

**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 COMPROMISE OR  
ARRANGEMENT WITH RESPECT TO CFG HOLDINGS INC., FORMERLY  
CERVUS FINANCIAL GROUP INC.**

**FIFTH REPORT OF  
KPMG INC., MONITOR**

**October 11, 2006**

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## I. PURPOSE, QUALIFICATIONS AND RESTRICTIONS OF THIS REPORT

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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. (“Funding”) (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”), as amended by a further order of this Court dated June 15, 2006. Pursuant to the Initial Order, KPMG Inc. (“KPMG”) was appointed as monitor (the “Monitor”) of the Applicants during these CCAA proceedings.

On June 15, 2006, this Honourable Court granted an Approval and Vesting Order, which among other things, provided for the approval of an agreement of purchase and sale among CFG, CFC and 6578268 Canada Inc. (the “Sale Agreement”) as well as termination of the CCAA proceedings in connection with CFC and Funding upon the delivery, by the Monitor, of the Vesting Certificate as defined in the Sale Agreement. The Monitor delivered the Vesting Certificate on July 6, 2006 and, as such, the CCAA proceedings for CFC and Funding were terminated at that time. In addition, under the provisions of the Approval and Vesting Order, CFG was permitted to change its name to CFG Holdings Inc. (“CFG Holdings” or the “Company” or the remaining “Applicant”).

On August 9, 2006, the above referenced name change was completed and on September 6, 2006, this Court granted orders, with respect to, among other things: (i) amending the title of these proceedings in order to reflect the name change of the Applicant; (ii) extending the stay of proceedings; and (iii) establishing a claims identification process.

Capitalized terms not defined in this Fifth Report of the Monitor (the “Report”) are as defined in the Initial Order, the Sale Agreement or the Claims Order (as defined below).

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

- (i) the status of the legal proceedings involving the Applicant;
- (ii) the Company’s updated net cash position;
- (iii) the results of the creditor claims process; and
- (iv) on a preliminary basis, the proposed process for advancing towards a distribution to shareholders.

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

The financial information of the Company 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 Company. 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 decisions 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.

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## II. LEGAL PROCEEDINGS

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This Honourable Court has granted the following orders in connection with the CCAA proceedings of the Applicant:

June 8, 2006	Initial Order
June 8, 2006	Sale Approval Process Order
June 15, 2006	Order Amending Initial Order
June 15, 2006	Approval and Vesting Order
June 29, 2006	Order Approving Settlement
July 7, 2006	Order Extending Stay of Proceedings

Each of the above orders has been described in previous Monitor's reports.

On September 6, 2006, this Honourable Court granted the following Orders:

- (i) the Order Amending Title of Proceedings which provided for an amendment to the Title of Proceedings by amending the name of the Applicant from CFG to CFG Holdings;
- (ii) the Order Amending Initial Order and Extending the Stay of Proceedings which, among other things, provided for the following:
  - an amendment to the Initial Order to allow the Monitor to pay all reasonable costs and expenses, as described in paragraph 20 of the Initial Order, upon the approval of the Company, from the Sale Proceeds being held by the Monitor; and
  - an extension of the Stay Date to November 30, 2006 with respect to the Company and the Directors; and
- (iii) the Claims Order which sets out a claims identification process to identify claims of the creditors of the Company and any former, present or future director or officer of the Company, CFC or Funding, or any other person that is deemed to be, or that is treated similarly to, a director of the Company, CFC or Funding.

The Monitor has made all orders issued by this Honourable Court in this matter, and other information, available on its website at [www.kpmg.ca/cervus](http://www.kpmg.ca/cervus).

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### III. UPDATED NET CASH POSITION

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As indicated in the Fourth Report of the Monitor, the Monitor is holding the proceeds from the sale of the Purchased Assets ("Sale Proceeds") in trust in an interest bearing account. Further, in accordance with the Order Amending Initial Order and Extending the Stay of Proceedings, the Monitor has made certain payments, with the approval of the Company, from the Sale Proceeds.

