



**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**

**December 7, 2000**

## TABLE OF CONTENTS

	<u>Page</u>
I. NATURE OF THE MOTION.....	1
II. GENERAL BACKGROUND.....	2
A. THE WINDING-UP AND REHABILITATION PROCEEDINGS.....	2
B. PASSING OF THE LIQUIDATOR’S ACCOUNTS TO MARCH 31, 2000.....	3
III. OVERVIEW OF THE ESTATE.....	3
A. FINANCIAL STATUS OF THE ESTATE.....	3
B. SIGNIFICANT EVENTS .....	4
C. ADMINISTRATION OF THE ESTATE.....	5
During the Two Quarters.....	5
Future.....	6
IV. ACTIVITIES OF THE LIQUIDATOR DURING THE TWO QUARTERS.....	7
A. ASSETS .....	7
Management of Short Term Cash and Bond Portfolio.....	7
Private Placements.....	8
Mortgages.....	9
B. OTHER ASSETS .....	10
C. POLICY LIABILITIES.....	10
Group Life and Health.....	10
Group Pension Business.....	11
Immediate Annuities.....	11
Deferred Annuities and RRIFs.....	12
Cuban Policy Liabilities.....	13
Summary of Remaining Policy Liabilities.....	13
D. TAXES .....	13
E. LITIGATION.....	14
F. U.S. REHABILITATOR AND OTHER STAKEHOLDERS .....	15
V. LIQUIDATOR’S ACCOUNTS AND PROFESSIONAL FEES.....	16
A. LIQUIDATOR’S ACCOUNTS.....	16
B. COSTS OF LIQUIDATION.....	17
Overview .....	17
Future Costs.....	17
Professional Fees.....	18
Goodmans .....	18
KPMG Inc.....	19
VI. RECOMMENDATION.....	21
VII. RELIEF REQUESTED.....	21

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**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 (i) passing the accounts of the Liquidator for the quarters ending June 30, 2000 and September 30, 2000

(collectively, the “Two Quarters”), as reflected in the financial statements of Confed; and (ii) approving the fees and disbursements of the Liquidator, of its counsel, Goodman Phillips & Vineberg (“Goodmans”) and of the other professional advisors to the Liquidator for such period (collectively, the “Professional Fees”).

## **II. GENERAL BACKGROUND**

### **A. The Winding-up and Rehabilitation Proceedings**

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

3. On September 10, 1997, this Court discharged the Superintendent as provisional liquidator of Confed and appointed KPMG Inc. as permanent liquidator. The term “Liquidator” in this Report refers to the Superintendent and KPMG Inc. as his agent prior to September 10, 1997, or to KPMG Inc. as liquidator after September 10, 1997.

4. 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., including its U.S. branch, should cease 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.).

**B. Passing of the Liquidator’s Accounts to March 31, 2000**

5. On February 13, 1997, this Court made an order passing the accounts of the Liquidator as reflected in the financial statements and approving the professional fees for the period August 12, 1994 to September 30, 1996. This Court made subsequent orders passing the accounts and approving the professional fees for the quarters ending December 31, 1996, through to March 31, 2000. Copies of reasons for judgment dated February 13, 1997 and endorsements of this Court dated January 16, 1998, July 27, 1999 and October 7, 1999 are attached as Schedules “A”, “B”, “C” and “D” respectively.

**III. OVERVIEW OF THE ESTATE**

**A. Financial Status of the Estate**

6. On the financial statements for the quarter ending March 31, 2000, the net assets available in the Canadian estate after payment of policyholder liabilities (the “Canadian Surplus”) were approximately \$224 million. The Canadian Surplus shown on the financial statements for the quarter ending September 30, 2000 is approximately \$437 million calculated as follows:

	<b>(in millions)</b>
Distribution paid to ordinary creditors	\$44.896
Unpaid balance of distribution declared to ordinary creditors	56.354
Due to CTSL	158.750
	<hr/>
	260.000
Net assets after payment of policyholder liabilities, available for other creditors	
	177.141
	<hr/>
	\$437.141

7. In accordance with the settlement agreement between the Rehabilitator and the Liquidator, the Liquidator is entitled to receive all amounts in excess of those needed for U.S. policyholders to be “paid in full”, as defined in that agreement (the “U.S. Surplus”). The U.S. policyholders have been paid in full and the Rehabilitator estimates that the ultimate U.S. Surplus will be approximately (U.S.) \$190 million, subject to a number of contingencies. The Rehabilitator has paid the Liquidator (U.S.) \$96.4 million which is included in the Canadian Surplus at September 30, 2000. There will be further interim distributions of the U.S. Surplus, the timing and quantum of which have not yet been determined. 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.

8. The Liquidator estimates that the ultimate combined Canadian Surplus and U.S. Surplus will be in the range of \$475 million to \$575 million, which will be allocated between Confederation Treasury Services Limited (“CTSL”) and the ordinary creditors in accordance with the formula set out in the CTSL plan of arrangement, which was sanctioned by this Court.

**B. Significant Events**

9. As more fully discussed below, during the Two Quarters, the Liquidator:

- (a) transferred or paid out the remaining \$1 billion of policyholder liabilities through:
  - (i) transferring the immediate annuities in a transaction with The Canada Life Assurance Company (“Canada Life”) (the “Canada Life Transaction”);
  - (ii) causing The Empire Life Insurance Company (“Empire Life”) to assume the liabilities it had been administering; and
  - (iii) paying out the group pension policies;
- (b) worked with the Rehabilitator to facilitate the transfer of funds to the Liquidator, of which U.S. \$85 million was paid in the Two Quarters;

- (c) realized 11 private placements and 35 mortgages for a total recovery of \$165 million;
- (d) dealt with claims of ordinary creditors including completing the allowance process for 64 claims totalling approximately \$206 million, disallowing over 700 claims (of which 45 are being appealed) and reaching agreement on the methodology for the valuation of 654 claims of retirees of the Canadian operations, totalling approximately \$17 million;
- (e) obtained approval for and began payment of the first interim distribution to ordinary creditors and the amount owing to CTSL, totalling \$260 million. The first distribution to ordinary creditors and the payment to CTSL will be referred to collectively as the “First Distribution”; and
- (f) continued the process of reducing staff and other infrastructure costs.

**C. Administration of the Estate**

***During the Two Quarters***

10. Until August 1, 2000, the estate was equivalent in size to the sixteenth largest life insurer in Canada. The magnitude and complexity of the estate required the application of a diverse range of expertise, including actuarial, corporate finance, insolvency, pension, tax and insurance operations.

11. As discussed in previous reports, the Liquidator has retained third party administrators in all areas it considers appropriate to reduce costs and to promote efficiency. The Liquidator has also identified and retained, wherever possible, Confed employees to provide continuity and expertise, and to reduce costs. Those Confed employees assist with the day to day administration of the bond portfolio, non-performing private placements, foreclosed real estate, mortgage loans, accounting, internal audit and financial management. They also assisted with third party compliance and the administration of the group pension block of business until the pay out.

On March 31, 2000, there were 24 Confed employees working full-time. On September 30, 2000, there remained 16 Confed employees working full-time. In addition, the Liquidator made arrangements for 6 Confed employees to be available on a part-time basis.

12. The Liquidator maintains responsibility for the conduct of the liquidation, with all third party administrators reporting to the Liquidator. The Liquidator is responsible for all strategic initiatives, major decisions, liaison with stakeholders and, as appropriate, is involved in supervising and augmenting where necessary the day to day activities performed by the former Confed employees. The Liquidator has provided personnel where necessary to carry on functions for which Confed employees are no longer available and contracting out is not prudent or appropriate, such as the tax area.

***Future***

13. By the end of the Two Quarters the Liquidator had achieved many of the major objectives it set for completion by December 31, 2000, including the payout of the policyholders and the payment of the First Distribution.

14. A number of significant challenges remain before the estate can be completed, including:

- (a) the realization of the remaining assets including:
  - (i) illiquid private placements;
  - (ii) claims which involve complex issues and potential litigation; and
  - (iii) the balance of the U.S. Surplus, which is subject to contingent claims in the U.S.;
- (b) resolution of a major contingent claim by the Canada Customs and Revenue Agency (“CCRA”) which may become the subject of litigation; and
- (c) resolution of remaining large, ordinary creditor claims.

In each case, the Liquidator's strategy takes into account the consequences to the estate of an immediate resolution, which may speed the completion of the estate, but may be less beneficial economically.

15. The Liquidator will generally continue the measured approach to realizing assets and resolving claims that has been beneficial to date, always giving weight to the important goals of reducing costs and completing the administration in a timely fashion.

#### **IV. ACTIVITIES OF THE LIQUIDATOR DURING THE TWO QUARTERS**

16. The following is a brief summary of the activities of the Liquidator during the Two Quarters, by category.

##### **A. Assets**

17. At March 31, 2000, the remaining private placement portfolio, mortgages, promissory notes, foreclosed real estate and other illiquid assets had a book value of approximately \$315 million. At September 30, 2000 their book value was approximately \$150 million. These assets fall into three categories – performing, sub-performing and non-performing. A number of the performing assets were delivered as part of the Canada Life transaction. As discussed, in developing strategies to deal with the realization of the remaining assets, the Liquidator is considering the impact of the timing of realization on their ultimate value and the changing nature of the estate.

##### ***Management of Short Term Cash and Bond Portfolio***

18. Until the closing of the Canada Life Transaction the Liquidator pursued an active investment program that took into account liquidity needs, advice on asset/liability matching from CompCorp Life Insurance Company, yields and safety of investment. 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 the completion of the Canada Life Transaction, 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 that had 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.

19. The cash and short term investments in the estate on September 30, 2000 were approximately \$403 million.

#### ***Private Placements***

20. 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.

21. The performing private placement portfolio has been administered by Penfund Management Limited. Given the reduction of the portfolio, the Liquidator has served notice of termination of the contract with Penfund Management Limited. Effective January 1, 2001, the Liquidator will manage the portfolio.

22. The remaining private placement portfolio consists of 9 loans having a book value of approximately \$75 million. All of these investments are syndicated loans in which Confed holds a minority interest. Therefore, the Liquidator cannot necessarily control the timing of any realizations. Of these loans, 6 relate to power generating plants. These investments are complex and the Liquidator is continuing to monitor opportunities to realize on them.

23. Two of the non-performing private placements are involved in court processes in Quebec:
- (a) an aircraft leased to Inter-Canadian Airlines in which Confed's interest as a co-lessor is approximately \$4 million; and
  - (b) a building in Hull, Quebec in which Confed's interest as a co-lender is approximately \$17 million. The building is owned by Pierre Bourque et Fils Ltée and leased to the federal government. Both the lease and loan are the subject of litigation and a motion is scheduled to be heard by the Quebec Court of Appeal on January 3, 2001.

