developments in this matter, the AMF is providing you with this document, which outlines recent events between May 2006 and January 2007. In addition, an updated chronology of the main events since October 2004 is appended to this document.

1

Charges filed by the AMF against Vincent Lacroix

Recall

On March 9, 2006, the AMF filed 51 charges against Vincent Lacroix, the former CEO of Norbourg.

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.

The Integrated Market Enforcement Team (IMET) is conducting a criminal investigation into this affair.

The AMF has sent Vincent Lacroix a complete version of the evidence it intends to use before the court, in accordance with the regulations governing penal matters.

After the charges were filed, Vincent Lacroix submitted an initial application for legal aid; this was denied. Subsequent requests for review were presented and also denied.

On December 11, 2006, Madam Justice Élizabeth Corte met with the parties to follow up on progress made in the matter. At that time, Vincent Lacroix announced that he wished to submit a petition to the court for his legal fees to be assumed by the government, after being denied legal aid on a number of occasions. The Judge asked that the petition be presented in writing and sent to AMF lawyers by January 22, 2007.

The Judge set the hearing for the petition for February 5, 2007. The AMF intends to contest the petition and to insist that the trial hearing take place on the previously agreed dates.

The hearing for the trial of Vincent Lacroix is scheduled to take place between May 7 and June 15, 2007.

Summary

- *Pre-hearing conference – October 6 and December 11, 2006.*
 - *Submission of a petition by Vincent Lacroix for his legal fees to be assumed by the government – February 5, 2007.*
 - *Trial hearing set to take place between May 7 and June 15, 2007.*
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2

Suits filed on behalf of investors

Recall

On October 24, 2005, the AMF initiated a proceeding on behalf of investors. It claimed over \$84 million from Vincent Lacroix. On March 10, 2006, this amount was increased to \$115 million and other defendants were added to the claim.

Meanwhile, the firm Lauzon Bélanger took measures for authorization to launch a class action against the individuals involved in this affair. The AMF was also added to the list of defendants.

On April 25, 2006, the Superior Court ruled that the firm Lauzon Bélanger to be incompetent for representing investors, as M^e Lauzon was deemed to be in a conflict of interest.

SUIT LAUNCHED BY THE AMF

On November 30, 31 and December 1, 2006, several defendants appeared before Mr. Justice Robert Mongeon to request that the suit filed by the AMF on behalf of investors be dismissed or suspended pending a decision regarding the class action. The Judge adjourned for further consultation and is expected to issue a judgment in the near future.

The AMF will pay for all of the costs associated with the suit. Investors will therefore not be expected to cover any costs. All amounts recovered as a result of the suit will be distributed to defrauded investors.

Through its suit, the AMF has placed its resources, expertise and all evidence gathered during its investigation at the disposal of investors.

CLASS ACTION

On May 5, 2006, M^e Lauzon was replaced by M^e Jacques Larochelle and M^e Serge Létourneau in order to represent investors.

On September 12, 2006, the Superior Court authorized the class action.

The notice required under the law was published on December 7, 2006 in the newspaper *Les Affaires*, on December 9, 2006 in *Le Soleil*, *La Presse* and *The Gazette* as well as on the AMF website.¹

1. Notice posted on the AMF home page at www.lautorite.qc.ca, under Current Issues – Norbourg.

In addition to naming the individuals affected by the class action,² this notice outlines the main issues that will be raised by the suit, as well as the conclusions sought against the defendants.

Unlike the AMF's suit, the costs associated with the class action will be borne by investors and will be deducted from the amounts recovered.

A meeting with all concerned parties, in the presence of Mr. Justice André Prévost, is scheduled for January 24, 2007 to ensure proceedings are conducted efficiently.

3

Liquidation of funds

Recall

On December 8, 2005, Ernst & Young, which was appointed liquidator of the assets of the Norbourg group, filed a petition for approval of its liquidation plan. The plan involved a liquidation process on a fund-by-fund basis, whereby the amounts held in each of the 29 funds would be distributed only to the unitholders of the particular fund.

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.

In order to hear the arguments in support of these proposed options, the court decided to appoint two independent lawyers to make representations and present their arguments before the court.

As at March 31, 2006, the amounts held in each fund at issue were valued at \$76,994,841 and administered by a portfolio manager.

2. The individuals who, in the event that the suit is allowed, will be eligible for compensation from defendants found guilty.

**FUND DISTRIBUTION METHOD
CHOSEN BY THE COURT**

On July 31, 2006, the Superior Court decided that the liquidation would be carried out on a fund-by-fund basis. This decision was appealed on August 30, 2006 by the lawyer defending the consolidated distribution method. The appeal will be heard on May 8, 2007.

