

ONTARIO SUPERIOR COURT OF JUSTICE 
COMMERCIAL LIST

**IN THE MATTER OF
CONFEDERATION LIFE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP ACT, R.S.C. 1985, C.W-11, AS AMENDED**

B E T W E E N:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

CONFEDERATION LIFE INSURANCE COMPANY

Respondent

**REPORT OF KPMG INC., THE LIQUIDATOR OF
CONFEDERATION LIFE INSURANCE COMPANY**

August 26, 2000

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August 26, 2000

I. NATURE OF THE MOTION

1. This report is supplementary to the report of KPMG Inc., the liquidator (the “Liquidator”) of Confederation Life Insurance Company (“Confed”), dated August 3, 2000. The Liquidator is seeking an order:

- (a) approving and authorizing a first interim distribution by the Liquidator from the estate of Confed to Confederation Treasury Services Limited (“CTSL”) and to the ordinary creditors of Confed (as described below), in the total amount of \$260 million (the “Proposed Distribution”); and

- (b) approving the dividend sheet in the form attached as Schedule “A” hereto (the “Dividend Sheet”) and authorizing the Liquidator to make distributions from time to time to the holders of allowed claims set out on the Dividend Sheet.
2. The report of the Liquidator dated August 3, 2000 is attached hereto as Schedule “B” and will be referred to as the August 3 Report. All capitalized terms used in this report but not defined herein have the meanings attributed to them in the August 3 Report.

II. PROPOSED DISTRIBUTION

3. The Liquidator recommends approval of the Proposed Distribution considering:
- (a) the estimated surplus assets from the estate available for CTSL and the Ordinary Creditors as at July 31, 2000 is \$415 million;
 - (b) the cash and short term investments of the estate as at July 31, 2000 are approximately \$414 million; and
 - (c) the total surplus from the Canadian and U.S. estates is projected to be between \$450 and \$550 million.
4. In the Liquidator’s opinion the Proposed Distribution is in the best interests of the estate as a whole and will not prejudice any interested party.

III. FINANCIAL STATUS OF THE ESTATE

5. Attached as Schedule “C” are the unaudited, non-consolidated financial statements for the estate of Confed prepared by the Liquidator for the quarter (the “Quarter”) ending June 30, 2000 (the “June 30 Statement”). Attached as Schedule “D” are the unaudited non-consolidated financial statements for the estate as at July 31, 2000 (the “July 31 Statement”), which take into account the closing of the transaction transferring Confed’s immediate annuities to Canada Life (the “Canada Life Transaction”) on August 1, 2000.
6. Attached as Schedule “E” is a summary schedule of basic information for comparative purposes, showing the evolution of the estate for the quarters ending September 30, 1999, December 31, 1999, March 31, 2000 and June 30, 2000. In addition, although not precisely

comparative given that it only reflects one month, the Liquidator has also included a column for the month ending July 31, 2000.

7. The following is a brief overview of important aspects of the financial status of the estate, with reference to both the June 30 Statement and the July 31 Statement.

A. Assets

8. At March 31, 2000, the remaining private placement portfolio, mortgage loans, promissory notes, foreclosed real estate and other illiquid assets had a book value of approximately \$315 million. At June 30, 2000, their book value was approximately \$311 million. At July 31, 2000, the book value of the remaining illiquid assets was approximately \$154 million.

Private Placements

9. Confed's private placement portfolio consists of long-term, secured, fixed-rate debt instruments and equity-type investments. Four private placements, having a value of approximately \$59 million, were transferred to Canada Life. In addition, four "back-to-back investments" having a book value of approximately \$85 million which offset the payments due on certain annuities were also transferred to Canada Life. In total, approximately \$144 million of private placements were transferred to Canada Life.

10. The remaining performing private placement portfolio consists of 2 loans having a book value of approximately \$21 million. The remaining non-performing private placement portfolio, which continues to be managed by the Liquidator, consists of 7 loans with a book value of approximately \$54 million.

Mortgages

11. The mortgage portfolio consists of performing mortgage loans, non-performing loans and foreclosed real estate, and group mortgage benefit mortgage loans (residential mortgages given by Confed to its employees). The group mortgage benefit mortgages are administered by CIBC Trust Company. The non-performing mortgages, including foreclosed properties, are managed by the liquidation staff, all under the direction of the Liquidator. During the Quarter, the Liquidator realized approximately 25 mortgage loans for a recovery of approximately \$3 million. Three

mortgage loans with a book value of approximately \$13 million were transferred to Canada Life. The remaining mortgage loan portfolio, after the completion of the Canada Life transaction, consists of 94 mortgages and related assets having a book value of approximately \$73 million, of which approximately \$25 million are non-performing.

Payments by Rehabilitator

12. As set out in the August 3 Report, during the Quarter, the Rehabilitator paid the Liquidator U.S.\$85 million (the “U.S. payment”), being approximately Cdn. \$127 million, the receipt of which is included in the June 30 Statements.

13. As also set out in the August 3 Report, the Rehabilitator informed the Liquidator that the surplus available for payment to the Liquidator is in total approximately U.S.\$190 million, subject to a number of contingencies. U.S.\$96.4 million has already been paid to the Liquidator. The Liquidator has not reflected the balance of the U.S. Surplus in the liquidation accounts and will not do so until it has been received.

Short-term Cash and Bond Portfolio

14. The Liquidator pursued, until the closing of the Canada Life Transaction, an active investment program that took into account liquidity needs, advice on asset/liability matching from CompCorp Life Insurance Company and safety of investment, to maximize yields while avoiding inappropriate risk. The Liquidator bought and sold bonds and short-term instruments to maintain appropriate asset/liability matching and to invest funds realized from other assets. Since August 1, 2000, the Liquidator has shortened the duration of the remaining bonds and short term investments to reflect the short term nature of the remaining liabilities. The value of the cash and short term investments at the beginning of the period was approximately \$398 million. Matters having a major impact on the short term cash and bond portfolio included:

- (i) the receipt of the U.S. payment;
- (ii) the completion of the payout of the group pension policyholders described below; and
- (iii) the transfer of bonds and other cash equivalents to Canada Life.

15. The cash and short term investments in the estate as at July 31, 2000 are approximately \$414 million.

B. Policy Liabilities

16. On April 26, 1999, the Liquidator declared a distribution percentage to policyholders of 100% of the benefits to which they were entitled under the terms of their respective policies.

Group Pension Business

17. In accordance with the methodology approved by this Court on April 7, 2000, the Liquidator paid out the remaining group pension policyholders. The payout, totalling approximately \$186 million, has been substantially completed.

Immediate Annuities

18. As discussed, on August 1, 2000 the Liquidator completed the Canada Life Transaction for the transfer of the immediate annuities, which was approved by this Court on April 7, 2000.

Deferred Annuities and RRIFs

19. Pursuant to an agreement between the Liquidator and The Empire Life Insurance Company, Empire Life was administering the individual deferred annuity policies and, at the direction of the Liquidator, providing replacement policies when they matured. This Court approved the agreement on February 6, 1996.

20. Under the agreement, the Liquidator had the right to require Empire Life to assume the remaining outstanding policies on a date selected by the Liquidator. Empire Life assumed the remaining liabilities on April 28, 2000.

Remaining Policy Liabilities

21. With the payout of the group pension policyholders and the completion of the Empire Life transaction and the Canada Life Transaction, all undisputed policyholder claims have been paid or transferred out of the estate. The remaining claims consist of:

- (a) disability claims in litigation which were not transferred to Manulife and for which the Liquidator retains responsibility;
- (b) Cuban policy liabilities; and
- (c) monies being held for group pension policyholders who cannot be located or which cannot be paid out due to regulatory issues related to the specific pension plans.

These remaining claims total approximately \$26 million. The Liquidator is of the view that this is a conservative estimate of liabilities for these policies.

C. Financial Statements

22. The financial statements have been prepared in a manner consistent with financial statements previously approved by this Court. The Liquidator has adopted generally accepted accounting principles, modified as required to reflect the requirements of a life insurance company in liquidation. The Liquidator's internal audit process ensures the integrity of the financial statements.

23. The Liquidator believes that the financial statements are proper and reasonable.

24. James H. Grout was appointed by the Court for the purposes of reviewing the financial statements and reporting to the Court with respect to the Proposed Distribution. Mr. Grout has reviewed the financial statements and will advise the Court of the results of his review and his position on the motion.

IV. ORDINARY CREDITOR CLAIMS

A. Overview

25. As discussed in the August 3 Report, proofs of claim were filed in the approximate amount of \$450 million with additional claims filed for nominal amounts. The Liquidator has reviewed these carefully as against the books and records of the Company and believes that attributing a value of \$10 million to the claims filed for nominal amounts is reasonable in all the circumstances. The Liquidator therefore proposes using \$460 million as the value of claims filed.

26. Approximately 1,100 claims, including the omnibus claim referred to below, were filed. The following is an overview of the claims:

(a) Retiree Claims

700 claims were filed in one omnibus claim by the Court appointed representative of the retirees, Susan Rowland. The Liquidator is working closely with Ms. Rowland and Eckler Partners, the actuarial firm which Ms. Rowland was authorized to retain. The Liquidator sought a ruling from Canada Customs and Revenue Agency with respect to certain tax matters related to the retiree claims. The response to the ruling was received recently and the Liquidator is proceeding to complete the claims process with respect to the retiree claims with Ms. Rowland and Eckler Partners.

(b) Disallowed Claims

The Liquidator issued notices of disallowance in respect of approximately 700 claims totalling approximately \$20 million, most of them for severance and related claims by former Confed employees. The time period for filing notices of appeal from the notices of disallowances has not yet expired.

(c) U.S. Claims

The U.S. claims consist of:

- (i) state guaranty funds for assessments;
- (ii) state levied premium taxes;
- (iii) policyholders;
- (iv) agents and brokers; and
- (v) trade debt and other miscellaneous claims.

