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Ms. Patricia Johnston
Director of Legal Services and Policy Development
Alberta Securities Commission
300 5th Avenue S.W.
4th Floor
Calgary, Alberta
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Dear Ms. Johnston: **Re: Proprietary Industries Inc.**

Since the second letter dated September 30, 2004 of Northern Financial Corporation ("Northern") provided to you, Proprietary Industries Inc. ("PPI" or the "Company") has filed its Management Information Circular ("MIC") and Issuer Bid Circular ("IBC") and through its counsel, Fasken Martineau ("Fasken"), has responded to Northern's first letter dated September 15 by letter dated October 1, 2004 (the "Fasken Letter"). The purpose of this third letter is to provide our comments based on the MIC, the IBC and the Fasken Letter.

The proposed private placement ("Private Placement") by Quest Capital Corp. ("Quest"), the proposed issuer bid by PPI ("Issuer Bid"), and the anticipated purchases by joint actors of Quest ("Quest Purchasers") of excess PPI shares under the covenant (the "Encashment Covenant") in s. 5.2(d) of the Support Agreement dated September 9 between PPI and Quest is collectively referred to as the "Quest-PPI Transaction".

This letter has been reviewed by and includes the legal analysis of our counsel, Cassels Brock & Blackwell LLP.

Encashment Covenant

As previously noted we understand many of the larger Swiss-based shareholders and perhaps other large or selective shareholders ("Selective Shareholders") have been granted a benefit or advantage over other PPI shareholders to sell all of their PPI Shares in the Quest-PPI Transaction to the Quest Purchasers due to discussions, negotiations, understandings, arrangements and agreements held with Quest or PPI or their respective joint actors ("Selective Arrangements").

The September 9 press release by PPI described the Selective Encashment by stating that if the Issuer Bid is oversubscribed "alternatives will be considered for the purchase of any excess shares tendered".

By press release dated September 30, 2004 PPI stated the following with regard to the Selective Encashment:

> "Proprietary understands that Quest is highly confident that certain parties unrelated to it could be identified who would be willing to purchase shares validly tendered to the Issuer Bid in excess of 40,000,000 at a price of at least $0.60 per share, subject to compliance with applicable securities laws."

Essentially the same statement is made by PPI on page 16 of the MIC (the difference in language is italicized):

> "Proprietary understands that Quest is highly confident that certain parties unrelated to it could be identified who would be willing to purchase *any S*hares validly tendered to the Issuer Bid in excess of 40,000,000 at a price of at least $0.60 per share, subject to compliance with applicable securities laws."

The Company concluded in its September 30 press release that the Quest Purchasers are unrelated to Quest. The inference to be drawn from PPI's conclusion is that PPI considers the Quest Purchasers not to be joint actors because they are not related to Quest. It is irrelevant if the Quest Purchasers are related to Quest or not related to Quest. The concept of joint actor does not carry a "related label". The Quest Purchasers are clearly joint actors of Quest which is the key in determining the application of the take-over bid provisions of the *Securities Act.*

In the IBC the statement is made on p. 4 as follows: "In the event that the Issuer Bid is oversubscribed, alternatives will be considered for the purchase of any excess Shares tendered." There is no other statement in the IBC concerning the Encashment Covenant.

At a minimum it is curious that the Encashment Covenant is played down in the IBC yet played up and described differently in the September 30 press release and the MIC. How can the IBC state that alternatives will be considered for the purchase of excess shares, and in the press release and in the MIC state much more specifically and strongly that Quest is highly confident that the Quest Purchasers would buy all the excess shares tendered into the Issuer Bid?

The Encashment Covenant by Quest in Section 5.2(d) of the Support Agreement is to:

> "take reasonable commercial efforts, if the number of Common Shares tendered to the Issuer Bid is in excess of the Maximum Tender, to find one or more purchasers for such excess Common Shares, subject to the provision that Quest will not be required hereunder to do anything or take any step that would constitute a take-over bid under applicable Securities Laws or otherwise be contrary to applicable Securities Laws;"

There is no indication anywhere in the IBC, the MIC or the September 30 press release as to the mechanics of implementation of the Encashment Covenant, all of which we would suggest is material disclosure and should have been addressed.   For example:

1. How long is the Encashment Covenant available after completion of the Issuer Bid?

2. What is the price used in the Encashment Covenant, and how will the price be determined?

3. When does Quest have to indicate on a firm basis how many PPI shares will be acquired by the Quest Purchasers?

4. Are the purchases under the Encashment Covenant to be done in the market, through crosses or by private agreement?

5. How many Selective Arrangements have been made between Quest and Selective Shareholders?

6. How many Selective Arrangements have been made between PPI and Selective Shareholders?

7. Who are the Selective Shareholders?

8. Who are the Quest Purchasers?

9. How will the purchases be made and what exemptions will the Quest Purchasers be relying on?

The Selective Arrangements made or discussed with Selective Shareholders are not generally available to all PPI shareholders. Any mechanics of implementation are made available only to the Selective Shareholders, yet it is clearly implied or stated that the opportunity will be available to all shareholders. One wonders if this is stated only for optics, to claim that all shareholders are being treated equally.

Encashment Favouring Certain Large Shareholders Who Were Involved in the Artificial Transactions

Northern considers it inappropriate that PPI with the assistance of Quest seeks to encash 100% of the PPI shares held by those Selective Shareholders who were involved in the financial wrongdoing that led to serious losses incurred by shareholders of PPI.

As outlined in a decision of the Alberta Securities Commission (“ASC”) dated September 10, 2003, PPI implemented artificial transactions for the purpose of inflating its revenue and earnings (“Artificial Transactions”). These Artificial Transactions were accounted for improperly in the fiscal years 1998 to 2001 and a restatement of financial statements became necessary under new auditors.

The Artificial Transactions discovered by staff of the ASC were as follows:

1. PPI implemented an artificial sale of all of its shares in Newmex Minerals Inc. ("Newmex") to Pensionkasse der ASCOOP ("ASCOOP"), SPIDA Aushgleichskasse ("SPIDA") and LynChrisHoldings Inc. ("LynChris"). ASCOOP and SPIDA are two Swiss pension funds. At the time of the transaction, ASCOOP was a 47% shareholder of PPI. The accounting gains from the Artificial Transactions with ASCOOP, SPIDA and LynChris were reversed as there was no transfer of the risks and rewards of ownership of the Newmex shares.

2. PPI carried out an artificial sale of its interest in Swiss Plastering and Interiors Inc. ("Swiss Plastering") to Orion Resources Corporation ("Orion") and recorded a large gain in its 1999 financial statements. The Swiss Plastering transaction was never completed and the gain was reversed. ASCOOP was again involved and paid substantial funds as part of the Artificial Transaction.

3. PPI carried out a sale of its interest in Creative Classics Company and Willow Creek Homes Inc. to the Azterra Corporation. The gains from these purported sales were reported in the 2000 financial statements and reversed as the Artificial Transactions were never completed. ASCOOP was involved in these transactions and again paid substantial sums.

The parties responsible for these transactions include ASCOOP and possibly other large shareholders as well as former senior management and former directors. It is inappropriate for any shareholder of PPI who was involved in the Artificial Transactions to be part of the group of Selective Shareholders who are receiving 100% cash for their PPI shares under Selective Arrangements.

Northern believes that there is the very real prospect that the parties who were involved in the Artificial Transactions would be accountable to PPI for losses incurred. These parties could include ASCOOP who was a large shareholder of PPI, as well as the former directors of PPI who were representatives of ASCOOP such as Jean-Claude Duby and Peter Joss, who were President and Vice-Chair of ASCOOP, respectively. Messrs. Duby and Joss were last reported as being holders of 78,897 and 85,833 PPI shares, respectively. The last public disclosure of ASCOOP's interest in PPI reported a holding of 7,458,636 PPI shares.

Northern does not believe that persons or entities who were involved in PPI's financial ruin be allowed to vote in any change of control transaction. ASCOOP should not be allowed to vote on the Quest-PPI Transaction for two reasons; first, it was a consistent participant in the Artificial Transactions; and second, it could very well be a Selective Shareholder. Northern therefore suggests that ASCOOP not be allowed to vote in the majority of minority vote.