### *Mortgages*

24. The mortgage portfolio currently consists of performing mortgage loans, non-performing loans and foreclosed real estate, and group mortgage benefit mortgage loans, which were residential mortgages given by Confed to its employees. The group mortgage benefit mortgages are administered by CIBC Trust Company. The performing mortgages are administered by the Royal Bank Financial Group. The non-performing mortgages, including foreclosed properties, are managed by the liquidation staff, all under the direction of the Liquidator.
25. During the Two Quarters, the representation and warranty period under the agreement between the Liquidator and The Manufacturers Life Insurance Company ("Manulife") relating to the mortgage portfolio purchased by Manulife expired. Manulife did not assert any claims.
26. During the Two Quarters, the Liquidator realized approximately 35 mortgage loans for a recovery of approximately \$18 million, including three mortgages with a book value of approximately \$13 million which were transferred to Canada Life.
27. The remaining mortgage loan portfolio consists of 88 mortgages and related assets having a value of approximately \$70 million. Approximately \$46 million in mortgages are non-

performing. The remaining portfolio is widely dispersed across the country. As a result, particularly with respect to the non-performing loans, the workout and disposition strategy requires an increased amount of time and effort.

**B. Other Assets**

28. In July, 2000, an agreement was reached with the U.K. Inland Revenue on the final tax assessments for the U.K. operations of Confed for the year 1994. As a result, in August, 2000, the company received a final income tax refund of £1,135,064 plus interest of £231,366 from Inland Revenue. All prior years have now been finally tax-assessed.

29. Prior to the liquidation, Confed entered into a reinsurance treaty with Desjardins Laurentian Life (“Desjardins”) related to the group life and health liabilities. The reinsurance treaty was terminated before Manulife assumed those liabilities. As a result of the termination, Desjardins owed amounts to each of Confed and Manulife. After lengthy negotiations, the parties agreed upon the amounts owing. During the Two Quarters, the Liquidator received a payment from Desjardins in the amount of approximately \$7.3 million.

**C. Policy Liabilities**

30. 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 Life and Health***

31. The Liquidator entered into an assumption reinsurance agreement and a related indemnity reinsurance agreement with Manulife for the transfer of the group life and health claims which were outstanding on August 11, 1994. The transaction closed on April 30, 1999.

32. The Liquidator continued its audit of the data with respect to Manulife’s management of the group life and health business and reviewed adjustments made by Manulife.

The final settlement of the group life and health commutation resulted in recoveries to the estate of approximately \$6.1 million.

33. Claims in litigation were not transferred to Manulife. The Liquidator retains responsibility for these claims until the total reserve for such claims is equal to or less than \$8 million, following which Manulife will indemnify the Liquidator for such liability by way of indemnity reinsurance. During the Two Quarters, the number of claims was reduced from 59 to 51. The Liquidator anticipates that Manulife's obligation to provide indemnity reinsurance will commence in the first quarter of 2001.

### ***Group Pension Business***

34. In accordance with the methodology for the payout of the group pension business approved by this Court on April 7, 2000, the Liquidator paid out the remaining group pension policyholders in the amount of approximately \$186 million.

35. The Liquidator communicated extensively with the group pension policyholders, to ensure they understood the payout process and had an opportunity to make appropriate arrangements.

36. In addition, the Liquidator has made significant efforts trying to locate group pension policyholders for whom the Liquidator has no contact information, including contacting previous employers and making inquiries through Human Resources Development Canada (Revenue Accounting, National Search Unit).

### ***Immediate Annuities***

37. Pursuant to an agreement between the Liquidator and Canada Life, the immediate annuities block was administered by Canada Life. Both that agreement and the Canada Life Transaction were approved by this Court.

38. Until the Canada Life Transaction closed, the Liquidator was responsible for the liabilities. During the Two Quarters, approximately 80,000 payments totalling approximately \$24 million in policyholder benefits were processed.

39. During the Two Quarters, the Liquidator worked with Canada Life to obtain all necessary regulatory approvals, resolve certain disputes which arose with policyholders having major claims and negotiate the resolution of outstanding issues with Canada Life. The transaction closed August 1, 2000.

40. The Canada Life Transaction provided for completion of post-closing adjustments by September 30, 2000 and of data adjustments by August 1, 2001. The Liquidator and Canada Life completed the post-closing adjustments. The Liquidator and Canada Life are continuing to verify the accuracy of the data.

#### ***Deferred Annuities and RRIFs***

41. Pursuant to an agreement between the Liquidator and Empire Life, Empire Life administered the individual deferred annuity policies and, at the direction of the Liquidator, provided replacement policies when they matured. This Court approved the agreement on February 6, 1996.

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

43. The agreement with Empire Life contemplated both post-closing and data adjustments. The post-closing adjustments were completed during the Two Quarters. The Liquidator and Empire Life are continuing to verify the accuracy of the data. Pursuant to the agreement, such data adjustments are to be completed by April 28, 2001.

***Cuban Policy Liabilities***

44. The Liquidator entered into an agreement with the Cuban government with respect to the assets and liabilities of the Cuban branch. The agreement was approved by this Court on October 14, 1998. Under the agreement, the Liquidator is responsible for claims under the policies issued by the Cuban branch for claimants no longer resident in Cuba.

45. The Cuban government has been making the payments provided for in the agreement, to date totalling (U.S.) \$4 million.

46. The Liquidator continues to process claims of former Cuban resident policyholders.

***Summary of Remaining Policy Liabilities***

47. With the payout of the group pension policyholders and the completion of the Empire Life transaction and the Canada Life Transaction, all policyholder claims have been paid or transferred out of the estate with the exception of the following:

- (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.

**D. Taxes**

48. Confed is a multi-national life insurance company for taxation purposes, affecting capital and income taxes and requiring integration of information from both the Canadian and U.S. estates.

49. The tax issues that arise in the context of any life insurance company are extremely complex and have been made even more so by the liquidation, given the dispositions of both blocks of policy liabilities and assets.

50. The Liquidator therefore requested that CCRA provide the Liquidator with tax comfort with respect to the tax position of the estate. During the Two Quarters, CCRA continued an on-site review which started in December, 1999 and is likely to take a further number of months to complete. Discussions with CCRA were started with respect to a potential contingent claim.

#### **E. Litigation**

51. During the Two Quarters, the Liquidator and its counsel continued to expend significant efforts with respect to litigation involving the estate, including asset realizations.

52. Pursuant to the CTSL plan of arrangement, the claims of CTSL against former officers, directors and auditors were assigned to the Liquidator and the Rehabilitator. The CTSL trustee in bankruptcy had retained Clark Hill, a Michigan law firm, in connection with litigation involving CTSL and the former officers, directors and auditors in the Michigan court. To ensure continuity and minimize costs, the Liquidator retained Clark Hill to provide advice to the Liquidator concerning the claims of CTSL.

53. Because the U.S. policyholders have been paid in full, the Rehabilitator agreed that his action against the former officers, directors and auditors in the Michigan Court be dismissed. The Liquidator did not pursue such actions while the Rehabilitator's action was ongoing given the inter-relationship of the two estates and to avoid unnecessary costs.

54. The Liquidator has issued and served claims against the former officers and directors. The Liquidator has a tolling agreement with the former auditors.

**F. U.S. Rehabilitator and Other Stakeholders**

55. The Liquidator continues to liaise with the Rehabilitator with respect to the status of the two estates. The Rehabilitator has paid U.S. policyholders in full. Pursuant to the settlement agreement between the Liquidator and the Rehabilitator, on payment in full to U.S. policyholders, any funds remaining in CLIC (U.S.) will be paid to the Liquidator for distribution to ordinary creditors and to CTSL for its residue certificate holders. As discussed, the Liquidator has received (U.S.) \$96.4 million to date.

56. The Liquidator was also in regular communication with representatives of:

- (a) UBS Warburg LLC (“Warburg”), which was appointed as sole representative of the residue certificate holders pursuant to a court approved trust indenture. The residue certificate holders are arm’s length creditors of CTSL who hold certificates issued by CTSL which evidence entitlement to share in the amounts payable to CTSL from Confed once the claims of all policyholders have been paid in full. Warburg has also been retained by UBS AG, a significant ordinary creditor, as its advisor with respect to its claim in the liquidation. This Court appointed Warburg an inspector on December 7, 1999; and
- (b) the Superintendent and CompCorp in their capacities as inspectors.

57. The Liquidator also communicated with representatives of ordinary creditors and subordinated debtholders. This Court granted an Order on May 19, 2000 confirming that the subordinated debt is subordinated in accordance with its terms.

58. To date, the Liquidator has received approximately 1,100 claims having a value in the approximate amount of \$460 million in response to the call for claims from ordinary creditors, including an omnibus claim from the court appointed representative of the Confed retirees. By the end of the Two Quarters, the Liquidator had completed the allowance process for approximately \$206 million in claims, reached agreement with the representative of the retirees and obtained

directions to modify the allowance process for the retirees and disallowed over 700 claims. As discussed above, the Liquidator has received 45 notices of appeal from such disallowances.

59. The Liquidator applied for and obtained approval of this Court for payment of a first interim dividend to CTSL and the ordinary creditors in the amount of \$260 million.

60. The Liquidator established a website at [www.confederationlife.com](http://www.confederationlife.com) to provide creditors with access to information regarding the administration of the estate. The website includes copies of recent court reports, such as passing of accounts reports, as well as information relating to the claims process and contact names and information.

## **V. LIQUIDATOR'S ACCOUNTS AND PROFESSIONAL FEES**

### **A. Liquidator's Accounts**

61. As discussed in the reports filed in support of previous motions for passings of the Liquidator's accounts, it is not practicable or feasible to prepare traditional statements of receipts and disbursements for the purposes of passing the Liquidator's accounts. Rather, a financial statement provides a more informative and meaningful reflection of the administration of the estate. Copies of the financial statements of Confed for each of the Two Quarters are attached hereto as Schedules "E" and "F", respectively. Attached as Schedule "G" is a summary schedule, providing basic information for comparative purposes, showing the evolution of the estate, for the quarters ending June 30, 1999, September 30, 1999, December 31, 1999, June 30, 2000 and September 30, 2000.

62. 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. In addition, as noted above, the Liquidator prepares budgets once a year for the next four quarters and compares actual expenses to budgeted expenses to test their reasonableness.

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

**B. Costs of Liquidation**

*Overview*

64. As discussed, until August 1, 2000, the estate was equivalent in size to the sixteenth largest life insurer in Canada. To provide context for the costs of the liquidation, the Liquidator has considered the costs of administration of operating life insurance companies as a percentage of their assets. The Liquidator deducted sales commissions paid to agents from such operating costs, which are not an expense for the estate. Although still not precise, this provides a reasonable benchmark for comparison to the costs of the administration of the estate. The costs of administration of life insurance companies average in excess of 2.5% of assets.

