

Court File No. 06-CL-6482

**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 CERVUS FINANCIAL GROUP INC., CERVUS
FINANCIAL CORP., AND CERVUS FUNDING CORP.**

**SUPPLEMENT TO FIRST REPORT OF
KPMG INC., MONITOR**

June 15, 2006

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I. PURPOSE, QUALIFICATIONS AND RESTRICTIONS OF THIS REPORT

This report is supplementary to the First Report of the Monitor dated June 8, 2006 (the “First Report”), filed in these proceedings. Capitalized terms not defined in this Report (as defined below) are as defined in the Initial Order or the First Report.

On June 8, 2006, Cervus Financial Group Inc. (“CFG”) and certain of its direct and indirect subsidiaries, Cervus Financial Corp. (“CFC”) and Cervus Funding Corp. (collectively the “Applicants” or the “Companies”), filed for and obtained protection from their creditors under the *Companies’ Creditors Arrangement Act* R.S.C. 1985 c. C-36, as amended (the “CCAA”). The terms of this proceeding are governed by an order of this Court dated June 8, 2006 (the “Initial Order”). Pursuant to the Initial Order, KPMG Inc. (“KPMG”) was appointed as monitor (the “Monitor”) of the Applicants during these CCAA proceedings.

The purpose of this Supplement to the First Report is to provide information to this Honourable Court and the Applicants’ stakeholders in connection with the following:

- (i) the status of the legal proceedings involving the Applicants;
- (ii) key post-filing activities of the Companies and the Monitor; and
- (iii) the Companies’ post-filing cash and net mortgage inventory position.

The information contained in this report has been obtained from the records of the Companies and is based on discussions with, and representations made by, management of the Companies, and other professional advisors retained in this matter.

The financial information of the Companies has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this report may not disclose all significant matters about the Companies. Accordingly, the Monitor does not express an opinion or any other form of assurance on the financial or other information presented herein. The Monitor may refine or alter its observations as further information is obtained or is brought to its attention after the date of this report.

The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this report. Any use which any party makes of this report, or any reliance on or decision to be made based on this report, is the sole responsibility of such party.

All references to dollars are in Canadian currency unless otherwise noted.

II. LEGAL PROCEEDINGS

On June 8, 2006, in addition to granting the Initial Order, this Honourable Court also granted the Sale Approval Process Order (the “Process Order”) which provided the Court’s approval of the following:

- (i) that the motion for approval (“Approval Motion”) of the Purchase and Sale Agreement between CFG, CFC and 6578268 Canada Inc. (the “Purchaser”), that was attached to the Williams Affidavit, the transactions contemplated therein and the vesting of assets pursuant thereto, will be heard by this Court on June 15, 2006;
- (ii) that from the date of the Process Order (June 8, 2006) until the hearing of the Approval Motion, none of CFG, CFC or any of their respective affiliates or subsidiaries, nor any of their respective directors, officers, managers, employees, agents, advisors or representatives will: (i) solicit offers for a possible sale, merger, combination, consolidation, recapitalization, restructuring, refinancing, or other disposition of all or any material part of the Cervus Group as defined in the Purchase Agreement or any member of the Cervus Group’s assets or issued or unissued capital stock (each, an “Acquisition Proposal”) with any party other than the Purchaser in connection with an Acquisition Proposal; (ii) participate in any negotiations or discussions regarding any Acquisition Proposal, whether solicited or unsolicited; (iii) enter into any agreement with respect to any Acquisition Proposal; or (iv) seek or support approval by the Court of any Acquisition Proposal;
- (iii) that the Break-Up Fee as defined in Section 8.3 of the Purchase Agreement is payable immediately to the Purchaser if the Court makes an order approving an Acquisition Proposal or if the Court fails to approve the Purchase Agreement on the hearing of the Approval Motion. The Break-Up Fee shall be an obligation secured by the DIP Lender Charge established by the Initial Order; and
- (iv) that notice of the Approval Motion be given by the Applicants to the holders of all issued and outstanding common shares of CFG and to unsecured creditors of CFG by the methods set-out in the order, as discussed later in this Report.