The Liquidator is consulting with the Rehabilitator to obtain information with respect to these claims according to the Rehabilitator's books and records and for assistance with respect to the applicable law, which was reviewed during the course of the rehabilitation by the Rehabilitator's counsel.

(d) Other Claims

The balance of the claims, with the exception of the First Allowed Claims discussed below, are being reviewed by the Liquidator. In many cases the Liquidator requires further information concerning the claims. The Liquidator is considering its legal position, in particular whether set-off rights are available. The Liquidator also anticipates that it will be recommending the admission of a number of the claims it is currently reviewing.

B. First Allowed Claims – Dividend Sheet

27. As discussed in the August 3 Report, claims in the total amount of approximately \$206 million are included on the Allowed Claims List which is attached as Schedule "E" to the August 3 Report. As discussed therein, the Liquidator has reviewed each of these in conjunction with the books and records of the estate. The time period for objections to these claims expired on August 14, 2000 and no objections were received.

28. The commercial paper claims shown on the Allowed Claims List total \$204,553,677.31. Each claim has attached or refers to promissory notes with the appropriate numbers of such notes. There are no duplicate claims. The Liquidator is satisfied that these claims are proper and valid claims which should be admitted with interest accrued to August 12, 1994, the date of

commencement of the liquidation. The balance of interest claimed has been disallowed and the appeal period has not run.

29. There are also miscellaneous claims in the aggregate amount of \$1,213,244.51, generally for services provided to Confed or other trade debt. Such claims are also consistent with the books and records. The Liquidator considers them valid and believes they should be allowed.

30. The Dividend Sheet includes all of the claims on the Allowed Claims List. The claims set out on the Dividend Sheet are not contentious and accord with the books and records of Confed.

V. RECOMMENDATIONS

31. In summary, the Liquidator recommends that the Proposed Distribution be made as described and that this Court approve the Dividend Sheet.

VI. RELIEF SOUGHT

32. The Liquidator therefore seeks an Order:

- (a) approving and authorizing the Proposed Distribution; and
- (b) approving the Dividend Sheet and authorizing the Liquidator to make distributions from time to time to the holders of allowed claims set out on the Dividend Sheet.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

KPMG INC., solely in its capacity as the Liquidator
of Confederation Life Insurance Company

Per: 
Robert O. Sanderson, President

SCHEDULE "A"

IN THE MATTER OF THE LIQUIDATION OF
CONFEDERATION LIFE INSURANCE CO

Dividend Sheet

Claim No.	Creditor	Claim Amount Admitted Cdn Dollars
0001	720 Guelph Line Holdings	78,372.76
0002	144900 Canada Inc. O/A	21,328.89
0003	Altech Investigations Inc.	1,469.65
0004	American Para Prof. Systems Inc.	1,544.28
0006	CAD Resource Centre	979.85
0007	CANAMERIC	6,966.19
0008	Careerpath Counselling	64.20
0009	Checker Cabs Ltd	141.56
0010	Davis Reberkenny & Abramowitz, P.C.	1,162.82
0012	Doxey & Associates, Dr. N.C.S.	1,350.00
0014	Gryniewski Consulting Services Inc.	294.25
0015	Hamilton, Dr. Sean	100.00
0016	Hanick, Dr. Adrian	1,675.00
0017	McKercher McKercher & Whitmore	1,459.22
0018	Pannozzo, Dr. G.J.	150.00
0019	Parlee McLaws	631.81
0020	Pinnacle Investigations Inc.	848.51
0022	Dupont Canada Inc.	9,976,528.57
0023	R.B. Ventures Ltd	100,000.00
0024	Rustad Investments Ltd	100,000.00
0025	Doraldick Investments Limited	1,761,419.94
0031	Melvin, Dr. Kenneth	250.00
0032	Abramovitch, Dr. Allan	160.50
0033	Wilde & Associates, John	3,395.25
0034	World Wide Health Services, Inc.	225.75
0044	Guy Carpenter & Co., Inc.	800,000.00
0046	Gibbons, Dr. Maureen	100.00
0050	Corporate Realty Inc.	82,133.20

Claim No.	Creditor	Claim Amount Admitted Cdn Dollars
0052	Adatif Investments Ltd	995,827.86
0053	John A. Kane & Waterbury	4,867.39
0101	Salit, Dr. Irving E.	400.00
0102	Leduc, Leblanc	1,620.31
0128	States of Jersey	145,846.11
0133	H&R Block Canada Inc.	4,485,932.83
0135	Chubb Security Canada Inc.	3,196,576.00
0136	Town of Pickering	997,759.63
0137	Lewis and Roca LLP	2,342.36
0138	Bureau d'Expertise Assureurs Ltee	55,000.00
0142	Wacker Drive Associates	221,786.87
0143	Advocate Investigation Serv. Ltd	2,266.48
0149	Jackson Hale Distributors Ltd	3,419.30
0150	Hooper-Holmes Canada Limited	1,613.60
0151	Kosar, Dr. Stephen E.	200.00
0156	Stewart McKelvey Stirling Scales	1,084.47
0164	Application Enabling Inc	5,007.60
0167	J. Beals Rehabilitation Consultants	1,089.00
0172	Cortlaw Services Limited	3,366.54
0174	Vexler, Dr. Ronald	320.35
0189	Canadian Imp. Bk of Commerce	7,642,824.46
0191	Abitibi-Consolidated Inc.	2,400,000.00
0209	Graphical Corp.	413.77
0238	Castek Software Factory Inc.	28,226.60
0253	ReliaStar Life Insurance Co	497,000.00
0301	Mohan, Dr. Rajesh	150.00
0316	Pope, Dr. Janet	75.00
0317	Joseph N. Gelmon	647.10
0382	The Chase Manhattan Bank	82,062,522.28
0397	Dominion Textile Inc.	3,750,000.00
0562	RBC Dominion Securities Inc	10,792,234.09
0563	UBS AG, Union Bank of	75,492,051.65

Claim No.	Creditor	Claim Amount Admitted Cdn Dollars
0580	Actel Resources Inc.	30,762.50
1032	Esmail, Dr. Salim	50.00
1033	Shepp Johnman & Associates	832.47
1089	Jules d'Alcantara Fleuriste Inc.	52.99
Total Creditors		\$205,766,921.82

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(Motion Returnable August 10, 2000)

August 3, 2000

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(Motion Returnable August 10, 2000)

AUGUST 3, 2000

I. NATURE OF THE MOTION

1. This Report is filed in support of a motion by KPMG Inc., the liquidator (the "Liquidator") of Confederation Life Insurance Company ("Confed"), for an Order approving and authorizing a first interim distribution by the Liquidator from the estate of Confed to CTSL and to the Ordinary Creditors (both as defined below), in the total amount of \$260 million.

II. BACKGROUND

A. Confederation Life Insurance Company

2. Confed was the parent of a large group of companies operating in Canada, the U.S., the U.K., Bermuda and Cuba. Confed's life insurance operations outside Canada were conducted primarily through branches rather than through subsidiaries. Approximately two-thirds of Confed's total policyholder liabilities were written through the branch in the United States.

B. Winding-Up and Rehabilitation Proceedings

3. On August 15, 1994, this Court ordered that Confed be wound-up pursuant to the *Winding-up Act*. By further order of the same date, the Court appointed the Superintendent of Financial Institutions (the "Superintendent") provisional liquidator of Confed. The Superintendent appointed KPMG Inc. as his agent to assist in the administration of the liquidation. The liquidation was deemed to commence August 12, 1994.

4. On September 10, 1997, this Court discharged the Superintendent as provisional liquidator of Confed and appointed KPMG Inc. as permanent liquidator. The Superintendent became an inspector of the estate.

5. On August 12, 1994, the Circuit Court for the County of Ingham, State of Michigan (the "Michigan Court"), ordered that all of Confed's businesses in the U.S. should cease as of August 12, 1994 and become known as "Confederation Life Insurance Company (U.S.) in Rehabilitation" ("CLIC (U.S.)"), an estate under the management, direction and control of the Commissioner of Insurance for the State of Michigan as rehabilitator (the "Rehabilitator"). By order dated October 23, 1996 and pursuant to a plan of rehabilitation approved by such order, the Michigan Court ordered that CLIC (U.S.) be wound-up and appointed the Rehabilitator as liquidator of CLIC (U.S.). For ease of reference herein, the term "Rehabilitator" refers to the Rehabilitator both in his capacity as Rehabilitator and in his capacity as liquidator of CLIC (U.S.).

III. PROPOSED DISTRIBUTION

A. Call for Claims

6. In the Report of the Liquidator dated September 30, 1999 in support of a call for claims (the “September 30, 1999 Report”), the Liquidator advised this Court that it had declared a distribution percentage to Canadian policyholders of 100% and that U.S. policyholders were being paid in full.

7. On October 7, 1999, this Court made an Order, *inter alia*, approving and authorizing the procedure proposed by the Liquidator for the calling for claims of Ordinary Creditors (as hereinafter defined) and of “Additional Policyholder Claims”. Additional Policyholder Claims are claims of policyholders who held Confed policies on August 12, 1994, other than policyholders whose policies were issued by the U.K., Bermuda, Cuba or U.S. branches of Confed, and who assert that the claims under their policies have not been fully satisfied or recognized through the assumption of their policies by another insurer or by payments made by, or in the process of being made by, the Liquidator. The Court fixed December 20, 1999 as the last day on or before which Ordinary Creditors and policyholders asserting Additional Policyholder Claims must file their proofs of claim with the Liquidator. That date was extended to February 15, 2000 by Order of this Court dated December 7, 1999.

