

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 COMPROMISE OR
ARRANGEMENT WITH RESPECT TO CERVUS FINANCIAL GROUP INC.
AND THE OTHER APPLICANTS LISTED ON SCHEDULE "A"

AFFIDAVIT OF GRANT MACKENZIE
(Sworn June 28, 2006)

I, GRANT MACKENZIE, of the Town of Oakville, in the Province of
Ontario, MAKE OATH AND SAY:

1. I am the Chief Operating Officer of Cervus Financial Group Inc. (the
"Company"). As such, I have personal knowledge of the matters to which I herein
depose in respect of (i) the Company and (ii) the Company's wholly-owned
subsidiaries, Cervus Financial Corp. ("CFC") and Cervus Funding Corp.
("Funding"). The Company, Funding and CFC are hereinafter collectively called
the "Applicants". To the extent that I do not have personal knowledge, I verily
believe the information to which I depose to be true.

I. Overview

2. The Company is a widely held publicly traded company listed on the Toronto
Stock Exchange. The primary business of the Applicants is to source, originate,

fund, sell and service prime residential mortgages. As at April 2006, the Applicants ranked 10th by volume out of 47 residential mortgage providers in the Canadian mortgage broker market and currently administer about \$1.2 billion in residential mortgages.

3. The Applicants obtained protection under the *Companies' Creditors Arrangement Act* ("CCAA") by the granting of an Initial Order by Mr. Justice Morawetz on June 8, 2006. Attached hereto as Exhibit "A" is a true copy of the Initial Order.
4. The Applicants require restructuring because of the loss of liquidity arising from operating losses that occurred from reduction of the Applicants' profit margins, largely due to an unprecedented compression in interest rate spreads. At the time of the issuance of the Initial Order, the Applicants were about to run out of cash flow, and would have had to cease business, without the granting of CCAA protection.

II. Sale Transaction

5. The Boards of the Company and CFC respectively agreed to enter into a proposed sale of the business of the Applicants (the "**Proposed Transaction**") to 6578268 Canada Inc. (the "**Purchaser**"), which is an indirect wholly owned subsidiary of Macquarie Bank Limited ("**Macquarie Bank**"), a large Australian-based global financial services institution. The Proposed Transaction follows an extensive canvassing of all of the options available to the Applicants, and lengthy discussions with Macquarie Bank, some of which have included KPMG Inc. ("**KPMG**"), the Monitor appointed under the Initial Order.
6. The Proposed Transaction envisions CFC continuing as a going concern, with all creditors of CFC and the Company paid, all employees save Peter H. Williams ("**Williams**") continuing with their employment and the possibility of some return being made to the shareholders of the Company.

7. On June 15th, 2006, Mr. Justice Cumming granted an Order (the “**Approval and Vesting Order**”), approving, *inter alia*, the Purchase and Sale Agreement between the Company, CFC and the Purchaser dated as of June 8, 2006 (the “**Definitive Agreement**”), and approving the completion of the transactions contemplated under the Definitive Agreement. Attached hereto as Exhibit “B” is a copy of the Approval and Vesting Order.
8. Under the terms of the Definitive Agreement, the purchase price payable on closing will be \$12,500,000, less the total amount advanced under the DIP Financing provided by Macquarie Bank pursuant to the terms of the Initial Order (the “**DIP Financing**”). The Purchaser will be acquiring the shares of CFC held by the Company (being 100% of the equity), plus certain intercompany debt owing by CFC to the Company (collectively, the “**Purchased Assets**”), after certain assets of the Company are conveyed to CFC immediately prior to closing (the “**Intercompany Transferred Assets**”). The Approval and Vesting Order vests the Intercompany Transferred Assets in CFC and the Purchased Assets in the Purchaser upon the delivery of a Vesting Certificate certifying that all conditions to closing have been completed.
9. The Applicants are attempting to close the transactions contemplated under the Definitive Agreement as quickly as possible. Closing the Definitive Agreement quickly is critical, as the terms of the Definitive Agreement provide that any amount advanced under the DIP Financing, as at closing, reduces the amount of net proceeds available to the Company under the Definitive Agreement. The Company has already drawn upon the DIP Financing in order to fund accrued and on-going mortgage insurance premiums, but wishes to minimize future draws.

