

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

BETWEEN:

ONTARIO SECURITIES COMMISSION

Applicant

- and -

**PORTUS ALTERNATIVE ASSET MANAGEMENT INC.,
PORTUS ASSET MANAGEMENT INC. and BANCNOTE CORP.**

Respondents

**MOTION RECORD
(Returnable March 17, 2005)**

March 17, 2005

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**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

ONTARIO SECURITIES COMMISSION

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**PORTUS ALTERNATIVE ASSET MANAGEMENT INC.,
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Respondents

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**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

BETWEEN:

ONTARIO SECURITIES COMMISSION

Applicant

- and -

**PORTUS ALTERNATIVE ASSET MANAGEMENT INC.,
PORTUS ASSET MANAGEMENT INC. and BANCNOTE CORP.**

Respondents

NOTICE OF MOTION

The Applicant Ontario Securities Commission (the "Applicant") will make a motion before The Honourable Mr. Justice Colin Campbell on Friday, March 18, 2005 at 10:00 o'clock in the morning or as soon after that time as the motion can be heard at 393 University Avenue, in the City of Toronto.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An Order abridging the time for service of this motion;
2. an Order continuing the Order of The Honourable Mr. Justice Campbell herein dated Friday, March 4, 2005 (the "Initial Order") until such time as KPMG Inc., in its capacity as the Receiver of the Respondents, has completed the administration of the Estate and has been discharged by this Honourable Court;

3. an Order that the Receiver's Charge (as defined in the Initial Order) and the Representative Counsel Charge (as defined in the Second Report) each constitute a first ranking charge, ranking *pari passu* and *pro rata* with each other, upon Account No. 130-815-4 maintained by the Respondent Portus Alternative Asset Management Inc. ("PAAM") at Royal Bank of Canada;
4. an Order authorizing the Receiver to examine, under oath, any person reasonably thought to have knowledge of the affairs of the Respondents including, without limitation, any person who is or has been a director, officer, employee, agent, representative, associate, solicitor, auditor or accountant of the Respondents or any of them including, without limitation, Boaz Manor, Michael Mendelson and Ali Hamid, respecting his or her knowledge of and dealings with the Respondents or any of them and that such notices for examination shall be given in the form set forth in the Rules of Civil Procedure for examinations for discovery and service shall be effective by facsimile sent on 2 days notice;
5. an Order empowering the Receiver to demand production from third parties (including but not limited to the Respondents' advisors, banks, financial institutions, solicitors, counsel and accountants of documents relating to:
 - (a) the Respondents' financial affairs;
 - (b) funds received by the Respondents from third party investors (the "Investors") and the investment of those funds or the Respondents on behalf of the Investors;
 - (c) the purchase, sale and any dealings by the Respondents in securities with third parties utilising funds received from the Investors (the "Third Party Transactions");
 - (d) the identity of the third parties with which the Respondents or any of them engaged in the Third Party Transactions;

- (e) the bank accounts or other financial records in respect of the accounts into which such funds were deposited including documents regarding any withdrawal, transfer or dissipation of funds in any such accounts;
- (f) commissions, fees, expenses or other amounts paid to any persons in connection with funds received by the Respondents or any of them and any agreements, arrangements or other communication with respect to the payment of such amounts;

and further directs that all such third parties shall co-operate fully with the Receiver subject to claims of legal privilege.

- 6. an Order appointing KPMG Inc. as Receiver of all property, assets and undertaking of the Trusts (as defined herein) and SAM (as defined herein);
- 7. an Order appointing KPMG Inc. as Receiver of the Canadian assets of the Cayman Companies (as defined herein);
- 8. an Order approving the conduct of the Receiver as described in the Second Report of the Receiver dated March 17, 2005 (the "Second Report"); and
- 9. such further and other relief as counsel may advise and this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

- 1. the Receiver was appointed without notice pursuant to the provisions of subsection 129(3) of the *Securities Act* (Ontario);
- 2. subsection 129(3) of the *Securities Act* (Ontario) provides that an appointment of a Receiver without notice shall not exceed 15 days;
- 3. subsection 129(4) of the *Securities Act* (Ontario) provides that, if a Receiver is appointed without notice under sub section 129(3), the Ontario Securities Commission may make a

motion to the Court within 15 days after the date of the Order to continue the Order or for the issuance of such other Order as the Court considers appropriate;

4. it is in the best interest of the Investors and other persons with an interest in the affairs of the Respondents that the appointment of the Receiver be continued until such time as the Receiver has completed the administration of the Estate and has applied to this Honourable Court for its discharge;
5. the Receiver has ascertained that Account No. 130-815-4 maintained by the Respondent PAAM at Royal Bank of Canada (the "Specified Account") is not impressed with a trust nor is it subject to any security interest save and except for the Receivers' Charge and the Representative Counsel Charge, which rank *pari passu* and *pro rata* with each other;
6. the principals of the Respondents and various parties with which the Respondents engaged in the Third Party Transactions involving funds invested with or through the Respondents by the Investors have failed or refused to operate with the Receiver in producing documents to the Receiver and disclosing to the Receiver the nature of those transactions and the ultimate destination of the funds invested by the Investors with or through the Respondents;
7. the trusts listed at Schedule "A" hereto (collectively, the "Trusts") and Premiers Derives Paris Inc. and BNote Management Inc. (such latter two parties together referred to as the "Cayman Companies"), were the recipients of funds from the Investors (as defined in the Second Report) through the Debtors. As a result, assets in which the Investors invested are not in the hands of the Debtors, but rather, appear to be in the Trusts. As a result, in order to protect the interests of the Investors and other creditors, it is essential that that the receivership be expanded to include the Trusts and the Canadian assets of the Canadian Companies;
8. Southview Asset Management Inc. ("SAM") is related to the Debtors, and the Receiver is of the view that it is essential that that the receivership be expanded to include the Southview Companies and 4055527;

9. certain Investors may be experiencing severe hardship due to their inability to redeem their investments with the Debtors;
10. Such other grounds as are set out in the Second Report;
11. Sections 1.1 and 129 of the *Securities Act*;
12. Section 101 of the *Courts of Justice Act*;
13. Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. the Second Report of the Receiver dated March 17, 2005; and
2. such further and other material as counsel may advise and this Honourable Court may permit.

March 17, 2005

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Schedule "A"

Market Neutral Preservation Fund
MNB Trust
BancNote Trust Series II
BancNote Trust Series III
BancNote Trust Series IV
BancNote Trust Series V
BancNote Trust Series VI
BancNote Trust Series VI(a)
BancNote Trust Series VIII
BancNote Trust Series VIII(a)
BancNote Trust Series X
BancNote Trust Series X(a)
Preservation Fund Series II
Preservation Fund Series III
BancLife Trust Series I
BancLife Trust Series II
Malachite Aggressive Preferred

ONTARIO SECURITIES COMMISSION
Plaintiff

and

**PORTUS ALTERNATIVE ASSET MANAGEMENT INC.,
PORTUS ASSET MANAGEMENT INC. and BANCNOTE
CORP.**
Defendant

Court File No.05-CL-5792

ONTARIO
SUPERIOR COURT OF JUSTICE
Proceeding commenced in Toronto

NOTICE OF MOTION

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TAB 2

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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Respondents

**SECOND REPORT OF THE RECEIVER
(Dated March 17, 2005)**

Background

1. Pursuant to the Order of the Honourable Mr. Justice Campbell of the Ontario Superior Court of Justice (Commercial List) dated March 4, 2005 (the "Initial Order"), KPMG Inc. was appointed as Receiver (in such capacity, the "Receiver") pursuant to Section 129 of the *Securities Act*, R.S.O. 1990, c.S-5, as amended, without security, of all of the assets, undertakings and properties of Portus Alternative Asset Management Inc. ("PAAM"), Portus Asset Management Inc. ("PAM") and BancNote Corp. (collectively, the "Debtors", which term for greater certainty includes any of them). A copy of the Initial Order is attached hereto as Exhibit "A".
2. The purpose of this Second Report of the Receiver (the "Second Report") is to provide this Honourable Court with an update in respect of the activities of the Receiver since the date of the First Report of the Receiver dated March 9, 2005 (the "First Report"), the

progress of the receivership generally, and to provide a factual basis upon which this Honourable Court is requested to grant certain relief.