INTERIM DISTRIBUTION

The liquidator asked the court to authorize an interim distribution so that investors could recover a portion of their investments pending a final and enforceable judgment from the court.

In addition, the liquidator determined the minimum amount that each investor would receive, regardless of the court's ruling. On June 6, 2006, the court approved the liquidator's proposal to distribute funds to investors.

To date, the liquidator has issued over 5,300 cheques to investors, for a total of approximately \$31 million. Those investors who were not affected by the interim distribution, on account of the funds in which they had invested, were notified in writing.

The investors affected by this interim distribution will not receive a tax slip for their 2006 tax return. As a result, they will not be able to claim capital losses associated with their investment in the funds at issue. Nevertheless, the liquidator will issue appropriate tax slips for each affected investor once the court has determined the distribution method to be followed for the remaining funds and once the final distribution has been completed.

**LIQUIDATOR'S PETITION IN RESPECT OF
BANK ACCOUNT OF EVOLUTION FUNDS INC.**

The liquidator filed another petition with the court in April 2006 for a ruling on ownership of over \$2.6 million held in trust in the bank account of Evolution Funds Inc. The funds were apparently deposited into the account for the benefit of certain investors a few days before the date of the freeze order issued on August 25, 2005.

An initial hearing was held on November 1 and 2, 2006, and will resume in January 2007 so that a conclusion may be reached concerning ownership of the funds. According to the judgment that will be issued, the amounts will either be distributed to investors (amounts invested or amounts owed to them) or to the liquidator for allocation to the funds to which they were intended, or distributed based on a combination of these two options or to the trustee of Evolution Funds Inc.

Summary

- *An interim distribution of the assets of the Norbourg group was authorized by a judge on June 6, 2006.*
 - *On July 31, 2006, the court ruled that the liquidation would take place on a fund-by-fund basis rather than according to the consolidated distribution method. This ruling was appealed on August 30, 2006.*
 - *The appeal will be heard on May 8, 2007.*
-

4

Analysis of compensation claims submitted to the financial services compensation fund

Recall

Under its constituting Act, the AMF helps protect consumers, and it does so in particular through its financial services compensation fund (*"Fonds d'indemnisation des services financiers"*).

Established under section 258 of the *Act respecting the distribution of financial products and services* ("Distribution Act"), the fund is financed by members of the distribution industry and is intended exclusively for victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership is responsible in the course of their distribution activities.

The maximum compensation payable through the fund is \$200,000 per claim.

FINDINGS FROM ANALYSIS OF COMPENSATION CLAIMS

As mentioned in May 2006,³ the misappropriation (or embezzlement) of Norbourg, Evolution and Perfolio funds was committed by a fund manager. The latter is not governed by the Distribution Act, which grants compensation powers to the financial services compensation fund.

On several occasions, the AMF informed defrauded investors of the possibility of submitting a claim to its compensation fund.

3. See information brochure on the Norbourg affair intended for investors, published in May 2006.

The AMF therefore proceeded with an analysis of 1,987 claims. These claims were submitted during the one-year legal eligibility period that ended on August 26, 2006.

Based on its investigation of the Norbourg affair and its overall analysis of compensation claims, the AMF was able to:

- confirm that the losses incurred by investors were indeed the result of embezzlement committed by a fund manager, who is not governed by the Distribution Act, and are therefore not covered by the compensation fund;
- determine however that, in certain instances, the fund manager's scheme extended to distribution activities because it included fraudulent tactics carried out at group savings plan brokerage firms Norbourg Capital Inc. and Groupe Futur Inc. through twenty or so representatives; this related to the sale of Norbourg funds only.

The AMF analysis revealed that Vincent Lacroix and the firms Norbourg Capital and Groupe Futur set up financial incentives intended to recruit representatives for the sale of Norbourg funds. In this way, some twenty representatives logged significant sales of these funds in consideration of financial incentives that were unjustified. These incentives appear to have been part of an extensive scheme launched by Vincent Lacroix to generate Norbourg funds and misappropriate the funds for his own benefit.

APPROXIMATELY 925 INVESTORS COMPENSATED

Approximately 925 investors, or almost half of compensation claims submitted, could therefore receive an indemnity through the compensation fund managed by the AMF, for a maximum amount of \$200,000 as stipulated under the rules of the fund. These investors submitted their claims before August 26, 2006 and had acquired units in Norbourg funds through group savings plan brokerage representatives attached to Norbourg Capital and Groupe Futur.

As for the other investors who conducted business with group savings plan brokerage representatives, they are unfortunately not eligible for compensation from the AMF. Their claims will be rejected because of a lack of evidence whereby concrete measures were taken to promote the sale of the funds in dispute. Claims submitted by investors who did not conduct business with a group savings plan brokerage representative will also be rejected because the compensation fund has no jurisdiction over securities dealers with an unrestricted practice.