A rollforward of the Company's net cash position from July 6 (the date of Closing of the Sale Agreement) to October 13, 2006 is summarized below.

**CFG Holdings Inc.**  
**Rollforward of Net Cash Position**  
**For the Period July 6 to October 13, 2006**

Net proceeds from sale transaction received by the Monitor (1)		\$ 11,284,312
Add:		
Interest income	121,021	
Other deposits (2)	<u>8,749</u>	129,770
Less:		
Professional fees	260,656	
Insurance	27,779	
Other (3)	<u>16,107</u>	<u>304,541</u>
<b>Cash position as at October 13, 2006</b>		<b>\$ 11,109,541</b>

Notes:

- (1) The net proceeds from the sale transaction were summarized in the Fourth Report of the Monitor.
- (2) Other deposits includes \$7,900 transferred to the Monitor's account from CFG's former operating bank account and a miscellaneous refund.
- (3) Other charges includes GST, bank charges and other miscellaneous expenses.

As the Company has no ongoing operations and the balance of these proceedings will relate primarily to the distribution of the Sale Proceeds to the creditors and shareholders of CFG Holdings, a weekly cash flow projection has not been prepared.

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#### IV. CREDITOR CLAIMS PROCESS AND DISTRIBUTION TO CREDITORS

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##### A. Creditor Claims Process

In accordance with the Claims Order, on September 8, 2006, the Monitor:

- (i) published a notice to creditors in the Globe and Mail (National Edition); and
- (ii) mailed the Claims Materials to all Known Creditors.

The Claims Materials were also sent to 23 parties whose contracts with the Company were repudiated as a result of these proceedings, in accordance with the procedure contemplated in the Claims Order. Pursuant to paragraph 13 of the Claims Order, the rights of any person to purchase or otherwise acquire or obtain any shares of the Company were terminated.

In addition, the Monitor contacted all of the significant creditors and debenture holders by telephone prior to the Claims Bar Date to ensure that the Claims Materials were received and to confirm their agreement with the claim amounts indicated on the Notice of Creditor Claims.

##### B. Results of Claims Process

The results of the Claims Process conducted by the Monitor are summarized below:

**CFG Holdings Inc.**  
**Results of Claims Process**

	Total Claims per Notice of				Proofs of Claim Filed But Not Yet	
	Number	Creditor Claims	Number	Proven Claims	Number	Resolved
Unsecured creditors	25	\$604,990.16	23	\$607,269.23	2	\$125,530.90
Debenture holders	13	6,463,712.32	13	6,475,679.47	0	0.00
Repudiated contract holders	23	unknown	0	0.00	1	50,257.66
Total	61	\$7,068,702.48	36	\$7,082,948.70	3	\$175,788.56

As of the expiry of the Claims Bar Date on October 6, 2006, the Monitor had: (i) admitted 36 claims, totaling \$7,082,948.70, including accrued interest through October 13, 2006, as Proven Claims; and (ii) initiated steps to resolve three claims totaling \$175,788.56 that were filed just prior to expiry of the Claims Bar Date.

##### C. Distribution to Creditors

In the circumstances, the Monitor believes that an aggregate amount of \$7,082,948.70 can be distributed to those creditors with Proven Claims as set out in **Schedule A**, attached to this Report, on October 13,

2006, free and clear of any of the charges provided for earlier in these proceedings, in accordance with the Claims Order.