3. Capitalized terms not defined in this Second Report are as defined in the Initial Order or the First Report. All references to dollars are in Canadian currency unless otherwise noted. Certain information set out in the First Report is repeated herein for ease of reference.

Activities of the Receiver

4. Since the date of the Initial Order, the Receiver has:
 - a) taken steps to secure the Debtors' known business premises and to locate and secure other Property;
 - b) taken steps to safeguard, secure and back-up the Debtors' physical and electronic records;
 - c) taken steps to locate amounts held in the Debtors' bank accounts;
 - d) commenced an assessment of the corporate and financial structure of the Debtors and their business;
 - e) commenced an assessment of transactions entered into by the Debtors involving the investing public and other third parties, including meeting with certain of these third-parties;
 - f) attempted to communicate with the Debtors' key decision makers and other former employees; and
 - g) established a public communication program, including a telephone information line and internet website.

Securing the Debtors' Premises

5. The Receiver has taken steps to secure the known business premises of the Debtors, including leased premises at First Canadian Place, 100 King St. West, Toronto, Ontario (the "First Canadian Premises") and at BCE Place, 161 Bay Street, Toronto, Ontario (the "BCE Place Premises").
6. The Receiver continues to review the business records of the Debtors located at the First Canadian Premises and the BCE Place Premises. The Receiver continues to have discussions with third parties and review records with a view to identifying other properties or leased premises of the Debtors.

Review of Electronic Records

7. The Receiver has taken steps to safeguard, secure and back-up electronic records in respect of the Debtors' business. The process of safeguarding the data is very time-consuming, as the Receiver is taking extra steps to preserve its integrity. The Receiver continues its review of the Debtors' electronic records, but is not yet in a position to report with respect thereto.
8. It is apparent from the Receiver's attempts to review the electronic records of the Debtors that attempts were made to destroy the data contained therein. The Receiver is continuing its attempts to recover the data for review, but it is still uncertain as to whether all of the data is recoverable.

Securing Property and Accounts

9. The Receiver has been communicating with certain third parties with knowledge of specific assets comprising the business or with respect to the nature of the Debtors' business, with a view to developing a more comprehensive understanding of the Debtors' assets and affairs.
10. In particular, the Receiver has had discussions with representatives of Royal Bank of Canada and its affiliates (collectively "RBC"), which provided banking and related services to some or all of the Debtors, as well as Société Générale (Canada) ("SGC"), and

Manulife Financial Corporation. Advisors licensed by Manulife Securities International Limited, a subsidiary of Manulife Financial Corporation, referred certain of the Investors to PAAM's financial products. These parties have provided assistance to and cooperated with the Receiver.

11. With the assistance of RBC personnel, the Receiver has identified approximately 100 accounts at RBC belonging to the Debtors and/or containing Other Property (collectively, the "RBC Accounts").
12. The Receiver is in the course of reviewing the various account operation agreements in respect of the RBC Accounts. The Receiver has identified an RBC Account at RBC Main Branch, referred to as Account No. 130-815-4 ("Account 130-815-4"), which contains funds in the amount of approximately \$15 million that are the property of PAAM.
13. The Receiver requires funds to pay for the ongoing administration of the receivership. In addition, the Representative Counsel requires funding to fulfill its role. The Receiver requests that this Honourable Court issue a declaration confirming that Account 130-815-4 is subject to (i) the Receiver's Charge; and (ii) a charge securing the fees and disbursements of the Representative Counsel ranking *pro rata* and *pari passu* with the Receiver's Charge (the "Representative Counsel Charge").

Offshore Accounts

14. The Receiver has located certain of the Debtors' internal records that indicate that between January 2004 and February 2005 approximately USD\$30 million was wire transferred by PAAM to offshore bank accounts, and approximately CAD\$210 million was wire transferred by PAAM to offshore bank accounts. According to such internal records, it appears that a significant portion of such funds were transferred to offshore bank accounts controlled by PAAM, which, based on the Receiver's review of the Debtors' records, may be beneficially owned by the Cayman Companies (as defined herein).

15. The Receiver has not yet determined the purpose of these wire transfers, nor whether the funds were ever repatriated back into Canadian bank accounts.
16. The Receiver is investigating the nature and purpose of these transfers, but the Receiver has been hampered in its efforts thus far due to the insufficiency of the Debtors' records and the lack of assistance from the Debtors' key decision makers. The Receiver has contacted certain of these offshore banks to request information with respect to PAAM's accounts.
17. Given the magnitude of the wire transfers indicated by such internal records, the Receiver is concerned that the lack of information with respect thereto will interfere with the Receiver's ability to understand the business of the Debtors.

Expansion of Receivership to Include Certain Related Parties

18. Based on the Receiver's preliminary review of the Debtors' business, affairs and records, and with the assistance of and meetings with third parties such as former employees, and information from the Debtors' legal counsel, it appears that the Debtors were involved in complex financial structures involving multiple layers of entities and transactions in several jurisdictions.
19. Many of these transactions involved corporations, purported trusts or other entities related to the Debtors. Set out below at paragraphs 20 to 25 is a description of a representative transaction structure, which description is based on the receiver's review of available documents and records. The purpose of this description is in support of the Receiver's recommendations set out at paragraph 44.

Purported Structure of BancNote Trust Series

20. The Receiver has reviewed documents including, but not limited, to the account portfolio management agreement, the offering memoranda in respect of each series of the Trusts, and unsigned ISDA master agreements for derivative contracts, and has conducted interviews with certain former employees of the Debtors. Based upon such documents and interviews, the following is the Receiver's understanding of the BancNote Trust

Series structure, although the Receiver notes that such structure may not have been fully implemented as so described.

21. In the BancNote Trust Series structure, it appears that funds from Investors were invested in managed accounts with PAAM. Attached hereto as Exhibit "B" is a copy of a sample RSP/Non-RSP Account Portfolio Management Agreement for BancNote Trust Series VI (the "Sample Agreement"). As stated in the Sample Agreement,

"Paradigm initially intends to invest all of the assets in the Account in a structure intended to provide you with substantially the economic effect of an investment in BancNote Trust - Series VI (the "Trust") with certain tax deferral and capital gains (rather than income) treatment. The tax-efficient derivative structure which Paradigm intends to use is expected to involve the purchase of listed non-dividend-paying securities which will constitute "Canadian securities" as defined in subsection 39(6) of the *Income Tax Act* (Canada) (the "Tax Act"), and the simultaneous purchase of an option from and the writing of an option to separate counterparties, which may be Canadian or non-Canadian entities. The Canadian listed securities so acquired may be pledged by Paradigm on behalf of the Account as securities for such options."
22. Under a structure such as the one described above, the Debtor would invest all monies raised under the managed account agreement described above in shares purchased from *Première Derivés Paris Inc.* ("PDP"), a Cayman company, and would write a call option with PDP to deliver shares in exchange for the economic benefit of units in certain trusts. The Debtor would also pledge the basket of equity stock as collateral for this call option written. At the same time, the Debtor would purchase a put option with *BNote Management Inc.* ("BNote"), a second Cayman company, to deliver shares in exchange for the economic benefit of the units in certain trusts. BNote in turn would pledge units of the particular BancNote trust series to the Debtor.
23. All evidenced derivative contacts are unsigned. In addition, the Receiver has thus far been unable to locate copies of any agreements and collateral accounts with respect to the share transactions for the trusts and the pledging of shares and units. Attached hereto as Exhibit "C" is a copy of one of the ISDA agreements for the put and call options.
24. Given that BNote, as principal subscriber of the units of the BancNote Series of Trusts, owns the units of the Trust and pledges these units to the Debtor through the derivative

contract described above, it appears that a cross-hedging relationship between PDP and BNote (together, the "Cayman Companies") would be required to complete the structure as described. The Receiver has not been able to obtain a copy of this cross-hedging relationship agreement but has seen limited reference to it in certain documentation.

