

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,

R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT

OF

NELSON FINANCIAL GROUP LTD.

AFFIDAVIT OF CLIFFORD STYLES

APPLICANT.

I, Clifford Styles, of the City of Pickering in the Regional Municipality of Durham, MAKE OATH AND SAY as follows:

1. I am a retired businessman who, together with my wife Jackie Styles, lives in the City of Pickering in the Regional Municipality of Durham and have knowledge of the matters hereinafter deposed to.

2. I and my wife, Jackie Styles, own all of the shares of Playle Investments Ltd., a corporation incorporated under the laws of the Province of Ontario. I am a director and officer of Playle Investments Ltd.
3. I have known Marc Boutet, the principal of Nelson Financial Group Ltd. ("Nelson"), through his father who has been my best friend since 1972. I have known Marc Boutet since he was a young boy. As such, we have a special relationship and a relationship of trust and confidence.
4. I first invested money with Marc Boutet and Nelson, together with my wife Jackie Styles, in 1998. This was invested in the form of promissory notes paying a fixed interest rate. I continued to maintain investments with Nelson which, due to the success of the investments, the interest paid I have gradually increased over time.
5. Playle Investments Ltd. ("Playle") also invested with Marc Boutet and Nelson. These investments over time have grown.
6. As at July 16th, 2007, Jackie Styles and I personally had invested \$614,304.15 with Nelson and Marc Boutet. Playle had invested \$1,681,486.08 as of July 16th, 2007.
7. I was approached by Marc Boutet on a number of occasions starting in early 2007 about converting my promissory notes to preferred shares. This was based on a number of reasons given by Mr. Boutet, including the tax

advantage of the dividends received. I initially declined to convert my promissory notes to preferred shares, as there was no tax advantage to me.

8. Mr. Boutet approached me again in June or July of 2007 with respect to the conversion of my shares with a new deal with a separate agreement. He promised me a higher dividend rate on these shares of thirteen and three quarters percent (13 $\frac{3}{4}$ %). He also promised me that the obligation of Nelson to repay the amounts would be treated the same or better than the existing promissory notes, and that it would have the same or a better priority position than the existing promissory notes. Mr. Boutet indicated that that was a specific promise he was making to me from Nelson, given our past relationship, and a separate promise from the terms otherwise available.
9. It was on this basis that I agreed to convert the amounts I had from promissory notes to preferred shares.
10. Subsequent to the conversion, I was paid at a rate of 13 $\frac{3}{4}$ % dividends on my preferred shares.
11. I have reviewed a copy of the Articles of Amendment dated April 5th, 2007 and July 14th, 2008 for Nelson, copies of which are attached as exhibits "A" and "B" hereto. These articles provide that the preferred shares, including the Series "A" shares and Series "B" shares, would have dividends at the rate of ten percent (10%). I was not paid at 10%; I was paid at 13 $\frac{3}{4}$ % based on

the separate agreement made between Mr. Boutet on behalf of Nelson and myself. This separate agreement also included the important provision that I be paid and have the same priority as, and Nelson would guarantee the repayment of my amounts owing on the same basis as, the promissory notes. Until payment was suspended, all of these promises were honoured.

12. I subsequently invested further amounts with Nelson, both personally with my wife Jackie Styles, and through Playle. The total amount outstanding currently to myself and Jackie personally is \$1,944,304.15.

13. The amount outstanding currently to Playle is \$2,631,486.08.

14. I had continued to meet with Mr. Boutet both on a professional and personal basis. In fact, Mr. Boutet spent time at my house on Christmas day of 2009. Whenever I inquired of him as to the position and Nelson his reply was "simply fantastic".

15. At a meeting approximately three and one half weeks ago, Mr. Boutet admitted that the purpose of converting the notes to debt was in fact to reduce the debt load and enhance the balance sheet of Nelson to allow it to survive. He was quite aware of the financial position of Nelson at the time of conversion, and he indicated he needed to convert debt because of the accumulated deficit to equity.

16. I have seen the unaudited financial statements of Nelson prepared by Price Waterhouse Coopers for the year ended July 31, 2008, a copy of which are attached hereto as exhibit "C".
17. I would note that as at July 31st, 2007, the capital stock was showing as \$4,590,431.00 and the accumulated deficit was \$9,479,877.00. By July 31st, 2008, the accumulated deficit had ballooned to \$16,557,657.00 and the capital stock had increased to \$9,262,814.00.
18. Nelson had suffered net losses for the year ended July 31st, 2007 of \$1,757,283.00 and a net loss for July 31st, 2008 of \$6,350,143.00. It's clear that the company was in severe financial difficulty and this was known to Mr. Boutet, yet at the same time Nelson was continuing to issue shares and/or debt to shares.
19. At no point was I ever provided with a prospectus, nor was Playle provided with a prospectus, for Nelson. At no point was I ever provided any material disclosure, financial or otherwise, with respect to Nelson by Mr. Boutet, nor was Playle provided with such disclosure.
20. At all times and on numerous occasions I was told by Mr. Boutet that my investment was to be repaid at the same time as the promissory notes, was on a level playing field with the promissory notes, and that he was making this special agreement with me relating to this and the dividend rate as a

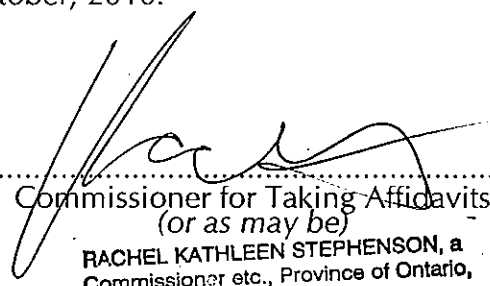
separate agreement with me because of the size of my investment and our personal relationship.