In that regard:

- (i) none of the creditors with a Proven Claim listed in **Schedule A** sought to dispute their claim in accordance with the Claims Order. In addition, the Monitor communicated with representatives of each of the debenture holders identified in **Schedule A** to verify that they were in agreement with the claim amounts;
- (ii) the Warehouse DIP Charge and the DIP Lender Charge (originally provided for in the Initial Order) were released earlier, in connection with the closing of the transaction provided for in the Sale Agreement. Further, the directors and officer of the Company are in agreement with this proposed distribution, free and clear of the D&O Charge and the beneficiaries of the Administration Charge are also in agreement with the distribution provided that, the Administration Charge and the D&O Charge will continue to apply to the remaining assets of the Company, including all remaining cash, after such distribution; and
- (iii) two categories of creditors in **Schedule A** (Unsecured creditors totaling \$29,791.75 and Debenture Holders totaling \$6,475,679.47) are shown as receiving interest on the principal amount of their debt through October 13, 2006 as the terms of their arrangements with the Company provided for interest. One category of creditors (Unsecured Creditors totaling \$577,477.48) is not shown as receiving interest as there were no such provisions in their arrangements with the Company.

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## **V. PROPOSED PROCESS FOR ADVANCING TO A DISTRIBUTION TO SHAREHOLDERS**

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### **A. Background**

Following completion of the claims process and distribution to creditors described in Section IV above, the Company will retain approximately \$4.0 million. After payment of future expenses associated with this process, the balance of that amount will become available for distribution to shareholders. However, prior to completing a distribution to shareholders, among other things, it will be necessary to resolve matters related to the disposition of certain of the shares of the founding shareholders of the Company (the "Founders"), as described below.

Based upon data provided by Computershare Trust Company, the registrar and transfer agent for the Company, the Company currently has issued and outstanding 42,373,660 common shares. As the Company is a public company, of the total number of issued and outstanding common shares, 26,872,423 common shares are registered in the name of "CDS & Co.". These latter shares represent shareholdings held by brokerage firms and other institutional members of CDS & Co. on behalf of their clients. Consequently, the ultimate ownership of these shares cannot be determined based on a review of the Company's share register.

### **B. Founders' Escrow**

As at October 6, 2006, 8,606,251 common shares (the "Escrowed Shares") were held in escrow (the "Escrow") pursuant to an Escrow Agreement dated June 25, 2004 among Equity Transfer Services Inc. (the "Escrow Agent"), GMP Securities Ltd., the Company, and those persons that are the registered shareholders of the Escrowed Shares. The Monitor is advised that those registered holders constitute the Founders and persons related to the Founders.

### **C. Founders' Undertaking**

The Company has provided the Monitor with a copy of an Undertaking dated March 2, 2006 (the "Founders' Undertaking") executed by certain persons that the Monitor is advised are the significant founding shareholders of the Company. The Founders' Undertaking provides, among other things, as follows:

- (i) the Founders undertake to surrender or cause to be surrendered to the Company, for no consideration, 6,750,000 issued and outstanding common shares of the Company;
- (ii) the Founders undertake to transfer or cause to be transferred for nominal consideration to a new trust to be established for the benefit of members of the senior management of the Company, 1,350,000 issued and outstanding common shares of the Company; and
- (iii) all shares of the Founders to be surrendered and transferred pursuant to the Founders' Undertaking shall be made out of the shares of the Founders which are released from the Escrow described above.

As a condition for the foregoing surrender and transfer, the Founders' Undertaking also provides that:

- (i) the Company shall reimburse, in advance, the Founders up to \$10,000 in the aggregate for an independent review of the letter and memorandum authored by Deloitte & Touche LLP and attached to the Founders' Undertaking as Schedules 2 and 3. The Monitor understands that this amount has been paid; and
- (ii) the Company shall indemnify each of the Founders for any losses, claims, liabilities and expenses incurred by any of the Founders related to any legal proceeding or any taxation liability to which a Founder becomes liable in any way connected with such surrender and transfer.

The Monitor has been advised by the Company that the trust contemplated above had not been created as of the date of the initiation of the CCAA proceedings. The Monitor is also advised that the Company has notified the Escrow Agent that rights in respect of the Escrowed Shares need to be resolved and may be in dispute, and requested that no Escrowed Shares be released from the Escrow until such matters are determined.