65. The costs of administration of the estate on an annualized basis, including operating costs, such as salaries and rent, and professional fees, for the period October 1, 1999 to September 30, 2000, were 1.02% of average assets, the professional fee component being 0.70%. In the Two Quarters, operating costs were 0.52%, the professional fee component being 0.34%.

66. The Liquidator is of the view that the costs are reasonable and appropriate.

*Future Costs*

67. Throughout the administration of the estate, the Liquidator has attempted to minimize costs while maintaining the efficiency and integrity of the administration of the estate. As discussed above, the liquidation staff complement has been reduced where possible. Effective March 31, 2000, the Liquidator moved to new premises, downsizing space from 26,000 to 7,600 square feet thereby resulting in significant rental savings going forward.

68. The financial statements have always reflected and continue to reflect the Liquidator's view of the future costs of the administration of the estate on a conservative basis. As noted above, the Liquidator has achieved certain savings by moving premises and downsizing. The Liquidator will continue to seek opportunities to reduce the costs of administration. Since

August 1, 2000, Confed is no longer the equivalent of a large life insurance company, however, it remains a large and complex insolvency estate which requires the dedication of substantial resources.

***Professional Fees***

69. The Liquidator retained professional advisors to assist in the administration of the liquidation from time to time. The Liquidator is familiar with the services provided by each of the professional advisors and has reviewed their invoices. Detailed invoices were timely received and carefully reviewed in detail by senior administrative and management level members of the Liquidator's staff. The invoices were reviewed for accuracy, adequate detailed information describing the work performed and by whom, the time spent and when it was spent, the rate and amount billed, possible duplicative charges, reasonableness and overall compliance with the terms of retention. Clarifications and adjustments of items included in the invoices were requested where it appeared appropriate.

70. The Liquidator believes that the Professional Fees of its advisors are proper, fair and reasonable and were incurred in furtherance of the best interests of the estate of Confed.

***Goodmans***

71. Goodmans has acted as counsel to KPMG Inc. from the commencement of the liquidation and has acted or advised on all matters described in this report. The Liquidator is familiar with their services and has reviewed their invoices in detail and with the care described in paragraph 69 above.

72. Attached as Schedules “H”, “I” and “J”, respectively are:
- (a) a summary invoice of Goodmans to the Liquidator for each of the Two Quarters;
  - (b) a summary for each of the Two Quarters of the hours and average hourly rates of each of Goodmans’ personnel who dedicated more than 50 hours to the estate; and
  - (c) a brief description of the areas of concentration of each of Goodmans’ personnel who dedicated more than 50 hours to the estate.
73. Detailed supporting records, including time sheets, are available should this Court wish them produced.
74. The Liquidator is satisfied that Goodmans’ fees are proper, fair and reasonable, that time was appropriately spent and that Goodmans’ fees were incurred in furtherance of the best interests of the estate.

***KPMG Inc.***

75. The Liquidator has kept careful and detailed records of all time spent by Liquidator personnel on the estate. The Liquidator has instituted internal audit and control procedures to ensure no duplicative or inappropriate charges are made. The Liquidator applied the same standard for review to its accounts as to other professionals, described in paragraph 70 above. As discussed above, the Liquidator maximized efficiency and reduced costs by retaining former Confed employees and third party administrators where prudent and appropriate.

76. Attached as Schedules “K”, “L” and “M”, respectively are:
- (a) a summary invoice of the Liquidator to the estate for each of the Two Quarters;
  - (b) a summary for each of the Two Quarters of the hours and average hourly rates of each of the Liquidator’s personnel who dedicated more than 50 hours to the estate;  
and
  - (c) a brief description of the areas of concentration of each of the Liquidator’s personnel who dedicated more than 50 hours to the estate.
77. Detailed supporting records, including time sheets, are available should this Court wish them produced.
78. The Liquidator may, after consultation with stakeholders, at a later date when the estate is closer to completion, seek the approval of this Court to compensate for previous unrecovered discounts and to recognize the high degree of success achieved in the estate. However, no such approval is being sought in this motion.

**VI. RECOMMENDATION**

79. James H. Grout was appointed as representative counsel on behalf of the ordinary creditors of Confed for, *inter alia*, this motion. Mr. Grout has reviewed the financial statements and the Professional Fees and supporting detail, including rates charged and accounts of time spent, and will advise the Court of the results of his review and his position on this motion.

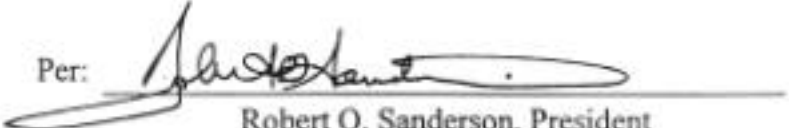
80. The Liquidator respectfully recommends that the Court pass the accounts of the Liquidator, as reflected in the financial statements, and approve the Professional Fees.

**VII. RELIEF REQUESTED**

81. The Liquidator therefore respectfully requests an order passing the accounts for the periods April 1, 2000 to June 30, 2000 and July 1, 2000 to September 30, 2000, as reflected in the financial statements, and approving the Professional Fees for that period.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

**KPMG INC.**, the Liquidator of Confederation Life  
Insurance Company

Per:   
Robert O. Sanderson, President

**SCHEDULE "A"**

Court file no.: RE4315/94

**ONTARIO COURT OF JUSTICE**  
**(general DIVISION)**

BETWEEN:

**THE ATTORNEY GENERAL OF CANADA**

Applicant

- and -

**CONFEDERATION LIFE INSURANCE COMPANY**

Respondent

----- Before the Honourable Mr. Justice Houlden, at the Court House, 361 University Avenue,  
Toronto, Ontario, on~ Thursday, February 13, 1997.

-----  
**ORAL REASONS FOR JUDGMENT**

**APPEARANCES:**

Graham Smith  
Gale Rubenstein  
Michele Altaras

for the applicant

Patrick O'Kelly

for Canadian Life and  
Health Insurance Association

Charles F. Scott

for CompCorp

James Grout

representative of the  
policyholders

**THURSDAY, FEBRUARY 13, 1997**

**ORAL REASONS FOR JUDGMENT**

**Houlden JA (orally):**

This is a motion by the Superintendent of Financial Institutions (the "Superintendent"), as Provisional Liquidator of Confederation Life Insurance Company, for an order passing his accounts for the period of August 12, 1994 to September 30, 1996, as reflected in the financial statements of September 30, 1996, and approving the fees and disbursements of the Agent, of its counsel, Goodman Phillips & Vineberg, and of the other professional advisors to the Agent; and for approval of an agreement dated December 20, 1996 reached among the Liquidator, the Superintendent and the Canadian Life and Health Insurance Association.

I gave directions as to the method of service of the Notice of Motion and I Am satisfied that the Notice of Motion has been properly served.

It was, of course, impossible for me to have carried out a detailed checking of the accounts. Accordingly, I appointed James Grout to represent the policyholders and to assist me in the passing of the accounts, and I wish to thank him for the assistance that he has rendered to the Court. Mr. Grout has reviewed the financial statements in detail. He has met with representatives of KPMG and has discussed the financial statements with them. He has reviewed the systems put in force by KPMG and feels that the controls that have been put in place are adequate. It is his opinion that the accounts are in order and that there is nothing untoward in them. Mr. Scott, representing CompCorp, is also of the opinion that the accounts are in order.

The accounts of the Liquidator have been presented in a rather unusual form. Instead of the usual statement of receipts and disbursements, I have been presented with a statement of assets and liabilities. Mr. Sanderson has explained why the statements have been prepared in this form, and I am satisfied with his explanation.

The liquidation of this very large insurance company has gone well. The estimated policyholder deficiency on August 11, 1994 was approximately two hundred million dollars. On September 30, 1996, the estimated policyholder deficiency had been reduced to approximately eighty million dollars. Substantial parts of the business of Confederation Life have been disposed of to the advantage of policyholders and to the advantage of the overall administration of the liquidation.

As might be expected in a liquidation of this size, the professional fees are substantial. Mr. Sanderson has testified that KPMG is charging sixty to sixty-five percent of its normal billing rates and that all fees have been charged on an hourly basis. The legal fees have also been charged on an hourly basis and are based on the Department of Justice and CDIC rates. The legal fees are also based on a substantial discount from the usual billing rates of Goodman Phillips & Vineberg. There has been considerable supervision of the fees by a number of persons, such as the Superintendent, the Superintendent's Advisory Committee and the U.S. Liquidator. Mr. Grout tells me that he is satisfied that the charges by KPMG and by its solicitors are reasonable.

I am satisfied that the fees of KPMG and of the solicitors are moderate, fair and reasonable and should be approved by the Court. An order will go, therefore, passing the accounts of the Liquidator and approving the fees and disbursements of KPMG, the Agent for the Liquidator, and of its counsel, Goodman Phillips & Vineberg, and of the professional advisors to the Agent.

With respect to the second claim in the Notice of Motion, I believe that the agreement is a wise one and avoids expensive and protracted litigation. An order also therefore will go, approving the agreement of December 20, 1996.

--- **Court and counsel retire to chambers**

--- **Court adjourned at 4:00 p.m.**

REPORTED AND TRANSCRIBED BY:

A handwritten signature in cursive script, appearing to read "Drucker", with a horizontal line underneath it.

---

SUZANNE DRUKER  
OFFICIAL REPORTER

**SCHEDULE "B"**

97-BK-000543

**ENDORSEMENT**

**BLAIR, J.**

**JANUARY 16, 1998**

I am satisfied that the accounts and fees should be approved, as requested. This is a very large and extremely complex liquidation and, as counsel have observed, the financial statements indicate that it is being quite successfully processed by the Liquidator and the various professionals to the ever improving advantage of the policyholders. The Superintendent and CompCorp have approved the accounts and are satisfied. Mr. Grout, who was appointed by the Court to be Representative Counsel for the policyholders. in relation to the passing of accounts, reports - in response to the question mandated of him - that after meeting with the various representatives of KPMG, and with the Superintendent and CompCorp, that he can find nothing appearing untoward or that requires further explanation to him, in the accounts.

An order is also requested, and unopposed, regarding service on the Industry Committee members, who are being reconstituted by the Liquidator, and is granted.

Order to go as asked, in terms of the draft order filed and on which I have placed my fiat.

Blair, J.