The Monitor posted the Initial Order, and other information, to its website at www.kpmg.ca/cervus (the “Website”) commencing the evening of June 8, 2006, following the granting of the Initial Order and the appointment of KPMG as Monitor.

III. POST-FILING ACTIVITIES AND STAKEHOLDER UPDATE

A. Overview

A short period of time has elapsed since the CCAA filing date. Management has informed the Monitor, that, to date, it is not aware of any material changes to the Companies' operations which have occurred subsequent to the date of the Initial Order, with the exception of the position taken by one of the Companies' mortgage insurance providers as described below. Information provided to the Monitor from the Companies in the post-filing period indicates that mortgage origination and sales volumes are continuing at levels consistent with the pre-filing period. Additionally, management has informed the Monitor that the Companies' relationship with various stakeholders, including its primary customer, mortgage brokers, mortgage insurers (with the exception described below), lenders and employees, have continued in a satisfactory manner and that the Companies' operations continue to experience general support from its stakeholders.

CFC and its legal counsel are in ongoing discussions with Canada Mortgage and Housing Corporation ("CMHC") in order to attempt to reinstate insurance arrangements that were in place prior to the Companies' CCAA filing. In the interim, effective June 13, 2006, CMHC discontinued providing mortgage insurance on CFC's new loans pursuant to an insolvency clause in the master service agreement between CFC and CMHC. In addition, CMHC informed management that CFC no longer meets CMHC's criteria for approved lender status. Management has informed the Monitor that alternate arrangements have been made with CFC's other mortgage insurance provider, Genworth Financial, such that management does not expect any material disruption to CFC's ongoing operations while management and CFC's legal counsel attempt to resolve matters with CMHC.

B. Trading on TSX

The common shares of CFG were suspended from trading on June 9, 2006 for failure to meet the continued listing requirements of the TSX. Trading in the common shares of CFG remains suspended.

C. Notice of the Approval Motion

The Process Order required that notice of the Approval Motion be given by the Applicants to the holders of all issued and outstanding common shares of CFG and to unsecured creditors of CFG by:

- (i) issuing forthwith the press release substantially in the form attached as Schedule B to the Approval Order and filing it with the System for Electronic Document Analysis and Retrieval ("SEDAR");

*A copy of the press release issued by CFG on June 9, 2006 is attached as **Appendix A** to this Report. The Monitor confirmed that the same press release was also filed with SEDAR on June 9, 2006.*

- (ii) Posting forthwith such press release on the Monitor's website;

The Monitor posted the press release to the Website on June 9, 2006.

- (iii) Mailing forthwith such press release to the Founders and Individual Shareholders as defined in the Williams Affidavit;

The Monitor confirmed with management that the press release was mailed to the Founders and Individual Shareholders on June 9, 2006. Further, management informed the Monitor that the press release was also mailed to CFG's debenture holders on June 12, 2006.

- (iv) filing forthwith a Material Change Report with SEDAR; and

The Monitor confirmed that the Material Change Report was filed with SEDAR on June 12, 2006.

- (v) placing advertisements in The Globe & Mail and National Post newspapers on Saturday, June 10 and Monday, June 12, 2006 substantially in the form attached as Schedule C to the Process Order.

*A copy of the advertisement that appeared in the two newspapers referred to above on the dates referred to above is attached as **Appendix B** to this Report.*

D. Monitor's Notice to Creditors

Pursuant to the Initial Order, the Monitor was required to send notice to every known creditor of the Applicants having a claim of \$250 or more advising, among other things, that such creditor may obtain a copy of the Initial Order from the Website and if such creditor is unable to obtain it by that means, such creditor may request a copy from the Monitor. A copy of the Notice that was mailed on June 13, 2006 to creditors of the Applicants with a claim of \$250 or more is attached as **Appendix C** to this Report.