B. U.S. Settlement Agreement and CTSL Plan

8. As a result of the agreement dated June 11, 1996 between the Liquidator and the Rehabilitator (the “U.S. Settlement Agreement”) and the plan of compromise or arrangement under the *Companies’ Creditors Arrangement Act* (the “Plan”) with respect to Confederation Treasury Services Limited (“CTSL”) implemented on November 19, 1998, after payment of the costs of liquidation and the claims of preferred creditors and policyholders, the Liquidator is to make distributions in accordance with the following formula (the “Allocation Formula”):

(a) the first \$20 million is payable to persons, wherever located, with debt or other claims against Confed in existence on August 12, 1994, whether certain or contingent, liquidated or unliquidated, other than those persons whose claims are held to be subordinated to all other indebtedness of Confed (the “Ordinary Creditors”);

- (b) of the next \$155 million, 75% is payable to CTSL and the balance to the Ordinary Creditors;
- (c) of any amounts in excess of \$175 million, 50% is payable to CTSL and the balance to the Ordinary Creditors until their claims are satisfied; and
- (d) any balance remaining is payable to those persons whose claims are subordinated to the claims of the Ordinary Creditors.

A copy of the Plan is attached as Schedule "A" hereto.

9. This Report will refer to the amounts payable to the Ordinary Creditors in accordance with the Allocation Formula as the "Ordinary Creditor Share" and the amounts payable to CTSL as the "CTSL Share".

10. Pursuant to the Plan, CTSL issued "Residue Certificates" to its arm's length creditors, being instruments evidencing an entitlement to share in the CTSL Share. The Residue Certificates do not constitute debt obligations of Confed and Confed has no obligation to the holders of the Residue Certificates (the "Residue Certificate Holders").

11. Under a court-approved trust indenture (the "Trust Indenture") and the Plan, UBS Warburg LLC ("UBSW") was appointed as sole representative of the Residue Certificate Holders for the purpose of liaising with the Liquidator with respect to the financial condition of the Confed estate and assisting and advising the Liquidator. As the Liquidator advised this Court in its report dated December 3, 1999, UBSW has been retained by UBS AG, a significant ordinary creditor of Confed, to advise it with respect to its claim in the liquidation. This Court appointed UBSW an inspector on December 7, 1999.

C. Financial Status of the Estate

12. Attached as Schedule "B" are the unaudited, non-consolidated financial statements for the estate of Confed prepared by the Liquidator to March 31, 2000, which were passed and approved by this Court on May 19, 2000.

13. As at March 31, 2000, the Liquidator estimated that the net assets in the Canadian estate after payment of policyholder liabilities (the “Canadian Surplus”) would be approximately \$224 million.

14. In accordance with the U.S. Settlement Agreement, the Liquidator is entitled to receive all amounts in excess of those necessary for U.S. policyholders to reach “paid in full”, as defined in the U.S. Settlement Agreement (the “U.S. Surplus”). The U.S. policyholders have been paid in full and the Rehabilitator estimates that the U.S. Surplus will be approximately (U.S.) \$190 million, subject to a number of contingencies. To date the Rehabilitator has paid the Liquidator (U.S.) \$96.4 million, of which (U.S.) \$11.4 million was paid in February 2000 and is included in the estimate of the Canadian Surplus at March 31, 2000. The Rehabilitator paid (U.S.) \$85 million subsequent to March 31, 2000. The Liquidator anticipates that there will be further interim distributions of the U.S. Surplus, the timing and quantum of which have not yet been determined.

15. The financial statements for the quarter ending June 30, 2000 have not been finalized. The Liquidator knows of no events that would have a negative impact on the Canadian Surplus. Taking into account the (U.S.) \$85 million and other events in the quarter, the Liquidator estimates the Canadian Surplus at June 30, 2000 to be approximately \$365 million.

16. The transaction transferring the immediate annuities to The Canada Life Assurance Company closed on August 1, 2000. With the closing, all undisputed policyholder claims have been paid or transferred from the estate. The transaction will have a positive impact on the Canadian Surplus, which will be reflected in the financial statements for the quarter ending September 30, 2000.

17. The Liquidator estimates that the total combined Canadian Surplus and U.S. Surplus (collectively, the “Total Projected Surplus”) will be in the range of \$450 million to \$550 million.

D. Liquidator’s Considerations

18. In the Liquidator’s judgment and based on its experience in the estate, given the Total Projected Surplus, a distribution of \$260 million (the “Recommended Distribution”) is appropriate and will not prejudice any interested party. Under the Allocation Formula, this will result in a

payment of \$158.75 million on account of the CTSL Share and \$101.25 million on account of the Ordinary Creditor Share.

19. The process for disallowing and admitting ordinary creditor claims to the estate was approved by this Court by orders dated May 5, 2000 and June 20, 2000 (the “June 20 Order”), copies of which are attached as Schedules “C” and “D”, respectively. The process for admitting claims will be referred to as the “Allowance Process”. The Liquidator has commenced but not completed the Allowance Process. A number of claims are still under consideration and others have been disallowed.

20. The Liquidator is of the view that claimants should receive their money as early as possible, consistent with equitable treatment for all claimants and prudent management of the estate. The Liquidator has carefully considered whether it is appropriate to make the distribution before it can pay all Ordinary Creditors. The Liquidator believes it is appropriate to do so, considering that:

- (a) as a result of the Allocation Formula, the CTSL Share is effectively segregated from the Ordinary Creditor Share and is not dependent on the results of the call for claims;
- (b) the Liquidator undertook not to distribute to Ordinary Creditors to the potential prejudice of holders of subordinated debt until this Court determined the ranking of the subordinated debt. On May 19, 2000 this Court declared that the subordinated debt is subordinated to the claims of Ordinary Creditors in accordance with its terms. There is therefore no impediment to the Liquidator making distributions to Ordinary Creditors once their claims have been allowed. The Liquidator has initiated the Allowance Process with respect to claims whose values total approximately \$205 million; and
- (c) as discussed in paragraphs 22 and 23 below, the BIA Amount (defined below) will cease to accrue on payments made in respect of the CTSL Share. This is advantageous to the Ordinary Creditors.

E. Distribution Methodology

21. The Liquidator proposes that the Recommended Distribution be divided in accordance with the Allocation Formula, with the CTSL Share to be paid pursuant to the Plan and the Trust Indenture and the Ordinary Creditor Share, to be paid pro rata to Ordinary Creditors as their claims are admitted pursuant to the Allowance Process.

The CTSL Share

22. Pursuant to Section 5.8 of the Plan entitled “Sharing of the Confed Residue”, the Liquidator is to pay the CTSL Share to CTSL, which will then pay the trustee under the Trust Indenture for distribution to the Residue Certificate Holders. The Trust Indenture provides that only one distribution may be made on the Residue Certificates per calendar quarter. The ultimate quantum of the CTSL Share is based on the aggregate amount of the proven claims of all of the arm’s length creditors of CTSL, plus an amount on such proven claims calculated in a manner consistent with section 143 of the *Bankruptcy and Insolvency Act* (the “BIA Amount”), plus all costs associated with the administration of the Residue Certificates which would otherwise be payable from the funds available for distribution to the arm’s length creditors.

23. Under the Plan, all distributions made, including on Plan implementation and on account of the CTSL Share, are applied first to principal. The BIA Amount continues to accrue on the principal balance outstanding at 5% per annum. The principal amount of CTSL’s claim as at November 19, 1998, the date the Plan was implemented, was approximately \$147 million. Accordingly:

- (a) the claim, with the BIA Amount calculated to June 30, 2000, was approximately \$270 million; and
- (b) the proposed distribution will eliminate the principal balance by the amount paid and stop the accrual of the BIA Amount.

The Ordinary Creditor Share

24. As noted above, February 15, 2000 was fixed as the date on which Proofs of Claim of Ordinary Creditors and in respect of Additional Policyholder Claims were to be filed. The

Liquidator has received proofs of claim in the approximate amount of \$450 million. However, a number of creditors filed claims for nominal amounts since they did not have access to the information they required to file for a specific amount. The Liquidator estimates the value of these claims to be approximately \$10 million.

25. In accordance with the Allowance Process, the Liquidator mailed a list of claims it proposed to allow on July 20, 2000. A copy of the list is attached as Schedule "E" (the "First Allowed Claims"). The First Allowed Claims consist of:

- (a) claims of commercial paper holders in the approximate amount of \$200 million. This total accords with Confed's records. The claims on commercial paper issued in U.S. dollars have been converted to Canadian dollars in accordance with the June 20 Order. The Liquidator has allowed the claims with interest to August 12, 1994 and issued notices of disallowance for the balance of interest claimed. The appeal period has not yet expired. The Liquidator will require either the surrender of the original promissory notes or suitable alternative arrangements if the original notes are not available, before making a distribution thereon; and
- (b) miscellaneous claims in the approximate amount of \$5 million. Claims in Pounds Sterling and U.S. dollars have been converted to Canadian dollars pursuant to the June 20 Order. The Liquidator has reviewed these claims, which are consistent with Confed's books and records.

26. The Liquidator has received no objections to the First Allowed Claims, as of the date of this report. The period for objection expires on August 14, 2000. The Liquidator will forthwith thereafter seek an Order of this Court approving a dividend sheet listing those First Allowed Claims to which there has been no objection as contemplated by the Allowance Process.

27. The Liquidator has issued notices of disallowance on certain claims and is in the process of considering others. Significant claims were filed by U.S. creditors, in addition to the commercial paper holders. The Rehabilitator is co-operating with the Liquidator in the review of those U.S. claims with which the Rehabilitator is familiar.

28. Using \$460 million as the total value of all filed claims, the Recommended Distribution will result in a dividend of approximately 22 cents on the dollar. The Liquidator proposes to pay the dividend to the creditors, in accordance with the dividend sheet when approved. The Liquidator will make dividend payments to additional Ordinary Creditors as their claims are allowed and will adjust payments to reflect the higher percentage available when material claims are disallowed or withdrawn.