21. If I had known Nelson was insolvent at the time of conversion, I would never have converted by promissory notes to preferred shares. In addition, I would never have invested further money in Nelson, and certainly not in the form of preferred shares.

22. I was informed by Marc Boutet and verily believe that the issuance of further shares and conversion of debt into shares was suspended by agreement with the Ontario Securities Commission due to failure to file a prospectus.

23. This Affidavit is made in support of an Application to be treated as an unsecured creditor in the place of compromise or arrangement and for no other improper purpose.

.....
Sworn before me at the City of *Peterborough*
in the County of *Durham*, this *14* day of
October, 2010.


.....
Commissioner for Taking Affidavits
(or as may be)

**RACHEL KATHLEEN STEPHENSON, a
Commissioner etc., Province of Ontario,
while a student-at-law.**
Expires July 18, 2013.


.....

Clifford Styles

TAB A

12611

affidavit of Clifford Styles
sworn before me, this 14th

For Ministry Use Only / A l'usage exclusif du ministre
day of October 2010

CERTIFIED
A COMMISSIONER FOR TAKING AFFIDAVITS

Ontario Corporation Number
Numéro de la société en Ontario
911152

RACHEL KATHLEEN STEPHENSON, a
Commissioner etc., Province of Ontario,
while a student-at-law.
Expires July 19, 2013.

APRIL 05 AVRIL, 2007

NW
Form 3
Business
Corporations
Act

Formule 3
Loi sur les
sociétés par
actions

**ARTICLES OF AMENDMENT
STATUTS DE MODIFICATION**

1 The name of the corporation is: (Set out in BLOCK CAPITAL LETTERS)
Dénomination sociale actuelle de la société (écrire en LETTRES MAJUSCULES SEULEMENT):
NELSON FINANCIAL GROUP LTD.

2 The name of the corporation is changed to (if applicable): (Set out in BLOCK CAPITAL LETTERS)
Nouvelle dénomination sociale de la société (s'il y a lieu) (écrire en LETTRES MAJUSCULES SEULEMENT):

3 Date of incorporation/amalgamation:
Date de la constitution ou de la fusion:
1990-09-14
(Year, Month, Day)
(année, mois, jour)

4 Complete only if there is a change in the number of directors or the minimum / maximum number of directors.
Il faut remplir cette partie seulement si le nombre d'administrateurs ou si le nombre minimal ou maximal d'administrateurs a changé.
Number of directors is/are: or minimum and maximum number of directors is/are:
Nombre d'administrateurs: ou nombres minimum et maximum d'administrateurs:
Number or minimum and maximum
Nombre ou minimum et maximum

5 The articles of the corporation are amended as follows:
Les statuts de la société sont modifiés de la façon suivante:

See pages 1A through to and including 1E attached.

12611

1. The Articles of the Corporation are amended to:
 - (a) split the existing 100 issued and outstanding Class A common shares into 1,500,000 issued and outstanding Class A common shares;
 - (b) split the existing 100 issued and outstanding Class B common shares into 1,500,000 issued and outstanding Class B common shares;
 - (c) remove Sections 4(a), (b), (c) and (e) from the Articles of Amendment filed by the Corporation on August 8, 2003;
 - (d) increase the authorized capital of the Corporation by the creation of Preferred Shares, issuable in series;
 - (e) provide that the Preferred Shares, issuable in series shall have attached to them the rights, privileges, restrictions and conditions as set out at Schedule "A";
 - (f) create the first series of Preferred Shares and to designate them as Series A Preferred Shares;
 - (g) provide that the Series A Preferred Shares shall consist of 2,800,000 shares and shall have attached to them the rights, privileges, restrictions and conditions as set out at Schedule "B".

SCHEDULE "A"

PREFERRED SHARES

Subject to the rights of any class of shares that are expressed to rank prior to them, the Preferred Shares shall have the following rights, privileges, restrictions and conditions:

1. **Directors' Rights to Issue in One or More Series.** The Preferred Shares may at any time or from time to time be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by resolution of the Board of Directors of the Corporation.
2. **Directors to Fix Terms of Each Series.** The directors of the Corporation shall (subject as hereinafter provided) by resolution fix, from time to time, before the issue thereof, the rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series including, without limiting the generality of the foregoing, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the redemption and/or purchase prices and terms and conditions of redemption and/or purchase, any voting rights, any conversion rights and any sinking fund or other provisions, the whole to be subject to the issue of a certificate of amendment setting forth the rights, privileges, restrictions and conditions attaching to the Preferred Shares of such series.
3. **Ranking of Preferred Shares.** The Preferred Shares of each series shall, with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, rank on a parity with the Preferred Shares of every other series and be entitled to priority over the Class A common shares, the Class B common shares and over any other shares of the Corporation ranking junior to the Preferred Shares. The Preferred Shares of any series may also be given such other preferences, not inconsistent with provisions hereof, over the Class A common shares, the Class B common shares and over any other shares of the Corporation ranking junior to the Preferred Shares as may be fixed in accordance with paragraph 2 hereof.
4. **Liquidation, Dissolution and Winding-Up Rights.** In the event of the liquidation, dissolution, winding-up or other distribution of assets of the Corporation, the holders of the Preferred Shares will be entitled to receive the amount paid per share thereon together with all accrued and unpaid dividends, whether or not earned or declared, the whole before any amount shall be paid to holders of the Class A common shares, the Class B common shares and any other shares of the Corporation ranking junior to the Preferred Shares.

SCHEDULE "B"

SERIES A PREFERRED SHARES

The following are the rights, privileges, restrictions and conditions attached to the Series A Preferred Shares (the "Series A Shares"):

1. **Number of Series A Shares.** The Series A Shares shall consist of 2,800,000 shares.
2. **Non-Voting.** Except as required by the *Business Corporations Act*, the holders of the Series A Shares shall not be entitled to receive notice of or to attend any meetings of shareholders of the Corporation.
3. **Cumulative Dividends:** The holders of the Series A Shares, in priority to the holders of the Class A common shares, the Class B common shares and all other shares ranking junior to the Series A Shares, shall be entitled to receive and the Corporation shall pay thereon, as and when declared by the board of directors of the Corporation out of the assets of the Corporation properly applicable to the payment of dividends, fixed preferential cumulative cash dividends at the rate of 10% per annum on the Redemption Price (as hereinafter defined) per share. Such dividends shall be payable monthly on the first day of each month in each year and shall accrue and be cumulative the date of issue. If on any dividend payment date the dividend payable on such date is not paid in full on all the Series A Shares then issued and outstanding, such dividend, or the unpaid part thereof, shall be paid at a subsequent date or dates in priority to dividends on the Class A common shares, the Class B common shares and any other shares ranking junior to the Series A Shares. The holders of Series A Shares shall not be entitled to any dividends other than or in excess of the preferential cumulative cash dividends hereinbefore provided.
4. **Dividends Preferential:** Except with the consent in writing of the holders of all the Series A Shares outstanding, no dividend shall at any time be declared and paid on or set apart for payment on the Class A common shares, the Class B common shares or on any other shares ranking junior to the Series A Shares in any financial year unless and until the accrued preferential cumulative cash dividends on all the Series A Shares outstanding have been declared and paid or set apart for payment.
5. **Redemption**
 - a. **Right to Redeem.** Subject to the *Business Corporations Act*, the Corporation may redeem or purchase the Series A Shares in accordance with the following terms and conditions. In these share provisions, "Redemption Price" shall be equal to amount paid per share. The "Redemption Amount" for each Series A Share shall be the Redemption Price together with all dividends which shall have accrued thereon and which shall be treated as accruing to the date of such redemption.

b. Redemption at the Option of the Corporation

i. **Right to redeem.** The Corporation may redeem all or from time to time any of the outstanding Series A Shares on payment to the holders thereof of the Redemption Amount. If less than all of the outstanding shares are to be redeemed, the shares to be redeemed shall be selected by lot or (disregarding fractions) pro rata to the number of shares registered in the name of each shareholder or in such other manner as the directors may determine with the written consent of all the holders of the Series A Shares.

ii. **Notice.** At least 30 days before the redemption date the Corporation shall give written notice of redemption to each holder of the shares to be redeemed. The notice shall set out the Redemption Amount, the redemption date, the place of redemption and the number of shares to be redeemed. Accidental failure to give such notice shall not affect the validity of any redemption.

iii. **Payment.** On and after the redemption date the Corporation shall cause the Redemption Amount to be paid to or to the order of the holders of the shares to be redeemed, on surrender of the certificates representing such shares at the redemption place. Such shares shall thereupon be redeemed. From and after the redemption date, the holders of the shares called for redemption shall cease to be entitled to any rights of shareholders in respect thereof except to receive the Redemption Amount, unless it is not paid or deposited in accordance herewith (in which case their rights shall remain unimpaired).

iv. **Deposit.** The Corporation may at any time deposit the Redemption Amount of any Series A Shares called for redemption with any Canadian chartered bank or trust company or solicitors of the Corporation named in the notice of redemption or in a subsequent notice to the holders of the shares in respect of which the deposit is made, in a special account for the holders of such shares. On the date of deposit (or redemption date, if later) the shares in respect of which such deposit is made shall be redeemed and from and after such date the rights of their holders shall be limited to severally receiving out of the moneys so deposited, without interest, the Redemption Amount of their redeemed shares upon surrender to such bank, trust company or solicitors, as the case may be, of the certificates representing such shares. Any interest on such deposit belongs to the Corporation.

6. **Participation upon Liquidation, Dissolution or Winding-Up:** In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the

IE

holders of the Series A Shares shall be entitled to receive the Redemption Amount of such shares and shall not share further in any final distribution.