25. Based upon the Receiver's information thus far, it would appear that BNote, as the primary unitholder of the relevant Trusts, does not have any direct or indirect ownership of the underlying investments in the Trust but rather only has ownership of the units of the Trust. Units of the Trusts are not directly guaranteed against losses, and ownership of the principal protected investments purchased by the Trusts lies with the Trusts themselves. PAM, or its appointed valuation agent, was responsible for computing the net asset value of each Trust. Attached hereto as Exhibit "D" is a copy of an Offering Memorandum describing the structure and transactions set out above and including without limitation, the role of the manager and investment advisor, and investment strategy and relevant risk factors.

The Trusts

26. By e-mail dated March 15, 2005, McMillan Binch LLP, which acted as counsel to PAM on several transactions, advised the Receiver (through its counsel) of the existence of the following purported trusts (collectively, the "Trusts"):

- Market Neutral Preservation Fund
- MNB Trust
- BancNote Trust Series II
- BancNote Trust Series III
- BancNote Trust Series IV
- BancNote Trust Series V
- BancNote Trust Series VI
- BancNote Trust Series VI(a)
- BancNote Trust Series VIII
- BancNote Trust Series VIII(a)
- BancNote Trust Series X
- BancNote Trust Series X(a)
- Preservation Fund Series II
- Preservation Fund Series III
- BancLife Trust Series I
- BancLife Trust Series II
- Malachite Aggressive Preferred Fund

A copy of the e-mail from McMillan Binch LLP dated March 15, 2005 is attached hereto as Exhibit "E".

27. It is the Receiver's understanding that units in BancNote Trust Series II through X(a) and BancLife Trust Series I and II were sold to, and held by, primarily BNote, as well as a small portion owned by Manor personally and/or PAAM.
28. As noted above, it appears that any economic benefits accruing on the baskets of investments held by BancNote Trust Series II through X(a) and BancLife Trust Series I and II were transferred by BNote to PAAM through derivative contracts and the pledging of these units as collateral to these contracts.
29. Attached as Exhibit "F" is a copy of a letter from Hymas Investment Management Inc., former trustee of Malachite Aggressive Preferred Fund ("Malachite"), giving notice to all unitholders of Malachite of the appointment of PAAM as replacement trustee of Malachite.

Documented Trusts

30. McMillan Binch LLP advises that only certain of the Trusts have been properly documented. Specifically, McMillan Binch LLP has advised that Market Neutral Preservation Fund is the subject of an Amended and Restated Trust Agreement dated May 23, 2003, pursuant to which PAM is manager and Computershare Trust Company of Canada ("CTCC") is trustee. Attached hereto as Exhibit "G" is a copy of the Amended and Restated Trust Agreement.
31. In addition, McMillan Binch LLP has advised that MNB Trust is the subject of a Trust Agreement dated June 20, 2003, pursuant to which Paradigm Asset Management Inc. (predecessor to PAM) is manager and CTCC is trustee. Similarly, BancNote Trust Series II is the subject of a Trust Agreement dated March 29, 2004, pursuant to which PAM is manager and CTCC is trustee. Attached hereto as Exhibit "H" is a copy of the Trust Agreement.

Undocumented Trusts

32. McMillan Binch LLP advises that BancNote Trust Series III through X(a) (collectively, the “Undocumented Trusts”) were supposed to have been governed by: (i) a Master Trust Agreement dated September 17, 2004; and (ii) Supplemental Trust Agreements which were to have been executed for each of the Trusts. Pursuant to the Master Trust Agreement, PAM and CTCC were to be appointed as manager and trustee, respectively, of the Undocumented Trusts.
33. As noted above, a Supplemental Trust Agreement was to have been executed by PAM and CTCC in respect of each of the Undocumented Trusts. Pursuant to the terms of the Master Trust Agreement, the trusts are established upon execution by the trustee of a Supplemental Trust Agreement in respect of such specific trust. However, no Supplemental Trust Agreements were executed by CTCC in respect of the Undocumented Trusts. McMillan Binch LLP advises the Receiver that CTCC declined to act as trustee upon learning of the Commission’s investigation with respect to the Debtors.
34. McMillan Binch LLP advises that it was not involved in the creation of BancLife Trust Series I or II, and cannot provide the Receiver with any information with respect thereto. However, the Receiver is advised that Malachite Aggressive Preferred Fund is governed by a trust declaration, which was subsequently amended by unitholder consent to establish PAAM as trustee. The Receiver has been unable to locate any trust documentation thus far with respect to BancLife Trust Series I, BancLife Trust Series II, or Malachite Aggressive Preferred Fund.
35. As PAM is in receivership pursuant to the Initial Order, it is no longer managing any of the Trusts.
36. In addition, it appears as though none of the Undocumented Trusts has a trustee in place, due to the fact that Supplemental Trust Agreements were not executed in respect thereof.

The Cayman Companies

37. As noted above, it appears that each of the Cayman Companies was intended to be used as a mechanism to transfer economic benefits from the Trusts to PAAM, and ultimately to the Investors.
38. The Receiver has retained counsel in the Cayman Islands to obtain information with respect to the Cayman Companies. Cayman counsel advises the Receiver that the Cayman Companies are “exempt” corporations under Cayman Island law, and consequently such basic corporate information as the names of the officers and directors is not available to the public. Attached hereto as Exhibits “I” and “J” are copies of corporate searches in respect of the Cayman Companies.
39. Based on the Receiver’s review of the accounting records of the Debtors, it appears that PAAM and/or PAM may have control over certain Canadian bank accounts which, based on the Receiver’s review of the Debtors’ records, may be beneficially owned by the Cayman Companies.
40. The Receiver recommends that the receivership be expanded to include all Ontario and Canadian property, assets and undertaking of the Cayman Companies.

The Southview Company

41. The Receiver has identified Southview Asset Management Inc. (“SAM”) as an additional company involved in the Debtors’ business. SAM is an Ontario corporation, with its head office listed as the First Canadian Premises. Boaz Manor (“Manor”) and Michael Mendelson (“Mendelson”) are the sole officers and directors of SAM. A copy of a Corporate Profile Report in respect of SAM is attached hereto as Exhibit “K”.
42. Based on the Receiver’s review of the available books and records of the Debtors, it appears that prior to August 31, 2004, SAM provided administrative services to PAM. The Receiver’s review of the records indicates that SAM had 2004 revenues of \$6.5 million, primarily comprised of administrative fees paid by PAM including reimbursement for rent.

43. In addition, the records disclose an intercompany receivable owing from PAM to SAM in the amount of \$12.2 million. The records also show an intercompany payable owing by SAM to PAM in the amount of \$13.9 million, in respect of funding received by SAM from PAM in 2003 and 2004. Such amounts are the principal assets and liabilities of SAM.

Recommendation re Expansion of Receivership

44. The Receiver recommends that the receivership be expanded to include the Trusts, the Canadian assets of the Cayman Companies and SAM, as the Receiver is of the view that such an expansion is required for the Receiver to effectively administer the receivership of the Debtors and to maximize recovery for creditors of the Debtors.

Examination of Key Personnel

45. It is apparent to the Receiver that only certain key individuals had a complete picture of the Debtors' business structure and affairs. Accordingly, the Receiver has attempted to contact Manor and Mendelson, the two principal decision makers in the Debtors' business organization, both directly and through their respective counsel of record.
46. The Receiver has contacted Blake, Cassels & Graydon LLP, counsel to Manor, requesting all Property in the firm's possession, including any documents related to the Debtors. By letter dated March 15, 2005, Blake, Cassels & Graydon LLP advised that it is holding documents related to the Debtors, but that it is not prepared to release such documents to the Receiver due to an assertion of solicitor-client privilege by Manor. Attached hereto as Exhibits "L" and "M", respectively, are copies of the letter from Blake, Cassels & Graydon LLP, and the response of the Receiver through its counsel, Thornton Grout Finnigan LLP.
47. Mendelson's counsel has responded to certain enquiries regarding the Property, and on March 14, 2005 delivered a large volume of the Debtors' business records to the Receiver. The Receiver's preliminary review of these documents indicates that they will not assist the Receiver in understanding the Debtors' business structure or affairs.