IV. CASH AND NET MORTGAGE INVENTORY POSITION

The Companies' cash and net mortgage inventory position as at the close of business on June 13, 2006 is summarized below:

	<u>June 13, 2006</u>
Operating accounts	\$ 287,512
Settlement account	<u>45,867</u>
Subtotal – Cash	<u>333,379</u>
Mortgage inventory (net of non-qualified)	14,320,364
Warehouse facility	(12,850,000)
Trust account deficiency [1]	<u>(303,900)</u>
Subtotal – Net mortgage inventory [2]	<u>1,166,464</u>
Total	<u>\$ 1,499,844</u>

Notes:

[1] The trust account deficiency originated due to an error. Management informed the Monitor that actions to correct the error will be completed at or prior to closing of the proposed sale transaction. The trust account is generally used to collect payments remitted by mortgagors and subsequently remitted to the mortgage purchasers (i.e. Merrill Lynch).

[2] Net mortgage inventory represents the excess of mortgages funded by CFC and not yet sold, over the balance outstanding on the Warehouse Facility and trust account deficiency. Management informed the Monitor that the net mortgage inventory position is generally readily convertible to cash through the sale of the mortgages which is performed at least once a week, as reflected in the Cash Flow Projection.

In light of the short period of time that has elapsed since the CCAA filing date, management has not updated the Cash Flow Projection that was attached as Exhibit C to the Williams Affidavit with actual results to-date. Based on the information presented above, and after taking into consideration liabilities arising from commitments made post-filing (estimated by management to be approximately \$700,000), the Companies' cash position and net mortgage inventory position as at June 13, 2006 appears consistent with the Cash Flow Projection.

As described in the First Report, the Initial Order provides for the payment of pre CCAA filing mortgage insurance premiums. The Cash Flow Projection shows payments of approximately \$1.878 million being made during the week beginning June 12, 2006 for the premium liabilities for the period May 1, 2006 to June 7, 2006. These payments are to be made in order to satisfy certain conditions of the Sale Agreement. The Companies will require access to the DIP Operating Facility in order to make these payments, and the DIP Operating Facility will only be available upon the Court's approval of the Sale Agreement. If the Sale Agreement is not approved and the Companies are unable to access the DIP Operating Facility, the Companies will not be in a position to pay the pre CCAA filing mortgage insurance premiums. If the Cash Flow Projection is adjusted to eliminate the projected payment of the pre filing premium liabilities, the adjusted Cash Flow Projection shows that the Companies would be unable to continue to fund their

operations beyond the week beginning July 3, 2006. However, in such a scenario it is likely that the Companies would lose the support of their key stakeholders, including Macquarie, RBC, Merrill Lynch and the mortgage insurers.

The Companies maintain accounting and treasury functions at their head office in Toronto, Ontario which are responsible for the orderly administration and record-keeping of the Applicants. In addition to the Companies' regular controls over cash receipts and disbursements, at the Monitor's request the Companies have or are in the process of implementing certain additional controls as described below.

The general controls include review by the Monitor of:

- daily bank reconciliations for all bank accounts, including operating accounts, the settlement and funding account, and the mortgage servicing trust account;
- actual versus forecast cash receipts and disbursements on a weekly basis and investigation of any significant variances;
- the Companies' mortgage inventory position and Warehouse Facility availability on a daily basis; and
- ongoing purchase commitments.

The controls over cash receipts include review by the Monitor of:

- all receipts on a daily basis and reconciliation of such receipts to daily bank reconciliations; and
- actual versus forecast total receipts on a weekly basis and investigation of any significant variances.

The controls over disbursements include review by the Monitor of:

- all proposed disbursements greater than a minimum threshold amount prior to such disbursements being made; and
- actual versus forecast disbursements on a weekly basis and investigation of any significant variances.