#### **D. Plan to Clarify Shareholdings**

The Monitor has been advised by the Company, and considers such assessment to be reasonable in the circumstances, that as a result of the Founders' Undertaking, steps must be taken to clarify the share register of the Company. To that end, the Company has proposed, and the Monitor supports, the following sequential plan:

- the Company, through its legal counsel, is to make a formal request of the Founders to satisfy their undertakings under the Founders' Undertaking;
- the Company proposes that to the extent possible, the undertakings of the Founders under the Founders' Undertaking be satisfied through a release to the Company of applicable Escrowed Shares;
- the Company proposes that all of the shares committed under the Founders' Undertaking, being 8,100,000 common shares, be surrendered to the Company for cancellation. There would therefore be no transfer of shares to senior management or to a trust established for the benefit of senior management;
- shares surrendered to the Company would be cancelled and returned to unissued capital of the Company, thus reducing the aggregate number of issued and outstanding shares of the Company;
- the right of senior management to receive 1,350,000 common shares of the Company would be satisfied in due course through the payment in cash to those members of senior management equal to the amount that would be distributable to holders of that number of common shares pursuant to the distribution process referred to below; and
- the remaining assets of the Company would be distributed to the remaining shareholders pursuant to either:
  - (i) a formal Court approved liquidation process, in accordance with the Company's governing business corporations legislation; or
  - (ii) a longer term process, which might allow, for example, an opportunity to market the Company as a "public company shell."

Each of these two potential strategies has certain advantages. For example, the second approach could result in enhanced recoveries to the shareholders if a transaction emerged for which the status of the Company as a “public company shell” could be utilized. On the other hand, the liquidation approach would provide finality with respect to the ongoing maintenance of the Company (e.g., the filing of tax returns and other periodic filings). The Monitor understands that the Company and its counsel are actively analyzing the Company’s options in this regard, with a view to presenting a definitive plan to this Court in due course.

**E. Extension of CCAA Proceedings**

In the circumstances, the Monitor supports the Company’s request to extend the CCAA stay through to December 29, 2006.

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## **VI. UPDATED ESTIMATE OF POTENTIAL DISTRIBUTION TO SHAREHOLDERS**

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Based on the results of the claims process as reported herein and provided that the matters described in Section V above are resolved expeditiously and without significant protracted litigation (which would increase go forward professional fees), it is estimated that the potential distribution to shareholders of the Company will be in the range of 7.5 to 9.5 cents per share. The Monitor cautions that this estimate is provided solely as an update to the illustrative estimated distributions provided in the Fourth Report of the Monitor and is subject to change. Neither the Monitor, nor its affiliates, partners, directors, officers, employees, counsel or agents will have any liability to any creditor, shareholder, or any other party as a result of decisions made or actions taken based on this information. Without limitation, in no circumstances should this information be relied on by any party in connection with any decisions to retain, sell or purchase any portion of the claims against the Company by any creditor, shareholder or any assignee thereof.

The Monitor has been informed by the Company's legal counsel that the targeted timing for making a distribution to shareholders is prior to the calendar year end (if the longer term strategy referred to in Section V.D, above, is not pursued); hence the Company's request at this time to extend the CCAA stay through to December 29, 2006. Again, this targeted timing will only be achieved provided that the matters described in Section V above are resolved expeditiously.

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## VII. SUMMARY AND CONCLUSIONS

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The Monitor is of the view that the claims process has been conducted in accordance with the Claims Order. The Monitor believes that the aggregate amount of \$7,082,948.70 can now be distributed, on October 13, 2006, to those creditors specifically identified as having Proven Claims in **Schedule A**, free and clear of any of the charges provided for earlier in these proceedings, in accordance with the Claims Order.

The Monitor anticipates that after the claims process and distribution to creditors is complete, there will be funds remaining for distribution to shareholders of the Company, after payment of other costs related to these proceedings. However, as described in this Report, prior to completing a distribution to shareholders, among other things, it will be necessary to resolve matters related to the disposition of certain of the shares of the Founders.

Accordingly, the Monitor respectfully recommends that the Court approve the distribution to creditors as set out in **Schedule A**, hereto, with such payments to be made on October 13, 2006.