TOR_LAW\6550554\1

- 6. The amendment has been duly authorized as required by sections 168 and 170 (as applicable) of the *Business Corporations Act*.
La modification a été dûment autorisée conformément aux articles 168 et 170 (selon le cas) de la Loi sur les sociétés par actions.
- 7. The resolution authorizing the amendment was approved by the shareholders/directors (as applicable) of the corporation on
Les actionnaires ou les administrateurs (selon le cas) de la société ont approuvé la résolution autorisant la modification le

2007/3/23

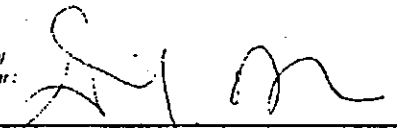
(Year, Month, Day)
(année, mois, jour)

These articles are signed in duplicate.
Les présents statuts sont signés en double exemplaire.

FINANCIAL GROUP LTD.

(Name of Corporation) (If the name is to be changed by these articles set out current name)
(Dénomination sociale de la société) (Si l'on demande un changement de nom, indiquer ci-dessus la dénomination sociale actuelle).

By/
Par:



(Signature)
(Signature)

PRESIDENT

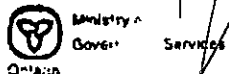
(Description of Office)
(Fonction)

TAB B

11B

This is Exhibit.....referred to in the affidavit of Clifford Styles sworn before me, this 14th day of October 2010

For Ministry Use Only / Usage exclusif du ministère



A COMMISSIONER FOR TAKING AFFIDAVITS

Ministre des Services gouvernementaux

Ontario Corporation Number / Numéro de la société en Ont.

911152

CERTIFICATE This is to certify that those articles are effective on

CERTIFICAT Ceci est pour certifier que les articles entrés en vigueur le

JULY 14 JUILLET, 2008

RACHEL KATHLEEN STEPHENSON, a Commissioner etc., Province of Ontario, while a student-at-law. Expires July 19, 2013.

ARTICLES OF AMENDMENT / STATUTS DE MODIFICATION

Form 1 Business Corporations Act / Formulaire 1 Sociétés par actions

1 The name of the corporation is (Set out in BLOCK CAPITAL LETTERS) / Denomination sociale actuelle de la société (écrite en LETTRES MAJUSCULES SEULEMENT) NELSON FINANCIAL GROUP LTD.

2 The name of the corporation is changed to (Set out in BLOCK CAPITAL LETTERS) / Nouvelle denomination sociale de la société (si il y a lieu) (écrite en LETTRES MAJUSCULES SEULEMENT)

3 Date of incorporation amalgamation / Date de la constitution ou de la fusion 1990-09-14

4 Complete only if there is a change in the number of directors or the minimum / maximum number of directors. / Il faut remplir cette partie seulement si le nombre d'administrateurs ou si le nombre minimal ou maximal d'administrateurs a changé

Number of directors is are / Nombre d'administrateurs or minimum and maximum number of directors is are / ou nombres minimum et maximum d'administrateurs

5 The articles of the corporation are amended as follows / Les statuts de la société sont modifiés de la façon suivante

See pages 1A to 1C attached.

1A

The Articles of the Corporation are amended to:

- (a) create the second series of Preferred Shares and to designate them as Series B Preferred Shares; and
- (b) provide that the Series B Preferred Shares shall consist of 2,000,000 shares and shall have attached to them the rights, privileges, restrictions and conditions as set out at Schedule "A".

SCHEDULE "A"

SERIES B PREFERRED SHARES

The following are the rights, privileges, restrictions and conditions attached to the Series B Preferred Shares (the "Series B Shares"):

1. **Number of Series B Shares.** The Series B Shares shall consist of 2,000,000 shares.
2. **Non-Voting.** Except as required by the *Business Corporations Act*, the holders of the Series B Shares shall not be entitled to receive notice of or to attend any meetings of shareholders of the Corporation.
3. **Cumulative Dividends.** The holders of the Series B Shares, in priority to the holders of the Class A common shares, the Class B common shares and all other shares ranking junior to the Series B Shares, shall be entitled to receive and the Corporation shall pay thereon, as and when declared by the board of directors of the Corporation out of the assets of the Corporation properly applicable to the payment of dividends, fixed preferential cumulative cash dividends at the rate of 10% per annum on the Redemption Price (as hereinafter defined) per share. Such dividends shall be payable monthly on the first day of each month in each year and shall accrue and be cumulative the date of issue. If on any dividend payment date the dividend payable on such date is not paid in full on all the Series B Shares then issued and outstanding, such dividend, or the unpaid part thereof, shall be paid at a subsequent date or dates in priority to dividends on the Class A common shares, the Class B common shares and any other shares ranking junior to the Series B Shares. The holders of Series B Shares shall not be entitled to any dividends other than or in excess of the preferential cumulative cash dividends hereinafter provided.
4. **Dividends Preferential.** Except with the consent in writing of the holders of all the Series B Shares outstanding, no dividend shall at any time be declared and paid on or set apart for payment on the Class A common shares, the Class B common shares or on any other shares ranking junior to the Series B Shares in any financial year unless and until the accrued preferential cumulative cash dividends on all the Series B Shares outstanding have been declared and paid or set apart for payment.
5. **Redemption**
 - (a) **Right to Redeem.** Subject to the *Business Corporations Act*, the Corporation may redeem or purchase the Series B Shares in accordance with the following terms and conditions. In these share provisions, "Redemption Price" shall be equal to amount paid per share. The "Redemption Amount" for each Series B Share shall be the Redemption Price together with all dividends which shall have accrued thereon and which shall be treated as accruing to the date of such redemption.