IV. RECOMMENDATIONS

29. In summary, the Liquidator recommends that the Proposed Distribution be made as described, considering that:

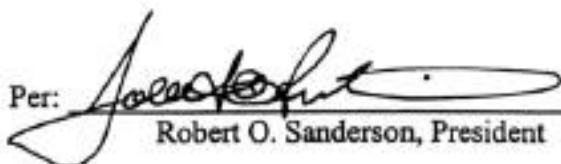
- (a) given the Total Projected Surplus, no party will be prejudiced;
- (b) there is significant excess cash in the estate; and
- (c) the proposed Distribution Methodology ensures no prejudice to the Ordinary Creditors.

V. RELIEF SOUGHT

30. The Liquidator therefore seeks an Order approving and authorizing the making of the Recommended Distribution, being \$260 million, as described above.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

KPMG INC., solely in its capacity as the Liquidator
of Confederation Life Insurance Company

Per: 
Robert O. Sanderson, President

LIST OF CLAIMS TO BE ADMITTED

Claim #	Name of Creditor	Amount Claimed*	Amount Allowed
1	720 Guelph Line Holdings Inc.	81,329.89	78,372.76
2	144900 Canada Inc. Abacus Security Consultants & Investigators	21,328.89	21,328.89
3	Altech Investigations Inc.	1,469.65	1,469.65
4	American Para Professional Systems Inc.	U.S. 1,117.75 Can. 1,544.28	1,544.28
6	CAD Resource Centre	979.85	979.85
7	Canameric (2751941 Canada Inc.)	6,966.19	6,966.19
8	Careerpath Counselling Services	64.20	64.20
9	Checker Cabs Ltd.	141.56	141.56
10	Davis, Reberkenny & Abramowitz P.C.	U.S. 841.65 Can. 1,162.82	1,162.82
12	Dr. N.C.S. Doxey & Associates	1,350.00	1,350.00
14	Gryniewski Consulting Services Ltd.	294.25	294.25
15	Dr. Sean Hamilton c/o St. Clare's Mercy Hospital	100.00	100.00
16	Dr. Adrian N. Hanick	1,675.00	1,675.00
17	McKercher, McKercher & Whitmore	1,459.22	1,459.22
18	Dr. G. J. Pannozzo	150.00	150.00
19	Parlee McLaws	631.81	631.81
20	Pinnacle Investigations Inc.	848.51	848.51
22	Dupont Canada Inc.	10,000,000.00	9,976,528.57
23	RB Ventures Ltd.	100,000.00	100,000.00
24	Rustad Investments Ltd.	100,000.00	100,000.00
25	Doraldick Investments Limited	1,766,000.00	1,761,419.94
31	Dr. Kenneth R. Melvin	250.00	250.00
32	Allan Abramovitch	160.50	160.50
33	John Wilde & Associates	3,395.25	3,395.25
34	World Wide Health Services Inc.	U.S. 163.40 Can. 225.75	225.75
44	Guy Carpenter & Co. Inc.	800,000.00	800,000.00
46	Dr. Maureen Gibbons	100.00	100.00
50	Corporate Realty Inc.	82,133.20	82,133.20

* Canadian Dollars unless otherwise indicated. Exchange rate U.S. \$1.3816 – U.K. £ 2.1353

LIST OF CLAIMS TO BE ADMITTED

Claim #	Name of Creditor	Amount Claimed*	Amount Allowed
52	Adatif Investments Ltd.	1,000,000.00	995,827.86
53	John A. Kane, c/o Waterbury Newton	4,867.39	4,867.39
101	Dr. Irving Salit c/o Toronto General Hospital	400.00	400.00
102	Leduc Leblanc	1,620.31	1,620.31
128	Comptroller of Income Tax Attn: Geoffery Drydale	£68,302.40 Can. 145,846.11	145,846.11
133	H&R Block Canada Inc.	4,500,000.00	4,485,932.83
135	Chubb Security Canada Inc.	3,200,000.00	3,196,576.00
136	Town of Pickering	997,759.63	997,759.63
137	Lewis and Roca LLP	U.S. 1,695.40 Can. 2,342.36	2,342.36
138	Le Bureau D'Expertises Des Assureurs Ltee	55,000.00	55,000.00
142	Wacker Drive Associates Limited Partnership C/o Gerald B. Lurie, Piper Marbury Rudnick & Wolfe	U.S. 160,529.00 Can. 221,786.87	221,786.87
143	Advocate Investigation Services Limited	2,266.48	2,266.48
149	Jackson Hale Distributors Ltd.	3,419.30	3,419.30
150	Hooper-Holmes Canada Limited	1,613.60	1,613.60
151	Dr. Stephen E. Kosar	200.00	200.00
156	Stewart McKelvey Stirling Scales	1,084.47	1,084.47
164	Application Enabling Inc.	5,007.60	5,007.60
167	J. Beals Rehabilitation Consultants	1,089.00	1,089.00
172	Cortlaw Services Ltd.	3,366.54	3,366.54
174	Dr. Ronald Vexler	320.35	320.35
189	Canadian Imperial Bank of Commerce	7,646,467.39	7,642,824.46
191	Abitibi-Consolidated Inc.	2,500,000.00	2,400,000.00
209	Graphical Corp.	413.77	413.77
238	Caster Software Factory Inc.	28,226.60	28,226.60
253	Reliastar Life Insurance Company	497,000.00	497,000.00
301	Mr. Rajesh Mohan	150.00	150.00
316	Dr. Janet E. Pope c/o London Health Sciences Centre	75.00	75.00
317	Mr. Joseph N. Gelmon	647.10	647.10

* Canadian Dollars unless otherwise indicated. Exchange rate U.S. \$1.3816 – U.K. £ 2.1353

LIST OF CLAIMS TO BE ADMITTED

Claim #	Name of Creditor	Amount Claimed*	Amount Allowed
382	The Chase Manhattan Bank	U.S.60,000,000.00 Can.82,896,000.00	82,062,522.28
397	Dominion Textile Inc.	4,000,000.00	3,750,000.00
562	RBC Dominion Securities	11,000,000.00	10,792,234.09
563	UBS AG, Union Bank of Switzerland	U.S.55,000,000.00 Can.75,988,000.00	75,492,051.65
580	Actel Resources Inc.	30,762.50	30,762.50
1032	Dr. S. Esmail	50.00	50.00
1033	Shepp Johnman & Associates Investigations Inc	832.47	832.47
1089	Jules d'Alcantate	52.99	52.99
			205,766,921.81

* Canadian Dollars unless otherwise indicated. Exchange rate U.S. \$1.3816 – U.K. £ 2.1353

SCHEDULE "C"

Unaudited Non-Consolidated Financial Statements of

**CONFEDERATION LIFE INSURANCE COMPANY
(in liquidation)**

The period August 12, 1994 to June 30, 2000

(See Notice to Reader)

NOTICE TO READER

We have compiled the non-consolidated statement of financial position of Confederation Life Insurance Company (in liquidation) as at June 30, 2000 and August 11, 1994, the non-consolidated statements of operations and changes in net assets available for other creditors (deficiency) for the three months ended June 30, 2000 and the period August 12, 1994 to June 30, 2000 and the non-consolidated statement of changes in cash and short term investments for the three months ended June 30, 2000 from the records of the Company, in our capacity as liquidator. We have not audited these statements. In view of the uncertainties surrounding a company in liquidation, the ultimate realization on assets and liabilities will differ from the recorded amounts and the differences may be material (see notes). Readers are cautioned that these statements may not be appropriate for their purposes.

KPMG Inc.

Toronto, Canada
August 15, 2000

CONFEDERATION LIFE INSURANCE COMPANY

(in liquidation)

Non-Consolidated Statement of Financial Position

June 30, 2000 and August 11, 1994

(000's)	June 30, 2000	August 11, 1994
Assets		
Cash and short term investments	\$ 430,745	\$ 55,228
Accrued investment income	10,608	64,332
Accounts receivable	671	148,838
Policy loans	0	61,093
Bonds and private placements	738,518	1,610,003
Mortgage loans	71,667	1,708,688
Real estate and related assets	12,021	463,540
Investment in subsidiaries	8,099	626,618
Other assets	0	115,565
	1,272,329	4,853,905
Less secured and prior ranking liabilities:		
Bank overdraft	0	80,568
Mortgages and other real estate encumbrances	0	106,641
Creditors	21,177	235,601
Net assets available for policyholders and other creditors	1,251,152	4,431,095
Policy Liabilities		
Basic policy liabilities:		
Net actuarial liabilities	707,516	3,679,416
Outstanding claims and adjustment expenses	3,894	101,565
Policyholder amounts on deposit	31	151,406
Other policyholder liabilities	23,169	68,871
	734,610	4,001,258
U.S. settlement provision	0	197,000
Additional provisions	144,000	441,352
Total policy liabilities	878,610	4,639,610
Net Assets available for Other Creditors (Deficiency) (note 2)	\$ 372,542	\$ (208,515)
Obligation to CTSL (note 3)	\$ 215,021	N/A
Net Assets available for Ordinary Unsecured Creditors (note 4)	\$ 157,521	N/A
Net Assets available for Subordinated Debt (note 5)	\$ 0	N/A

See accompanying notes to non-consolidated financial statements.

(Unaudited – See notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY

(in liquidation)

Non-Consolidated Statements of Operations and Changes in Net Assets available for Other Creditors (Deficiency)

Three months ended June 30, 2000 and the period August 12, 1994 to June 30, 2000

(000's)	April 1, 2000 to June 30, 2000	August 12, 1994 to June 30, 2000
Revenue:		
Premiums	\$ 0	\$ 10,751
Net investment income	24,548	1,589,338
Other revenue	230	65,168
	<u>24,778</u>	<u>1,665,257</u>
Expenses:		
General expenses, capital and investment taxes (note 7)	1,273	170,746
Professional and financial advisory fees	2,193	113,940
	<u>3,466</u>	<u>284,686</u>
Policy benefits and expenses:		
Policyholder benefits	210,355	2,789,415
Net changes to policy liabilities	(201,723)	(1,828,090)
Policyholder dividends and experience rating refunds	6	86,690
Commission and other policy related expenses	(55)	36,391
	<u>8,583</u>	<u>1,084,406</u>
Income from subsidiaries	110	55,063
Operating income before the undernoted	12,839	351,228
Income from disposal of business segments	8,633	112,336
Contribution amount to the CTSL Plan (note 3)	0	(25,944)
Net income	21,472	437,620
Transfer from CLIC U.S. (note 6)	126,902	143,437
Net Assets available for Other Creditors (Deficiency), beginning of period	224,168	(208,515)
Net Assets available for Other Creditors, end of period	<u>\$ 372,542</u>	<u>\$ 372,542</u>

See accompanying notes to non-consolidated financial statements.