**THE ATTORNEY GENERAL OF  
CANADA**

and

**CONFEDERATION LIFE INSURANCE  
COMPANY**

Applicant

Respondent

Commercial Court File No: 97-BK-000543

ONTARIO COURT (GENERAL DIVISION)  
COMMERCIAL LIST  
Proceedings. commenced at: Toronto

**MOTION RECORD**

**GOODMAN PHILLIPS & VINEBERG**

Box 24, Suite 2400  
250 Yonge Street  
Toronto, ON M5B 2M6

Gale Rubenstein  
*Graham D. Smith*  
*Tel: (416) 979-221*  
*Fax: (416) 979-1234*

*Solicitors for KPMG Inc., Liquidator,*  
Confederation Life Insurance. Company

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**SCHEDULE "C"**

Court File No. 97-BK-000543

**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: Benjamin Zarnett, for KPMG Inc., Liquidator of Confederation Life Insurance Company  
James Grout, representative counsel on behalf of the ordinary creditors  
John Laskin, for the Canadian Life and Health Insurance Compensation Corporation  
Andrew Diamond, for The Chase Manhattan Bank

Date: July 27, 1999

**BLAIR. J.:**

In the annals of winding-up and insolvency proceedings, the results achieved in these proceedings can only be described as truly remarkable. All Canadian and U.S. policyholders will recover in full and – quite unexpectedly at the outset – there will even be a distribution to ordinary creditors. While market and other factors have certainly played a role in this turnaround, I have no doubt whatsoever that the skill and efforts of the Liquidator, its counsel, and the other professionals involved have had an enormously positive impact on the outcome. They are all to be commended.

Before me today is a motion for passing of the Liquidator's accounts and for approval of its fees and those of its advisors. I am fully satisfied that the accounts and the fees and disbursements should be, and they are approved. Mr. Grout, who was appointed by the Court as independent counsel on behalf of the ordinary creditors to advise with respect to the fairness and reasonableness of the accounts - a role he played previously on behalf of policyholders - has

reported that in his view, after careful study, the accounts are fair and reasonable. CompCorp in its capacity as Inspector of the estate and as a compensation corporation supports the approval, as does The Chase Manhattan Bank, Confed's largest creditor.

The principles relating to the passing and approval of accounts as set out in such cases as *Belyea & Fowler v. F.B.D.B. (1983)*, 46 C.B.R. (2<sup>nd</sup>) 244 (N.B.C.A.) are met in my view. The successful results amply justify a departure from the previous discounted hourly rate regime, and approval of the normal hourly rates of the professionals, as set out herein.

Accordingly, an Order is granted in terms of the draft, filed, on which I have placed my fiat.

**G26\4273149**

**THE ATTORNEY GENERAL OF  
CANADA**

and

**CONFEDERATION LIFE INSURANCE  
COMPANY**

Applicant

Respondent

Commercial Court File No: 97-BK-000543

SUPERIOR COURT OF JUSTICE  
Proceeding commenced at Toronto

**MOTION RECORD**  
(Motion Returnable July 27, 1999 at 10:00 a.m.)

**Goodman Phillips & Vineberg**  
Barristers & Solicitor  
250 Yonge Street  
Suite 2400, Box 24  
Toronto, Ontario  
M5B 2M6

Benjamin Zarnett\LSUC # 17247M

Tel: (416) 979-2211  
Fax: (416) 979-1234

Solicitors for KPMG Inc., Liquidator of  
Confederation Life Insurance Company

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**SCHEDULE "D"**

Court File No. 97-BK-000543

**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: Graham D. Smith, for KPMG Inc., Liquidator of Confederation Life Insurance Company  
James H. Grout, representative counsel on behalf of the ordinary creditors  
Michael Penny, for the Canadian Life and Health Insurance Compensation Corporation  
Edward Sellers, for The Chase Manhattan Bank

Date: October 7, 1999

**BLAIR, J.**

I have reviewed these materials and on the basis of what is set out therein, and on hearing the submissions of counsel, there does not appear to be anything which would stand in the way of the approval sought, save for the fact that the Record does not contain any formal accounts for the fees and disbursements of the Liquidator or any of the professional advisors. I think the Court should be presented with "accounts" to be approved rather than simply being left with numbers in the financial statements and a list of which professionals spent how many hours on the file. I do not mean to suggest any criticism of the use of the "financial statement format", which has already been approved in the circumstances of this case as a reasonable basis for demonstrating what the Liquidator has done. Nor do I mean to suggest any criticism of the work done and services provided by the professionals.

However, I think that if the Court is being asked to place its imprimatur on the “accounts” of the Liquidator and of its advisors - in particular given the very significant amounts involved in this restructuring - that it must have the “accounts” before it to do so. The accounts do not need to be mammoth in their detail - because undoubtedly, they would be - given the role played by Representative Counsel in examining them in advance. Nonetheless they should set out, in as concise a fashion as possible and in summary form, the nature of the work done and the amounts charged.

Having regard to my remarks at the outset of this endorsement, I am adjourning this motion to be brought on again at a 9:30 conference to be arranged by counsel, subject to the filing of “accounts” of the Liquidator and its advisors along the foregoing lines.

R.A. Blair J.

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**THE ATTORNEY GENERAL OF  
CANADA**

and

**CONFEDERATION LIFE INSURANCE  
COMPANY**

Applicant

Respondent

Commercial Court File No: 97-BK-000543

SUPERIOR COURT OF JUSTICE  
Proceeding commenced at Toronto

**MOTION RECORD**  
(Motion Returnable October 7, 1999  
Passing of Accounts)

**GOODMAN PHILLIPS & VINEBERG**

Barristers & Solicitors  
250 Yonge Street  
Box 24, Suite 2400  
Toronto, Ontario  
M5B 2M6

Gale Rubenstein\LSUC#17088E

Tel: (416) 979-2211  
Fax: (416) 979-1234

Solicitors for KPMG Inc., Liquidator of  
Confederation Life Insurance. Company

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SCHEDULE "E"

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
<b>Assets</b>		
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
	1,251,152	4,431,095
<b>Policy Liabilities</b>		
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
<b>Net Assets available for Other Creditors (Deficiency) (note 1)</b>	\$ 372,542	\$ (208,515)
<b>Obligation to CTSL (note 3)</b>	\$ 215,021	N/A
<b>Net Assets available for Ordinary Unsecured Creditors (note 4)</b>	\$ 157,521	N/A
<b>Net Assets available for Subordinated Debt (note 5)</b>	\$ 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

<u>(000's)</u>	<u>April 1, 2000 to June 30, 2000</u>	<u>August 12, 1994 to June 30, 2000</u>
Revenue:		
Premiums	\$ 0	\$ 10,751
Net investment income	24,548	1,589,338
<u>Other revenue</u>	<u>230</u>	<u>65,168</u>
	<u>24,778</u>	<u>1,665,257</u>
Expenses:		
General expenses, capital and investment taxes (note 7)	1,273	170,746
<u>Professional and financial advisory fees</u>	<u>2,193</u>	<u>113,940</u>
	<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
<u>Commission and other policy related expenses</u>	<u>(55)</u>	<u>36,391</u>
	<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)
<u>Net Assets available for Other Creditors, end of period</u>	<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

<u>(000's)</u>	<u>April 1, 2000 to June 30, 2000</u>
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)
<u>Income from disposal of business segments</u>	<u>(1,016)</u>
	(184,306)
Funds paid to Empire Life under the Assumption Agreement	(94,459)
Transfer from CLIC U.S.	126,902
<u>Net change in accounts receivable and creditors</u>	<u>(2,498)</u>
	(154,361)
Investing activities:	
Investment disposals net of (purchases):	
Bonds and private placements	182,701
Mortgage loans	1,852
Real estate and related assets	(230)
<u>Subsidiaries</u>	<u>2,282</u>
	186,605
Increase in cash and short term investments	32,244
Cash and short term investments, April 1, 2000	398,501
<u>Cash and short term investments, June 30, 2000</u>	<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

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## 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.

(Unaudited - See Notice to Reader)

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

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

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## 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

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## 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

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## 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 June 30, 2000

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### 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.

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

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

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#### 4. Ordinary unsecured creditors:

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

(000's)	June 30, 2000	August 11, 1994
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.

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.

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

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

## 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

## 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.

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Professional Fees (including G.S.T.)

	April 1, 2000 to June 30, 2000
<b>Core Professional</b>	
<i>Canada</i>	
Goodman Phillips & Vineberg	\$ 545,006
KPMG inc.	1,496,683
<i>United States</i>	
KPMG Minneapolis	1,600
<i>United Kingdom</i>	
KPMG UK	12,250
	<hr/> 2,055,539 <hr/>
<b>Other Professional Fees</b>	
<i>Canada</i>	
Bennett Jones	34,394
Patterson Palmer Hunt Murphy	3,824
<i>Unites States</i>	
Clark Hill P.L.C.	(10,991)
Gibson, Dunn & Crutcher LLP	66
Willkie Farr & Gallagher	5,087
	<hr/> 32,380 <hr/>
<b>Representative Counsel</b>	
Koskie Minsky	30,328
Thornton Grout Finnigan	5,920
	<hr/> 36,248 <hr/>
<b>Actuaries</b>	
William Mercer	68,133
Morneau Sobeco	980
	<hr/> 69,113 <hr/>
<b>Public Relations</b>	
Shandwick Canada Inc.	80
	<hr/>
<b>TOTAL</b>	<b>\$ 2,193,360</b> <hr/>

(Unaudited - See Notice to Reader)

SCHEDULE "F"

Unaudited Non-Consolidated Financial Statements of

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

The period August 12, 1994 to September 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 September 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 September 30, 2000 and the period August 12, 1994 to September 30, 2000 and the non-consolidated statement of changes in cash and short term investments for the three months ended September 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  
November 3, 2000

# CONFEDERATION LIFE INSURANCE COMPANY

## (in liquidation)

Non-Consolidated Statement of Financial Position

September 30, 2000 and August 11, 1994

(000's)	September 30, 2000	August 11, 1994
<b>Assets</b>		
Cash and short term investments	\$ 402,576	\$ 55,228
Accrued investment income	1,691	64,332
Accounts receivable	30	148,838
Policy loans	0	61,093
Bonds and private placements	94,286	1,610,003
Mortgage loans	57,556	1,708,688
Real estate and related assets	11,292	463,540
Investment in subsidiaries	8,712	626,618
Other assets	0	115,565
	576,143	4,853,905
Less secured and prior ranking liabilities:		
Bank overdraft	0	80,568
Mortgages and other real estate encumbrances	0	106,641
Creditors	23,109	235,601
	553,034	4,431,095
<b>Net assets available for policyholders and other creditors</b>		
	553,034	4,431,095
<b>Policy Liabilities, Additional Provisions and Other Unpaid Amounts</b>		
Basic policy liabilities:		
Net actuarial liabilities	0	3,679,416
Outstanding claims and adjustment expenses	2,766	101,565
Policyholder amounts on deposit	32	151,406
Other policyholder liabilities	22,991	68,871
	25,789	4,001,258
U.S. settlement provision	0	197,000
Additional provisions	135,000	441,352
Due to CTSL (note 3)	158,750	0
Unpaid distribution declared to ordinary unsecured creditors (note 4)	56,354	0
Total	375,893	4,639,610
<b>Net Assets available for Other Creditors (Deficiency) (note 1)</b>	<b>\$ 177,141</b>	<b>\$ (208,515)</b>
<b>Obligation to CTSL (note 3)</b>	<b>\$ 88,571</b>	<b>N/A</b>
<b>Net Assets available for Ordinary Unsecured Creditors (note 4)</b>	<b>\$ 88,570</b>	<b>N/A</b>
<b>Net Assets available for Subordinated Debt (note 5)</b>	<b>\$ 0</b>	<b>N/A</b>

See accompanying notes to non-consolidated financial statements.