The largest shareholder in PPI is CPV/CAP Coop Personalversicherung Basel, Switzerland ("CPV"), which holds 18.8% of the PPI shares at January 8, 2004. The IBC reports that CVP proposes to tender all its PPI shares in the issuer bid. It is very likely that CPV is aware of the

Encashment Covenant and was a party to discussions with PPI or Quest or their joint actors on this point prior to the Quest-PPI Transaction being announced. We therefore suggest that CVP be excluded from the majority of minority vote.

The Selective Encashment feature of the Quest-PPI Transaction makes this a bid for 100% of PPI. It is apparent, based on Northern's discussions with shareholders of PPI and representatives of PPI, that this is how the Quest-PPI Transaction is being perceived. No discount is being factored in to reflect the fact that the Issuer Bid is only being made for 66.9% of the PPI shares. The Quest-PPI Transaction is being viewed as a whole, which is, a disguised bid for 100% of PPI.

Take-Over Bid Exemptions and the Encashment Covenant

The Quest Purchasers are clearly joint actors of Quest. When the encashment purchases are made by the Quest Purchasers after the Issuer Bid, Quest would be the owner of 43% of PPI shares, and therefore the encashment purchases would be a take-over bid and also an insider take-over bid by Quest and the Quest Purchasers acting jointly and in concert.

Quest is not proposing to file a take-over bid circular for the encashment purchases. What take-over bid exemption are Quest and the Quest Purchasers relying on to avoid the filing a take-over bid circular? The only conceivable exemption is the private agreement exemption in section 161(1)(c) of the *Securities Act* (Alberta) where a purchaser can acquire shares from a maximum of five vendors at a price that is not more than a 15% premium to the average trading price for the 20 trading day period prior to the date of the agreement.

What is the applicable 20 trading period? When have the private agreements been made, at or prior to the time the Quest-PPI Transaction was announced, or after completion of the Issuer Bid? Do they cease to be private agreements just because they may be acquired in the market after completion of the Issuer Bid?

Northern believes it is not appropriate for Quest and the Quest Purchasers to rely on the private agreement exemption at the date the Quest-PPI Transaction is announced because the encashment purchases have not been completed until after the Issuer Bid and the terms of the encashment purchases, including price, are not known until that time. We also believe that it is not appropriate for Quest and the Quest Purchasers to rely on the private agreement exemption after completion of the Issuer Bid when the share price of the PPI shares has increased substantially as a result of the announcement of the Quest-PPI Transaction.

We doubt that the encashment purchases are to be limited to five Selective Shareholders. Even if they are so limited, the fact is that the Encashment Covenant extends to all the excess PPI shares tendered into the Issuer Bid. In our view, it would not be possible to rely on the private agreement exemption because the encashment offer has been made generally and this is prohibited under the private agreement exemption. One of the pre-conditions for use of the private agreement exemption is "the bid is not made generally to security holders of the class of securities that is the subject of the bid".

If this is the exemption that is to be relied upon, Northern submits that the bid cannot be made generally available to all shareholders and that publication of the intention to implement the encashment purchases is fatal. The references in the press release of September 30, the MIC and the IBC, not to mention the covenant in the Support Agreement, taken individually or as a whole, must surely represent a widespread solicitation for such shares which we believe makes the offer available to all shareholders generally. In addition, we believe that the Quest Purchasers are joint actors of Quest as a result of this arrangement and therefore the encashment purchases under this arrangement will be limited to five shareholders in the aggregate from all the Quest Purchasers who are acting jointly or in concert. If this is not fatal for the Quest Transaction taken as a whole, it certainly makes the disclosure contained in the MIC and IBC wholly misleading. Shareholders will be relying on statements that Quest Purchasers will be found for 100% of their PPI shares when no such right is available. We believe that the only way for the selective purchases to work legally would be for Quest and their joint actors to prepare and send a take-over bid circular prepared in accordance with applicable securities laws.

We do not see any other take-over bid exemption that could possibly be applicable for the benefit of Quest and the Quest purchasers.

Illegal Take-Over Bid

We question whether or not Quest has already made an illegal take-over bid. The definition of "take-over bid" in s. 158 of the *Securities Act* (Alberta) includes an "offer to acquire" securities that would aggregate 20% or more of that class of securities, including the offeror's securities. Pursuant to section 158(1), Quest is already deemed to own the 14.96 million shares (24.9%) that are subject to the Private Placement for the purposes of Part 13 of the *Securities Act*. The definition of "offer to acquire" includes an offer to purchase or the solicitation of an offer to sell securities (s. 158(1)).