(Unaudited – See notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY

(in liquidation)

Non-Consolidated Statement of Changes in Cash and Short Term Investments

Three months ended June 30, 2000

(000's)	April 1, 2000 to June 30, 2000
Cash provided by (used in):	
Operating activities:	
Net income (loss)	\$ 21,472
Items not affecting cash:	
Investment (gains) losses and net change in asset provisions	(85)
Decrease in accrued investment income	2,256
Amortization and capitalized interest	(1,661)
Net changes to policy liabilities	(201,723)
Decrease in other policyholder liabilities	(3,439)
Income from subsidiaries	(110)
Income from disposal of business segments	(1,016)
	<u>(184,306)</u>
Funds paid to Empire Life under the Assumption Agreement	(94,459)
Transfer from CLIC U.S.	126,902
Net change in accounts receivable and creditors	(2,498)
	<u>(154,361)</u>
Investing activities:	
Investment disposals net of (purchases):	
Bonds and private placements	182,701
Mortgage loans	1,852
Real estate and related assets	(230)
Subsidiaries	2,282
	<u>186,605</u>
Increase in cash and short term investments	32,244
Cash and short term investments, April 1, 2000	398,501
Cash and short term investments, June 30, 2000	<u>\$ 430,745</u>

See accompanying notes to non-consolidated financial statements.

(Unaudited – See notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 1
The period ended June 30, 2000

1. Significant accounting policies:

(a) Basis of preparation:

Pursuant to an order of the Ontario Court (General Division) (the "Court") made on August 15, 1994, effective August 12, 1994, Confederation Life Insurance Company ("Confed") was ordered to be wound up under the Winding-up Act (Canada) and the Superintendent of Financial Institutions of Canada (the "Superintendent") was appointed the provisional liquidator of Confed. Pursuant to an order of the Court made on September 10, 1997, the Superintendent was discharged as Provisional Liquidator and KPMG Inc. was appointed permanent liquidator. The "Liquidator" refers to the Superintendent prior to September 11, 1997, and to KPMG Inc. after September 10, 1997.

Pursuant to an Order of Rehabilitation made on August 12, 1994, the Circuit Court of the County of Ingham, State of Michigan (the "Michigan Court") ordered that all of Confed's businesses in the United States should cease all operations as of August 12, 1994 and effective on that date be known as "Confederation Life Insurance Company (U.S.) in Rehabilitation". The Commissioner of Insurance for the State of Michigan (the "Rehabilitator") was appointed to manage, direct and control the U.S. Estate ("CLIC U.S.").

In June, 1996 the Liquidator entered into an agreement with the Rehabilitator (the "U.S. Settlement Agreement") which, among other things, confirmed that the rehabilitation of CLIC U.S. and the liquidation of Confed's operations in Canada, Bermuda and Cuba and its residual interests in former United Kingdom operations would be carried out by the Rehabilitator and the Liquidator respectively as separate proceedings under the individual supervision of the Michigan and Ontario Courts. Accordingly, these financial statements only include the assets, liabilities and results of operations of the legal estate under the control of the Liquidator pursuant to the Winding-up Act.

On October 23, 1996 the Michigan Court approved a liquidating Plan of Rehabilitation submitted by the Rehabilitator and appointed the Rehabilitator as the Liquidator of CLIC U.S. The Michigan Court ordered the U.S. Liquidator to wind up the remaining business affairs of CLIC U.S. pursuant to the Plan of Rehabilitation under the supervision of the Michigan Court. Since CLIC U.S. is a separate estate, it has not been accounted for within these financial statements except to the extent necessary to recognize obligations to U.S. creditors that are to be dealt with in the Canadian proceedings and the receipt of surplus funds from CLIC U.S. as contemplated by the U.S. Settlement Agreement.

The accounting policies used in the preparation of these financial statements have been selected with a view to reflect the financial position of a company which is in liquidation. In view of the uncertainties surrounding a company in liquidation, the ultimate realization on assets and liabilities will differ from the recorded amounts and the differences may be material.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 2
The period ended June 30, 2000

1. Significant accounting policies (continued):

(b) Settlement with CLIC U.S.:

The agreement between the Liquidator and the Rehabilitator required the Liquidator to pay the Rehabilitator \$225 million in return for the Rehabilitator executing and delivering on his own behalf and on behalf of all U.S. claimants an unconditional release and discharge for the Estate and the Liquidator from all duties, obligations, contracts, demands etc. of U.S. claimants which, if successful, would rank equally with or prior to the claims of Canadian policyholders in the Estate. The \$225 million settlement was paid to the U.S. Liquidator on November 27, 1996.

The U.S. settlement amount of \$225 million, which is \$197 million when discounted at 7% between August 12, 1994 and June 30, 1996, has been included in policy liabilities at August 11, 1994. The increase in the settlement amount has been included in the change in policy liabilities in the statements of operations and changes in net assets available for other creditors (deficiency).

(c) Investments:

Investments are valued on the basis set out below, net of provisions for asset impairment. Loss provisions for each asset as at June 30, 2000 were established on a going concern basis.

These investment values do not include additional provisions needed to reflect the range of realizable values that may be expected in a liquidation scenario. An estimate of such future losses is included in additional provisions (see note 1(d)). The asset impairment provisions reflected in these financial statements are based on estimates made at June 30, 2000.

(i) Bonds and debentures

Bonds and debentures are carried at amortized cost net of provisions for asset impairment. Provisions for asset impairment are calculated based on: (a) any decline in the value of the specific security which is considered to be other than temporary; and (b) the assumption that because a ready market does not exist for some of the bonds and debentures, a discount would need to be recognized in order to dispose of them on a timely basis.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 3
The period ended June 30, 2000

1. Significant accounting policies (continued):

(c) Investments (continued):

(ii) Private equity investments

Private equity investments consist principally of unlisted securities which were valued at August 11, 1994 based on the market prices of comparable securities and on financial analysis. This carrying value has been updated for conversions, redemptions and similar transactions since liquidation.

(iii) Mortgages

Mortgages are carried at cost net of provisions for asset impairment.

(iv) Real Estate

Real estate held for investment or acquired by foreclosure is carried at market values based mainly on discounted cash flows. Realized and unrealized gains and losses on real estate are recognized in income.

(v) Subsidiaries

Investment in subsidiaries is recorded using the equity method of accounting, with further writedowns made where needed to ensure that the carrying values do not exceed net realizable values.

(vi) Provisions for asset impairment

Provisions have been made against bonds and debentures, private equity investments, mortgages and subsidiary companies where there has been an other than temporary decline in value and these provisions have been deducted from the carrying value of the respective assets. Additional provisions have been made for anticipated future losses of principal and interest on invested assets and are included as a component of policy liabilities.

The Company ceases to accrue interest on invested assets which are three months or more in arrears as well as investments which are less than three months in arrears but are considered to be impaired.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 4
The period ended June 30, 2000

1. Significant accounting policies (continued):

(d) Policy liabilities:

Policy liabilities are calculated using the policy premium method. Policy liabilities represent the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and taxes on insurance and annuity contracts.

The process of calculating policy liabilities necessarily involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields, default losses and expense levels as well as rates of surrender; and includes provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions will be included in future income to the extent not required to cover future adverse experience.

Future investment yield estimates take into account the current investment portfolio of the Company. The basic policy liability provisions have been determined assuming that investment asset default losses will be at the normal rates for the respective asset classes as generally used in the industry. Additional provisions for asset default have been determined taking into account the circumstances of the Company's investments. Additional provisions for the excess of future expected expense levels over the expenses used in the determination of basic policy liabilities, net of estimated additional proceeds on completed sales of lines of business, have also been determined. These additional provisions are shown separately, as part of policy liabilities.

2. Net Assets available for Other Creditors (Deficiency):

Any funds in excess of those required for payment of valid claims under policies will be paid to those entitled under the Winding-up Act (Canada), subject to the terms and conditions of the CTSL Plan (see note 3). The amount currently recorded as net assets available for other creditors does not include any potential additional recovery from CLIC U.S. (see note 6). The ultimate amount of distributions will depend on the realization of assets and liabilities. In view of the uncertainty surrounding a company in liquidation, such realization will differ from the recorded amounts and the differences may be material.

3. Obligation to CTSL :

The Liquidator is a participant in a plan of compromise or arrangement ("the Plan") with respect to Confederation Treasury Services Limited ("CTSL"), settling matters among CTSL, the Liquidator, the Rehabilitator and the arms-length creditors of CTSL. On Plan implementation, the Liquidator assigned the proceeds of its claim against CTSL and made a contribution ("the Contribution Amount") of \$25.9 million, being the contribution amount of \$25 million as provided for in the Plan plus interest as provided for in the Agreement to extend the Plan implementation date. Additionally, amounts of \$672 million, previously shown under due to subsidiaries, were released.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 5

The period ended June 30, 2000

Also, as part of the CTSL Plan, Confed has agreed to a sharing of any surplus asset realizations after all Confed policyholders have been paid in full as defined in the June 1996 Settlement Agreement entered into with CLIC U.S. which forms an integral part of the Plan of Rehabilitation. As provided in the Plan, any surplus is allocated in the following manner:

- (a) the first \$20 million to Confed's unsecured creditors;
- (b) of the next \$155 million, 25% to Confed's unsecured creditors and 75% to CTSL; and
- (c) of any surplus in excess of \$175 million, 50% each to Confed's unsecured creditors and CTSL until the creditors of CTSL recover 100% of their entitlement under the Plan.