(b) **Redemption at the Option of the Corporation**

(i) **Right to Redeem.** The Corporation may redeem all or from time to time any of the outstanding Series B Shares on payment to the holders thereof of the Redemption Amount. If less than all of the outstanding shares are to be redeemed, the shares to be redeemed shall be selected by lot or (disregarding fractions) pro-rata to the number of shares registered in the name of each shareholder or in such other manner as the directors may determine with the written consent of all the holders of the Series B Shares.

(ii) **Notice.** At least 30 days before the redemption date the Corporation shall give written notice of redemption to each holder of the shares to be redeemed. The notice shall set out the Redemption Amount, the redemption date, the place of redemption and the number of shares to be redeemed. Accidental failure to give such notice shall not affect the validity of any redemption.

(iii) **Payment.** On and after the redemption date the Corporation shall cause the Redemption Amount to be paid to or to the order of the holders of the shares to be redeemed, on surrender of the certificates representing such shares at the redemption place. Such shares shall thereupon be redeemed. From and after the redemption date, the holders of the shares called for redemption shall cease to be entitled to any rights of shareholders in respect thereof except to receive the Redemption Amount, unless it is not paid or deposited in accordance herewith (in which case their rights shall remain unimpaired).

(iv) **Deposit.** The Corporation may at any time deposit the Redemption Amount of any Series B Shares called for redemption with any Canadian chartered bank or trust company or solicitors of the Corporation named in the notice of redemption or in a subsequent notice to the holders of the shares in respect of which the deposit is made, in a special account for the holders of such shares. On the date of deposit (or redemption date, if later) the shares in respect of which such deposit is made shall be redeemed and from and after such date the rights of their holders shall be limited to severally receiving out of the moneys so deposited, without interest, the Redemption Amount of their redeemed shares upon surrender to such bank, trust company or solicitors, as the case may be, of the certificates representing such shares. Any interest on such deposit belongs to the Corporation.

10. **Participation upon Liquidation, Dissolution or Winding-Up** In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series B Shares shall be entitled to receive the Redemption Amount of such shares and shall not share further in any final distribution.

- 6 The amendment has been duly authorized as required by sections 166 and 171, as applicable, of the Business Corporations Act
La modification a été dûment autorisée conformément aux articles 166 et 171, selon le cas, de la Loi sur les sociétés par actions
- 7 The resolution authorizing the amendment was approved by the shareholders, directors, as applicable, of the corporation in
Les actionnaires ou les administrateurs, selon le cas, de la société ont approuvé la modification autorisée

2008-Jun-23

(Signature)
Name: Marc Boulet

This document has been signed in duplicate
Les présents statuts ont été signés en double exemplaire

NELSON FINANCIAL GROUP LTD.

(Small text regarding the company's name and jurisdiction)

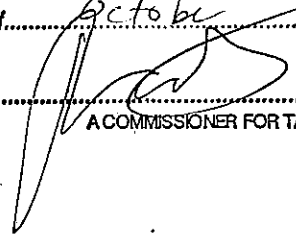
By *(Signature)*

Marc Boulet - Director

(Description of Office)

TAB C

This is Exhibit "C" referred to in the affidavit of Clifford Styles sworn before me, this 19th day of October 2010


A COMMISSIONER FOR TAKING AFFIDAVITS

RACHEL KATHLEEN STEPHENSON, a Commissioner etc., Province of Ontario, while a student-at-law. Expires July 19, 2013.

041

Nelson Financial Group Ltd.

Financial Statements
(Unaudited)
July 31, 2008



PricewaterhouseCoopers LLP
Chartered Accountants
North American Centre
5700 Yonge Street, Suite 1900
North York, Ontario
Canada M2M 4K7
Telephone +1 416 218 1500
Facsimile +1 416 218 1499

October 23, 2009

Review Engagement Report

**To the Shareholders of
Nelson Financial Group Ltd.**

We have reviewed the balance sheet of Nelson Financial Group Ltd. as at July 31, 2008 and the statements of operations and deficit and cash flows for the year then ended. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles using differential reporting options available to non-publicly accountable enterprises, as described in note 3 to the financial statements. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

The financial statements as at July 31, 2007 and for the year then ended were neither audited nor reviewed.

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

043

Nelson Financial Group Ltd.