The combination of the Selective Encashment covenant contained in the Support Agreement (and available to the public on SEDAR) and the statement made in the joint press release of Quest and PPI on September 9 that "In the event that the issuer bid is oversubscribed, alternatives will be considered for the purchase of any excess shares tendered…" may constitute an offer to acquire the additional approximately 20 million PPI shares that are not subject to the Issuer Bid, by Quest and its joint actors, who are identified in the Support Agreement as "one or more" purchasers found by Quest. In addition, PPI stated in its September 30 press release "Proprietary understands that Quest is highly confident that certain parties unrelated to it could be identified who would be willing to purchase any shares validly tendered to the Issuer Bid in excess of 40,000,000 at a price of at least $0.60 per share, subject to the compliance with applicable securities laws."

We note that the definition of "acting jointly or in concert in s. 159 presumes that "any person or company that, as a result of any agreement, commitment or understanding, whether formal or informal, with (i) the offeror, or (ii) any person or company acting jointly or in concert with the offeror, acquires or offers to acquire securities of the issuer of the same class…" to be acting jointly or in concert with the offeror. On that basis, we believe that, under the *Securities Act*, Quest is presently the deemed owner of 14.96 million shares and, together with its joint actors (the Substitute Purchasers and Quest Purchasers), who have yet to be identified, has made an offer to acquire an additional 20 million shares. The Issuer Bid is for the remaining 40 million shares, which is being made pursuant to an agreement with Quest, so Quest must be viewed as acting jointly or in concert with PPI and has therefore made offers to acquire 100% of the issued and outstanding shares of PPI in contravention of Part 14 of the *Securities Act* (Alberta).

Collateral Benefits for PPI Selective Purchasers

Northern also raises the possibility that the Selective Arrangements may constitute a collateral benefit for the Selective Shareholders contrary to section 1689(2) of the *Securities Act* (Alberta) given that they have had the opportunity to negotiate these arrangements (while other shareholders have not), will derive the benefit of these Selective Arrangements and we cannot see how these arrangements can possibly be made available to all shareholders of PPI.

Dundee Securities

On p. 18 of the MIC the following is stated:

> "Daniel Goodman, a son Dundee's controlling shareholder, is an employee of Dundee and a director of Quest. Mr. Goodman is not a director or officer of Dundee or any of its affiliates. In addition, a company controlled by the Goodman family has a shareholding in Quest. Dundee has confirmed to the Corporation that these relationships have had no influence on the Fairness Opinion. Dundee is independent of the Corporation and Quest…"

On p. 16 of the IBC the disclosure is different and expanded as follows (the italicized language highlights the differences):

> "Daniel Goodman, a son Dundee's controlling shareholder, is an employee of Dundee and a director of Quest. Mr. Goodman is not a director or officer of Dundee or any of its affiliates. In addition, a company controlled by the Goodman family has a shareholding in Quest. Dundee has confirmed to the Corporation that these relationships have had no influence on the Valuation. *The basis for this conclusion include the following: the decision by Proprietary to engage Dundee to undertake the Valuation was done prior to Quest having entered into discussions with Proprietary and at a time when many parties were investigating the possibility of pursuing a potential transaction involving Proprietary. Mr. Goodman is not an associate or affiliate of Dundee and his employment duties at Dundee as a broker do not give him the ability to control or influence the day to day affairs of Dundee; and Mr. Goodman is one of seven directors on the board of Quest.*"

It is not relevant that Dundee was engaged prior to the Quest negotiations having started. Dundee and Quest have a very close relationship and once Quest became involved PPI should have chosen a new financial advisor. This is evident from a history of transactions involving

Quest and Dundee as described below. The shareholding in Quest owned by a Goodman family company only underscores the lack of independence.

Equally it is not relevant that Mr. Daniel Goodman is not influential at Dundee Securities. What is relevant is that he is the son of the Dundee controlling shareholder.

Finally it is not relevant that Mr. Daniel Goodman is one of 7 directors on the Quest board. What is relevant is that he is on the Board representing the Goodman interests.

Who introduced Quest to PPI – Dundee?