The "Obligation to CTSL", referred to in the Statement of Financial Position, has been determined by applying the above formula to the Net Assets available for Other Creditors amount currently reflected therein. Accordingly, the amount of the obligation will change as the amount for Net Assets available for Other Creditors changes. This obligation accrues interest in accordance with the Plan and will be reduced by the amount of distributions. To date, no distributions to CTSL have been made by the Liquidator.

4. Ordinary unsecured creditors:

The ordinary unsecured creditor claims according to Confed's books and records at June 30, 2000 are:

(000's) 1994	June 30, 2000	August 11,
Commercial paper	\$200,939	\$203,143
Others	164,565	72,335
Due to subsidiaries	0	672,277
	\$365,504	\$947,755

The difference between the amount due to subsidiaries at August 11, 1994 and the nil amount currently due represents CTSL debt which was released on implementation of the CTSL Plan.

The Liquidator called for creditors to file their claims by February 15, 2000. Claims having a face amount of approximately \$450 million were filed. In addition, a number of claims were filed for nominal amounts which the Liquidator estimates to have a value of \$10 million. As of August 15, 2000, the Liquidator has recommended allowing 64 claims in the amount of \$206 million. Of this, 15 claims in the aggregate amount of \$205 million represent claims by the holders of commercial paper. Upon obtaining the Court's approval of these claims, the recorded amount noted above for commercial paper will be adjusted as required. The \$1 million balance of claims being recommended for allowance represents claims within the "Others" category.

(Unaudited - See Notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 6
The period ended June 30, 2000

The Liquidator continues to review claims filed and subject those it is not prepared to admit to an adjudication process. Until the adjudication process is complete, the final quantum of the unsecured claims will not be known and the difference may be material from the recorded amount above.

The Liquidator has not accrued interest since the date of liquidation on these liabilities and has not recorded any contingent claims in the accounts.

5. Subordinated debt:

Confed issued two tranches of subordinated debt totalling \$266.7 million as at August 11, 1994 which ranks subordinate to claims of other ordinary unsecured creditors.

6. U.S. Settlement Agreement:

Prior to December 31, 1999, the Rehabilitator declared that all policyholders in CLIC U.S. had been "Paid in Full". Pursuant to the terms of the U.S. Settlement Agreement, any surplus arising after U.S. policyholders have been paid in full will be paid to the Liquidator. During the three months ended June 30, 2000, U.S. \$85 million was received from CLIC U.S. and has been recorded as Cdn \$126.9 million in the statements of operations and changes in net assets available for other creditors. The total amount received to date is U.S. \$96.4 million which has been recorded as Cdn \$143.4 in the statements of operations and changes in net assets available for other creditors.

7. General expenses, capital and investment taxes:

(000's)	April 1, 2000 to June 30, 2000	August 12, 1994 to June 30, 2000
Compensation and benefits	\$ 637	\$ 94,173
Third party administration fees:		
Claims	226	29,019
Investments	91	16,316
Investment expense	3	1,106
Building operations	117	21,867
Office equipment and telephone	29	4,769
Postage and office supplies	10	2,146
Computer expense	81	9,284
Consultants/outside services	23	9,164
Insurance	60	1,819
Goods and services tax	45	5,037
Sundry	41	4,529
Capital and investment taxes	4	23,579
	1,367	222,808
Expense recoveries	(94)	(52,062)
	\$1,273	\$170,746

(Unaudited - See Notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 7
The period ended June 30, 2000

8. Contingencies:

The Company is a defendant in various legal actions, the outcome of which is indeterminable. Amounts, if any, to be paid under these contingencies will be recorded when the likelihood and the amount can be reasonably determined.

SCHEDULE "D"

Unaudited Non-Consolidated Financial Statements of

**CONFEDERATION LIFE INSURANCE COMPANY
(in liquidation)**

The period August 12, 1994 to July 31, 2000

(See Notice to Reader)

NOTICE TO READER

We have compiled the non-consolidated statement of financial position of Confederation Life Insurance Company (in liquidation) as at July 31, 2000, June 30, 2000 and August 11, 1994, the non-consolidated statements of operations and changes in net assets available for other creditors (deficiency) for the month ended July 31, 2000 and the period August 12, 1994 to July 31, 2000 from the records of the Company, in our capacity as liquidator. We have not audited these statements. In view of the uncertainties surrounding a company in liquidation, the ultimate realization on assets and liabilities will differ from the recorded amounts and the differences may be material (see notes). Readers are cautioned that these statements may not be appropriate for their purposes.

KPMG Inc.

Toronto, Canada
August 18, 2000

CONFEDERATION LIFE INSURANCE COMPANY

(in liquidation)

Non-Consolidated Statement of Financial Position

July 31, 2000, June 30, 2000 and August 11, 1994

(000's)	July 31, 2000	June 30, 2000	August 11, 1994
Assets			
Cash and short term investments	\$ 414,443	\$ 430,745	\$ 55,228
Accrued investment income	1,802	10,608	64,332
Accounts receivable	469	671	148,838
Policy loans	0	0	61,093
Bonds and private placements	104,318	738,518	1,610,003
Mortgage loans	58,520	71,667	1,708,688
Real estate and related assets	11,850	12,021	463,540
Investment in subsidiaries	8,099	8,099	626,618
Other assets	0	0	115,565
	599,501	1,272,329	4,853,905
Less secured and prior ranking liabilities:			
Bank overdraft	0	0	80,568
Mortgages and other real estate encumbrances	0	0	106,641
Creditors	23,333	21,177	235,601
Net assets available for policyholders and other creditors	576,168	1,251,152	4,431,095
Policy Liabilities			
Basic policy liabilities:			
Net actuarial liabilities	0	707,516	3,679,416
Outstanding claims and adjustment expenses	2,923	3,894	101,565
Policyholder amounts on deposit	31	31	151,406
Other policyholder liabilities	23,169	23,169	68,871
	26,123	734,610	4,001,258
U.S. settlement provision	0	0	197,000
Additional provisions	135,000	144,000	441,352
Total policy liabilities	161,123	878,610	4,639,610
Net Assets available for Other Creditors (Deficiency) (note 2)	\$ 415,045	\$ 372,542	\$ (208,515)
Obligation to CTSL (note 3)	\$ 236,273	\$ 215,021	N/A
Net Assets available for Ordinary Unsecured Creditors (note 4)	\$ 178,772	\$ 157,521	N/A
Net Assets available for Subordinated Debt (note 5)	\$ 0	\$ 0	N/A

See accompanying notes to non-consolidated financial statements.

(Unaudited – See notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY

(in liquidation)

Non-Consolidated Statements of Operations and Changes in Net Assets available for Other Creditors (Deficiency)

One month ended July 31, 2000 and the period August 12, 1994 to July 31, 2000

(000's)	July 1, 2000 to July 31, 2000	August 12, 1994 to July 31, 2000
Revenue:		
Premiums	\$ 0	\$ 10,751
Net investment income	7,938	1,597,276
Other revenue	0	65,168
	<u>7,938</u>	<u>1,673,195</u>
Expenses:		
General expenses, capital and investment taxes (note 7)	531	171,277
Professional and financial advisory fees	676	114,616
	<u>1,207</u>	<u>285,893</u>
Policy benefits and expenses:		
Policyholder benefits	6,030	2,795,445
Net changes to policy liabilities	(10,728)	(1,838,818)
Policyholder dividends and experience rating refunds	(50)	86,640
Commission and other policy related expenses	5	36,396
	<u>(4,743)</u>	<u>1,079,663</u>
Income from subsidiaries	0	55,063
Operating income before the undernoted	11,474	362,702
Income from disposal of business segments	31,029	143,365
Contribution amount to the CTSL Plan (note 3)	0	(25,944)
Net income	42,503	480,123
Transfer from CLIC U.S. (note 6)	0	143,437
Net Assets available for Other Creditors (Deficiency), beginning of period	372,542	(208,515)
Net Assets available for Other Creditors, end of period	<u>\$ 415,045</u>	<u>\$ 415,045</u>

See accompanying notes to non-consolidated financial statements.

(Unaudited – See notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 1
The period ended July 31, 2000

1. Significant accounting policies:

(a) Basis of preparation:

Pursuant to an order of the Ontario Court (General Division) (the "Court") made on August 15, 1994, effective August 12, 1994, Confederation Life Insurance Company ("Confed") was ordered to be wound up under the Winding-up Act (Canada) and the Superintendent of Financial Institutions of Canada (the "Superintendent") was appointed the provisional liquidator of Confed. Pursuant to an order of the Court made on September 10, 1997, the Superintendent was discharged as Provisional Liquidator and KPMG Inc. was appointed permanent liquidator. The "Liquidator" refers to the Superintendent prior to September 11, 1997, and to KPMG Inc. after September 10, 1997.

Pursuant to an Order of Rehabilitation made on August 12, 1994, the Circuit Court of the County of Ingham, State of Michigan (the "Michigan Court") ordered that all of Confed's businesses in the United States should cease all operations as of August 12, 1994 and effective on that date be known as "Confederation Life Insurance Company (U.S.) in Rehabilitation". The Commissioner of Insurance for the State of Michigan (the "Rehabilitator") was appointed to manage, direct and control the U.S. Estate ("CLIC U.S.").

In June, 1996 the Liquidator entered into an agreement with the Rehabilitator (the "U.S. Settlement Agreement") which, among other things, confirmed that the rehabilitation of CLIC U.S. and the liquidation of Confed's operations in Canada, Bermuda and Cuba and its residual interests in former United Kingdom operations would be carried out by the Rehabilitator and the Liquidator respectively as separate proceedings under the individual supervision of the Michigan and Ontario Courts. Accordingly, these financial statements only include the assets, liabilities and results of operations of the legal estate under the control of the Liquidator pursuant to the Winding-up Act.