V. DISCUSSIONS WITH AN INTERESTED PARTY

In the afternoon of June 14, 2006, the Monitor received a voicemail message from a party expressing interest in potentially submitting a competing Acquisition Proposal. Together with its legal counsel, the Monitor had two discussions with that party that same afternoon. Those discussions culminated in an email from the Monitor's legal counsel to that party, confirming, amongst other things, that, in the circumstances, the party would not be putting forward a competing offer.

VI. SUMMARY AND CONCLUSIONS

In the Summary and Conclusions section of the First Report, the Monitor provided its view on certain areas relevant to the proposed sale transaction and concluded that, in the circumstances, the Sale Agreement was worthy of submission to this Honourable Court for approval on June 15, 2006.

Since the time of the granting of the Initial Order, other than the discussions described in section V. of this Report, the Monitor has not received any other inquiries or expressions of interest from prospective investors, financiers or other interested parties with regard to a competing Acquisition Proposal.

Accordingly, in the circumstances, the Monitor respectfully recommends approval of the Sale Agreement.

RESPECTFULLY SUBMITTED,

Dated the 15th day of June, 2006.

KPMG INC.

**In its capacity as Court-Appointed Monitor of
CERVUS FINANCIAL GROUP INC.,
CERVUS FINANCIAL CORP., AND
CERVUS FUNDING CORP.**



*Per: Alan J. Hutchens
Senior Vice-President
416-777-8916*



CERVUS FILES FOR PROTECTION UNDER CCAA AND ENTERS INTO TRANSACTION WITH MACQUARIE BANK

TORONTO, June 8, 2006 – Cervus Financial Group Inc. (“Cervus” or the “Company”), (CFG:TSX), announced today that it has filed for protection under the *Companies’ Creditors Arrangement Act* (“CCAA”). The Superior Court of Justice (Ontario) (the “Ontario Court”) granted an Initial Order which, among other things, stays all proceedings against Cervus and its wholly owned subsidiary Cervus Financial Corp., and appoints KPMG Inc. as Monitor.

The Court authorized Cervus to and it has entered into an agreement (the “Agreement”) with a wholly-owned subsidiary of Macquarie Bank Limited (“Macquarie Bank”) whereby Macquarie Bank will acquire the business of Cervus. The Court also authorized first priority debtor-in-possession financing (the “DIP Financing”) for a \$4 million operating facility and \$5 million letter of credit facility to be provided by Macquarie Bank.

In addition to the Initial Order, the Ontario Court granted a Sale Approval Process Order fixing June 15, 2006 as the date for the hearing of the motion to approve the Agreement and providing for notice to the shareholders and unsecured creditors of Cervus of such motion by, among other things, issuing this press release and placing newspaper advertisements.

The Agreement provides for the transfer of certain assets from the Company to its wholly-owned subsidiary, Cervus Financial Corp., and then the sale of all of the shares of Cervus Financial Corp. to Macquarie Bank for aggregate cash consideration of \$12,500,000, subject to certain purchase price adjustments including a reduction for all amounts owing under the DIP Financing on the closing date, as described below.

Pursuant to the terms of the Initial Order, the Sale Approval Process Order and the Agreement: (a) the Company will not actively solicit any other offers or participate in any negotiations or discussions regarding any other offers, enter into any agreement with respect to any other transaction, or seek or support approval by the Court of any other transaction; and (b) the Company will also be obligated to immediately pay a break up fee equal to all of the expenses incurred by Macquarie Bank in respect of the proposed transaction if the Ontario Court fails to approve the completion of the sale to Macquarie Bank at the hearing of the motion to approve the Agreement, or if the Ontario Court approves an alternative transaction, or if thereafter the Company terminates the Agreement and completes an alternative transaction with a different party.