What is the percentage ownership in Quest by the Goodman company?

Does Exploration Capital LP 2000 or Rick Rule or any associate or affiliate of Rick Rule (collectively "Rule") own any PPI shares? Is Rule a Quest Purchaser? Rule is a more than 10% shareholder of Quest.

The fact that Dundee's controlling shareholder's son is on the Quest Board and that Dundee owns shares in Quest is more than enough to disqualify Dundee as an independent financial advisor to the Independent Committee.

There are many examples of the close business relationship between Quest and Dundee. For example, consider the following relationships involving Murray Sinclair, Dundee and Rule:

1. Murray Sinclair is a director of Breakwater Resources Ltd. Dundee Bancorp Ltd. is the largest shareholder of Breakwater with a 15% interest. Other directors of Breakwater include Jonathan Goodman, President and CEO of Dundee Precious Metals Inc. and a director of Dundee Bancorp Inc., Garth MacRae, Vice Chairman of Dundee Bancorp Inc. and Donald Charter, Chairman and CEO of Dundee Securities Corporation and Executive Vice President of Dundee Bancorp Inc.

2. Quest has an account with Dundee Securities and carries on substantial business with Dundee.

3. Quest hired Rob Pollock as Senior Vice President from Dundee Securities. Mr. Pollock was involved in a number of transactions with Quest while at Dundee Securities.

4. Murray Sinclair is a director of Wolfden Resources Inc. Dundee Wealth Management owns 28.6% of the shares of Wolfden on a fully diluted basis. Ned Goodman was an investor in a Wolfden private placement with Murray Sinclair.

5. Dynamic Mutual Funds, which is part of the Dundee Group of companies, owns 16% of the shares of Gabriel Resources. Murray Sinclair is a director of Gabriel. Quest has provided a debt facility to Gabriel of $6.5 million.

5. Murray Sinclair is a director of Aurora Platinum Corp., of Rule is a 10% shareholder. It appears that another Rule entity is also a 13% shareholder of Quest.

6. Murray Sinclair is a director of General Minerals Corporation. Rule owns 18.7% of the issued shares. On June 23, 2004 Quest announced the acquisition of shares to General Minerals to bring its ownership interest in shares and warrants to 10.96%.

The Dundee Valuation and Fairness Opinion

In the September 30 press release PPI states that Dundee Securities concluded that as of June 16, 2004 the fair market value of a PPI share was in the range of $0.53 to $0.69 per share. Given the 30-day average price of $0.43 prior to the September 9 announcement of the Quest-PPI Transaction, the value of the Quest-PPI Transaction is $0.54. This $0.54 value is one-third of $0.43 and two-thirds of $0.60. Accordingly the Quest-PPI Transaction is valued at the very low end of the Dundee value range yet is nonetheless considered fair. Even if the gross price of $0.60 (this is not the effective value, the effective value is $0.54) is used, the gross price is below the mid-point of the value range.

Northern is prejudiced by the Special Committee and the PPI Board treating the Quest-PPI Transaction as a bid for 100% of the PPI shares at $0.60 per share rather than as an Issuer Bid for 66.9% of the issued shares. As stated earlier, the Encashment Covenant allows the Special Committee to treat the Quest-PPI Transaction as a 100% bid at $0.60 per share rather than a partial Issuer Bid and Private Placement which would have put a value of $0.54 per share on the transaction. Because Northern cannot see the encashment feature, it is nowhere described, the terms are hidden, it cannot be valued, Northern cannot effectively compete as a competing party for control of PPI. Somehow the Special Committee is satisfied that the Quest Purchasers will buy all of the excess shares under the Issuer Bid without addressing the legality of this Encashment Covenant.

Northern was not contacted by Dundee or the Company with regard to the Northern Offer. Dundee did not request any material information from Northern. There was no due diligence performed by Dundee on Northern. It would appear that Dundee relied exclusively on the public disclosure on Northern in arriving at its conclusion and did its work in one business day. There is nothing in the Support Agreement with Quest that precludes the Company or Dundee from discussing Northern from a valuation point of view.

There was undue haste on the part of the Company in rejecting swiftly the Northern Offer without any discussion whatsoever with Northern.

Northern considers it impossible for a financial advisory firm to thoroughly examine the consideration offered by Northern in a 24-hour period. Northern also notes that Dundee was paid $25,000 for a day's work.