Other venues are available for the recovery of funds and, in this regard, a number of steps have been taken. They relate to distributing the remaining funds, maximizing the realization of a bankrupt's assets and launching legal proceedings.

COMPENSATION PAYMENTS

In mid-January 2007, the AMF will communicate its position in writing to the 1,987 investors who submitted a claim. Investors with eligible claims will be notified that an analysis of losses eligible for compensation is still under way. Investors whose claims have been rejected will receive a letter explaining the decision in detail. Claimants who have not received such a letter by April 15, 2007 are asked to contact the AMF Information Centre at 1 866 526-0311.

Each investor eligible for compensation will subsequently receive a decision from the AMF detailing in particular a specific assessment of the compensation amount based on the net investment and the \$200,000 maximum, as stipulated in the compensation fund rules.

The AMF will make every effort to ensure that the compensation payments are made as expeditiously as possible.

Furthermore, the AMF will take appropriate measures against any person who may be liable toward investors with eligible claims for the purpose of recovering amounts paid to victims.

A press release was issued by the AMF on January 18, 2007 and posted on its website at www.lautorite.qc.ca. It provides an overview of its analysis of claims submitted by investors who incurred losses in this unfortunate affair.

Summary

- *The AMF analyzed the 1,987 claims submitted during the one-year legal eligibility period that ended on August 26, 2006.*
 - *Approximately 925 investors, or almost half of compensation claims submitted, could receive an indemnity through the compensation fund for a maximum amount of \$200,000.*
 - *In mid-January 2007, the AMF will communicate its position in writing to the 1,987 investors. Claimants who have not received such a letter by April 15, 2007 are asked to contact the AMF Information Centre at 1 866 526-0311.*
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5

Bankruptcy proceedings in respect of Norbourg companies

Recall

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 serves as an officer of the court with a fiduciary responsibility to creditors, made up of creditors and other persons with interests to assert, under the direction of and in accordance with instructions from inspectors. 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.

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 (primarily investors) will be prorated based on respective claims.

CURRENT SITUATION

Given that defrauded investors account for approximately 95% of unsecured claims related to bankrupt Norbourg companies, the trustee will transfer most of the realized assets of these companies to the liquidator for distribution to investors.

To date, the gross realization of the bankrupts' assets stands at \$3.3 million. In addition, the trustee, RSM Richter Inc., has launched suits against nine individuals and three companies for an amount valued at \$7,208,000.

The following companies have declared bankruptcy:

- Ascensia Capital Inc.
- Evolution Funds Inc.
- Perfolio Asset Management Inc.
- Norbourg Asset Management Inc.
- Norbourg Groupe financier Inc.

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

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

Summary

- *The trustee intends to recover between \$5 million and \$7 million, which will be distributed to investors.*
 - *Defrauded investors account for 95% of ordinary (unsecured) creditors affected by the bankruptcy of the Norbourg group of companies.*
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6 Bankruptcy proceedings in respect of Vincent Lacroix

Recall

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.

END OF THE MANDATE OF THE INTERIM RECEIVER

Ernst & Young Inc.'s mandate as interim receiver for the assets of Vincent Lacroix began on December 2, 2005 following a court order. The mandate ended with the bankruptcy of Vincent Lacroix on May 19, 2006.

The assets of Vincent Lacroix realized during the interim receiver's administration include the sale of three buildings, the collection of certain loans and the cashing of a bank account balance.

APPOINTMENT OF TRUSTEE

Québec Superior Court Judge Robert Mongeon ordered Vincent Lacroix to declare bankruptcy on May 19, 2006 following the presentation of the bankruptcy petition filed by the Québec Deputy Minister of Revenue against Vincent Lacroix on October 18, 2005 and supported by the trustee in bankruptcy of certain Norbourg companies and the AMF.

Vincent Lacroix n'a pas porté ce jugement en appel. À cette date, Ernst & Young inc. a donc été nommé syndic de l'actif de Vincent Lacroix. Son mandat a été confirmé par les créanciers de Vincent Lacroix à la première assemblée de ses créanciers le 6 juillet 2006.

During the meeting of creditors, the trustee issued a preliminary report of its administration to creditors. In addition, five bankruptcy inspectors were appointed by creditors to represent them in dealings with the trustee, to oversee the trustee's task and to approve certain decisions that the trustee is called on to make during its administration.