# CONFEDERATION LIFE INSURANCE COMPANY

## (in liquidation)

Non-Consolidated Statement of Financial Position

September 30, 2000 and August 11, 1994

(000's)	September 30, 2000	August 11, 1994
<b>Assets</b>		
Cash and short term investments	\$ 402,576	\$ 55,228
Accrued investment income	1,691	64,332
Accounts receivable	30	148,838
Policy loans	0	61,093
Bonds and private placements	94,286	1,610,003
Mortgage loans	57,556	1,708,688
Real estate and related assets	11,292	463,540
Investment in subsidiaries	8,712	626,618
Other assets	0	115,565
	576,143	4,853,905
Less secured and prior ranking liabilities:		
Bank overdraft	0	80,568
Mortgages and other real estate encumbrances	0	106,641
Creditors	23,109	235,601
	553,034	4,431,095
<b>Policy Liabilities, Additional Provisions and Other Unpaid Amounts</b>		
Basic policy liabilities:		
Net actuarial liabilities	0	3,679,416
Outstanding claims and adjustment expenses	2,766	101,565
Policyholder amounts on deposit	32	151,406
Other policyholder liabilities	22,991	68,871
	25,789	4,001,258
U.S. settlement provision	0	197,000
Additional provisions	135,000	441,352
Due to CTSL (note 3)	158,750	0
Unpaid distribution declared to ordinary unsecured creditors (note 4)	56,354	0
Total	375,893	4,639,610
<b>Net Assets available for Other Creditors (Deficiency) (note 1)</b>	<b>\$ 177,141</b>	<b>\$ (208,515)</b>
<b>Obligation to CTSL (note 3)</b>	<b>\$ 88,571</b>	<b>N/A</b>
<b>Net Assets available for Ordinary Unsecured Creditors (note 4)</b>	<b>\$ 88,570</b>	<b>N/A</b>
<b>Net Assets available for Subordinated Debt (note 5)</b>	<b>\$ 0</b>	<b>N/A</b>

See accompanying notes to non-consolidated financial statements.

# CONFEDERATION LIFE INSURANCE COMPANY

## (in liquidation)

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

Three months ended September 30, 2000

(000's)	July 1, 2000 to September 30, 2000
Cash provided by (used in):	
Operating activities:	
Net income (loss)	\$ 64,587
Items not affecting cash:	
Investment (gains) losses and net change in asset provisions	(415)
Decrease in accrued investment income	203
Amortization and capitalized interest	(651)
Net changes to policy liabilities	(10,728)
Decrease in other policyholder liabilities	(1,305)
Income from subsidiaries	(595)
Income from disposal of business segments	(31,352)
	<u>19,744</u>
Funds disbursed under the Canada Life Assumption Agreement	(181,196)
Transfer from CLIC U.S.	12
Distribution declared and paid to ordinary unsecured creditors	(44,896)
Net change in accounts receivable and creditors	2,573
	<u>(203,763)</u>
Investing activities:	
Investment disposals net of (purchases):	
Bonds and private placements	173,236
Mortgage loans	857
Real estate and related assets	1,519
Subsidiaries	(18)
	<u>175,594</u>
Increase in cash and short term investments	(28,169)
Cash and short term investments, July 1, 2000	430,745
Cash and short term investments, September 30, 2000	<u>\$ 402,576</u>

See accompanying notes to non-consolidated financial statements.

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

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

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## 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.

(Unaudited - See Notice to Reader)

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

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

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## 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 September 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 September 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 September 30, 2000

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## 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. Also, provisions have been made for anticipated future losses on invested assets and are included as a component of additional provisions.

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 September 30, 2000

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## **1. Significant accounting policies (continued):**

### **(d) Policy liabilities:**

The following significant accounting policy was applied in calculating the net actuarial liabilities up to August 1, 2000. There were no further actuarial liabilities after that date.

Policy liabilities were calculated using the policy premium method. The policy liabilities represent the amount which, together with future premiums and investment income, would 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 were determined assuming that investment asset default losses would be at the normal rates for the respective asset classes as generally used in the industry. Additional provisions for asset default were determined taking into account the circumstances of the Company's investments. Provisions for future expected expense levels have also been determined and have been included as a component of additional provisions.

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

Funds in excess of those required for payment of valid claims under policies are being 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 partial settlement of the obligation to CTSL and the distribution declared to ordinary unsecured creditors is accounted for as a reduction in the calculation of the net assets available for other creditors at September 30, 2000.

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 5  
The period ended September 30, 2000

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

(000's)	Three months ended Sep 30, 2000	Aug 12, 1994 to Sep 30, 2000
Net assets available (deficiency), beginning of period	\$372,542	\$(208,515)
Net income	64,587	502,207
Transfer from CLIC U.S.	12	143,449
Partial settlement of obligation to CTSL	(158,750)	158,750
Distribution declared to ordinary unsecured creditors	(101,250)	(101,250)
Net assets available for other creditors, end of period	\$177,141	\$177,141

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 6  
The period ended September 30, 2000

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### 3. Obligation to CTSL (continued):

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.

On September 5, 2000, the Court authorized a total payment of \$260 million to CTSL and the ordinary unsecured creditors, to be allocated in the manner described above. CTSL's portion of \$158.75 million was paid on October 12, 2000 and is reflected separately in the statement of financial position as "Due to CTSL". After the October 12 payment, the maximum remaining payable to CTSL is \$114 million.

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 changes as the amount for Net Assets available for Other Creditors changes and is reduced when the Court approves payments to CTSL and the ordinary unsecured creditors. At September 30, 2000, the obligation, calculated as per the above formula, is \$88.6 million. This obligation amount represents a future reduction to the remaining payable of \$114 million.

Additional payments to CTSL and the ordinary unsecured creditors are a function of the Liquidator's progress in resolving the remaining matters and must be authorized by the Court. Accordingly, the quantum and timing of further payments is not predictable at this time.

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

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

#### 4. Ordinary unsecured creditors:

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

(000's)	September 30, 2000	August 11, 1994
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. The Liquidator recommended the Court allow and approve sixty-four claims in the amount of \$206 million. Of this, fifteen claims in the aggregate amount of \$205 million represent claims by the holders of commercial paper with the \$1 million balance representing claims within the "Others" category. The Court approved the sixty-four claims.

Subsequent to September 30, 2000, the Liquidator has both allowed and disallowed claims. Upon expiry of the relevant appeal periods, the recorded amounts will be adjusted as required. 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 "Other" unsecured claims will not be known and the difference may be material from the estimate above.

On September 5, 2000, the Court authorized a total payment of \$260 million of which the ordinary unsecured creditors' portion is \$101.25 million representing a declared dividend of twenty two cents on claims filed. The balances at September 30, 2000 are:

(000's)	Commercial Paper	Others	Total
Distribution declared	\$45,024	\$56,226	\$101,250
Paid in prior quarters	0	0	0
Paid in the current quarter	44,629	267	44,896
Total payments	44,629	267	44,896
Declared and unpaid	\$395	\$55,959	\$56,354

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

(Unaudited - See Notice to Reader)

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Notes to Non-Consolidated Financial Statements, page 8  
The period ended September 30, 2000

## 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 September 30, 2000, U.S. \$8 thousand received from CLIC U.S. has been recorded as Cdn \$12 thousand in the statements of operations and changes in net assets available for other creditors. The amount received on a year-to-date basis 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)	July 1, 2000 to September 30, 2000	August 12, 1994 to September 30, 2000
Compensation and benefits	\$ 621	\$ 94,794
Third party administration fees:		
Claims	36	29,055
Investments	65	16,381
Investment expense	(200)	906
Building operations	(72)	21,795
Office equipment and telephone	7	4,776
Postage and office supplies	10	2,156
Computer expense	114	9,398
Consultants/outside services	17	9,181
Insurance	88	1,907
Goods and services tax	34	5,071
Sundry	41	4,570
Capital and investment taxes	(1)	23,578
	760	223,568
Expense recoveries	(11)	(52,073)
	\$ 749	\$171,495

(Unaudited - See Notice to Reader)

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

Notes to Non-Consolidated Financial Statements, page 9  
The period ended September 30, 2000

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## **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.

# CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Professional Fees (including G.S.T.)

July 1, 2000 to  
September 30, 2000

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## Core Professional

### Canada

Goodman Phillips & Vineberg	\$ 382,055
KPMG inc.	1,025,228

### United Kingdom

KPMG UK	24,068
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1,431,351

## Other Professional Fees

### Canada

Bennett Jones	2,683
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### Unites States

Clifford Chance	2,551
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5,234

## Representative Counsel

Borden Ladner Gervais	6,587
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Koskie Minsky	5,000
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Eckler Partners	5,000
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Thornton Grout Finnigan	5,000
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21,587

## Actuaries

William Mercer	4,016
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4,016

## Public Relations

Shandwick Canada Inc.	2,330
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## TOTAL

\$ 1,464,518

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(Unaudited - See Notice to Reader)

## SCHEDULE "G"

### CONFEDERATION LIFE INSURANCE COMPANY (in liquidation)

Professional Fees (including G.S.T.)