Balance Sheet

(Unaudited)

As at July 31, 2008

	2008 \$ (note 1)	2007 \$
Assets		
Current assets		
Cash and cash equivalents	250,070	954,235
Amounts receivable and other	12,820	14,127
Dealer receivables	-	873,411
Income tax recoverable	46,923	47,246
Prepaid expenses	277,824	240,428
Term loans receivable (note 8)	-	5,731,292
Loans receivable (note 4)	9,414,700	4,535,126
Net investment in leases (note 5)	2,391,799	2,807,479
	<u>12,394,136</u>	<u>15,203,344</u>
Deferred costs	1,476,262	233,686
Equipment (note 6)	207,205	251,805
Loans receivable (note 4)	10,626,270	1,168,776
Net investment in leases (note 5)	3,170,524	5,449,813
	<u>27,874,397</u>	<u>22,307,424</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	295,990	688,400
Dealer holdbacks	1,039,132	605,338
Loans payable (note 7)	20,237,651	5,794,482
Due to related party (note 8)	-	2,647,985
	<u>21,572,773</u>	<u>9,736,205</u>
Loans payable (note 7)	13,596,467	17,460,665
	<u>35,169,240</u>	<u>27,196,870</u>
Shareholders' Deficiency		
Capital stock (note 8)	9,262,814	4,590,431
Deficit	<u>(16,557,657)</u>	<u>(9,479,877)</u>
	<u>(7,294,843)</u>	<u>(4,889,446)</u>
	<u>27,874,397</u>	<u>22,307,424</u>
Approved by the Board of Directors		

Director

Director

044

Nelson Financial Group Ltd.

Statement of Operations and Deficit

(Unaudited)

For the year ended July 31, 2008

	2008 \$ (note 1)	2007 \$
Revenue	<u>5,100,679</u>	<u>7,593,474</u>
Expenses		
Investor loan interest	3,482,199	2,866,516
Salaries and benefits	1,341,778	1,804,766
Investor commissions and expenses	395,454	610,963
Management fees	-	41,933
Office and general	168,673	320,266
Management remuneration	188,122	96,000
Professional fees	207,318	391,088
Interest and bank charges	108,875	114,345
Amortization	93,152	162,776
Commissions and client referral fees	169,419	5,248
Reconditioning and remarketing	-	531,762
Travel and automobile	37,981	337,323
Advertising and promotion	66,453	69,374
Rent	99,954	111,316
Insurance	38,288	87,070
Telephone and utilities	111,923	224,906
Bad debts	1,476,773	1,221,307
Meals and entertainment	7,045	20,362
Miscellaneous	159,663	333,436
	<u>8,153,070</u>	<u>9,350,757</u>
Loss before the undernoted	(3,052,391)	(1,757,283)
Writeoff of term loans receivable - net (note 8)	(2,936,918)	-
Writeoff of mortgage receivable	(360,834)	-
Net loss for the year	(6,350,143)	(1,757,283)
Deficit - Beginning of year	(9,479,877)	(6,080,074)
Loss on redemption of common shares (note 8)	-	(1,600,000)
Dividends paid	(727,637)	(42,520)
Deficit - End of year	(16,557,657)	(9,479,877)

Nelson Financial Group Ltd.

045

Statement of Cash Flows

(Unaudited)

For the year ended July 31, 2008

	2008 \$ (note 1)	2007 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(6,350,143)	(1,757,283)
Items not affecting cash		
Amortization	93,152	162,776
Loss on disposal of equipment	-	5,400
	<u>(6,256,991)</u>	<u>(1,589,107)</u>
Change in non-cash working capital items		
Amounts receivable and other	1,307	1,516
Inventory	-	436,926
Dealer receivables	873,411	896,101
Income tax recoverable	323	(38,971)
Deferred costs	(1,242,576)	(233,686)
Prepaid expenses	(37,396)	372,931
Due from related parties	-	439,983
Accounts payable and accrued liabilities	(392,410)	241,766
Dealer holdbacks	433,794	(462,308)
Due to related party	(2,647,985)	2,647,985
	<u>(9,268,523)</u>	<u>2,713,136</u>
Investing activities		
Purchase of equipment	(48,552)	(78,689)
Proceeds from disposal of equipment	-	104,499
Term loans receivable	5,731,292	(5,731,292)
Loans advanced - net	(14,337,068)	(4,709,118)
Decrease in net investment in leases - net	2,694,969	7,835,063
	<u>(5,959,359)</u>	<u>(2,579,537)</u>
Financing activities		
Net change in loans payable	10,578,971	(1,689,810)
Net change in due to shareholders	-	(700,000)
Issuance of preferred shares - net of share issue costs	4,672,383	4,590,231
Loss or redemption of common shares	-	(1,600,000)
Dividends paid	(727,637)	(42,520)
	<u>14,523,717</u>	<u>557,901</u>
Change in cash and cash equivalents during the year	(704,165)	691,500
Cash and cash equivalents - Beginning of year	954,235	262,735
Cash and cash equivalents - End of year	<u>250,070</u>	<u>954,235</u>
Supplementary information		
Interest paid	3,924,013	2,686,153

Nelson Financial Group Ltd.

046

Notes to Financial Statements

(Unaudited)

July 31, 2008

1 Going concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

For the year ended July 31, 2008, Nelson Financial Group Ltd. (the company) reported a loss of \$6,350,143 and an accumulated deficit of \$16,557,657 at that date. In addition to its ongoing working capital requirements, the company must secure sufficient funding for existing commitments, including repayment of investor loans. These circumstances lend significant doubt as to the ability of the company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, the company has secured additional investor loans subsequent to year-end in the amount of \$32,203,175 and has issued \$5,944,956 net of share issue costs to fund operations and meet loan payment obligations. The company has refocused itself away from the consumer automobile financing business as of November 2007 as this business has resulted in the accumulated deficit noted above. The existing lease portfolio will continue to be serviced until all leases mature, but the company will not be entering into any new leases. The company's primary focus is on consumer loans and conditional sales contracts. These new lines of business have proven to be more profitable than the automobile financing business and sales have increased 282% from 2007. Nevertheless, there is no assurance these initiatives will be successful.