As part of the DIP Financing, Macquarie Bank has provided a \$5 million letter of credit to the Company’s bank in order to ensure that the current banking facilities are made available to the Company until closing, and Macquarie Bank will also provide a \$4 million operating facility to Cervus Financial Corp. from the time the Agreement is approved by the Court until closing of the transaction.

The completion of the sale is subject to a number of conditions including the granting by the Ontario Court of an approval and vesting order under the CCAA. Both Cervus and Macquarie Bank intend that the period of time between entering into the Agreement and completion will be as soon as practicable. By entering into the Agreement, the Board of Directors are confident that Cervus Financial Corp. can continue to fund its mortgage commitments, maintain the confidence of its employees and suppliers, and to pay all liabilities.

The Board of Directors has determined that the Agreement is in the best interests of the shareholders of the Company. After payment of known unsecured creditor claims against the Company (creditor claims against Cervus Financial Corp. continuing uncompromised), the estimated distribution to shareholders is between \$0.00 and \$0.10 per share. However, this amount may vary significantly due to the use of the proposed operating facility, delays in completing the transaction, resolution of creditors’ claims and the fees and costs of completing the proposed sale to Macquarie Bank and the completion of the CCAA process.



Any creditor or shareholder who wishes to be heard on the motion for the approval of the Agreement, including the vesting of all issued and outstanding shares of Cervus Financial Corp. in Macquarie Bank, should file an appearance in the CCAA proceedings with the Ontario Court before June 15, 2006. A copy of the Initial Order, Sale Approval Process Order, supporting affidavits and the Monitor's report are available on www.kpmg.ca/cervus.

Prior to entering into the Agreement, Cervus' Board of Directors examined all the strategic options available to the Company, including discussions with nine potential trade and financial buyers as well as entertaining the consideration of an initiative to privatize and recapitalize the Company backed by some potential investors. The Board determined the transaction with Macquarie Bank to be the best available alternative, and in the best interests of all the stakeholders. Peter Williams, Chief Executive Officer, said, "in getting to know the Macquarie Bank team, we concluded that their understanding of the business model, their appreciation of the opportunity and the quality of their operations make this a good fit for Cervus. We are impressed with their organization and people as well as their ideas for expanding this business in the Canadian market. We believe Macquarie Bank will appeal to our brokers and be very successful in this market."

Macquarie Bank is a diversified international financial services organization, listed on the Australian Stock Exchange (ASX:MBL) and headquartered in Sydney, Australia. Macquarie Bank's market capitalization is approximately \$A15 billion, with total assets under management of \$A140 billion (at March 31, 2006). Macquarie Bank is rated P1/A2 by Moody's Investors Services and A1/A by Standard & Poor's and employs almost 8,200 people in 24 countries.

As previously announced, Cervus suffered a compression of its margins as well as experienced a cash burn rate that is unsustainable without additional capital. During the period of last autumn through the winter, the entire residential mortgage industry has been adversely affected by an historically adverse "spread compression" (i.e. a reduction in the profit margin on the acquisition and sale of the Company's mortgage pools). This resulted in unanticipated demands on the Company's unrestricted cash during the past six months. Although market spreads have recently improved, the Company's financial condition has hindered its ability to take advantage of the improvement. Furthermore, the Company's bank has sent formal notice terminating its credit facilities and banking arrangements, and demanding that the Company make arrangements with another lender for the warehouse credit facility arrangement and the settlement payment services that are necessary for the Company to be able to carry on its business. In reaction to these pressures, the Board of Directors and the Company's senior management have aggressively taken steps to improve the Company's operations, ensure its mortgage origination capability was not impaired, as well as increase its liquidity by raising additional working capital last December.

As a consequence of its circumstances, the Company issued a press release on March 2, 2006 announcing that it would attempt to raise up to an additional \$20 million for working capital purposes and to explore strategic partnerships with partners.