On October 23, 1996 the Michigan Court approved a liquidating Plan of Rehabilitation submitted by the Rehabilitator and appointed the Rehabilitator as the Liquidator of CLIC U.S. The Michigan Court ordered the U.S. Liquidator to wind up the remaining business affairs of CLIC U.S. pursuant to the Plan of Rehabilitation under the supervision of the Michigan Court. Since CLIC U.S. is a separate estate, it has not been accounted for within these financial statements except to the extent necessary to recognize obligations to U.S. creditors that are to be dealt with in the Canadian proceedings and the receipt of surplus funds from CLIC U.S. as contemplated by the U.S. Settlement Agreement.

The accounting policies used in the preparation of these financial statements have been selected with a view to reflect the financial position of a company which is in liquidation. In view of the uncertainties surrounding a company in liquidation, the ultimate realization on assets and liabilities will differ from the recorded amounts and the differences may be material.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 2
The period ended July 31, 2000

1. Significant accounting policies (continued):

(b) Settlement with CLIC U.S.:

The agreement between the Liquidator and the Rehabilitator required the Liquidator to pay the Rehabilitator \$225 million in return for the Rehabilitator executing and delivering on his own behalf and on behalf of all U.S. claimants an unconditional release and discharge for the Estate and the Liquidator from all duties, obligations, contracts, demands etc. of U.S. claimants which, if successful, would rank equally with or prior to the claims of Canadian policyholders in the Estate. The \$225 million settlement was paid to the U.S. Liquidator on November 27, 1996.

The U.S. settlement amount of \$225 million, which is \$197 million when discounted at 7% between August 12, 1994 and June 30, 1996, has been included in policy liabilities at August 11, 1994. The increase in the settlement amount has been included in the change in policy liabilities in the statements of operations and changes in net assets available for other creditors (deficiency).

(c) Investments:

Investments are valued on the basis set out below, net of provisions for asset impairment. Loss provisions for each asset as at June 30, 2000 were established on a going concern basis.

These investment values do not include additional provisions needed to reflect the range of realizable values that may be expected in a liquidation scenario. An estimate of such future losses is included in additional provisions (see note 1(d)). The asset impairment provisions reflected in these financial statements are based on estimates made at June 30, 2000.

(i) Bonds and debentures

Bonds and debentures are carried at amortized cost net of provisions for asset impairment. Provisions for asset impairment are calculated based on: (a) any decline in the value of the specific security which is considered to be other than temporary; and (b) the assumption that because a ready market does not exist for some of the bonds and debentures, a discount would need to be recognized in order to dispose of them on a timely basis.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 3
The period ended July 31, 2000

1. Significant accounting policies (continued):

(c) Investments (continued):

(ii) Private equity investments

Private equity investments consist principally of unlisted securities which were valued at August 11, 1994 based on the market prices of comparable securities and on financial analysis. This carrying value has been updated for conversions, redemptions and similar transactions since liquidation.

(iii) Mortgages

Mortgages are carried at cost net of provisions for asset impairment.

(iv) Real Estate

Real estate held for investment or acquired by foreclosure is carried at market values based mainly on discounted cash flows. Realized and unrealized gains and losses on real estate are recognized in income.

(v) Subsidiaries

Investment in subsidiaries is recorded using the equity method of accounting, with further writedowns made where needed to ensure that the carrying values do not exceed net realizable values.

(vi) Provisions for asset impairment

Provisions have been made against bonds and debentures, private equity investments, mortgages and subsidiary companies where there has been an other than temporary decline in value and these provisions have been deducted from the carrying value of the respective assets. Additional provisions have been made for anticipated future losses of principal and interest on invested assets and are included as a component of policy liabilities.

The Company ceases to accrue interest on invested assets which are three months or more in arrears as well as investments which are less than three months in arrears but are considered to be impaired.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 4
The period ended July 31, 2000

1. Significant accounting policies (continued):

(d) Policy liabilities:

Policy liabilities are calculated using the policy premium method. Policy liabilities represent the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and taxes on insurance and annuity contracts.

The process of calculating policy liabilities necessarily involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields, default losses and expense levels as well as rates of surrender; and includes provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions will be included in future income to the extent not required to cover future adverse experience.

Future investment yield estimates take into account the current investment portfolio of the Company. The basic policy liability provisions have been determined assuming that investment asset default losses will be at the normal rates for the respective asset classes as generally used in the industry. Additional provisions for asset default have been determined taking into account the circumstances of the Company's investments. Additional provisions for the excess of future expected expense levels over the expenses used in the determination of basic policy liabilities, net of estimated additional proceeds on completed sales of lines of business, have also been determined. These additional provisions are shown separately, as part of policy liabilities.

2. Net Assets available for Other Creditors (Deficiency):

Any funds in excess of those required for payment of valid claims under policies will be paid to those entitled under the Winding-up Act (Canada), subject to the terms and conditions of the CTSL Plan (see note 3). The amount currently recorded as net assets available for other creditors does not include any potential additional recovery from CLIC U.S. (see note 6). The ultimate amount of distributions will depend on the realization of assets and liabilities. In view of the uncertainty surrounding a company in liquidation, such realization will differ from the recorded amounts and the differences may be material.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 5
The period ended July 31, 2000

3. Obligation to CTSL :

The Liquidator is a participant in a plan of compromise or arrangement (“the Plan”) with respect to Confederation Treasury Services Limited (“CTSL”), settling matters among CTSL, the Liquidator, the Rehabilitator and the arms-length creditors of CTSL. On Plan implementation, the Liquidator assigned the proceeds of its claim against CTSL and made a contribution (“the Contribution Amount”) of \$25.9 million, being the contribution amount of \$25 million as provided for in the Plan plus interest as provided for in the Agreement to extend the Plan implementation date. Additionally, amounts of \$672 million, previously shown under due to subsidiaries, were released.

Also, as part of the CTSL Plan, Confed has agreed to a sharing of any surplus asset realizations after all Confed policyholders have been paid in full as defined in the June 1996 Settlement Agreement entered into with CLIC U.S. which forms an integral part of the Plan of Rehabilitation. As provided in the Plan, any surplus is allocated in the following manner:

- (a) the first \$20 million to Confed’s unsecured creditors;
- (b) of the next \$155 million, 25% to Confed’s unsecured creditors and 75% to CTSL; and
- (c) of any surplus in excess of \$175 million, 50% each to Confed’s unsecured creditors and CTSL until the creditors of CTSL recover 100% of their entitlement under the Plan.

The “Obligation to CTSL”, referred to in the Statement of Financial Position, has been determined by applying the above formula to the Net Assets available for Other Creditors amount currently reflected therein. Accordingly, the amount of the obligation will change as the amount for Net Assets available for Other Creditors changes. This obligation accrues interest in accordance with the Plan and will be reduced by the amount of distributions. To date, no distributions to CTSL have been made by the Liquidator.

4. Ordinary unsecured creditors:

The ordinary unsecured creditor claims according to Confed’s books and records at July 31, 2000 are:

(000’s) 1994	July 31, 2000	August 11,
Commercial paper	\$200,939	\$203,143
Others	164,565	72,335
Due to subsidiaries	0	672,277
	\$365,504	\$947,755

(Unaudited - See Notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 6
The period ended July 31, 2000

The difference between the amount due to subsidiaries at August 11, 1994 and the nil amount currently due represents CTSL debt which was released on implementation of the CTSL Plan.

The Liquidator called for creditors to file their claims by February 15, 2000. Claims having a face amount of approximately \$450 million were filed. In addition, a number of claims were filed for nominal amounts which the Liquidator estimates to have a value of \$10 million. As of August 15, 2000, the Liquidator has recommended allowing 64 claims in the amount of \$206 million. Of this, 15 claims in the aggregate amount of \$205 million represent claims by the holders of commercial paper. Upon obtaining the Court's approval of these claims, the recorded amount noted above for commercial paper will be adjusted as required. The \$1 million balance of claims being recommended for allowance represents claims within the "Others" category.

The Liquidator continues to review claims filed and subject those it is not prepared to admit to an adjudication process. Until the adjudication process is complete, the final quantum of the unsecured claims will not be known and the difference may be material from the recorded amount above.

The Liquidator has not accrued interest since the date of liquidation on these liabilities and has not recorded any contingent claims in the accounts.

5. Subordinated debt:

Confed issued two tranches of subordinated debt totalling \$266.7 million as at August 11, 1994 which ranks subordinate to claims of other ordinary unsecured creditors.

6. U.S. Settlement Agreement:

Prior to December 31, 1999, the Rehabilitator declared that all policyholders in CLIC U.S. had been "Paid in Full". Pursuant to the terms of the U.S. Settlement Agreement, any surplus arising after U.S. policyholders have been paid in full will be paid to the Liquidator. The total amount received to date is U.S. \$96.4 million which has been recorded as Cdn \$143.4 in the statements of operations and changes in net assets available for other creditors.

CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 7
The period ended July 31, 2000

7. General expenses, capital and investment taxes:

(000's)	April 1, 2000 to July 31, 2000	August 12, 1994 to July 31, 2000
Compensation and benefits	\$ 196	\$ 94,369
Third party administration fees:		
Claims	88	29,107
Investments	31	16,347
Investment expense	0	1,106
Building operations	38	21,905
Office equipment and telephone	1	4,770
Postage and office supplies	9	2,155
Computer expense	37	9,321
Consultants/outside services	7	9,171
Insurance	89	1,908
Goods and services tax	19	5,056
Sundry	22	4,551
Capital and investment taxes	0	23,579
	537	223,345
Expense recoveries	(6)	(52,068)
	\$ 531	\$ 171,277

8. Contingencies:

The Company is a defendant in various legal actions, the outcome of which is indeterminable. Amounts, if any, to be paid under these contingencies will be recorded when the likelihood and the amount can be reasonably determined.