	Jul 1, '99 to Sep 30, '99	Oct 1, '99 to Dec 31, '99	Jan 1, '00 to Mar 31, '00	Apr 1, '00 to Jun 30, '00	Jul 1, '00 to Sep 30, '00	Jul 1, '99 to Sep 30, '00
<b>Core Professional</b>						
<i>Canada</i>						
Goodman Phillips & Vineberg	\$ 977,642	\$ 936,581	\$ 640,230	\$ 545,006	\$ 382,055	\$ 3,481,514
KPMG inc.	1,274,844	1,758,703	2,009,374	1,496,683	1,025,228	7,564,832
<i>United States</i>						
KPMG Minneapolis				1,600		1,600
<i>United Kingdom</i>						
Clifford Chance	12,500		13,873		2,551	28,924
KPMG UK	16,910	(7,186)	11,480	12,250	24,068	57,522
	2,281,896	2,688,098	2,674,957	2,055,539	1,433,902	11,134,392
<b>Other Professional Fees</b>						
<i>Canada</i>						
Bennett Jones	2,207	5,069	16,110	34,394	2,683	60,463
Borden & Elliot	2,162	1,655	883			4,700
Ladner Downs	2,508	2,508		3,824		2,508
Patterson Palmer Hunt Murphy						3,824
<i>United Kingdom</i>						
Aon Consulting	36,602					36,602
<i>United States</i>						
Clark Hill P.L.C.	39,620	150,540	23,945	(10,991)		203,114
Gibson, Dunn & Crutcher LLP	11,483	(5,000)	2,411	66		8,960
Racketmann, Sawyer & Brewster	52					52
Willkie Farr & Gallagher			5,188	5,087		10,275
	94,634	152,264	48,537	32,380	2,683	330,498
<b>Representative Counsel</b>						
Borden & Elliot	1,281				6,587	7,868
Bennett Jones			(4,078)			(4,078)
Koskie Minsky			73,709	30,328	5,000	109,037
Eckler Partners			32,178		5,000	37,178
Thornton Grout Finnigan	34,637	(49)		5,920	5,000	45,508
	35,918	(49)	101,809	36,248	21,587	195,513
<b>Actuaries</b>						
Morneau Sobeco				980		980
William Mercer	8,024	53,624	32,970	68,133	4,016	166,767
	8,024	53,624	32,970	69,113	4,016	167,747
<b>Public Relations</b>						
Shandwick Canada Inc.	6,781	6,283	4,274	80	2,330	19,748
<b>TOTAL</b>	<b>\$ 2,427,253</b>	<b>\$ 2,900,220</b>	<b>\$ 2,862,547</b>	<b>\$ 2,193,360</b>	<b>\$ 1,464,518</b>	<b>\$ 11,847,898</b>

SCHEDULE "H"

250 YONGE STREET  
SUITE 2400  
TORONTO , ONTARIO  
CANADA  
M5B 2M6  
TEL : (416) 979-2211  
FAX: (416) 979-1234  
www.gpv.com

December 1, 2000

KPMG Inc.  
c/o Confederation Life Insurance Company,  
in Liquidation  
8<sup>th</sup> Floor  
800 Bay Street  
Toronto, Ontario  
M5S 3A9

**Attention: Mr. George Gutfreund**

OUR FILE NO. PMTO/94-1219

Re: Confederation Life Insurance Company in Liquidation ("Confed")

---

TO OUR PROFESSIONAL SERVICES RENDERED in connection with the above-noted matter for the period April 1, 2000 to June 30, 2000, including:

Attendances with respect to Canadian private placement portfolio, including private placements being transferred as part of Canada Life Assurance Company transaction, negotiating with the York District Catholic School Board to obtain consent to assignment and assumption by Confed of remaining interests and obligations of Newcourt Credit Group Inc. with respect to Board's Education Centre, preparation of purchase agreement and attendances re: closing issues, and attendances with respect to Newfoundland Health Care Centre;

Attendances with respect to claims and ordinary creditor issues, including publication of notice re: filing of Statement of Claimants and Creditors, review of commercial paper claims and U.S. agents' claims, issues relating to retiree benefits, currency issues, attendances re: process for allowance and disallowance of claims, including preparation of motion materials and attendance at motions for Court approval of disallowance procedures and of admission of claims process;

Attendances with respect to tax issues, including research with respect to corporation tax, and Ontario retail sales tax, preparation of submission for advance tax ruling re: claims of retirees, and meetings with representatives of Canada Customs and Revenue Agency;

Attendances with respect to directors, officers and auditors issues;

Attendances with respect to group pension business, including preparation for and attendance at Court on motion for approval of payout methodology of group pension policies and responding to issues;

Attendances with respect to general liquidation advice, including discussions and reporting to inspectors and other stakeholders, distribution issues, issues relating to residue certificates, financial statements and financial status of estate, disclosure issues and passing of accounts, including preparation for and attendance at motion for passing of accounts;

Attendances with respect to general litigation including the following:

- vanishing premium;
- MacDonald Estate;
- 291953 B.C. Ltd. v. Confederation Life;
- Confederation Life v. Poon;
- Citibank;
- Confederation Trust Company counter-claims;
- Potential settlements with respect to claims re: Pickering Parkway;

Attendances with respect to Cuban branch and policyholder claims;

Attendances with respect to subsidiaries of Confed, including dissolution of subsidiaries;

Attendances with respect to transfer of immediate annuities to Canada Life Assurance Company including preparation for and attendance at Court on motion for approval of transaction, attendances with respect to obtaining regulatory approval and closing issues and documents;

Attendances with respect to other policyholder issues including Empire Life and Manulife;

Attendances with respect to real estate matters, including foreclosed mortgages;

Attendances with respect to subordinated debt issues, including publication of notices in newspapers, preparation for and appearance at motion with respect to subordinated status of subdebt and attendances with respect to inquiries regarding motion;

Attendances with respect to U.S. issues, including discussions with U.S. Rehabilitator, issues relating to U.S. distribution, issues relating to U.S. unsecured claims, and common interest agreement;

Attendances with respect to Confederation Trust Company, including review of agreement in connection with the claims asserted by CDIC and Confed in the winding-up of Confederation Trust Company.

<b>OUR FEE:</b>	<b>\$474,097.10</b>
<b>DISBURSEMENTS:</b>	<b>\$32,427.72</b>
<b>GST</b>	<b><u>\$38,485.23</u></b>
<b>TOTAL:</b>	<b><u>\$545,006.05</u></b>

**GOODMAN PHILLIPS & VINEBERG LLP**

E. & O. E.

December 1, 2000

KPMG Inc.  
c/o Confederation Life Insurance Company,  
in Liquidation  
8<sup>th</sup> Floor  
800 Bay Street  
Toronto, Ontario  
M5S 3A9

**Attention: Mr. George Gutfreund**

OUR FILE NO. PMTO/94-1219

Re: Confederation Life Insurance Company in Liquidation (“Confed”)

---

TO OUR PROFESSIONAL SERVICES RENDERED in connection with the above-noted matter for the period July 1, 2000 to September 30, 2000, including the following:

Attendances with respect to transfer of immediate annuities to Canada Life Assurance Company, including obtaining regulatory approval and responding to policyholder inquiries, and preparation for and attendance at closing;

Attendances with respect to claims and ordinary creditor issues, settlement of employee set-off claims, issues relating to U.S. agents’ claims and U.S. policyholder claims, review of appeals submitted to Liquidator from disallowance of claims, preparation of motion materials and attendance at motion for approval of amendments to process for admission and disallowance of claims of retired employees;

Attendances with respect to Confederation Trust Company, including motion by liquidator of Confederation Trust Company for approval of payment of dividend;

Attendances with respect to tax issues including preparation of submissions to Canada Customs and Revenue Agency re: capital tax and for advance ruling re: tax payable by Canadian retirees;

Attendances with respect to directors, officers and auditors issues;

Attendances with respect to general liquidation advice, including discussions with and reporting to inspectors and other stakeholders, issues relating to residue certificates, financial statements, disclosure issues, passing of accounts, distribution issues, including preparation of motion materials and attendance at motion for approval of distribution to Confederation Treasury

Services Limited and ordinary creditors, distribution process, issues relating to motion by Richter Partners, as Administrator of CTSL plan, re: amendments to Trust Indenture, and communications with representative counsel and Administrator of CTSL Plan with respect to distribution;

Attendances with respect to litigation matters including the following:

- Macdonald Estate;
- Citibank;
- Sydney Poon;
- York Mills litigation;
- Dylex/Evans;
- C.B. Richard Ellis/Markham Professional Centre;
- 291953 B.C. Ltd.;
- Les Cours Mont Royal;
- Writ renewals;
- Fingerman;
- Glushakow;
- Gillani;
- Leave to proceed applications; and
- Uri Saks;

Attendances with respect to Cuban branch and policyholder claims;

Attendances with respect to subsidiaries of Confed, including dissolution of subsidiaries;

Attendances with respect to mortgages and real estate matters, including foreclosed mortgages, preparation of real estate documents in connection with mortgages being transferred as part of Canada Life transaction, preparation of documents for sale of Plaza Cote des Neiges and attendances on real estate issues relating to security held by Confed re: Martino Nursing Homes;

Attendances with respect to other policyholder issues, including policies assumed by Maritime Life;

Attendances with respect to U.S. issues, including issues relating to U.S. ordinary creditors;

<b>OUR FEE:</b>	<b>\$429,160.00</b>
<b>DISBURSEMENTS:</b>	<b>\$16,087.20</b>
<b>GST</b>	<b><u>\$31,498.25</u></b>
<b>TOTAL:</b>	<b><u>\$476,745.45</u></b>

**GOODMAN PHILLIPS & VINEBERG LLP**

E. & O. E.

**RECONCILIATION TO FINANCIAL STATEMENT**

Goodman Phillips & Vineberg	<b>\$476,745.45</b>
LESS Recoveries from Third Party re: Private Placement	<b><u>(87,970.94)</u></b>
TOTAL (as per Financial Statement)	<b><u>\$382,054.22</u></b>

SCHEDULE "I"

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

**LISTING OF GOODMAN PHILLIPS & VINEBERG PERSONNEL  
HOURS AND AVERAGE HOURLY RATE  
QUARTER ENDED JUNE 30, 2000**

<b>Name</b>	<b>Rank</b>	<b>Area</b>	<b>HOURS</b>	<b>AVG. HRLY RATE</b>
Rubenstein, Gale	Partner	Insolvency	394.00	\$460
Paquette, Fanny	Sr. Clk	Insolvency	234.80	\$155
Schaffel, Candy	Partner	Insolvency	112.80	\$370
Altaras, Michele	Assoc.	Insolvency	100.10	\$290
Smith, Graham	Partner	Litigation	93.30	\$370
Ferland, Denis	Partner	Private Pl.	64.36	\$310
Ernst, Glenn	Partner	Insolvency	55.60	\$375
Individuals with less than 50 hours			448.89	\$246
			1,503.85	\$315

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

**LISTING OF GOODMAN PHILLIPS & VINEBERG PERSONNEL  
HOURS AND AVERAGE HOURLY RATE  
QUARTER ENDED SEPTEMBER 30, 2000**

<b>Name</b>	<b>Rank</b>	<b>Area</b>	<b>HOURS</b>	<b>AVG. HRLY RATE</b>
Rubenstein, Gale	Partner	Insolvency	358.80	\$490
Altaras, Michele	Assoc.	Insolvency	181.90	\$325
Paquette, Fanny	Sr. Clk	Insolvency	136.30	\$170
Smith, Graham	Partner	Litigation	101.40	\$425
Individuals with less than 50 hours			448.90	\$285
			<hr/>	<hr/>
			1,227.30	\$350
			<hr/>	<hr/>

# SCHEDULE "J"

## GOODMAN PHILLIPS & VINEBERG LLP

### ***GENERAL LIQUIDATION RESPONSIBILITY***

**GALE RUBENSTEIN** is a partner in the insolvency area. She oversees all legal matters and is involved in all major areas of the liquidation. During the Two Quarters, her particular areas of concentration included claims and ordinary creditor issues, issues with respect to directors, officers and auditors, the First Distribution, the transfer of immediate annuities to Canada Life, currency issues, issues relating to capital and other taxes, retiree benefit issues including tax ruling on claims of Canadian retirees, legal aspects of financial reporting, liaison with U.S. Rehabilitator and major stakeholders.