48. In addition, the Receiver has repeatedly attempted to contact Ali Hamid ("Hamid") by telephone and by letter from the Receiver's counsel. The Receiver understands that Hamid was responsible for, among other things, oversight of the Debtors' custody accounts and wire transfers. The Debtor's Offering Memoranda for certain of the Trusts describe Hamid's role as "the primary liaison for the lawyers and accountants that handle the firm's transactions."
49. To date, the Receiver has had no success in opening any direct line of communication with Manor, Mendelson or Hamid.
50. The Receiver is of the view that obtaining information from these individuals is necessary for the Receiver to develop a clear picture of the business structure and operations of the Debtors. In addition, the Receiver has identified missing documentation including such key documents as significant contracts between the Debtors and the Cayman Companies and records related to BancNote Corp. that the Receiver requires for its assessment and analysis of the business of the Debtors.
51. The Receiver is of the view that such individuals will not provide information or the missing documents to the Receiver unless specifically compelled to do so by Order of the Court. Accordingly, the Receiver respectfully requests that this Honourable Court issue an Order compelling Manor, Mendelson and Hamid to attend examinations to be conducted by the Receiver, and directing Blake, Cassels & Graydon LLP to deliver all documents in its possession related to the Debtors.

Communications with Former Employees

52. The Receiver continues to have discussions with former employees of the Debtors. However, most of the Debtors' former employees had limited or restricted knowledge of the Debtors' business structure and affairs, and consequently the former employees have not been able to provide insight to the Receiver with respect to the overall structure and operations of the Debtors.

Public Communications

53. The Receiver has established a program for communicating with the public. The Receiver has established an information helpline at 1 (866) 260 5439 and a website available at www.kpmg.ca/portus. The Receiver has engaged personnel to operate the information helpline.
54. To date, the website has received approximately 4,800 unique hits, the information helpline has received approximately 800 telephone calls, and the Receiver has received approximately 150 e-mail enquiries.
55. The Receiver notes that “hardship” calls have become more frequent. It has come to the Receiver’s attention that certain Investors may be experiencing severe hardship due to their inability to redeem their investments with the Debtors. For example, retired persons with perhaps substantially all of their savings invested in Portus financial products may have no source of income other than the periodic redemptions of such products. The Receiver is reviewing this issue with a view to providing the Court with a recommendation shortly. In this regard, the Receiver is in contact with Representative Counsel and certain provincial securities commissions.

Representative Counsel

56. Pursuant to the Order of the Honourable Mr. Justice Campbell dated March 9, 2005 (the “Rep Counsel Order”), Douglas I. Knowles was appointed as Representative Counsel on behalf of the Investors.

Pre-Receivership Automatic Payments

57. Based on information provided by former employees of the Debtors and the Receiver’s review of available business records, it is possible that as many as 267 Investors were scheduled to receive monthly or bi-weekly payments from the Debtors between February 18 and March 3, 2005. The Receiver estimates that automatic payments in the aggregate amount of approximately \$107,000 were to have been made to Investors during this period (the “Pre-Receivership Automatic Payments”).

58. The amounts of the Pre-Receivership Automatic Payments owed to each individual Investor range to as high as 10% of an individual Investor's total investment with Debtors, with the average Pre-Receivership Automatic Payments being approximately 0.75% of an individual Investor's total investment with Debtors.
59. The Receiver is investigating the status of the Pre-Receivership Automatic Payments that the Receiver is satisfied were not made by the Debtors. The Receiver is reviewing this issue with a view to providing the Court with a recommendation shortly.

Conclusion

60. Pursuant to the Initial Order, the Receiver was appointed for a period not to exceed 15 days. Such initial period has provided the Receiver with the opportunity to locate and secure Property and to commence its review of the Debtors' business and affairs, but substantial additional time will be required for the Receiver to complete its administration of the receivership.
61. The Receiver recommends that this Honourable Court extend its appointment as Receiver, to allow the Receiver to fully administer the receivership.

Receiver's Recommendations

62. The Receiver respectfully recommends and requests that this Honourable Court issue an Order:
 - (a) Continuing the Initial Order including extending the appointment of the Receiver until such time as the Receiver has completed the administration of the Estates and has been discharged by this Honourable Court;
 - (b) declaring that Account 130-815-4 is charged by the Receiver's Charge and the Representative Counsel Charge, in order to fund the ongoing receivership costs and the costs of the Representative Counsel;
 - (c) expanding the receivership to include the Trusts, the Canadian assets of the Cayman Companies, and SAM;

- (d) directing Manor, Mendelson and Hamid to attend examinations to be conducted by the Receiver; and
- (e) directing Blake, Cassels & Graydon LLP to deliver to the Receiver all documents in its possession related to the Debtors.

ALL OF WHICH IS RESPECTFULLY SUBMITTED BY:

KPMG INC. in its capacity as
Court – Appointed Receiver of Portus
Alternative Asset Management Inc., Portus
Asset Management Inc. and BancNote Corp.,
and with no personal or corporate liability.

A handwritten signature in black ink, appearing to read 'Rusko', written over a horizontal line.

Robert M. Rusko

TAB A

Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.)

FRIDAY, THE 4TH DAY

JUSTICE C.H. CAMPBELL)

OF MARCH, 2005

ONTARIO SECURITIES COMMISSION

Applicant

- and -

**PORTUS ALTERNATIVE ASSET MANAGEMENT INC.,
PORTUS ASSET MANAGEMENT INC. and BANCNOTE CORP.**

Respondents

ORDER

THIS APPLICATION, made by the Ontario Securities Commission (the "Commission") for an Order pursuant to section 129 of the *Securities Act*, R.S.O. 1990, c. S-5, as amended (the "Act") appointing KPMG Inc. as receiver (in such capacity, the "Receiver") without security, of all of the assets, undertakings and properties of Portus Alternative Asset Management Inc., Portus Asset Management Inc., and BancNote Corp. (collectively, the "Debtors", which term for greater certainty includes any of them) was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the affidavit of Kelly Everest sworn March 4, 2005, ^{che} ~~the affidavit of~~ ~~sworn March 4, 2003~~, and the Exhibits thereto, and on hearing the submissions of counsel for the Commission, and on reading the consent of KPMG Inc. to act as the Receiver,

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged so that this application is properly returnable today and hereby dispenses with further service thereof.

APPOINTMENT

2. THIS COURT ORDERS that pursuant to section 129 of the Act, KPMG Inc. is hereby appointed Receiver, without security, of all of the Debtors' current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (collectively, the "Debtors' Property") and any assets, undertakings and properties relating to the Debtors' business, including without limitation, that which is in the possession or under the control of the Debtors or any other Person (as defined herein) including cash, deposit instruments, securities or other property held in trust for any other person (collectively, the "Other Property"), such appointment to be for a period of 15 days from the date hereof, subject to further Order of the Court.

RECEIVER'S POWERS

3. THIS COURT ORDERS that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Debtors' Property and the Other Property (collectively the "Property") and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

- (a) to take possession and control of the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
- (b) to receive and collect all monies, dividends or other amounts payable in respect of the Property;
- (c) to receive, preserve, protect and maintain control of the Property, or any part or parts thereof, including, but not limited to, the changing of locks

and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;

- (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the powers and duties conferred by this Order;
- (e) to engage such investment managers, fund managers, portfolio managers, hedge fund managers and other financial professionals from time to time and on whatever basis, including on a temporary basis, as may in the opinion of the Receiver be appropriate;
- (f) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets to carry out the terms of the Receiver's appointment;
- (g) to receive and collect all monies and accounts now owed or hereafter owing to the Debtors and to exercise all remedies of the Debtors in collecting such monies, including, without limitation, to enforce any security held by the Debtors;
- (h) to settle, extend or compromise any indebtedness owing to the Debtors;
- (i) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtors, for any purpose pursuant to this Order;
- (j) to undertake environmental or workers' health and safety assessments of the Property and operations of the Debtors;
- (k) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter

instituted with respect to the Debtors, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;

- (l) to report to, meet with and discuss with any party deemed necessary or advisable by the ~~Receiver~~ Receiver, including without limitation any secured and unsecured creditors of the Debtors, investors in any of the Debtors, any other stakeholders of the Debtors, and any of their advisors as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;
- (m) without limiting the foregoing subparagraph (l), to report to, meet with and discuss with any regulatory bodies including provincial securities commissions and any securities exchanges and their advisors as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;
- (n) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;
- (o) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtors;
- (p) to enter into arrangements with any trustee in bankruptcy appointed in respect of the Debtors, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtors and the power to lend money to or

indemnify any such trustee, such trustee borrowings or indemnity not to exceed \$100,000 unless otherwise increased by this Court;

(q) to exercise any shareholder, partnership, joint venture or other rights which the Debtors may have; and

(r) to take any steps reasonably incidental to the exercise of these powers,

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons, including the Debtors, and without interference from any other Person.

DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER

THIS COURT ORDERS that (i) the Debtors, (ii) all of their current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on their instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a "Person") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, shall provide the Receiver with account numbers and/or names under which Property may be held by third parties, and shall deliver all such Property to the Receiver upon the Receiver's request.

4. THIS COURT ORDERS that the Receiver is hereby empowered and authorized, but not obligated, to take possession and control of any funds held in the name of the Debtors, in any former names of the Debtors (including, without limitation, in the name of Paradigm Alternative Asset Management Inc.) or by a third party for the benefit of the Debtors, or any stakeholders of the Debtors, including, without limitation, all amounts standing to the credit or in the name of Market Neutral Preservation Fund at Royal Bank of Canada or RBC Dominion Securities Inc. (together, "RBC") or any of the funds listed at Schedule "A" hereto .

5. THIS COURT ORDERS that all Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting

records, and any other papers, records and information of any kind related to the business or affairs of the Debtors or the Property, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "Records") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph ~~5~~ or in paragraph ~~6~~ of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

6. THIS COURT ORDERS that that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information

7. THIS COURT ORDERS that Internet Service Providers and other Persons which provide e-mail, world wide web, file transfer protocol, Internet connection or other similar services to the Debtors and/or their present and former directors, officers, employees and agents shall deliver to the Receiver all documents, server files, archive files and any other information in any form in any way recording messages, e-mail correspondence or other information sent or received by such directors, officers, employees or agents in the course of their association with the Debtors.

NO PROCEEDINGS AGAINST THE RECEIVER

8. THIS COURT ORDERS that no proceeding or enforcement process in any court or tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

NO PROCEEDINGS AGAINST THE DEBTORS OR THE PROPERTY

9. THIS COURT ORDERS that no Proceeding against or in respect of the Debtors or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtors or the Property are hereby stayed and suspended pending further Order of this Court, provided that nothing herein shall prevent the commencement or continuation of any proceedings against the Debtors by the Commission, including without limitation the proceedings commenced by Notice of Hearing issued February 2, 2005 pursuant to sections 127 and 127.1 of the *Securities Act* (Ontario), as ordered on February 10, 2005.

NO EXERCISE OF RIGHTS OR REMEDIES

10. THIS COURT ORDERS that all rights and remedies against the Debtors or affecting the Property are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that nothing in this paragraph shall (i) empower the Receiver or the Debtors to carry on any business which the Debtors are not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtors from compliance with statutory or regulatory provisions relating to health, safety or the environment, or (iii) prevent the filing of any registration to preserve or perfect a security interest or a claim for lien.

NO INTERFERENCE WITH THE RECEIVER

11. THIS COURT ORDERS that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, arrangement, agreement, licence or permit in favour of or held by the Debtors, without written consent of the Receiver or leave of this Court.

CONTINUATION OF SERVICES

12. THIS COURT ORDERS that all Persons having oral or written agreements with the Debtors or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Debtors are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtors' current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver in accordance with normal payment practices of the Debtors or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

RECEIVER TO HOLD FUNDS

13. THIS COURT ORDERS that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the sale of all or any of the Debtors' Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "Post Receivership Accounts") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

EMPLOYEES

14. THIS COURT ORDERS that the employment of each employee of the Debtors is hereby terminated. The Receiver shall not be liable for any employee-related liabilities, including wages, severance pay, termination pay, vacation pay, and pension or benefit amounts, other than such amounts as the Receiver may specifically agree in writing to pay, or such amounts as may be determined in a Proceeding before a court or tribunal of competent jurisdiction, provided that

pursuant to subsection 14.06(1.2) of the BIA, the Receiver shall not be liable for any amount that is or could be due to an employee by the Debtors including, without limitation, any amount calculated by reference to any period of employment, service or seniority that precedes the date of this Order. Nothing in this Order shall derogate from the protections afforded the Receiver by section 14.06 of the BIA.

15. THIS COURT ORDERS that, pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information of identifiable individuals to any party to the extent desirable or required to carry out the provisions of this Order. Each person to whom such personal information is disclosed shall maintain and protect the privacy of such information and shall limit the use of such information to a manner which is in all material respects identical to the prior use of such information by the Debtors, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

LIMITATION ON ENVIRONMENTAL LIABILITIES

16. THIS COURT ORDERS that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that the Receiver shall promptly advise the Ontario Ministry of the Environment of any obvious or known environmental condition existing on or in any of the Property in accordance with applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it in fact takes possession.

LIMITATION ON THE RECEIVER'S LIABILITY

17. THIS COURT ORDERS that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part.

RECEIVER'S ACCOUNTS

18. THIS COURT ORDERS that any expenditure or liability which shall properly be made or incurred by the Receiver, including the fees and disbursements of the Receiver, its agents and the fees and disbursements of its legal counsel, incurred at the normal rates and charges of the Receiver and its counsel, shall be allowed to it in passing its accounts and shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person (the "Receiver's Charge").

19. THIS COURT ORDERS the Receiver and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Receiver and their legal counsel are referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

20. THIS COURT ORDERS that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the normal rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

FUNDING OF THE RECEIVERSHIP

21. THIS COURT ORDERS that the Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$250,000 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as

security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge.

22. THIS COURT ORDERS that neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.

23. THIS COURT ORDERS that the Receiver may at any time apply for its discharge as Receiver in the event that the Property is not, in the opinion of the Receiver, likely to be sufficient to indemnify the Receiver for its remuneration, costs, expenses and liabilities.

24. THIS COURT ORDERS that the Receiver is at liberty and authorized to issue certificates substantially in the form annexed as Schedule "B" hereto (the "Receiver's Certificates") for any amount borrowed by it pursuant to this Order.

25. THIS COURT ORDERS that the monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates evidencing the same or any part thereof shall rank on a *pari passu* basis.

SERVICE

26. THIS COURT ORDERS that the Receiver is at liberty to serve notice of its appointment as Receiver by placing advertisements regarding such appointment substantially in the form attached hereto as Schedule "C" in at least two (2) Canadian daily newspapers with national distribution, and such advertisements shall constitute effective notice of the appointment of the Receiver and all Persons shall be deemed, absent evidence to the contrary, to have received notice of the appointment.

27. THIS COURT ORDERS that, except as otherwise specified herein, the Receiver is at liberty to serve any notice, form or other document in connection with these proceedings by forwarding copies by prepaid ordinary mail, courier, personal delivery or electronic transmission to Persons or other appropriate parties at their respective addresses or other contact particulars as last indicated in the records of the Debtors and that any such service shall be deemed to be

received on the date of delivery if by personal delivery or electronic transmission, on the following business day if delivered by courier, or three business days after mailing if by ordinary mail.

28. THIS COURT ORDERS that the Receiver may serve any court materials in these proceedings (including, without limitation, application records, motion records, facta and orders) on all represented parties electronically, by e-mailing a PDF or other electronic copy of such materials (other than any book of authorities) to counsels' e-mail addresses as recorded on the service list, and posting a copy of the materials to an internet website to be hosted by KPMG Management Services LP (the "Website") as soon as practicable thereafter, provided that the Receiver shall deliver hard copies of such materials to any party requesting same as soon as practicable thereafter.