REALIZATION OF BANKRUPT'S ASSETS AND DEBTS

To date, the gross realization of the bankrupt's assets stands at over \$11 million and consists primarily of the following assets:

- Available amount from the interim receiver;
- 10 million common shares of Dianor Resources Inc. (net of the exercise of 5 million warrants);
- 980,670 shares of Threegold Resources Inc.;
- Collection of a portion of advance payments made to Gestion Lacroix Inc. following the sale of the main assets of the *Auberge de l'Étoile* Inc. in Magog;
- Sale of the debts owed by the *Planures Nord-Ouest* group in Amos;
- Collection of the investments in the Norbourg and Evolution funds following the interim distribution by the liquidator of the funds;
- Sale of a Lexus truck, a boat and a watercraft.

The trustee began reviewing the bankrupt's transactions before bankruptcy was declared, and certain proceedings were initiated to secure payment regarding transactions deemed to be reviewable. The trustee anticipates completing its review of transactions in early 2007 and expects to initiate related legal actions aimed at recovering assets prior to May 2007, as the case may be.

With regard to the bankrupt's creditors, the trustee has received some proofs of claim. To date, the claims account for close to \$37 million, which is primarily made up of the claims produced by the trustee of certain Norbourg companies. The \$37 million does not include the debt owed to the Québec Department of Revenue, which stands at over \$18 million and is secured by certain mortgages that cover a portion of the bankrupt's assets.

On May 31, 2006, the Québec Minister of Revenue, Mr. Bergman, announced that the Government of Québec intends to distribute to investors the amounts earmarked to pay Vincent Lacroix's tax liability. The amounts are valued at \$24 million, of which \$6 million has already been collected and \$18 million is to be collected if the trustee's recovery efforts are successful.

From now until the trustee begins to distribute the available funds to the bankrupt's creditors, other claims from ordinary (unsecured) creditors are expected, including the claim from the AMF on behalf of investors as well as the class action launched directly by investors.

Once the bankrupt's debts have been determined and the realization of the assets has been completed, including the outcome of the trustee's recovery procedures regarding reviewable transactions, available funds will be distributed to the bankrupt's eligible creditors based on the rights held by each.

Summary

- *To date, the gross realization of the assets of the bankrupt, Vincent Lacroix, stands at over \$11 million.*
 - *Most of the amounts recovered by the trustee will be distributed on a prorated basis to defrauded investors in line with their claims.*
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Chronology of Events in the Norbourg Affair October 2004 to January 2007

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 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 by the Québec Minister of Finance 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.
-

SEPTEMBER AND OCTOBER 2005

- On September 26, 2005, the provisional administrator, Ernst & Young, files a report with the Minister of Finance and the AMF 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 petition 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 petition 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.
 - On March 9, 2006, the AMF adds the names of other individuals associated with the affair to that of Vincent Lacroix.
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APRIL 2006

- On April 7, 2006, Vincent Lacroix enters a plea of not guilty to each charge brought against him, in addition to filing various preliminary motions intended, among other things, to suspend penal proceedings against him. 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 declares the firm Lauzon Bélanger to be incompetent for representing investors primarily because M^e Lauzon is deemed to be in a conflict of interest.
-

MAY 2006

- On May 19, 2006, Vincent Lacroix is placed in bankruptcy following a judgment by the Superior Court. This bankruptcy signals the end of the mandate of the interim receiver and leads to the appointment of a trustee in bankruptcy (Ernst & Young Inc.).
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JUNE AND JULY 2006

- On June 6, 2006, a judge authorizes the interim distribution of the assets of the Norbourg group.
 - On July 6, 2006, the first meeting of the creditors of Vincent Lacroix is held and the mandate of Ernst & Young Inc. as trustee in bankruptcy is confirmed.
 - On July 31, 2006, a court decides that the liquidation of assets must be carried out on a fund-by-fund basis and not on a consolidated basis.
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AUGUST 2006

- On August 30, 2006, the decision to liquidate the assets on a fund-by-fund basis is appealed.
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OCTOBER 2006

- Between March and October 2006, RSM Richter Inc. launches suits against nine individuals and three companies for an amount valued at \$7,208,000.
 - On October 6, 2006, a pre-hearing conference is held with respect to the trial of Vincent Lacroix regarding the 51 charges filed by the AMF.
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NOVEMBER AND DECEMBER 2006

- On November 30, 31 and December 1, 2006, several defendants request that the suit launched by the AMF be dismissed or suspended.
 - On December 11, 2006, Judge Élisabeth Côté meets with the parties to follow up on the progress made in the case.
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JANUARY 2007

- On January 18, 2007, the AMF announces compensation of approximately \$31 million.

IMPORTANT

- If you have not received a letter from the AMF by April 15, 2007 informing you of its position regarding your compensation claim, please contact the AMF Information Centre.

The information brochure on the Norbourg affair intended for investors, published in May 2006, is available on the AMF website at www.lautorite.qc.ca, under Current Issues – Norbourg.

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

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Elsewhere in Québec: 1 866 526-0311

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