

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.**

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

May 25, 2007

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I. PURPOSE, QUALIFICATIONS AND RESTRICTIONS OF THIS 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. (“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 which, among other things, amended the title of these proceedings in order to reflect the name change of the Applicant.

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

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) an update on the Company’s liquidation and dissolution proceedings and the distribution to shareholders and Senior Management;
- (iii) the Company’s updated net cash position; and
- (iv) the Company’s request to extend the stay of proceedings.

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.

II. LEGAL PROCEEDINGS

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 |
| September 6, 2006 | Order Amending Title of Proceedings, Order Amending Initial Order and Extending the Stay of Proceedings, and Claims Order |
| October 13, 2006 | Creditor Distribution Order |
| December 27, 2006 | Shareholder Distribution Order |
| February 27, 2007 | Extension Order |
| March 9, 2007 | Distribution Direction Order |

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

On April 13, 2007, an Order was granted (the "Amended Shareholder Distribution Order"), which among other things, varied the Shareholder Distribution Order, to order and/or request that:

- (i) contemporaneous with the distributions to shareholders in accordance with paragraphs 4, 5, and 14 of the Amended Shareholder Distribution Order, the Monitor, if it is appointed as liquidator of the Company pursuant to the liquidation and dissolution of the Company under the Alberta *Business Corporations Act*, is to make a payment in cash, subject to any appropriate withholdings that may be retained by the Monitor, to the Senior Management of the Company, and to the Chairman of the Board of the Company (the "Senior Management"), from the net Sales Proceeds, of an amount equivalent to the distribution that the Senior Management would have received with respect to their shareholdings had the Company fully implemented the Founders Undertaking, and the amounts equivalent to the number of shares that certain members of Senior Management would have received as a result of the settlement of Claims related to employment contracts and other compensation arrangements, and had they been issued shares of the Company;
- (ii) the distribution of the "Distributed Proceeds", as described in the Amended Shareholder Distribution Order, as varied, is to be conducted by the Monitor as a reduction of the stated capital of the Company, if it is appointed as liquidator of the Company upon the application

of a shareholder, pursuant to the liquidation and dissolution of the Company under the Alberta *Business Corporations Act*, as contemplated under the provisions of the Amended Shareholder Distribution Order, and for the purposes of implementing this distribution to shareholders, the Monitor, if appointed liquidator, may transfer the funds to be distributed that are currently being held in its capacity as Monitor, to an account established in the liquidation and dissolution proceeding under the Alberta *Business Corporations Act*, if the Monitor is appointed as liquidator of those proceedings;

- (iii) the Court of Queen's Bench of Alberta (the "Alberta Court") consider the CCAA proceeding herein when making Orders relating to the liquidation and dissolution of the Company and the distribution of the assets of the Company to the shareholders of the Company pursuant to the Amended Shareholder Distribution Order, as varied, and this Court requested the aid and assistance of the Alberta Court to coordinate proceedings in the Alberta Court with proceedings in this Court under the CCAA; and
- (iv) the Stay Date be extended to May 31, 2007.

The Monitor has made all Orders issued by this Honourable Court in this matter, and all Orders issued by the Alberta Court in the liquidation proceedings, and other information, available on its website at www.kpmg.ca/cervus.

III. UPDATE ON THE COMPANY'S LIQUIDATION AND DISSOLUTION PROCEEDINGS AND THE DISTRIBUTION TO SHAREHOLDERS AND SENIOR MANAGEMENT

On April 19, 2007, an Order was granted by the Alberta Court (the "Liquidation Order"), which among other things, ordered that:

- (i) the Alberta Court recognize each of the Orders granted by the Ontario Court in the context of the CCAA proceedings (the "Ontario Orders");
- (ii) KPMG be appointed as liquidator of the Company (the "Liquidator") pursuant to Section 215 of the Alberta *Business Corporation Act*, R.S.A. 2000 c. B-9;
- (iii) KPMG, in the fulfillment of its duties as Liquidator, is entitled to rely upon any claims bar process directed and implemented in accordance with the Ontario Orders and no further or other notice to creditors or claimants or advertisements for creditors or claimants is required in the context of the liquidation of the assets of the Company;
- (iv) KPMG, in the context of its role as Liquidator, was vested with all right, power and authority as had been vested in the Monitor by the Ontario Orders as well as any right, power and authority as might be specifically authorized by the Liquidation Order or as provided for by the Alberta *Business Corporations Act*; and
- (v) KPMG, in the course of the liquidation of the Company, was authorized and directed to make all payments authorized to be made by the Monitor or by the Liquidator pursuant to the Ontario Orders, including, without limitation, payments to shareholders of the Company which had been authorized by the Ontario Orders and such payments were to be made in accordance with Section 242(3) of the Alberta *Business Corporation Act*.

A copy of the Liquidation Order is appended to the Affidavit of Daniel R. Dowdall, sworn May 25, 2007, and filed with the Court in support of the motion to extend the Stay Date.