III. Settlement

10. Pursuant to Section 7.3(12) of the Definitive Agreement, it is a condition of closing that CFC must obtain a full and final release of all claims against CFC from Gary Bartholomew (“**Bartholomew**”), the former CEO of the Company and

President of CFC, and CyberNorth Ventures Inc., which is his holding company (“CyberNorth”) or alternatively, a holdback from the purchase price in an amount and on terms and conditions satisfactory to the Purchaser must be established.

11. Bartholomew is one of the founders of the Company and a former officer and director of both the Company and CFC. Bartholomew has never been an officer or director of Cervus Funding Corp. Bartholomew did not have any written employment agreement with the Company. On February 28, 2006, CFC and Bartholomew executed a succession agreement (the “**Succession Agreement**”) that set out the terms under which Williams was to succeed Bartholomew as a director of the Company and CFC and as CEO of the Company and President of CFC. Bartholomew resigned as Chief Executive Officer and a director of the Company on March 2 and 26, 2006, respectively, and as Chairman of the Board, President and a director of CFC on March 2, 2006. Attached as Exhibit “C” hereto is a copy of the Succession Agreement.
12. Under the terms of the Succession Agreement among other things:
 - (a) Bartholomew would continue to act as a consultant to Williams as the new chairman;
 - (b) Bartholomew would resign as a director of CFC effective June 30, 2006 or such earlier date as agreed by the parties;
 - (c) CFC would pay a monthly consulting fee of \$18,333.33 to CyberNorth until December 31, 2006;
 - (d) CFC would pay a bonus in the amount of \$75,000 to CyberNorth on June 30, 2006;
 - (e) CFC would pay another bonus of \$100,000 to CyberNorth upon the performance by Bartholomew of certain performance milestones;
 - (f) CFC would pay \$12,500 to Bartholomew as a reimbursement for legal fees; and
 - (g) Bartholomew would continue to assist in the transfer of certain shares of the Company held by the founders’ to the Company and a management trust established by the Company.

13. Pursuant to the Succession Agreement, CFC, Bartholomew and CyberNorth executed a mutual general release of claims against each other (the "**Original Mutual Release**"). A copy of the Original Release is attached to the Succession Agreement which is attached to this Affidavit as Exhibit "C".
14. Bartholomew and CyberNorth have asserted claims under the Succession Agreement, including claims by Bartholomew for a finder's fee with respect to the Proposed Transaction, against CFC and the Company, in excess of \$670,000, which claims have been disputed by the Company and CFC. The Applicants have negotiated a settlement with Bartholomew and CyberNorth on the terms and conditions set out in the Settlement Agreement attached hereto as Exhibit "D" (the "**Settlement Agreement**").
15. The key terms of the Settlement Agreement are as follows:
 - (a) the Monitor shall pay from the proceeds of the Definitive Agreement as soon as practicable and no later than two (2) business days after closing of the Definitive Agreement a lump sum payment to counsel for CyberNorth in the amount of Cdn.\$200,000.00, plus GST, and reimbursement of actual legal expenses incurred by CyberNorth and Bartholomew in connection with this Settlement Agreement and the CCAA proceedings limited to an aggregate of \$15,000.00, plus GST (collectively, the "**Settlement Amount**");
 - (b) Bartholomew shall continue to cooperate and assist the Company with the settlement and completion of the transfer of 8,100,000 shares of the Company by certain founding shareholders of the Company, including Bartholomew, to the Company and a Company management performance trust in accordance with the Founders' Undertaking dated March 2, 2006;
 - (c) The parties confirm, acknowledge and agree as follows with respect to the Original Mutual Release:
 - (i) the Original Mutual Release continues in full force and effect;
 - (ii) the Original Mutual Release is for the benefit of and is binding upon CFC and its shareholders and subsidiaries, including, without limitation, the Company, the sole shareholder of CFC, and Cervus Funding Corp., a wholly owned subsidiary of the CFC, and is for the benefit of and is binding upon Bartholomew