The haste by PPI is all the more interesting given the letter dated September 28, Patrick Lavelle, Chair of the Special Committee sent to Vic Alboini of Northern stating the following:

> "In carrying out its fiduciary duties, the Board of Directors will act in the best interest of Proprietary shareholders as a whole and will take active and reasonable steps to maximize shareholder value. As part of this process, our Board *will be meeting over the course of the next few days* to determine whether the Northern Offer is a Superior Proposal and we will advise you of the results of our deliberations." (italics added)

One would have expected that the Board would as stated meet over a few days after September 28 and examine the Northern Offer which would be completed by October 1 or 2. Why did the PPI directors change their minds? Was there a rush to get the meeting materials out to avoid postponing the shareholder meeting date of November 2? In the choice between examining carefully the Northern Offer and hastily rejecting the Northern Offer, was the choice made to take the latter route to ensure that the momentum or timing of the Quest-PPI Transaction was preserved. We do not consider the Board to have met its fiduciary obligation in rejecting an offer for all of the PPI shares in one day.

Has the Company used improper defensive tactics to frustrate the opportunity for any third party including Northern to participate in providing better shareholder value to the PPI shareholders by enabling Quest to attend the Special Committee or Board meeting of PPI. The Support Agreement has very serious observer status rights granted to Quest. Was Quest involved in speeding up the review of the Northern Offer in order to meet its own agenda on timing and was PPI involved in this rush?

PPI Rights Plan

PPI states the following in its September 30 press release with regard to the extensive process to maximize value:

> "The private placement with Quest and the issuer bid are the result of a process which began with the formation of the Special Committee in February of this year. The process saw the Corporation's advisors solicit to over 150 financial institutions, corporations and other parties to identify the potential for a transaction involving the Corporation. As a result of this process, the Corporation entered into non-disclosure agreements with twenty parties, which were provided with selected information regarding the Corporation and its assets. Ten of these parties were provided with equal access to a data room containing books and records of the Corporation and six parties thereafter submitted expressions of interest. Apart from Quest, two other parties submitted written proposals, which were reviewed and considered by the Independent Committee. Following discussions with each party who had submitted a written proposal, the Corporation negotiated and entered into a definitive agreement in respect of the transactions. Northern was given the opportunity and declined to participate in the process."

Given the Company's admission of the extensive process for soliciting bids or transactions, there is no basis for the rights plan to remain in place with regard to Northern's bid or any other bid.

PPI has been sufficiently "shopped". Northern suggests that the ASC cease trade the PPI rights plan to remove any doubt as to the potential application of this plan.

Split the Resolution

PPI shareholders are being asked to approve releases for designated directors and officers and to ratify the creation of a $5 million trust for their benefit. These designated parties are "interested parties" and their votes should be excluded in a majority of minority vote on the resolution. Given what Northern believes to be questionable conduct of the Board and management of PPI in the implementation of the Quest-PPI Transaction, we believe that it is wholly inappropriate to effectively hold shareholders hostage by requiring shareholders to approve the releases and the trust as a precondition to approving this transaction.

Northern also notes that the Board has voted to pay itself a $50,000 bonus for each member if the Quest-PPI Transaction or similar transaction is completed. Northern believes that this bonus should be approved by a majority of minority shareholders.

Northern also believes that the resolution on the Quest-PPI Transaction should be a separate resolution with a separate resolution for the releases and the $5 million trust, and a separate resolution for the bonuses payable to the PPI directors.

The Fees Payable to Alliance Capital

Alliance Pacific Group ("APG") was engaged by PPI in February 2003 at a monthly rate of $65,000 which the MIC states has been reduced to $43,000 and then again to $23,000. APG has been paid $5.2 million in transaction fees in 18 months of work. The fees are extremely high, unfair and oppressive to shareholders. These fees should be reversed and returned to the shareholders, and a more appropriate compensation determined. If this is not possible, these amounts should be recovered from the PPI directors involved in approving the APG engagement.

Payment of 3% Commission to Quest

PPI has agreed to pay a 3% commission to Quest for orders it receives from joint actors who have made or will make arrangements with Quest to participate in the purchase of PPI shares in the private placement ("Substitute Purchasers"). It is not usual for an issuer to pay a commission to an investor in a private placement; a commission is typically paid to a brokerage firm who brings in investors. Quest is either an investor or a limited market dealer but not both.

