

**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**

**(Motion Returnable March 26, 2002)**

**MARCH 15, 2002**

**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 the third supplemental dividend sheet in the form attached as Schedule “A” hereto (the “Third Supplemental Dividend Sheet”) and authorizing the Liquidator to make distributions from time to time to the holders of allowed claims set out on the Third Supplemental Dividend Sheet.

## II. BACKGROUND

2. On August 15, 1994, this Court ordered that Confed be wound-up pursuant to the *Winding-up Act* (now the *Winding-up and Restructuring 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.

3. On September 10, 1997, this Court discharged the Superintendent as provisional liquidator of Confed and appointed KPMG Inc. as permanent liquidator.

4. The Liquidator called for claims from ordinary creditors other than those holding subordinated debt (the “Ordinary Creditors”) and policyholders asserting additional policyholder claims. February 15, 2000 was fixed as the last day on or before which proofs of claim were to be filed with the Liquidator.

5. The following is a summary of the approval process and the status of the admission of claims to date:

- The process for disallowing and admitting Ordinary Creditor claims to the estate (the “Allowance Process”) was approved by this Court by Orders dated May 5, 2000 and June 20, 2000. The Liquidator has commenced but not completed the Allowance Process.
- On September 5, 2000, this Court approved and authorized a first interim distribution by the Liquidator from the estate of Confed to Confederation Treasury Services Limited and to the Ordinary Creditors in the total amount of \$260 million. This Court also approved a dividend sheet (the “Dividend Sheet”) and authorized the Liquidator to make distributions from time to time to the holders of allowed claims set out on the Dividend Sheet.
- On November 29, 2000, this Court approved the first supplemental dividend sheet (the “First Supplemental Dividend Sheet”) and authorized the Liquidator to make distributions from time to time to the holders of allowed claims set out therein.

- On March 27, 2001, this Court approved and authorized a second distribution to Confederation Treasury Services Limited and to the Ordinary Creditors in the total amount of \$100 million.
- On August 9, 2001, this Court approved the second supplemental dividend sheet (the "Second Supplemental Dividend Sheet") and authorized the Liquidator to make distributions from time to time to the holders of allowed claims set out therein.
- On October 4, 2001, this Court approved and authorized a third interim distribution to Confederation Treasury Services Limited and to the Ordinary Creditors in the total amount of \$150 million.
- The Liquidator has paid total aggregate dividends to the holders of allowed claims set out on the Dividend Sheet, the First Supplemental Dividend Sheet and the Second Supplemental Dividend Sheet equivalent to 59.3125 cents on the dollar.

Copies of the Orders referred to above are attached hereto as Schedules "B" through "H".

### **III. CLAIM OF U.S. OPERATIONS RETIREES**

6. Since the approval of the Second Supplemental Dividend Sheet, the Liquidator has reduced the amount of the claim of one retiree of Confed's U.S. operations by \$17,245.40 due to an error in valuation caused by the use of an incorrect birth date. The Liquidator has therefore decreased the total omnibus claim of the retirees of Confed's U.S. operations set out on the Second Supplemental Dividend Sheet from \$7,509,042.81 to \$7,491,797.41.

### **IV. THE THIRD SUPPLEMENTAL DIVIDEND SHEET**

7. In accordance with the Allowance Process, the Liquidator mailed a list of claims it proposed to allow on February 12, 2002 (the "January Allowed Claims"). A copy of the list is attached hereto as Schedule "I". The January Allowed Claims consist of:

- (a) the claims of 37 employees of Confed totalling \$1,075,370.17 relating to claims arising as a result of agreements between those employees and Confed in respect of stay bonuses, termination/severance pay or salary continuance arrangements;  
and

(b) the claim of one senior officer in the amount of \$221,851.00 for supplementary pension benefits, which is being dealt with consistently with the approach described in the Report of the Liquidator dated August 1, 2001 filed with this Court in support of the motion for approval, *inter alia*, of the Second Supplemental Dividend Sheet.

8. The period for objection expired on March 11, 2002. The Liquidator has received no objections to the January Allowed Claims as of the date of this Report.

9. The Third Supplemental Dividend Sheet consists of all of the January Allowed Claims, subject to one amendment as follows:

(a) a claim by one Confed employee has been increased from \$74,800.00 to \$80,588.00 as he successfully appealed the disallowance of a portion of his claim.

10. The Liquidator is of the view that the January Allowed Claims are reasonable and appropriate for payment. The Liquidator proposes to pay an interim dividend to the Ordinary Creditors listed on the Third Supplemental Dividend Sheet when approved.

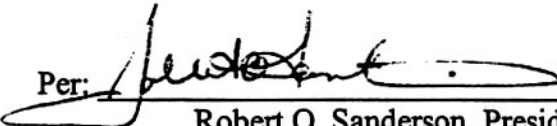
11. The Liquidator is continuing to review the balance of the claims. The Liquidator will make dividend payments to additional Ordinary Creditors as their claims are allowed and will adjust payments to reflect the higher percentage available when material claims are disallowed or withdrawn.

## **V. RELIEF SOUGHT**

12. The Liquidator therefore seeks an Order approving the Third Supplemental Dividend Sheet and authorizing the Liquidator to make distributions from time to time to the holders of January Allowed Claims set out on the Third Supplemental 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

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