29. THIS COURT ORDERS that any party in these proceedings (other than the Debtors) may serve any court materials (including, without limitation, application records, motion records, facta and orders) electronically, by emailing a PDF or other electronic copy of all materials (other than any book of authorities) to counsels' e-mail addresses as recorded on the service list; provided that such party shall deliver both PDF or other electronic copies and hard copies of full materials to counsel to the Receiver and to any other party requesting same and the Receiver shall cause a copy to be posted to the Website, all as soon as practicable thereafter.

30. THIS COURT ORDERS that, unless otherwise provided herein or ordered by this Court, no document, order or other material need be served on any Person in respect of these proceedings unless such Person has served a Notice of Appearance on the solicitors for the Receiver and has filed such notice with this Court.

GENERAL

31. THIS COURT ORDERS that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

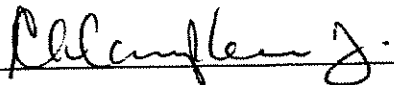
32. THIS COURT ORDERS that the Receiver shall be entitled to make an assignment in bankruptcy on behalf of the Debtors, with leave of the Court first being obtained.

33. THIS COURT ORDERS that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtors, with leave of the Court first being obtained.

34. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States or elsewhere to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

35. THIS COURT ORDERS that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

36. THIS COURT ORDERS that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.



SCHEDULE "A"

HEDGE FUNDS

Fund Name

Portus BancLife Trust – Series 1

Portus BancLife Trust – Series II

Portus BancNote Trust – Series II

Portus BancNote Trust – Series III

Portus BancNote Trust – Series IV

Portus BancNote Trust – Series V

Portus BancNote Trust – Series VI

Portus BancNote Trust – Series VIa

Portus BancNote Trust – Series VIII

Portus BancNote Trust – Series VIIIa

Portus BancNote Trust – Series X

Portus BancNote Trust – Series X (a)

Portus BancNote Trust – Series XII

Portus BancNote Trust – Series Xii (a)

Portus Market Neutral Preservation Fund

SCHEDULE "B"
RECEIVER CERTIFICATE

CERTIFICATE NO. _____

AMOUNT \$ _____

1. THIS IS TO CERTIFY that KPMG Inc., the receiver (the "Receiver") of all of the assets, undertakings and properties of Portus Alternative Asset Management Inc., Portus Asset Management Inc. and BancNote Corp. appointed by Order of the Ontario Superior Court of Justice (the "Court") dated the ___ day of _____, 2005 (the "Order") made in an application having Court file number _____, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$ _____, being part of the total principal sum of \$ _____ which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily][monthly not in advance on the _____ day of each month] after the date hereof at a notional rate per annum equal to the rate of _____ per cent above the prime commercial lending rate of Bank of _____ from time to time.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property (as defined in the Order), in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Toronto, Ontario.
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver

to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property (as defined in the Order) as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the _____ day of _____, 2005.

KPMG Inc., solely in its capacity
as Receiver, and not in its personal capacity

Per: _____

Name:

Title:

SCHEDULE "C"

NOTICE

in respect of

**Portus Alternative Asset Management Inc., Portus Asset Management Inc.
and BancNote Corp. (collectively, the "Debtors")**

Please be advised that pursuant to the Order of the Honourable Mr. Justice • of the Ontario Superior Court of Justice (Commercial List) dated March 4, 2005 in Court File No. • (the "Order"), KPMG Inc. has been appointed as Receiver (the "Receiver") of all of the Debtors' assets, undertakings and properties. The appointment of the Receiver was made under Section 129 of the Ontario *Securities Act*.

A copy of the Order and other information regarding the Receiver's appointment are available online at [www.●](http://www.). The Receiver has established a helpline available at (●).

ONTARIO SECURITIES COMMISSION
Plaintiff

and

**PORTUS ALTERNATIVE ASSET MANAGEMENT INC.,
PORTUS ASSET MANAGEMENT INC. and BANCNOTE
CORP.**

Defendant

Court File No.:

ONTARIO
SUPERIOR COURT OF JUSTICE
Proceeding commenced in Toronto

ORDER

ThorntonGroatFinnigan LLP
Barristers and Solicitors
Suite 2200, P.O. Box 329
Royal Trust Tower
Toronto-Dominion Centre
Toronto, Ontario
M5K 1K7

Grant B. Moffat/Greg Azelf
Law Society No.: 32380L 1D / 45324C
Tel: (416) 304-1616
Fax: (416) 304-1313

Solicitors for KPMG LLP, solely in its capacity
as Receiver, and not in its personal capacity

TAB B

Retirement Savings Plan & Non-RSP Account Application

Please make cheque payable and return to:
Paradigm Alternative Asset Management Inc.
 BCE Place, Suite 2400, 161 Bay Street
 Box 714, Toronto, Ontario M5J 2S1
 Tel: 1-888-563-4445 Fax: 1-888-695-4463

INVESTOR INFORMATION

Account Type: RSP Non-RSP
 Investor Type: Individual RSP Spouse/Common-law RSP Individual Corporate Joint with Tenant in Common Joint with Rights of Survivorship
 Investment: Initial Investment Additional Investment Withdraw Investment
 Source of Funds: Cheque Transfer
 Title: Mr. Mrs. Miss. Ms. Dr.

Surname		First Name/Initial		Paradigm Contract Number	
Joint Account Holders' Name (for non-RSP accounts only)		OR Contributing Spouse's Name (for spousal or common-law partner RSP only)		Spouse's Social Insurance Number	
Street Address				City	
Province		Postal Code		Email Address	
Telephone (home)		Telephone (business)		Social Insurance Number (mandatory if individual)	Birth Date (Y/M/D)
Investment or Withdraw Amount (\$)			Source of Funds (for initial and additional investment)		

Investor Objective: Income Growth & Income Growth
 Risk Tolerance: Low Medium High
 Investment Time Horizon: 0 - 3 Years 3 - 10 Years Over 10 Years
 Investor Knowledge: Novice Fair Good Excellent
 Net Investible Assets: \$0 - \$100K \$101K - \$499K \$500K - \$999K \$1M - \$4.99M \$5M+
 Investor Income: \$0 - \$50K \$51 - \$99K \$100K - \$199K \$200K - \$299K \$300K+
 Household Income: \$0 - \$100K \$101 - \$199K \$200K - \$299K \$300K - \$399K \$400K+

DEALER INFORMATION

Dealer Name		Dealer Number	Dealer Address		
Representative Name		Rep Number	Telephone No.	Fax No.	Email Address
Referring Advisor Mailing Address					

SIGNATURE OF INVESTOR

To Co-operative Trust Company of Canada (Trustee) (For RSP Accounts Only)

I hereby apply for a Paradigm Alternative Asset Management Retirement Savings Plan (the Plan). I request that the Trustee apply for registration of the Plan as a retirement savings plan under the Income Tax Act (Canada). I acknowledge that I am aware and agree to be bound by the provision of the Declaration of Trust and the fact that income tax may be payable on any benefit paid out under the Plan. I further acknowledge it is my responsibility to ensure that I do not contribute more to the Plan than my maximum permitted deduction under the applicable income tax laws in any taxation year. It is my responsibility to ensure that investment in "Foreign Property" within the meaning of the applicable tax legislation for the Plan will not render the Plan liable for tax in respect of excessive holdings of "Foreign Property".

I, the investor named below, by executing and delivering this contract and providing funds for investment by Paradigm Alternative Asset Management Inc.; hereby appoint Paradigm Alternative Asset Management Inc. to act as the portfolio manager of the RSP/Non-RSP Account and acknowledge receipt of, and accept, all of the terms and conditions of the RSP/Non-RSP Account Portfolio Management Agreement, which terms and conditions are incorporated by reference herein, and request that an Account be opened for me. I have also either consulted a lawyer before signing this contract or have freely decided not to consult a lawyer.

I represent that the foregoing is true and correct and I am legally competent to sign this contract and make this investment.