The Company also actively worked to replace its warehouse credit facility and settlement payment services. To date, the Company has not been successful in replacing these services. The Company's bank has sent a formal notice to the Company terminating their credit facility and account relationship although the bank has informally agreed to extend its credit facility and banking arrangements with the Company provided that the \$5 million letter of credit from Macquarie Bank continues to be available.

The Company engaged in a number of discussions and meetings with potential investors about the possibility of raising additional capital by means of the private placement of equity. However, the falling share price made it difficult to obtain a commitment of sufficient magnitude from these potential investors.

Finally, the Company held discussions and met with numerous potential strategic Canadian and international partners. This led to negotiations with several parties, which ultimately resulted to the proposed transaction with Macquarie Bank.



The Company does not have sufficient immediately available cash to continue to carrying on its business without entering into an arrangement with a strategic partner or to raise additional working capital. The Board of Directors determined that the best alternative available to the Company is the proposed transaction with Macquarie Bank.

About Cervus

Cervus Financial Group Inc. is a Canadian financial services company created as an industry initiative with leading mortgage broker companies and fixed income investment banks to become a high-yield residential mortgage producer.

Cervus works on the basis of a “*Customer for Life*” model, where the borrower is the client of the mortgage broker and Cervus is effectively the “Back Office – Servicer” between borrowers and investors. Cervus is focused on funding and servicing insurable conventional and high ratio insured residential mortgages originated through mortgage brokers. Cervus is currently licensed under Ontario, Quebec, British Columbia and Alberta mortgage broker/lender legislation and is seeking similar regulatory approvals in other Canadian Provinces as required. Cervus’ head office and Ontario operations centre is located in Toronto, with additional sales offices in Vancouver, Calgary and in Montreal. Cervus Financial Group Inc. conducts all lending operations through its wholly-owned subsidiary, Cervus Financial Corp.

Forward-looking (safe harbour) statement

Statements made in this news release that relate to future plans, events or performances are forward-looking statements. Any statement containing words such as “believes,” “plans,” “expects” or “intends” and other statements which are not historical facts contained in this release are forward-looking, and these statements involve risks and uncertainties and are based on current expectations. Consequently, actual results could differ materially from the expectations expressed in these forward-looking statements.

Additional information about Cervus is available on SEDAR (www.sedar.com).

The TSX does not accept responsibility for the adequacy or accuracy of this release.

For further information, please contact:

Cervus Financial Group Inc.

Peter Williams
Chief Executive Officer
416-861-1315 x 275
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COURT FILE NO. 06-CL-6482

**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 PROPOSED PLAN OF COM-
PROMISE OR ARRANGEMENT WITH RESPECT TO
CERVUS FINANCIAL GROUP INC., et al.**

**NOTICE TO SHAREHOLDERS AND CREDITORS
OF CERVUS FINANCIAL GROUP INC.
("Cervus" or the "Company")**

Cervus (CFG:TSX), has entered into an agreement (the "Agreement") with a wholly-owned subsidiary of Macquarie Bank Limited ("Macquarie Bank"), whereby Macquarie Bank will acquire the business of Cervus. The Agreement provides for the transfer of certain assets from the Company to its wholly-owned subsidiary, Cervus Financial Corp., and then the sale of all of the issued and outstanding shares of Cervus Financial Corp. to Macquarie Bank for aggregate cash consideration of \$12,500,000, subject to certain purchase price adjustments. It is anticipated that the transaction will provide for the payment of all creditors, as well as providing a return to the shareholders.

The sale is being implemented by the Company, and its subsidiaries, through an application under the Companies' Creditors Arrangement Act (the "CCAA"). An Initial Order from the Ontario Superior Court of Justice was obtained by the Company on June 8, 2006 (the "Initial Order"). Under the terms of the Initial Order, the Company has obtained Debtor In Possession financing to allow the Company to operate until closing of the Agreement. The Company also obtained a Sale Approval Process Order dated June 8, 2006, approving the process for approval of the Agreement (the "Sale Approval Process Order").