**CANDY SCHAFFEL** is a partner in the insolvency area. Her primary responsibilities during the Two Quarters related to Confederation Trust Company and vanishing premium issues.

**MICHÈLE ALTARAS** is an associate in the insolvency area. Her primary responsibilities during the Two Quarters related to the closing of the transfer of immediate annuities to Canada Life including the transfer of the private placements and mortgages, claims and ordinary creditor issues, including issues relating to retiree benefits, the process for allowance and disallowance of claims, and issues with respect to the subordinated status of sub-debt.

**FANNY PAQUETTE** is a senior law clerk in the insolvency area. She drafted basic court documents and prepared other materials in connection with court motions by the Liquidator and attended to service of motion materials. She also maintained the master filing system, performed litigation support, arranged publication of notices and had responsibility for internal accounting control and meeting the requirements of the Liquidator with respect to accounting and billings.

### ***LITIGATION***

**GRAHAM SMITH** is a partner in the litigation section. During the Two Quarters, his primary responsibilities were mortgage and private placement workout matters and collection actions.

### ***COMMERCIAL***

**DENIS FERLAND** is a partner in the Montreal office. His primary responsibilities for the non-performing private placements 'in Quebec which are the subject of litigation.

### ***TAX***

**GLENN ERNST** is a partner in the tax area. He had responsibility for preparation of submissions to Canada Customs and Revenue Agency on capital tax and other tax issues.



SCHEDULE "K"

KPMG Inc.  
Suite 3300 Commerce Court West  
PO Box 31 Stn Commerce Court  
Toronto ON M5L 1B2

Telephone (416) 777-8500  
Telefax (416) 777-3364  
Telefax (416) 777-8818  
www.kpmg.ca

*Schedule*

*Invoice*

November 29, 2000

Confederation Life Insurance Company, in Liquidation  
8<sup>th</sup> Floor, 800 Bay St  
Toronto ON M5S 3A9

GST #122363153

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To our professional services rendered in connection with the above-noted matter for the period July 1, 2000 to September 30, 2000, including:

- various pre-closing, closing and post-closing activities related to the Assumption Reinsurance transaction with Canada Life, including the following:
  - discussion and analysis regarding updating necessary tax clearances
  - obtaining necessary consents
  - issues regarding the transfer of York Separate School Board private placement security
  - agreement on transfer and assumption of Canada Trust "Back-to-Back" annuities and related GICs including discussions and negotiations with Canada Trust and a representative of the annuity holders;
  - review of post closing adjustments
- monitoring response to the policy confirmation related to payout annuities, and monitoring adjustments processed by Canada Life;
- continued payout of residual liabilities from group pension block and efforts to locate lost payees;
- due diligence procedures around post-closing adjustments with Empire Life and finalization of same;



- continued monitoring and review of settlement proposals by Manulife of group disability claims in litigation in the quarter;
- providing investigative support and litigation support for potential litigation matters;
- supervision of testing of post closing adjustments with Empire Life and negotiation and finalization of same;
- preparation, review and approval of June quarter end and July 3 V month end financial statements and related analysis;
- providing information and analysis for the CTSL Noteholders' Representatives and Inspectors;
- monitoring monetization of bond portfolio for Canada Life transaction;
- review and approval of money market transactions;
- ongoing monitoring of group pension operations;
- continue to obtain relevant information and working with benefits actuary concerning retiree benefits claims for Canadian operation retirees and U.S. operation retirees;
- obtaining relevant information and working with benefit actuary concerning the supplementary pension claims;
- review and analysis of potential recoveries from group life and health policyholders;
- finalization of significant recovery from former group life and health reinsurer;
- performing the Confederation Life staff annual appraisals and initiating appropriate compensation adjustments;
- continuing to adjudicate claims received pursuant to the call for claims;
- preparation and issuance of Notices of Disallowance of Claims received;
- preparation and mailing of a notice to all creditors advising them of the adjudication and claims admission process and including an initial dividend sheet of all claims admitted to date;
- receipt and review of Notices of Appeals of Disallowance of Claims;

- receipt and review of materials and attendance at motion for approval of amendments to process for admission and allowance of claims of retired employees;
- preparation of materials and submission to legal counsel in support of application for authority to distribute \$260 million to unsecured creditors and the CTSL Residual Noteholders;
- attendance at motion for approval of the \$260 million distribution and re-attendance on the same motion approximately one month later;
- preparation of procedures and issuance of same to the commercial paper holders for surrender of the commercial paper prior to the distribution of the first approved dividend;
- distribution of the first dividend to commercial paper holders;
- continued receipt and resolution of enquires with respect to unsecured creditor claims;
- continued preparation of appropriate data for the dissolution of various Confederation Life wholly-owned subsidiaries;
- responding to various employee related. issues including set-off issues, filing of proofs of claim, appeals of disallowance of claims, employee mortgages and discussions with legal counsel regarding the litigation process and reaching settlements in principle;
- ongoing liaison with the U.S. rehabilitator pertaining to U.S. unsecured creditors;
- receipt, review, discussion and attendance at meetings with estate legal counsel to review ongoing litigation matters, asset disposition matters and various other estate matters as required;
- attendance at numerous meetings with Canada Customs and Revenue Agency auditors and responding to their enquiries;
- finalization of the 1994 U.K. tax returns;
- receipt of final tax assessments up to and including 1994 from the Department of Inland Revenue in the U.K. and applicable refund amounts due;
- ongoing discussions and review of retiree benefits tax issues;
- development of a Confederation Life web site for the benefit of policyholders and unsecured creditors to be able to access current information as to the status of the liquidation and their claims therein;

- attendance to ongoing policyholder enquiries;
- preparation of appropriate accounting information, filing of appropriate non-tax statutory returns and preparation of financial statements for the quarter;
- overall administration of the estate and the Confed staff consisting of approximately 25 people, dealing with day-to-day administrative issues, responding to policyholder and creditor enquiries and attendances at all meetings, proceedings and/or court appearances as required.

Our fee	\$ 953,412.50
Disbursements	<u>4,739.13</u>
	958,151.63
GST	<u>67,070.61</u>
TOTAL	<u><u>\$1,025,222.24</u></u>



KPMG Inc.  
Suite 3300 Commerce Court West  
PO Box 31 Stn Commerce Court  
Toronto ON M5L 1B2

Telephone (416) 777-8500  
Telefax (416) 777-3364  
Telefax (416) 777-8818  
www.kpmg.ca

*Schedule*

*Invoice*

November 29, 2000

Confederation Life Insurance Company, in Liquidation  
8<sup>th</sup> Floor, 800 Bay St  
Toronto ON M5S 3A9

GST #122363153

---

To our professional services rendered in connection with the above-noted matter for the period April 1, 2000 to June 30, 2000, including:

- receipt and review of March quarter end actuarial reserves;
- detailed analysis of line of business results for March quarter end;
- continued monitoring and review of settlement proposals by Manulife of group disability claims in litigation in the quarter;
- various pre-closing activities related to the Assumption Reinsurance transaction with Canada Life, including the following:
  - meetings, discussions and analysis regarding obtaining necessary tax clearances
  - finalization of assets to be delivered at closing
  - issues regarding the transfer of York Separate School Board private placement security
  - Agreement of Transfer and Assumption of the Canada Trust “Back-to-Back” annuities and related GICs including discussions and negotiations with Canada Trust and a representative of the annuity holders
- monitoring response to policy confirmation related to payout annuities;
- monitoring adjustments processed by Canada Life;



- finalization of data adjustments related to Transfer and Assumption Agreement with Manulife;
- execution of early payout of group pension block;
- negotiation of Amending Agreement with Empire to clarify the terms of the commutation with Empire and the closing of the commutation;
- providing investigative support and litigation support for potential litigation matters;
- finalization of testing of group life and health data for purposes of asserting adjustments for consideration on the group life and health transaction for incorrect data;
- review and discussions with Manulife concerning finalization of data adjustment provisions of the group and life and health agreement;
- monitor procedures and review of results of the internal audit department's audits of operations;
- monitoring monetization of bond portfolio for group pension and Empire commutation/payouts;
- review and approval of money market transaction;
- ongoing monitoring of group pension and TPA insurance operations;
- obtaining relevant information and working with benefits actuary concerning retiree benefits claims;
- review and analysis of potential recoveries from group life and health policyholders;
- review and analysis of potential recovery from a former group life and health reinsurer;
- providing information and analysis to the CTSL Noteholders Representatives and Inspectors;
- continued attendance to voluminous calls and enquiries from creditors, former employees, retirees, sub debt holders as a result of the call for claims;
- commencement of the adjudication of the claims received by category from the call for claims process resulting in a detailed review of Confed's books and records which necessitated the retrieval of off-site records to ascertain the accuracy and validity of the claims received;

- correspondence, telephone calls and meetings with the estate solicitor to deal with enquiries from subordinated debt holders;
- compilation of materials for estate solicitors, receipt and review of Court materials seeking a declaration that subordinated debt is in fact subordinated debt;
- attendance at Court for the subordinated debt hearing and obtaining an order dated May 19, 2000 declaring that the subordinated debt was indeed subordinated;
- receipt and review of materials received from the estate solicitor approving the Notice of Disallowance form;
- attendance at Court hearing for approval of the disallowance process and forms to be used;
- receipt and review of materials prepared by the estate solicitor with respect to the claims allowance process;
- attendance at Court hearing for the approval of the claims allowance process;
- continued receipt and resolution of enquiries with respect to policyholder claims;
- continued preparation of appropriate data for the dissolution of Confederation Life's wholly-owned subsidiaries;
- ongoing liaison with the U.S. rehabilitator including discussions as to the return of surplus funds from the U.S. estate to the Canadian estate, discussions as to the status of U.S. estate legal actions and obtaining information on subordinated creditors;
- receipt, review, discussion and attendance at meetings with the estate legal counsel to review ongoing litigation matters and various other estate matters as required;
- continued investigation, discussion and review of data from the U.S. rehabilitator pertaining to claims of U.S. retirees;
- continued attendance at numerous meetings and discussions with the Canada Customs and Revenue Agency auditors;
- responding to enquires from Canada Customs and Revenue Agency auditors;
- preparation of Confed's and its wholly-owned subsidiaries 1999 tax returns;

- continued discussion and review of retiree benefits tax issues and the preparation and submission of a tax ruling request in respect of same;
- continued response to enquires with respect to the U.K. tax returns;
- continued discussions with Canada Life with respect to tax considerations pertaining to the disposition of the Confed annuity business and the preparation of a ruling request to Canada Customs and Revenue Agency;
- review of Notices of Assessments and Reassessments received from various taxation authorities and other tax correspondence received;
- renewal of Confed's financial institution bond for the year;
- finalization of all aspects of the construction at 800 Bay Street, obtaining building inspectors final approvals, payment of all contractors holdbacks and settlement of all deficiency issues;
- continued review and downsizing of the information and technology and communication functions as blocks of business are disposed;
- meetings, discussions and development of a plan for the discontinuance of processing at the EDS facilities and arranging for the appropriate storage of records;
- preparation of appropriate accounting information, filing of appropriate non-tax statutory returns and the preparation of financial statements for the quarter;
- overall administration of the estate and the Confed staff consisting of approximately 30 people, dealing with day-to-day administrative issues, responding to policyholder and creditor enquiries and attendance at all meetings, proceedings, and/or court appearances as required.