_____ day of _____, 2004

 Signature of Witness

 Signature of Investor

 Signature of Joint Investor (if applicable)

For Corporate Investors:

 Name of Corporation

 Name and Title of Authorized Officer (print)

 Signature of Authorized Officer

PARADIGM ACCEPTANCE

Accepted by Paradigm Alternative Asset Management Inc. for Non-RSP accounts and as authorized Agent for the Trustee for RSP accounts. Paradigm hereby agrees with investor signing this contract to act as the investor's portfolio manager on the terms set out herein

_____ day of _____, 2004

By: _____

Paradigm Alternative Asset Management Inc.

RSP/Non-RSP Account Portfolio Management Agreement

Paradigm Alternative Asset Management Inc. ("Paradigm") has designed this contract to permit an investor to retain Paradigm to act as the portfolio manager of his or her registered retirement savings plan account with Paradigm, with Co-operative Trust Company of Canada acting as the trustee (a "registered account"), or non-registered investment account with Paradigm (a "non-registered account") (as applicable, the "Account"). This contract is for the use of investors who wish to retain Paradigm as their portfolio manager on or before April 30, 2004.

By accepting this contract, the investor gives Paradigm complete discretion to invest all of the assets which the investor contributes to the Account. Until Paradigm advises otherwise, Paradigm initially intends to invest all of the assets in the Account in a structure intended to provide you with substantially the economic effect of an investment in BancNote™ Trust – Series VI (the "Trust") with certain tax deferral and capital gains (rather than income) treatment. The tax-efficient derivative structure which Paradigm intends to use is expected to involve the purchase of listed non-dividend-paying securities which will constitute "Canadian securities" as defined in subsection 39(6) of the *Income Tax Act* (Canada) (the "Tax Act"), and the simultaneous purchase of an option from and the writing of an option to separate counterparties, which may be Canadian or non-Canadian entities. The Canadian listed securities so acquired may be pledged by Paradigm on behalf of the Account as security for any such options. Paradigm does not expect that an Account will have any net income or net realized capital gains before funds are withdrawn from the Account or before the expiry date of the options. While the value of an Account may increase, Paradigm expects that the investor will not be taxed on any accrued but unrealized gains. On the disposition or deemed disposition of the Canadian securities, as a result of the exercise of an option, the investor is expected to realize a capital gain to the extent that the proceeds of disposition exceed the aggregate of the adjusted cost base of the shares in the Account and any reasonable costs of disposition, one-half of which gain will be included in an investor's income. The investor must, however, have made the election contemplated by section 39(4) of the Tax Act; which election, if made, will be applicable to all Canadian securities held by the investor and not limited to those held in the Account. Investors should consult their tax advisors for the implications to them of making such election and the manner in which it is to be made and for advice as to the tax consequences of the Account structure.

Incorporated by reference into this contract is the most recent offering memorandum of the Trust (the "Offering Memorandum"), which has been delivered to the Investor with this contract. Because the value of the assets in an Account will depend upon or relate to the value of the Trust and the investments it will hold, investors should read the Offering Memorandum carefully before opening an Account. Paradigm is in the process of making a family of investment funds available to non-institutional investors, in which event it will customize a portfolio of investments for each Account, and provide investors with an offering memorandum relating to any additional investment funds which it may use for this purpose. Paradigm believes that investors must have certain net worth or income levels in order for it to be appropriate to enter into this contract and open an Account, and for the investments proposed to be made in an Account to be suitable for their overall portfolio and investment objectives. Accordingly, Paradigm will generally not open an Account for any investor that does not have individual or household minimum income levels (in Canadian dollars) of fifty thousand dollars annually or have a minimum net worth of one hundred thousand dollars. Paradigm reserves the right to waive these minimums in appropriate circumstances.

The investor must complete the document titled the "Retirement Savings Plan and Non-RSP Account Application", and by signing that application form the investor is agreeing to the terms and conditions of this contract, and is also certifying that the personal and financial information that has been provided in the application is complete and accurate. If at any time there has been a significant change in personal or financial circumstances, the investor must inform Paradigm immediately. When the application form is signed by the investor and accepted by Paradigm, this contract will become a binding agreement between the investor and Paradigm, and Paradigm will establish the Account for the investor. If two individuals are opening a joint Account, any references made in this contract to investors refers to both investors jointly.

Paradigm will be entitled to a management fee equal to 2.25% of the market value of the assets in an Account, accrued weekly and payable quarterly; and an performance fee equal to 18% of the growth in the market value of the assets in the Account, calculated and accrued weekly and payable quarterly (and provided that there will be no performance fee payable in any week in which the value of the Account does not exceed a "high water mark", being the highest previous market value of the assets in the Account). There are fees and expenses associated with a direct investment in the Trust, some or all of which may accrue to the benefit of Paradigm, and these are described in the Offering Memorandum. To the extent Paradigm receives fees directly or

indirectly from the Trust or from any issuer of securities directly or indirectly held by the Trust and which are directly or indirectly a referral to the Account, Paradigm will deduct the same amount from the management fee and/or performance fee otherwise payable from the Account, to ensure that there is no duplication in charges.

If an Account is opened as a result of a referral of the investor to Paradigm by a sales representative of a broker, investment dealer or mutual fund dealer or managing general agent, the dealer or agent whose representative is making such referral will be entitled to receive a referral fee. This referral fee, which will be paid by Paradigm and not the investor, will be equal to four percent of the amount of the initial Account contribution and will be paid within ten business days after the date Paradigm receives the contribution and all relevant Account documents. A further referral fee will be payable to the dealer or agent if assets remain in the Account. The first of such additional referral fees will be payable on April 30, 2005 and will be payable at the end of each calendar quarter thereafter. The amount of this additional referral fee will be equal to the sum of one percent of the market value of the assets in the Account and one-quarter of all performance fee which Paradigm receives from the Trust, from any derivative/clone instrument or from investments of the type the Trust is to invest in, which relate to the investments made for the Account, from the date of investment to April 30, 2005, or in the subsequent calendar quarter, as the case may be. The dealer or agent receiving the referral fee will be responsible for compensating its representatives in accordance with the dealer's or the agent's policies in this regard. Paradigm may also in its discretion compensate dealers for a portion of their direct costs of certain sales communications and investor seminars to provide educational information concerning Paradigm, the Accounts or investments in general, to a maximum of one-half percent of the amount of the initial contribution to the Account.

For example, if an investor invests one thousand dollars in an Account as a result of a referral from a dealer, the dealer will receive an initial fee from Paradigm of forty dollars. Assuming that from the date the contribution was made into the Account to April 30, 2005, Paradigm receives a total of ten dollars in performance fee, and the market value of assets remain in the Account is one thousand and eighty dollars, then Paradigm will on April 30, 2005 make a payment to the dealer of thirteen dollars and thirty cents, representing the sum of twenty five percent of the performance fee (two dollars and fifty cents) and one percent of the Account value (ten dollars and eighty cents). In this example, the dealer could also receive up to five dollars of reimbursement for its direct costs of the kind referred to above. Further information concerning these referral fees is set out in the Disclosure Statement and Client Consent Form which the investor will be provided by Paradigm or by a referring dealer or agent. Investors will be provided with prior notice of any changes to these referral fees. If a sales representative is employed by a mutual fund dealer or managing general agent, the investor should be aware that unless a representative is appropriately registered under applicable provincial securities legislation, it is illegal for the representative to provide the investor with investment advice as to the investing in or the buying or selling of securities in the Account.

The investor acknowledges that the dealer or agent referring the investor to Paradigm will have no involvement in the investment of the investor's money in the Account, and that the dealer or agent will not have any liability whatsoever for, and will not in any way or for any reason be obliged to compensate the investor for, and the investor agrees not to be involved in any litigation against the dealer or agent for, any losses in the Account however caused. The referral of the investor to Paradigm does not constitute (i) any representation or warranty by the dealer or agent as to the tax effectiveness or tax consequences of any derivative structure that Paradigm may adopt in investing the funds in an Account; (ii) any recommendation by the dealer or agent that the investor retain Paradigm as the investor's portfolio manager; or (iii) any investment recommendation with respect to the Trust, the investments that the Trust may make or any alternative investment or other funds the value of which may determine the value of the Trust's investments. Paradigm and the investor each agree that the referring dealer or agent will be entitled to rely on the exclusions from liability set out in this paragraph even though the dealer or agent is not a party to this contract.