KPMG Inc. was appointed under the Initial Order as the Court-Appointed Monitor of the Company and its subsidiaries, and will be providing information about the restructuring under the CCAA to all of the stakeholders, including the creditors and shareholders of the Company, at the following website, established by the Monitor: www.kpmg.ca/cervus.

Shareholders and creditors of the Company may obtain further information, as well as copies of the Initial Order, the Sale Approval Process Order and the materials filed with the Court, at the website referred to above.

The Sale Approval Process Order has set June 15, 2006 as the hearing date for the motion for an order approving the Agreement, vesting certain assets including all of the issued and outstanding shares of Cervus Financial Corp. in Macquarie Bank and authorizing Cervus to implement the transactions contemplated in the Agreement.

If any shareholders or creditors of the Company wish further information with respect to this restructuring, please contact:

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NOTICE TO CREDITORS

To: All Known Creditors

June 12, 2006

Dear Sirs/Mesdames:

Re: Cervus Financial Group Inc. ("CFG"), Cervus Financial Corp. ("CFC"), and Cervus Funding Corp. (collectively, the "Companies")

On June 8, 2006 (the "Filing Date"), the Companies successfully applied under the *Companies' Creditors Arrangement Act* ("CCAA") for an order (the "Initial Order") of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the "Court") providing, among other things, a stay of proceedings against the Companies. Pursuant to this Initial Order, KPMG Inc. was appointed Monitor (the "Monitor").

In accordance with paragraph 48 of the Initial Order, a copy of the Initial Order is available on the internet at www.kpmg.ca/cervus or by contacting the Monitor, Mr. Johnny Chow of KPMG Inc., at (416) 777-3250.

Pursuant to the Initial Order, the Companies continue to operate and all parties having agreements with the Companies are required to continue to perform such agreements, and are specifically prohibited from discontinuing or restricting the supply of any goods or services provided that the Companies pay for such goods or services. Arrangements should be made with the Companies regarding ongoing supply of goods and services after the Filing Date.

CFG, has entered into an agreement (the "Agreement") with a wholly-owned subsidiary of Macquarie Bank Limited ("Macquarie Bank") whereby Macquarie Bank will acquire the business of the Companies. The Agreement provides for the transfer of certain assets from CFG to its wholly-owned subsidiary, CFC, and then the sale of all of the issued and outstanding shares of CFC to Macquarie Bank for aggregate cash consideration of \$12,500,000, subject to certain purchase price adjustments. It is anticipated that the transaction may provide for the payment of all creditors, as well as providing a return to the shareholders.

The sale is being implemented by the Companies, through an application under the CCAA. Under the terms of the Initial Order, the Companies have obtained Debtor in Possession financing to allow the Companies to operate until closing of the Agreement. The Companies also obtained a Sale Approval Process Order dated June 8, 2006, approving the process for approval of the Agreement.

Shareholders and creditors of the Company may obtain further information, as well as copies of the Initial Order, the Sale Approval Process Order and the materials filed with the Court, at the above mentioned website.

The Companies have not filed a Plan of Arrangement nor has a claims process been established. Accordingly, you do not need to file a proof of claim at this time. Once a specific process to establish your claim as at the Filing Date has been approved by the Court, details with respect to how and when to file a proof of claim will be communicated to you.

If you have any further questions in respect of the CCAA proceedings, you may contact the Monitor at the telephone number provided above.

Yours very truly,

KPMG INC.

In its capacity as Court-Appointed Monitor of
Cervus Financial Group Inc., Cervus Financial Corp.,
and Cervus Funding Corp.

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 CERVUS
FINANCIAL GROUP INC., CERVUS FINANCIAL CORP. AND CERVUS FUNDING CORP.

Court File No: 06-CL-6482

SUPERIOR COURT OF JUSTICE

Commercial List

Proceeding commenced at Toronto

**SUPPLEMENT TO FIRST REPORT OF KPMG INC.,
MONITOR**

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