All or Nothing for the Quest-PPI Transaction

Northern believes that the Quest-PPI Transaction is fatal because Quest has made a take-over bid for all the PPI shares with joint actors including PPI, the Quest Purchasers, the Substitute

Purchasers and Selective Shareholders. Northern suggests that it is not possible to drop the Encashment Covenant and proceed with the Issuer Bid and Private Placement.

The damage has been done with the Selective Arrangements. Many of these Selective Arrangements could be informal or loose, not in writing and effectively still be carried out even if PPI and Quest volunteer to drop the Encashment Covenant. No one would really be able to tell if purchases after completion of the Issuer Bid were done under the informal terms of Selective Arrangements that were no longer to apply. It is impossible to upset all Selective Arrangements because you do not see them, you do not hear them, they are informal, they are out there and they are not in writing.

With the Quest-PPI Transaction, we believe it is all or nothing. The transaction as a whole has been tainted. We believe it should be nothing.

Corporate Governance Standards

The Fasken Letter refers to the PPI auction process following "model corporate governance standards". Northern believes quite the contrary is the case in view of the following inappropriate actions taken by the Special Committee and the PPI Board:

1. The Quest-PPI Transaction, including most specifically the Encashment Covenant, is a take-over bid without compliance with applicable take-over bid rules.

2. The PPI Board has made it virtually impossible for third parties such as Northern to compete because the Encashment Covenant turns a partial Issuer Bid into a bid for all of the issued PPI shares under circumstances where no one knows how many PPI shares will be purchased by the Quest Purchasers, at what price, how and when. This is an improper defensive tactic, whether intentional on the part of the PPI Board or not. The PPI Board has decided to value the Quest-PPI Transaction at $0.60 per share because it is satisfied that the Selective Shareholders will sell their whole position.

3. The PPI Board has not been able to generate any interest from any party to make an offer to purchase any of the issued shares of PPI in a partial bid or a take-over bid for all of the issued PPI shares. The auction process from this perspective has not been positive.

4. Instead of using the services of an independent financial advisor for the fairness opinion, the PPI Board stayed with Dundee Securities when it became clear that the Quest-PPI Transaction was being pursued.

5. The PPI Board approved an unfair and oppressive engagement agreement which has resulted in the payment of $5.2 million in fees to APG, its financial advisor for 18 months work plus monthly fees of $23,000 payable to a principal of APG, and a success fee of $500,000 payable to APG upon completion of the Quest-PPI Transaction. This compensation is clearly outrageous and the PPI Board should be held accountable for a return of a substantial portion of these funds.

6. The PPI Board has agreed to pay each Board member $50,000 if the Quest-PPI Transaction or similar transaction is completed. This bonus should be subject to approval by a majority of the minority PPI shareholders in a separate resolution.

7. The PPI Board has set aside $5 million for the indemnification of certain Board members and certain officers. This fund should be reversed or approved by a majority of minority shareholders.

8. The PPI Board hastily rejected the Northern Offer, paid Dundee $25,000 for one day's work in reviewing the Northern Offer and clearly failed to carry out its fiduciary obligation.

9. The PPI Board agreed to a 3% commission payable to a private placee, and not a brokerage firm. This fee should be disallowed.

10. The Chairman, President and CEO of PPI is paid a salary of $240,000 per annum for less than full time work.

Northern believes that the new directors have taken advantage of the PPI situation for their benefit and for the benefit of their advisors. The emphasis on process in the Fasken Letter is laudable, but the fact of the matter is that it appears to be little more than "window dressing". Beneath the process, Northern has identified some serious problems.

Fasken Letter

Northern considers that the Fasken Letter merely states that the Issuer Bid and the Private Placement are not a take-over bid, without addressing the Encashment Covenant. The Fasken Letter does not address the issues raised by Northern.

PPI and its counsel clearly are aware that the Encashment Covenant makes or could make the Quest-PPI Transaction fatal. This is because the Support Agreement states that the Encashment Covenant applies unless purchases under the Encashment Covenant would be a take-over bid under securities law. PPI and Quest have clearly acknowledged their uncertain legal position by effectively stating the encashment purchases could be a take-over bid. This is nowhere acknowledged in the Fasken Letter and the issue of encashment purchases is nowhere dealt with in the Fasken Letter, which we find curious given the emphasis we have placed on it in our two letters.