and CyberNorth and their respective executors, successors and assigns; and

- (iii) the Original Mutual Release is amended as follows:
- (A) the Claims (as defined in the Original Mutual Release) released by Bartholomew, on his own behalf and on behalf of CyberNorth, include, without limitation, claims for indemnity under the bylaws of CFC and the applicable business corporations act (the “**Cervus Indemnities**”), except for the Remaining Indemnification Claims. “Remaining Indemnification Claims” shall mean Claims of Bartholomew against CFC under the Cervus Indemnities in respect of goods and services delivered or provided to or contracted for by CFC while Bartholomew was an officer and/or director of CFC. The Remaining Indemnified Claims must be disclosed in the books and records of CFC as at Closing;
 - (B) subject to any applicable overriding provision of the CCAA, in paragraph 1 of the Original Mutual Release shall be amended to delete the reference to “pre-dating the execution of this Mutual Release” and replacing it with “as at the date of closing of the purchase agreement between CFC, the Company and 6578268 Canada Inc. dated as of June 8, 2006,”; and
 - (C) the following covenant by Bartholomew, on his own behalf and on behalf of CyberNorth, is hereby added to the Original Mutual Release: “Bartholomew (including, without limitation CyberNorth) will not make any claim or commence or maintain any action or proceeding against any person or corporation in respect of the matters released herein who would be entitled to claim contribution or indemnity or other relief over from CFC, whether under the provision of the *Negligence Act*, R.S.O. 1990, c. N-1, or other legislation, or at common law or equity, anywhere in the world.”
- (d) the parties are to execute and deliver the mutual release all of claims against each other under the Succession Agreement except for claims under the Settlement Agreement, in the form of the draft mutual release attached to the Settlement Agreement as Schedule "B" and Bartholomew and CyberNorth are to execute the acknowledgement in the form of the draft acknowledgement attached to the Settlement Agreement as Schedule “C”; and

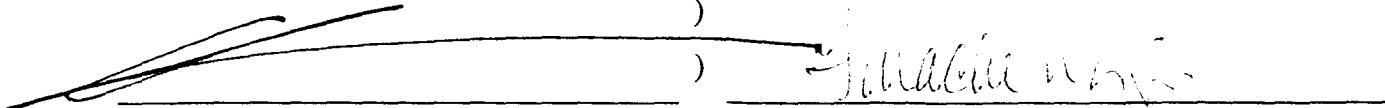
- (e) the covenants contained in section 5.1 (a) to (c) of the Succession Agreement which are to be incorporated into the Settlement Agreement are to be amended to expire on November 30, 2006 (instead of February 28, 2007) and the reference to "residential mortgages" in section 5.1(a) is to be amended to "conforming prime residential mortgages".

16. In the circumstances, the settlement with Bartholomew and CyberNorth on the terms set out in the Settlement Agreement is appropriate. It is currently anticipated that the proceeds of the Transaction will be sufficient for the Company to pay its creditors in full, including the Settlement Amount to CyberNorth. The Purchaser, as it is purchasing the shares of CFC, requires that CFC have no liability to Bartholomew and CyberNorth after closing of the Definitive Agreement. I am advised by the Purchaser that the Settlement Agreement satisfies the closing condition under Section 7.3(12) of the Definitive Agreement. In addition, the Company is receiving the benefit of a full release of liability from Bartholomew and CyberNorth with respect to the Succession Agreement, which also benefits the shareholders of the Company.

IV. Conclusion

17. In my opinion, the value of the Applicants on a forced liquidation basis is drastically lower than its value as a going concern. This result would be detrimental to the interests of the Applicants' creditors, as well as to their customers, employees, suppliers and shareholders. The settlement is a condition to closing the transactions contemplated under the Definitive Agreement, which in my opinion will achieve the maximum realization for the Applicants and their stakeholders. The Applicants believe that the terms of the Settlement Agreement with Bartholomew and CyberNorth are fair in the circumstances.

SWORN before me at the City of)
Toronto in the Province of Ontario this)
28th day of June, 2006)



Commissioner for Taking Affidavits, etc.) Grant MacKenzie
Alex A. Ilchenko)

Schedule "A"

Cervus Financial Corp.
Cervus Funding Corp.