On April 25, 2007, in accordance with the Amended Shareholder Distribution Order, the Monitor transferred \$3,391,505, from the net Sale Proceeds that it was holding in trust, to the Liquidator in order to facilitate the distributions contemplated by the Amended Shareholder Distribution Order and the Shareholder Distribution Order. The transfer amount of \$3,391,505 was arrived at after taking into consideration the separate amount of \$137,768 required for the Senior Management distribution (described below) and a reserve of \$188,000 for professional fees (incurred and outstanding fees, as well as estimates of fees to complete both the CCAA and liquidation proceedings). The reserve amount for professional fees was approved by the Company. An update on the amount of remaining funds held in trust by the Monitor is provided in Section IV of this Report.

On April 26, 2007, in accordance with the Liquidation Order, the Liquidator transferred \$3,191,217 to Computershare Ltd. ("Computershare"), the Company's share registrar, with instructions to implement a distribution to the Company's shareholders in the amount of \$0.09307 per share. On April 27, 2007, Computershare implemented the distribution to the Company's shareholders in accordance with the Company's share register as at April 20, 2007 (the Record Date).

On May 1, 2007, also in accordance with the Liquidation Order, the Liquidator made distributions to the Senior Management group totaling \$137,768.

Having effected the distributions described above, there are no further distributions to be made by the Liquidator to the Company's shareholders or Senior Management.

The Liquidator is currently holding \$32,439 in its trust bank account. Those funds will be used to pay professional fees related to the liquidation proceedings and other miscellaneous costs incurred to implement the distributions.

IV. UPDATED NET CASH POSITION

As described in Section III of this Report, in accordance with the Amended Shareholder Distribution Order, the Monitor transferred \$3,391,505 to the Liquidator on April 25, 2007 in order to facilitate the distributions to the Company's shareholders and Senior Management. The amount transferred to the Liquidator for distribution was determined after taking into consideration a reserve of \$188,000 for professional fees and costs to conclude the CCAA proceedings and the liquidation proceedings. The reserve amount for professional fees was approved by the Company.

A rollforward of the Company's net cash position from April 11, 2007 (the date of the last update to the net cash position provided in the Eighth Report of the Monitor) to May 22, 2007 is summarized below.

CFG Holdings Inc.
Rollforward of Net Cash Position
For the Period April 11 to May 22, 2007

| | | |
|---|-----------|-----------------|
| Opening cash position (1) | | \$ 3,536,505 |
| Add: | | |
| Interest income | | 6,927 |
| Less: | | |
| Transfer to Liquidator (net), (2) | 3,361,505 | |
| Professional fees | 168,119 | |
| Other (3) | 10,048 | 3,539,672 |
| Cash position as at May 22, 2007 | | \$ 3,760 |

Notes:

- (1) The opening cash position was summarized in the Eighth Report of the Monitor.
- (2) The net transfer amount reflects the return of \$30,000 to the Monitor from the Liquidator to pay professional fees. The \$30,000 was not incremental to the \$188,000 reserve for professional fees and was included in that reserve.
- (3) Other charges includes GST, bank charges and other miscellaneous expenses.

The Monitor is currently holding \$3,760 in its trust bank account (in addition to the \$32,439 referred to earlier in this Report which is held by the Liquidator). Those funds will be used to pay professional fees related to concluding these CCAA proceedings.

As indicated in the previous reports of the Monitor, the Company has no ongoing operations and the balance of these proceedings will relate primarily to the completion of these CCAA proceedings. As such, a weekly cash flow projection has not been prepared.

V. EXTENSION OF CCAA PROCEEDINGS

The stay period provided by the Amended Shareholder Distribution Order expires May 31, 2007.

Among other things, the Liquidation Order provides that “all rights and protections afforded to the Monitor, as an officer of the Court under the Initial Order granted in the CCAA Proceedings (including but not limited to paragraph 52 thereof, which is expressly incorporated herein by reference) and the subsequent Ontario Orders granted in the CCAA proceedings, all of which are recognized by this Order are hereby extended to KPMG Inc. in respect to the fulfillment of its function and duties whether as Monitor or as liquidator, and in its carrying out of the provisions of this Order or any Order recognized by this Order.”

Further, having implemented the distribution to shareholders and Senior Management (as described in this Report), the primary matter remaining to be addressed in the liquidation proceeding is the Company’s interest in the general partner of a limited partnership, the CMB I Limited Partnership (“CMB”). CMB was initially established by the Company as a vehicle to provide an incentive to both the Company and various mortgage broker firms (who are limited partners in CMB) to aggregate mortgage origination volumes. The Liquidator is working with the Company and its legal counsel to investigate the most cost effective manner to wind-up CMB.

As the Liquidation Order refers back to the rights and protections afforded to the Monitor under the Initial Order, it is preferable to the Monitor and the Company that the CCAA proceeding continue until such time as the liquidation proceedings are concluded.

The Monitor supports the Company’s request to extend the Stay Date to August 31, 2007.

VI. SUMMARY AND CONCLUSIONS

The Monitor believes that CFG Holdings 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 to August 31, 2007, as requested by the Company.

RESPECTFULLY SUBMITTED,

Dated the ~~25~~²⁵th day of May, 2007.

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

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SUPERIOR COURT OF JUSTICE

Commercial List

Proceeding commenced at Toronto

NINTH REPORT OF KPMG INC., MONITOR

**Miller Thomson LLP
Barristers and Solicitors
Suite 5800
40 King Street West
Toronto, Ontario M5H 3S1**

Jeffrey C. Carhart

Phone: 416-595-8615

Fax: 416-595-8695

Solicitors for KPMG Inc., Monitor