

September 3, 2010

To the Preferred Shareholders of Nelson

Nelson Financial Group Ltd. ("Nelson")

On July 7, 2010 the Court appointed Elizabeth Pillon as Independent Counsel to the Monitor to report on whether the claims of the Preferred Shareholders against Nelson were all "Equity Claims". This is important because the *Companies' Creditors Arrangement Act* (the "CCAA") says that no restructuring plan that would see Nelson pay any money on account of any Equity Claim can be approved by the Court unless all the Promissory Noteholders and other creditors are first paid in full. This means that, if the claims of Preferred Shareholders are Equity Claims, then the Preferred Shareholders will, in all likelihood, receive nothing from Nelson through any plan. Full details of Ms Pillon's mandate are set out in the Order of Madam Justice Pepall dated July 7, 2010. A copy of this order has been posted on our website at www.ajohnpage.com/html/files.html.

On August 11, 2010 Ms Pillon sent us her "Opinion". We have posted a copy of the "Opinion" on our website. She has concluded, in particular, that the following claims against Nelson are all Equity Claims:

1. Any claim for unpaid dividends
2. Any outstanding redemption requests
3. Any claims for misrepresentation
4. Any oppression claims
5. Any claims for rescission ie for cancellation of the shares and repayment of any money paid for the shares

We recommend that Preferred Shareholders read the Opinion to get a better understanding of what claims are, in Ms Pillon's opinion, Equity Claims.

We have reviewed the Opinion and have discussed it with our legal counsel. We agree with its conclusions.

As you know, a plan is in the process of being drafted. Nelson and the Promissory Noteholders need to be certain that the Preferred Shareholders are not to receive any payments for their Equity Claims under any plan. Therefore, on August 27, 2010, the Court set down a timetable for the adjudication of this issue. A copy of the Order of Madam Justice Pepall made on August 27, 2010 (the "August 27 Order") has been posted on our website. The Court has ordered as follows: on September 27, 2010 the Representative Counsel for the Noteholders is to ask the Court to rule that all the claims of Preferred Shareholders are Equity



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Claims and, as such, cannot vote on the plan or receive any payments under the plan. We enclose a copy of the Representative Counsel's Notice of Motion seeking this result which is delivered to you in accordance with the August 27 Order. A complete copy of the Representative Counsel's Motion Record has been posted on our website and all other materials will also be posted there.

If you wish to oppose this "Motion" by Representative Counsel you are free to do so, but the Court has ordered that you MUST do so "by serving and filing(*responding court*) materials on or before September 17, 2010". The Monitor recommends that, if you are unsure as to your legal position or if you are contemplating opposing the Motion, you promptly obtain your own legal advice.

Please note that Ms Pillon is independent counsel to the Monitor. As such she is not able to act for any Preferred Shareholder or to discuss the Opinion with anyone other than the Monitor.

One Preferred Shareholder, John McVey, has indicated that he would like to discuss/communicate with Preferred Shareholders in a similar position re the possibility of their engaging common counsel. Preferred Shareholders interested in communicating with Mr. McVey should email him at shareholders@genevaonline.com or call him at 1-262-893-5020.

If you have any questions about this matter please contact Colleen Delaney of the Monitor's office at 416-364-4894 ext. 13 or by email to nelson@ajohnpage.com.

Yours very truly,

A. JOHN PAGE & ASSOCIATES INC.
COURT APPOINTED CCAA MONITOR OF NELSON
per:


A. John Page
President

**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.

Applicant

**NOTICE OF MOTION
OF REPRESENTATIVE COUNSEL FOR NOTEHOLDERS
(Motion returnable September 27, 2010)**

Douglas Turner, Q.C., in his capacity as the Court-appointed Representative Counsel for the holders of promissory notes issued by the Applicant (the "Representative Counsel"), will make a motion before a judge of the Ontario Superior Court of Justice sitting on the Commercial List on September 27, 2010 at 10:00 a.m. or as soon after that time as the motion can be heard at 330 University Avenue, in the City of Toronto.

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

THE MOTION IS FOR:

- (a) An order that this motion is properly returnable at that time and dispensing with further service thereof;
- (b) An order that all claims and potential claims of holders of preferred shares of the Applicant (the "**Preferred Shareholders**") against the Applicant, Nelson