SCHEDULE "E"

Unaudited Non-Consolidated Financial Statements of

**CONFEDERATION LIFE INSURANCE COMPANY
(in liquidation)**

The periods ended:

July 31, 2000,
June 30, 2000,
March 31, 2000,
December 31, 1999,
September 30, 1999 and
August 11, 1994

(See Notice to Reader)

NOTICE TO READER

We have compiled the non-consolidated statement of financial position of Confederation Life Insurance Company (in liquidation) as at July 31, 2000, June 30, 2000, March 31, 2000, December 31, 1999, September 30, 1999 and August 11, 1994, the non-consolidated statements of operations and changes in net assets available for other creditors (deficiency) for the month ended July 31, 2000 and the three months ended June 30, 2000, March 31, 2000, December 31, 1999, September 30, 1999 and the period August 12, 1994 to July 31, 2000 and the schedule of general expenses, capital and investment taxes for the month ended July 31, 2000 and the three months ended June 30, 2000, March 31, 2000, December 31, 1999, September 30, 1999 and the period August 12, 1994 to July 31, 2000 from the records of the Company, in our capacity as permanent liquidator. We have not audited these statements. In view of the uncertainties surrounding a company in liquidation, the ultimate realization on assets and liabilities will differ from the recorded amounts and the differences may be material (see notes). Readers are cautioned that these statements may not be appropriate for their purposes.

KPMG Inc.

Toronto, Canada
August 18, 2000

CONFEDERATION LIFE INSURANCE COMPANY

(in liquidation)

Non-Consolidated Statement of Financial Position

(000's)	Jul 31, 00	Jun 30, 00	Mar 31, 00	Dec 31, 99	Sep 30, 99	Aug 11, 94
Assets						
Cash and short term investments	\$414,443	\$430,745	\$398,501	\$265,732	\$242,908	\$55,228
Accrued investment income	1,802	10,608	12,864	20,901	13,310	64,332
Accounts receivable	469	671	487	503	3,024	148,838
Policy loans	0	0	0	0	0	61,093
Bonds and private placements	104,318	738,518	919,245	1,057,776	1,106,825	1,610,003
Mortgage loans	58,520	71,667	74,330	82,596	83,029	1,708,688
Real estate and related assets	11,850	12,021	11,208	11,850	26,867	463,540
Investment in subsidiaries	8,099	8,099	10,271	24,292	31,732	626,618
Other assets	0	0	0	0	0	115,565
	599,501	1,272,329	1,426,906	1,463,650	1,507,695	4,853,905
Less secured and prior ranking liabilities:						
Bank overdraft	0	0	0	0	0	80,568
Mortgages and other real estate encumbrances		0	0	0	0	106,641
Creditors	23,333	21,177	23,491	25,463	25,428	235,601
Net assets available for policyholders and other creditors		1,251,152	1,403,415	1,438,187	1,482,267	4,431,095
Policy Liabilities						
Basic policy liabilities:						
Net actuarial liabilities	0	707,516	1,001,714	1,062,630	1,117,540	3,679,416
Outstanding claims and adjustment expenses		3,894	5,957	5,737	6,225	101,565
Policyholder amounts on deposit	31	31	1,067	1,065	1,065	151,406
Other policyholder liabilities	23,169	23,169	23,509	24,397	30,377	68,871
Residual liabilities	0	0	0	0	1,990	0
	26,123	734,610	1,032,247	1,093,829	1,157,197	4,001,258
U.S. settlement provision	0	0	0	0	0	197,000
Additional provisions	135,000	144,000	147,000	147,000	157,600	441,352
Total policy liabilities	161,123	878,610	1,179,247	1,240,829	1,314,797	4,639,610
Net Assets available for Other Creditors (Deficiency) (note 2)	\$415,045	\$372,542	\$224,168	\$197,358	\$167,470	(\$208,515)
Obligation to CTSL (note 3; note 5)	\$236,273	\$215,021	\$140,834	\$127,429	\$110,602	N/A
Net Assets available for Ordinary Unsecured Creditors (note 4)	\$178,772	\$157,521	\$ 83,334	\$ 69,929	\$ 56,868	N/A
Net Assets available for Subordinated Debt (note 4; note 5)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	N/A

See accompanying notes to the non-consolidated financial statements for the respective reporting period.

The presentation of the statement of financial position was adjusted effective with the period ended December 31, 1999 and was applied retroactively.

(Unaudited – See notice to Reader)

**CONFEDERATION LIFE
INSURANCE COMPANY
(in liquidation)**

Non-Consolidated Statements of Operations and Changes in Net Assets available for Other Creditors (Deficiency)

(000's)	Three months ended				One month ended July 31, 00	Thirteen months ended Jul 31, 00	The period Aug 12, 94 to Jul 31, 00
	Sep 30, 99	Dec 31, 99	Mar 31, 00	Jun 30, 00			
Revenue:							
Premiums	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,751
Net investment income	28,556	40,372	27,720	24,548	7,938	129,134	1,597,276
Other revenue	17	1,037	36	230	0	1,320	65,168
	28,573	41,409	27,756	24,778	7,938	130,454	1,673,195
Expenses:							
General expenses, capital and investment taxes (note 6; note 7)	2,616	3,045	1,527	1,273	531	8,992	171,277
Professional and financial advisory fees	2,427	2,900	2,863	2,193	676	11,059	114,616
	5,043	5,945	4,390	3,466	1,207	20,051	285,893
Policy benefits and expenses:							
Policyholder benefits	57,420	89,068	80,988	210,355	6,030	443,861	2,795,445
Net changes to policy liabilities	(39,447)	(65,510)	(60,916)	(201,723)	(10,728)	(378,324)	(1,838,818)
Policyholder dividends and experience rating refunds	6	(918)	(985)	6	(50)	(1,941)	86,640
Commission and other policy related expenses	(2,181)	(7,173)	(855)	(55)	5	(10,259)	36,396
	15,798	15,467	18,232	8,583	(4,743)	53,337	1,079,663
Income from subsidiaries	1,345	6,459	5,090	110	0	13,004	55,063
Operating income before the undernoted	9,077	26,456	10,224	12,839	11,474	70,070	362,702
Income from disposal of business segments	5	3,432	51	8,633	31,029	43,150	143,365
Contribution amount to the CTSL Plan (note 3; note 5)	0	0	0	0	0	0	(25,944)
Net income	9,082	29,888	10,275	21,472	42,503	113,220	480,123
Transfer from CLIC U.S. (note 6)	0	0	16,535	126,902	0	143,437	143,437
Net Assets available for Other Creditors (Deficiency), beginning of period	158,388	167,470	197,358	224,168	372,542	158,388	(208,515)
Net Assets available for Other Creditors, end of period	\$167,470	\$197,358	\$224,168	\$372,542	\$415,045	\$415,045	\$415,045

See accompanying notes to the non-consolidated financial statements for the respective reporting period.

(Unaudited – See notice to Reader)

CONFEDERATION LIFE INSURANCE COMPANY

(in liquidation)

Schedule of General Expenses, Capital and Investment Taxes

(000's)	Three months ended				One month ended	Thirteen months ended	The period
	Sep 30, 99	Dec 31, 99	Mar 31, 00	Jun 30, 00	Jul 31, 00	Jul 31, 00	Aug 12, 94 to Jul 31, 00
Compensation and benefits	\$862	\$922	\$773	\$637	\$196	\$3,390	\$94,369
Third party administration fees:							
Claims	71	239	258	226	88	882	29,107
Investments	102	101	97	91	31	422	16,347
Investment expense	1	1	200	3	0	205	1,106
Building operations	183	191	440	117	38	969	21,905
Office equipment and telephone	30	39	28	29	1	127	4,770
Postage and office supplies	21	27	15	10	9	82	2,155
Computer expense	76	72	99	81	37	365	9,321
Consultants/outside services	30	15	26	23	7	101	9,171
Insurance	87	106	(1)	60	89	341	1,908
Goods and services tax	59	66	74	45	19	263	5,056
Sundry	102	269	22	41	22	456	4,551
Capital and investment taxes	1,200	1,200	1,000	4	0	3,404	23,579
	2,824	3,248	3,031	1,367	537	11,007	223,345
Expense recoveries	(208)	(203)	(1,504)	(94)	(6)	(2,015)	(52,068)
	\$2,616	\$3,045	\$1,527	\$1,273	\$531	\$8,992	\$171,277

(Unaudited – See notice to Reader)

**SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

**IN THE MATTER OF
CONFEDERATION LIFE INSURANCE COMPANY**

**AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, AS AMENDED**

**AND IN THE MATTER OF THE
WINDING-UP ACT, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

CONFEDERATION LIFE INSURANCE COMPANY

Respondent

**ENDORSEMENT OF
THE HONOURABLE MR. JUSTICE BLAIR**

Counsel: Gale Rubenstein, for KPMG Inc., Liquidator of Confederation Life Insurance Company
Edward Sellers, for The Chase Manhattan Bank
Mario Forte, for the Canadian Life and Health Insurance Compensation Corporation
Andrew Diamond, for Confederation Treasury Services Limited

Date: August 10, 2000

BLAIR, J.

I am reluctant to grant the Order requested at this stage because I think the motion is premature in the absence of (i) the financial statements of Confed as of June 30, 2000 to confirm the Liquidator's "estimates" (particularly); and (ii) the timing of the claims process (which is still unfolding). As I understand it, the statements will be available and the timing issue will be better crystallized by the end of this month, which will permit a confirmatory consideration of these matters and a decision, if appropriate, which would permit the appeal period to expire (if no appeals) in time for the proposed

disposition to take place in the 3rd quarter of 2000 as desired.

Accordingly, this motion is adjourned to Tuesday September 5, 2000 before me.

R.A. Blair J.

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CONFEDERATION LIFE INSURANCE COMPANY, IN LIQUIDATION WEBSITE LEGAL DISCLAIMER

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