Our fee	\$1,470,134.00
Disbursements	<u>12,907.06</u>
	1,483,041.06
GST	<u>103,812.87</u>
TOTAL	<u><u>\$1,586,853.93</u></u>

SCHEDULE "L"

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

**LISTING OF KPMG PERSONNEL  
HOURS AND AVERAGE HOURLY RATE  
QUARTER ENDED JUNE 30, 2000**

Name	Area	HOURS	AVG. HRLY RATE
Gutfreund, George	V.P./Senior Manager	446.5	\$425
Shivas, Jane	Senior Manager	343.5	\$425
Kis, Marlyse	Technician	341.5	\$175
Bors, Miklos	Senior Manager	310.5	\$450
Bossence, Ted	Partner	300.0	\$550
Parlan, Virginia	Senior Manager	268.0	\$450
Sanderson, Robert	President/Partner	225.0	\$550
Baye, Theresa	Admin Assistant	215.5	\$85
Qassim, Naoimh	Staff Accountant	198.0	\$115
Murray, Larry	Partner	189.6	\$575
Eng, Stephen	Staff Accountant	129.5	\$95
Steele, Valerie	Partner	110.6	\$475
Javed, Amer	Staff Accountant	104.4	\$95
Telfer, Ann	Technician	71.3	\$150
Hinrichs, Rob	Senior Manager	65.5	\$425
Carpenter, Fred	Senior Manager	56.0	\$425
Taitz, Allan	Partner	54.5	\$450
Hamid, Abdalla	Senior Manager	54.5	\$400
Poon, Marian	Staff Accountant	51.0	\$95
Individuals with less than 50 hours		354.4	\$337
		3889.8	\$360

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

**LISTING OF KPMG PERSONNEL  
HOURS AND AVERAGE HOURLY RATE  
QUARTER ENDED SEPTEMBER 30, 2000**

<b>Name</b>		<b>Area</b>	<b>HOURS</b>	<b>AVG. HRLY RATE</b>
Kis, Marlyse	Technician	Admin/Claims	351.0	\$175
Gutfreund, George	V.P./Senior Manager	Admin/Claims	334.0	\$425
Shivas, Jane	Senior Manager	Fin. Report	333.5	\$425
Bossence, Ted	Partner	Admin/Policy holders	230.5	\$550
Baye, Theresa	Admin. Assistant	Admin/Claims	194.0	\$85
Tinmouth, Tara	Manager	Tax	187.0	\$300
Parlan, Virginia	Senior Manager	Claims	171.3	\$450
Sanderson, Robert	President/Partner	Admin/Assets	152.5	\$550
Murray, Larry	Partner	Tax	116.8	\$575
Steele, Valerie	Partner	Spec. Proj.	53.1	\$475
Individuals with less than 50 hours			<u>462.4</u>	<u>\$336</u>
			<u>2586.1</u>	<u>\$369</u>

## SCHEDULE "M"

### **KPMG INC.**

#### ***SENIOR LIQUIDATION RESPONSIBILITY***

ROBERT O. SANDERSON - is President of KPMG Inc., a chartered accountant, fellow of the Institute of Chartered Accountants of Ontario and a trustee in bankruptcy. He has primary responsibility for the liquidation as a whole. During this period, his particular areas of concentration were with respect to asset management and disposition strategy, ongoing liaison with the Rehabilitator, with the CTSL residue certificate holder representative and the major stakeholders, direction of liquidation and the planning of strategic initiatives.

EDWARD G. BOSSENCE - is a Partner of KPMG LLP and a chartered accountant whose specialty is insurance audits and liquidations. Mr. Bossence has general responsibility for all policyholder issues, including the determination of the actuarial liabilities, cash management, appropriate matching of investments to liabilities, overall direction of the ongoing administration of the group pension area, oversight of the surrender process, negotiations with Canada Life concerning a reinsurance transaction for the payout annuities, working with benefits actuary concerning retiree benefits claim and commutations of reinsurance assumed by Confed.

I. GEORGE GUTFREUND - is a Vice-President of KPMG Inc. and a chartered accountant, a Certified Insurance Receiver and licensed trustee in bankruptcy. He is responsible for the general administration of the liquidation, including oversight of all financial and internal controls, human resources and office management. Mr. Gutfreund directed the preparation for and the call for claims of the ordinary creditors, development of the claims allowance and disallowance processes and the distribution of the first interim dividend. Mr. Gutfreund is also responsible for the development and maintenance of the web site.

#### ***POLICYHOLDER ISSUES***

The Liquidator oversaw the administration of the blocks of business administered by Canada Life and Empire Life, directed the pre-August 12, 1994 group life and health claims in litigation, continued the process for other commutations relating to other blocks of business and commenced negotiations with Canada Life concerning a reinsurance assumption transaction for the payout annuities culminating in an Agreement.

ROB HINRICHS - is an actuary and Senior Manager who was mainly involved in the group life and health area, including instructing on the disputed disability claims, managing the disability claims issues, instructing Manulife and assisting in the post closing adjustments of the Manulife commutation.

FRED CARPENTER - is an actuary and Senior Manager, formerly with Confed, who has general responsibility with respect to policyholder liability issues. Mr. Carpenter assisted in the preparation and audit of information required for the Canada Life negotiation. He also oversaw the administration of the immediate annuities by Canada Life and the individual annuities by Empire Life.

## **TAX**

Confed remains classified for purposes of the Income Tax Act as a multi-national life insurer which creates special reporting requirements. Confed also caused the income and other tax returns for subsidiary companies to be prepared. During this period the preparation and submission of ruling requests re the retiree benefits and the Canada Life transaction were completed. Difficult issues relating to the transfer of the blocks of business, the CTSL Plan and the tax impact of the liquidation/rehabilitation proceedings continued to be dealt with. In addition, significant time was spent in attendance at meetings and obtaining information for Canada Customs and Revenue Agency ("CCRA") auditors once the audit commenced.

LARRY MURRAY - is a chartered accountant and Partner of KPMG LLP in the tax group who has overall responsibility for tax matters in the liquidation. Mr. Murray has had extensive discussions with members of CCRA, Ministry of Revenue Ontario and Ministry of Revenue Quebec pertaining to corporate tax, GST, ORST and QST issues and the commencement of the respective audits. In addition, Mr. Murray liaised with Canada Life with respect to the tax considerations pertaining to the disposition of Confed's annuity business and a ruling application pertaining to the retirees benefits claims in the liquidation.

ALLAN TAITZ - is a chartered accountant and retired Partner of KPMG who specialized in the GST and commodity taxation areas. Mr. Taitz has been providing consulting services pertaining to GST, ORST and QST filings and in the preparation of materials requested by the various different jurisdictional auditors. He attended numerous meetings with CCRA GST auditors with respect to 1994 and 1995 GST return issues.

VIRGINIA PARLAN - is a lawyer and Senior Manager specializing in the tax area and works directly with the tax partner, Larry Murray. Ms Parlan assembled, reviewed, prepared and submitted tax ruling requests pertaining to retiree benefits.

MIKLOS BORS - is a chartered accountant and Senior Manager, specializing in the tax area and working directly with supervising tax partner, Larry Murray. Mr. Bors oversaw the preparation of the tax returns on a multi-national basis. Mr. Bors' specific responsibility with respect to the tax returns was on the investment side, dealing with the Canadian Income Fund requirements under the Income Tax Act and with the issues with respect to "backing" assets and what can be treated as appropriate for insurance reserve purposes. Mr. Bors also attended meetings with CCRA auditors and responded to numerous queries and requests for additional information from the CCRA auditors.

AMER JAVED, NAOIMH QASSIM, MARION POON AND STEPHEN ENG - are Staff Accountants in the tax area. They worked in calculating 1999 capital tax income tax returns, obtaining and preparing information for the CCRA auditors and expense analysis as required.

### ***FINANCIAL AND ADMINISTRATION***

This area is responsible for the preparation of all financial data, including the production of financial statements, management information and the compilation of the information on which projections and decisions with respect to distribution decisions are based.

JANE SHIVAS - is a chartered accountant and Senior Manager. She is responsible for budgeting, liquidity model, financial reporting, preparation of financial statements and overseeing the accounting department.

MARLYSE KIS - is a Technician responsible for KPMG Inc. time and expense control ensuring there is proper reporting, no duplication of time and proper controls with respect to disbursements. Marlyse also oversaw the day-to-day handling of proofs of claim received, creditors inquiries, management of the claims database, adjudication of claims, preparation of Notices of Disallowance, dividend sheet and preparation of dividend cheques.

HAMID ABDALLA - is a Senior Manager in the IT group. He assisted in the design of new downsized IT requirements.

THERESA BAYE - is an Administrative Assistant who dealt with policyholder enquiries, creditor enquiries, sub debt holders enquiries, overseeing the implementation and operation of the estate's filing system and assisting Messrs. Sanderson, Bossence and Gutfreund as required.

### ***SPECIAL PROJECTS***

The special projects area encompasses the forensic activities, including forensic accounting, litigation support, production of documents to third parties, as well as other specific tasks as required.

VALERIE STEELE - is a chartered accountant and Partner of KPMG in the forensic group who provided litigation support on a number of outstanding claims matters. She was extensively involved in forensic investigations and litigation support.

ANN TELFER - is a Technician also in the forensic area reporting to Valerie Steele. Among other things, Ms Telfer was responsible for assembling the production of documents and litigation support in major litigation matters.

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