Investments in an Account are designed to be held for a period of approximately five years ending April 30, 2009 (the "Intended Term" of the Account). While funds may be withdrawn from an Account on a weekly basis, there may be adverse economic consequences to an early withdrawal from both registered and unregistered accounts, and there may be additional tax consequences to a withdrawal from a registered account. Investors should therefore consult their own legal or tax advisers before withdrawing funds from an Account. In general, the ramifications will be similar to redemptions from the Trust, as described in the Offering Memorandum. Opening and Contributing to an Account

The initial contribution to the Account may be made by cheque or bank draft payable to "Paradigm Alternative Asset Management in trust", and should be sent, along with the Retirement Savings Plan and Non-RSP Account Application when signed and completed, to Paradigm at the address listed below.

If the investor is a corporation, limited partnership or similar entity, in order to verify the entity's authority to enter into the Account application in accordance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, the investor needs to provide Paradigm with additional documents required, including a copy of its trading authority, and articles of incorporation and by-laws or other constating documents.

The right is reserved to accept or reject any client, in whole or in part. In particular, Paradigm will not accept an application from any investor, even those meeting its minimum income or net worth requirements, unless it is of the view that an Account would be suitable for the investor. The decision to accept or reject an application for an Account will be exercised promptly. In the event, an application is rejected in whole or in part, all or the corresponding portion of the moneys received with the contract will be refunded to the investor immediately. The investor will not be accepted as a client unless this contract is accompanied by the amount intended as the initial contribution to the Account.

Account Administration and Additional Information

Paradigm will be responsible for calculating the value of the Account on a weekly basis and for providing all necessary administrative services required for the Account. Any questions concerning the value of any Account, should be directed to Paradigm at the following address, or by telephone and fax at the following numbers:

Paradigm Alternative Asset Management Inc.
BCE Place, 161 Bay Street, Suite 2400, P.O. Box 714
Toronto, Ontario, M5J 2S1
Telephone: 416-368-8145; Facsimile: 416-368-0365

Additions to an Account

Additions may be made to the Account on the last business day of each week, and will be invested in a timely manner after receipt in the types of investments that Paradigm is then making for the Accounts. The investor is responsible for ensuring that any additions to a registered account are within the investor's contribution limits.

Withdrawals from an Account

Investors are entitled to require Paradigm to release all or any part of invested funds, less the amount to be retained by Paradigm for management fee and performance fee earned but not yet paid, on the last business day of each week, if the request is made by 9:30 a.m. (Toronto time) on the last business day of the week. On receipt of a request for a withdrawal, Paradigm will liquidate (through sale or termination and settlement, as appropriate) all or the appropriate portion of the Trust, the derivative/clone instrument or other securities held in the Account as soon as reasonably practicable, deducted any management fee and performance fee owing, and then the remaining proceeds are paid to the investor. Investors should be aware that there may be withdrawal fees or other costs associated with liquidating securities of the Trust, or any derivative/clone instrument or other securities held in the Account. If the terms of such securities do not then permit their redemption or exercise, Paradigm will use its reasonable best efforts to find a purchaser or otherwise make a market in such securities, so as to permit the requested withdrawal to be completed. There can, however, be no assurances that Paradigm will always be successful in this regard. If an investor chooses to require Paradigm to release all or any part of invested funds, less the amount to be retained by Paradigm for management fee and performance fee earned but not yet paid, prior to the end of the Intended Term of the Account, the investor will receive a market price which is not necessarily equal to or greater than the original investment amount and which does not necessarily reflect any increase in the net asset value of the Trust up to the date of such withdrawal.

Standard of Care and Limitation of Liability

Paradigm agrees to exercise its powers and discharge the duties of its office in relation to an Account honestly, in good faith and in the best interests of the investor and, in acting for the investor, will exercise the care, diligence and skill of a prudent portfolio manager. Paradigm agrees to be responsible for any losses suffered as a result of any breach by it of this standard of care. The investor understands and agrees that Paradigm will not otherwise have any liability to the investor whatsoever. In particular, but without any limitation of this general statement of responsibilities, Paradigm will not be liable to the investor for any losses in any Account unless such losses arise as a result of Paradigm failing to act in accordance with its standard of care set out above.

Paradigm agrees to act on a basis, which is fair and reasonable to all of its clients in the recommendation and execution of any particular investment opportunity, and will be protected in taking for its own account, directly, or recommending or executing for others, any particular investment opportunity. Paradigm will send the investor a copy of its policy with respect to the allocation of investment opportunities among its clients, and of its policies with respect to related and connected issuers, once this contract is signed.

Risk Considerations

Investors should carefully consider whether their financial condition permits the opening of an Account. Investors should be aware that an investment, direct or indirect, in alternative assets such as the Trust can lead to losses. Such losses will affect the value of the Account. The value of the Account is related directly to the market value of the investments held in the Account, which may fluctuate depending on worldwide changes in interest rates and other market and economic conditions. Therefore, investors should carefully consider whether such investments are suitable in light of their financial condition. Investors should consider the following risk factors before opening an Account.

While Paradigm will invest funds in an Account in a timely manner after receipt, the terms of the Trust or other assets that the Account is to hold may not permit, or it may otherwise not be practical to undertake, the immediate investment of such funds, and investors will not be entitled to the benefits of, or exposed to any losses of, the Trust or such other assets until acquired for the Account. An Account is not intended as a complete investment program. Investors should consider opening an Account only if they are financially able to maintain their investment and can bear the risk of loss associated with it. Investors should review closely the investment objectives and investment strategies proposed to be utilized in their Account as outlined in this contract to familiarize themselves with these risks.

There can be no guarantee against losses and there can be no assurance that this investment approach to be used for the Account will be successful. An Account could realize substantial losses, rather than gains, from some or all of the investments described in this contract. Legal, tax or administrative changes that occur during the Intended Term of an Account could have an adverse effect on the value of the Account. Paradigm does not provide the investor with tax advice as to the income tax consequences of the investments to be made in the Account. There may be withdrawal fees payable if an Investor withdraws funds from an Account prior to the end of the Intended Term and the value of the assets in the Account at the time of such early withdrawal may be significantly less than if such assets were held to the end of the Intended Term. As a result, an investor could suffer substantial losses on an early withdrawal, including any early withdrawal resulting from a termination of this contract by Paradigm.

This brief statement cannot disclose all the risks and other significant aspects of opening an Account. The investor should therefore carefully study this contract, the risk disclosure in the Offering Memorandum of the Trust and consult with their financial advisor before applying to open an Account.

General Legal Matters

Until this contract is terminated, it will continue to be enforceable by, and will continue to be binding on, the parties' respective heirs, successors, assigns, executors, administrators and trustees. This contract may be assigned by Paradigm at any time, subject to compliance with applicable securities laws. If Paradigm does not exercise all of its rights and powers under this contract, it will not have waived or lost the ability to enforce any of those rights or powers at another time. If, for any reason, any part of this contract is legally invalid or unenforceable, the rest of the contract will remain valid and enforceable. This contract represents the entire agreement relating to the appointment of Paradigm as the investor's portfolio manager and there are no other agreements, warranties or representations, whether in writing or oral, governing this relationship, other than the application form and related materials for registered or non-registered accounts.

This contract shall continue in effect until terminated by either Paradigm or the investor at any time by giving the other party not less than 30 days' written notice of such intention to terminate. The consequences of any request for termination shall be the same as if the investor had requested a withdrawal of all of the funds held in his or her Account.

If the investor is a resident of Quebec, the parties hereto confirm their express wish that this agreement and all documents and agreements directly or indirectly relating hereto be drawn up in the English language. Les parties reconnaissent leur volonté expresse que la présente ainsi que tous les documents et contrats s'y rattachant directement ou indirectement soient rédigés en anglais.

If you, the investor, accept and agree to all of the terms and conditions of this contract, and wish an Account to be opened for you, please sign the document labelled the "Retirement Savings Plan and Non-RSP Account Application".