The company's ability to continue as a going concern is dependent on its ability to fund its operations and generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Organization

The company was incorporated in 1990 under the Ontario Business Corporations Act. The company offers financing for conditional sales contracts as well as consumer loans.

3 Summary of significant accounting policies**Basis of presentation**

The company, with the unanimous consent of its shareholders, has elected to prepare its financial statements in accordance with Canadian generally accepted accounting principles, using the differential reporting options available to non-publicly accountable enterprises described below:

Nelson Financial Group Ltd.

047

Notes to Financial Statements

(Unaudited)

July 31, 2008

- **Financial instruments**

The company has elected not to disclose fair value information about financial assets and liabilities for which fair value was not readily obtainable.

- **Income taxes**

The company has elected to account for income taxes using the taxes payable method.

- **Share capital**

The company has elected to disclose information on share capital as required by paragraph 3240.02, only for those classes of shares that have been issued.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments in money market investments with maturity dates less than 90 days.

Deferred costs

Deferred costs include financing commissions incurred in the issuance of debt and are amortized on a straight-line basis over the term of the credit facilities. Referral fees on consumer loans are also included and are amortized on a straight-line basis over the term of the respective loan.

Revenue recognition

Interest income on loans receivable is recognized as revenue over the term of the customer contract when collectibility is reasonably assured. Interest income on net investment in leases is recognized on a constant yield basis over the term of each lease.

Net investment in leases

The company accounts for automotive leases as direct finance leases. Under this method, the company records the total value of the lease payments to be received under the lease terms at the commencement of the lease. The difference between this total value and the cost of the leased asset is recorded as deferred income and is shown as a reduction of the net investment in leases.

All other revenue is recorded when the goods are delivered or the services are completed.

Conditional sales contracts and consumer loans receivable

Loans receivable are recorded at cost, net of unearned income and provisions for losses.

Nelson Financial Group Ltd.

Notes to Financial Statements

(Unaudited)

July 31, 2008

The company maintains allowances for losses on loan receivables at amounts management believes are sufficient to provide adequate coverage against losses that currently exist within the portfolio. The allowances are determined principally on the basis of historical loss experience, and reflect management's best estimate of potential losses considering current economic conditions and the nature and characteristics of the loans. An allowance is recorded for loan receivables, in part or in whole, during the month in which either of the following conditions occur: (i) a bankruptcy notice or a notice of death is received; or (ii) amounts are owing for greater than 91 consecutive days. Additions to the allowances are charged to bad debts in the statement of operations and deficit.

Impaired loans

Loans are classified as impaired when payments are 90 days past due. Loans are written off when they are 180 days past due. When a loan is identified as impaired, interest income is no longer recorded.

Equipment

Equipment is stated at cost. Amortization is provided on a straight-line basis at the following annual rates:

Office equipment and furniture	20%
Automobiles	33%
Computer equipment	20%
Computer software	20%
Leasehold improvements	over the term of the lease

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the assets and their carrying value.

Financial instruments and financial instrument risk

The fair values of cash and cash equivalents, amounts receivable and other, income tax recoverable, accounts payable and accrued liabilities and dealer holdbacks approximate their recorded amounts because of the short period to receipt or payment of cash.

The main risks arising from the company's financial instruments are interest rate, liquidity and credit risks. The company's approach to managing these risks is summarized below.

Credit risk

Credit risk arises from the possibility borrowers may default on their obligations. The company strives to limit credit risk by dealing with borrowers who are believed to be creditworthy and use credit limits to manage borrower exposure.

Nelson Financial Group Ltd.

Notes to Financial Statements
(Unaudited)
July 31, 2008

• Interest rate risk

Interest rate risk is mitigated in that the interest rate charged on the investor loans is fixed as well as the interest rate charged on the consumer loans.

• Liquidity risk

Liquidity risk arises since the company relies on investor loans in order to obtain cash flows to advance future loans to customers.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to amortization and provision on net investment in leases. Actual results could differ from those estimates.

Accounting pronouncements adopted in the year

On October 2, 2008, the Accounting Standards Board (AcSB) announced that application of the following standards of The Canadian Institute of Chartered Accountants (CICA) Handbook was voluntary: Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; Section 3862, Financial Instruments - Disclosures; and Section 3863, Financial Instruments - Presentation. In accordance with this announcement the company has chosen not to adopt these standards.

Recent Canadian accounting pronouncements issued and not yet adopted

CICA Section 1535, Capital Disclosures, requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to the company effective with the fiscal year commencing July 31, 2009. This standard may impact the company's disclosures provided but will not affect the company's results or financial position.

4 Loans receivable

The loans receivable bear interest at varying levels of fixed rates of interest with a weighted average of 22.35% at July 31, 2008 (2007 - 23.89%).

Nelson Financial Group Ltd.