Public Interest

Northern realizes it has raised a lot of issues and has made a lot of allegations. These issues were discovered during the course of preparation for a competing transaction to the Quest-PPI Transaction, so that Northern also has an interest cannot be denied. However, Northern sincerely believes that the matters described herein require further investigation by securities regulatory authorities. If we are correct, we believe that this matter goes right to the heart of the integrity of the Canadian capital markets and the reputation they enjoy.

Conclusion on Suggested Remedies

In conclusion with the review of the MIC and IBC, Northern is requesting the following relief:

1. the ASC consider cease trading the Quest-PPI Transaction for the reason that the Private Placement, Issuer Bid, and Encashment Covenant taken together constitute (i) a take-over bid by Quest, PPI, the Substitute Purchasers, the Quest Purchasers and the Selective Shareholders with Quest and the Substitute Purchasers owning anywhere between 43% and 100% of PPI; and (ii) an insider bid without compliance with the insider bid and majority of minority requirements; (iii) abuse of the capital markets which is contrary to the public interest;

2. the ASC consider cease trading the Quest-PPI Transaction for the reason that the proposed encashment purchases under the Encashment Covenant represent a take-over bid by Quest, the Substitute Purchasers, the Quest Purchasers and the Selective Shareholders because there is no available exemption from the take-over bid requirements;

3. the ASC consider cease trading the Quest-PPI Transaction for the reason that purchases under the Encashment Covenant constitute a collateral benefit for the Selective Shareholders due to the Selective Arrangements;

4. the ASC consider cease trading the Quest-PPI Transaction for the reason that all of the mechanics behind the purchases under the Encashment Covenant including, without limitation, the extent of such purchases, the identity of the Quest Purchasers, the price being paid, the manner of carrying out the transactions, the period of time during which the purchases would be carried out, are all not disclosed and are known only to Selective Shareholders and not to PPI shareholders generally;

5. the ASC consider cease trading the PPI Rights Plan because PPI has been fully shopped;

6. the ASC investigate the purchases made through Dundee Securities and Anonymous as outlined by Northern to determine if Quest, Dundee, parties related to Dundee, Rule, any Substitute Purchasers, Quest Purchasers, and the Selective Shareholders have purchased any PPI Shares;

7. the ASC investigate the making and content of the Selective Arrangements;

8. the ASC determine who are the persons behind the Substitute Purchasers, the Quest Purchasers, and the Selective Shareholders; and

9. there are many issues that pertain to the failure of the PPI Board and Special Committee to act in the best interest of the PPI shareholders rather than in their interest. Some of these matters may be addressed in a court of law whether through proceedings initiated by the ASC or by Northern as a shareholder and interested party.

If the Quest-PPI Transaction is cease traded, there is no need for a shareholders meeting. For the record, if there is a shareholders meeting of PPI in the future required for a change of control transaction, Northern submits the following:

1. the ASC and TSX require a majority of minority vote at the meeting of shareholders on November 2 that excludes for this purpose (i) CVP, an insider and a Selective Shareholder, (ii) ASCOOP, a likely Selective Shareholder and a participant in the Artificial Transactions, (iii) all other Selective Shareholders, (iv) the designated officers and directors of PPI who are proposed to be the beneficiary of the $5 million trust fund; and (iv) Quest, the Quest Purchasers and Substitute Purchasers;

2. the ASC and TSX require the resolution on the Quest-PPI Transaction to be split into the following resolutions: (i) a resolution on the Quest-PPI Transaction; (ii) a resolution on the $5 million trust fund and the releases, if not approved the $5 million trust fund be reversed; (iii) a resolution to approve the $50,000 bonus payable to each Board member.

Confidentiality

We consent to this letter being provided to Quest and the Company on the basis that we receive copies of any submissions provided by Quest or the Company.

Yours sincerely

Vic Alboini
Chairman and Chief Executive Officer

cc. Mr. Naizam Kanji
Ontario Securities Commission

Mr. Raj Dewan
Toronto Stock Exchange