- Financial Group Ltd. (“**Nelson Financial**”), including, without limitation, any claims for unpaid dividends, redemption or retraction of such preferred shares, rescission of a purchase or subscription of such preferred shares or damages or other compensatory orders with respect to negligent or fraudulent misrepresentations made by or on behalf of the Applicant in connection with the sale or purchase of any such preferred shares, (severally and collectively a “Preferred Shareholder Claim”) shall for all purposes of these proceedings, including the claims procedure established under the Claims Procedure Order made by this Honourable Court on July 27, 2010 and any plan of arrangement that may be filed by the Applicant or by any creditor, be classified as “equity claims” within the meaning of the *Companies’ Creditors Arrangement Act* (the “**CCAA**”);
- (c) An order amending the Claims Procedure Order to require the Monitor in assessing any Preferred Shareholder Claim filed to designate such claim in a separate class of claim designated as an Equity Claim and not as an unsecured creditor claim;
- (d) An order directing that all Preferred Shareholder Claims shall form a separate class of claims and shall not be entitled to vote at any meeting of creditors called to consider any plan of arrangement in this proceeding in respect of any Claims as such are defined in the Claims Procedure Order;
- (e) An order directing that any plan of arrangement to be proposed by the Applicant or by any creditor must provide that all claims of unsecured creditors are to be paid in full before any Preferred Shareholder Claim is to be paid; and

- (f) Such further and other relief as counsel may advise and this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

Background

- (a) Pursuant to the order of the Honourable Madam Justice Pepall made March 23, 2010 (the “**Initial Order**”), the Applicant obtained protection from its creditors pursuant to the CCAA, the Monitor was appointed and the Applicant was authorized to prepare and file a plan of arrangement pursuant to the CCAA;
- (b) Pursuant to the order of the Honourable Madam Justice Pepall dated June 15, 2010, the Representative Counsel was appointed for the holders of promissory notes issued by the Applicant investors (the “**Noteholders**”);
- (c) Pursuant to the order of the Honourable Madam Justice Pepall dated August 27, 2010, the Representative Counsel was authorized and directed to bring this motion for the purpose of classifying the claims of Preferred Shareholders and for the purpose of providing a forum for any Preferred Shareholder to address the issue as to whether or not such person’s claims against the Applicant constitute an “equity claim” as defined in the CCAA;
- (d) The Applicant is reported to have outstanding promissory notes in the aggregate principal amount of \$36,583,422, together with unpaid interest of \$181,382 to March 23, 2010, held by some 321 Noteholders;

- (e) The Applicant has an authorized capital permitting it to issue 2,800,000 Series A preferred shares and 2,000,000 Series B preferred shares, each with a stated capital of \$25.00;
- (f) As of the date of the application in the within proceeding, the Applicant had outstanding 585,916.6 preferred shares (the “**Preferred Shares**”) with an aggregate stated capital of \$14,647,914.48 and said to be entitled to receive \$53,632.06 of declared but unpaid dividends. Dividends continue to cumulate at the rate of 10 percent per annum and a further \$83,285.22 is said by the Applicant to have accumulated by March 23, 2010. The Preferred Shares are held by some 82 persons according to the records of the Applicant;
- (g) It has been alleged by the Staff of the Ontario Securities Commission that the Preferred Shares that were issued and sold to investors in breach of the prospectus requirements, and not within any of the exemptions from such requirements, of the *Securities Act* (Ontario);
- (h) It appears that Preferred Shareholders may file claims as creditors of Nelson Financial for unpaid dividends, for the rescission of their purchases or subscriptions for Preferred Shares, for redemption of Preferred Shares or for damages or compensation for either negligent or fraudulent misrepresentations made by the Applicant, or by persons for whom it is responsible, in the course of the sale of the Preferred Shares;
- (i) Any of the said claims of Preferred Shareholders and any other claim that any Preferred Shareholder might assert against Nelson Financial in respect of the

Preferred Shares would constitute an “equity claim” within the meaning ascribed to such term under the CCAA;

- (j) Any equity claim made by a Preferred Shareholder of the Applicant is in a class separate from the class comprised of the unsecured creditors of the Applicant and should not be entitled to vote at any meeting of unsecured creditors of the Applicant in respect of such equity claim;
- (k) In order for the Applicant or any creditor to propose a plan of arrangement or compromise in this proceeding, it is necessary for there to be some reasonable degree of certainty as to the classification and the rights and priorities of the various creditors and their respective claims;
- (l) The CCAA, including section 2(1), 6(8), 11, 22 and 22.1; and
- (m) Such further and other grounds as counsel may advise and this Honourable Court may accept.

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

- (a) The Application Record including the affidavit of Marc Boutet sworn March 22, 2010, the transcript of his cross-examination thereon, exhibits and responses to undertakings;
- (b) The Seventh Report of the Monitor (to be filed); and

- (c) Such further and other material as counsel may advise and this Honourable Court may permit.

September 2, 2010

**Douglas Turner Q.C. as Representative
Counsel for the Noteholders of Nelson
Financial Group Ltd.**

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Special Counsel for the Representative
Counsel for Noteholders

TO: **THIS HONOURABLE COURT**

AND TO: The holders of Preferred Shares issued by Nelson Financial Group Ltd. by way of substitutional service in accordance with the Order of this Honourable Court made August 27, 2010.

AND TO: **THE ATTACHED SERVICE 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. (the "Applicant")

Court File No. 10-8630-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

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FOR NOTEHOLDERS

(Motion returnable September 27, 2010)

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Ltd.

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