As previously indicated in this Report, the Monitor understands that the Company and its legal counsel are analyzing the Company's options for bringing these CCAA proceedings to a conclusion, and anticipates that a recommended course of action will be brought forward to the Court in due course. The Monitor believes that the Company is acting in good faith and with due diligence in these proceedings. Accordingly, the Monitor respectfully recommends that the Court approve an extension of the Stay Date (as defined in the Initial Order) to December 29, 2006, as requested by the Company.

**RESPECTFULLY SUBMITTED,**

Dated the 11th day of October, 2006.

**KPMG INC.**

In its capacity as Court-Appointed Monitor of  
CFG HOLDINGS INC., formerly Cervus Financial Group Inc.



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

**CFG Holdings Inc., formerly Cervus Financial Group Inc.**  
**Control Listing of Proofs of Claim**  
**As at October 13, 2006**

**Schedule A**

Name	Proven Claim	Proof of Claim Filed But Not Yet Resolved
<b>Unsecured Creditors (with interest) (1)</b>		
Computershare	745.22	
Deloitte & Touche LLP	27,836.46	
Hodgson Shields DesBrisay O'Donnell MacKillop Squire LLP	114.46	
RBC Royal Bank	1.96	
Versacom	1,093.65	
	<u>29,791.75</u>	
<b>Unsecured Creditors (no interest)</b>		
ADP Investor Communications	23.54	
Allied Capital Corporation	10,700.00	
Angela Byrne & Associates Inc.	1,444.50	
Bill Hewitt	50,000.00	
Burt Napier	3,000.00	
CCNMatthews	5,453.79	
Canada Revenue Agency		125,021.28
David F. Banks	41,590.92	
Dick Freeborough	42,800.00	
Digital Plus Group Inc.	892.40	
Ministry of Finance		509.62
Murray & Company	132,500.00	
Pumpernickel's Deli & Cafe	112.13	
RAMPartners SA	8,209.92	
Richard Bell	28,855.13	
Select Sandwich Co.	609.13	
Stephen Barley	10,000.00	
Stockgroup Media Inc.	286.02	
The Estate of Victor Hum c/o Alex Ilchenko	41,000.00	
Peter Williams	200,000.00	
	<u>577,477.48</u>	<u>125,530.90</u>
<b>Debenture Holders (1)</b>		
The Hamilton Group Inc.	2,073,972.60	
1067941 Ontario Limited (c/o The Hamilton Group Inc.)	2,073,972.60	
956872 Ontario Limited (c/o The Hamilton Group Inc.)	518,493.15	
Roxon Capital Corporation	155,547.95	
High Point Merchant Capital Inc.	51,849.32	
David F. Banks	52,232.88	
Peter Williams	31,364.38	
The Estate of Victor Hum c/o Alex Ilchenko	10,369.86	
Jennora Limited	522,739.73	
Farne Properties Ltd.	311,095.89	
Tim W. Kwan	259,246.58	
Brian D. Kwan	259,246.58	
Livgroup Investment Ltd.	155,547.95	
	<u>6,475,679.47</u>	
<b>Repudiated Contracts</b>		
1632200 Ontario Inc./Your Mortgage Connection		50,257.66
<b>TOTAL CREDITORS AND DEBENTURE HOLDERS</b>	<u>\$ 7,082,948.70</u>	<u>\$ 175,788.56</u>

Note:

(1) Proven claim amounts have been increased to account for accrued interest up to and including October 13, 2006.

This Schedule must be read in conjunction with the Fifth Report of KPMG Inc., Monitor dated October 11, 2006.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS  
AMENDED

Court File No: 06-CL-6482

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH  
RESPECT TO CFG HOLDINGS INC., FORMERLY CERVUS FINANCIAL GROUP INC.

**SUPERIOR COURT OF JUSTICE**

**Commercial List**

Proceeding commenced at Toronto

**FIFTH REPORT OF KPMG INC., MONITOR**

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