Notes to Financial Statements

(Unaudited)

July 31, 2008

050

The company's loans receivable include the following:

	2008 \$	2007 \$
Consumer loans		
Total minimum loan payments	32,367,552	8,084,510
Less: Deferred income	<u>12,326,582</u>	<u>2,380,608</u>
Net loans receivable	20,040,970	5,703,902
Less: Current portion	<u>9,414,700</u>	<u>4,535,126</u>
Long-term portion of loans	<u>10,626,270</u>	<u>1,168,776</u>

5 Net investment in leases

The company's net investment in leases includes the following:

	2008 \$	2007 \$
Total minimum lease payments	7,849,004	12,357,118
Less: Deferred income	<u>2,286,681</u>	<u>4,099,826</u>
Net investment in leases	5,562,323	8,257,292
Less: Current portion	<u>2,391,799</u>	<u>2,807,479</u>
Long-term portion of net investment in leases	<u>3,170,524</u>	<u>5,449,813</u>

All of the net investment in leases bears interest at varying levels of fixed rates of interest. Total minimum lease payments include the estimated residual value of leased assets.

6 Equipment

	2008		2007	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Office equipment and furniture	68,447	52,441	16,006	24,560
Automobiles	-	-	-	2,917
Computer equipment	232,228	149,918	82,310	124,414
Computer software	229,362	135,147	94,215	90,290
Leasehold improvements	50,577	35,903	14,674	9,624
	<u>580,614</u>	<u>373,409</u>	<u>207,205</u>	<u>251,805</u>

(5)

Nelson Financial Group Ltd.

051

Notes to Financial Statements
(Unaudited)
July 31, 2008

7 Loans payable

	2008 \$	2007 \$
Loans payable	33,834,118	23,255,147
Less: Current portion	20,237,651	5,794,482
	<u>13,596,467</u>	<u>17,460,665</u>

Loans payable bear interest at rates ranging from 7.0% to 14.5% and mature at various dates through to January 2, 2014. Upon maturity of the loans, investors typically reinvest their monies and either renew their loans or invest in preferred shares. Future repayments are as follows:

	\$
2009	20,237,651
2010	6,965,281
2011	872,515
2012	2,873,595
2013	1,578,401
Thereafter	1,581,582
	<u>34,109,025</u>

8 Capital stock

Authorized

An unlimited number of Class A and Class B common shares
280,000 Series A preferred shares
2,000,000 Series B preferred shares

Issued

	2008		2007	
	Number of shares	Amount \$	Number of shares	Amount \$
Class A common shares, voting	910,000	175,049	910,000	175,049
Class B common shares, non-voting	925,000	175,050	925,000	175,050
Series A preferred shares	349,229	8,730,730	176,675	4,416,925
Series B preferred shares	27,080	677,000	-	-
		<u>9,757,829</u>		<u>4,767,024</u>
Less: Issuance costs		(495,015)		(176,593)
		<u>9,262,814</u>		<u>4,590,431</u>

(6)

Nelson Financial Group Ltd.

052

Notes to Financial Statements

(Unaudited)

July 31, 2008

The Series A and B preferred shares have an annual dividend rate of 10% and are redeemable at the option of the company.

During the year, the company issued 172,554 Series A preferred shares and 27,080 Series B preferred shares at \$25 per share for total cash consideration of \$4,990,805 and incurred issuance costs of \$318,422.

In fiscal 2007, the company repurchased common shares held by one of its directors and a related shareholder for \$1,950,000 and incurred a loss on redemption of shares of \$1,600,000. The company paid \$350,000 in cash as part of the transaction and the remainder of the purchase price was to be paid in 30 monthly instalments. As part of the transaction, the company sold certain automotive leases and in return held term loans receivable. In fiscal 2008, the director defaulted on the term loans receivable, which resulted in a termination of the share agreement and the remaining payments on the repurchase of the common shares ceased. As a result, the company incurred net bad debt of \$2,936,918 and took possession of the outstanding automotive leases.

9 Income taxes

At July 31, 2008, the company had accumulated losses for income tax purposes of approximately \$14,795,300, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

	\$
2009	282,600
2010	44,100
2014	2,023,400
2015	3,937,000
2026	3,144,000
2027	5,364,200
	<u>14,795,300</u>

10 Related party transactions

The company uses the services of related companies in the normal course of operations. Commissions of \$316,779 (2007 - \$222,035) were paid to Nelson Investment Group Ltd. to secure new investors. In addition, the company recovered \$nil (2007 - \$43,729) from Nelson Mortgage for shared office space.

11 Subsequent events

Subsequent to July 31, 2008, the company issued 199,213 Series B preferred shares for \$4,980,326.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C., 1985 C. c-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF NELSON FINANCIAL GROUP LTD.

Court File No. 10-8630-00CL

SUPERIOR COURT OF JUSTICE

(Action commenced in TORONTO, ONTARIO)

**AFFIDAVIT
of CLIFFORD STYLES**

TEMPLEMAN MENNINGA LLP
Barristers and Solicitors
205 Dundas Street East, Suite 200
Belleville, Ontario K8N 5A2
(613) 966-2620/fax (613) 966-2866

(HAROLD VANWINNSEN)
LSUC #23283N
Solicitor for the Applicant