

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.**

**AND IN THE MATTER OF THE PROPOSED LIQUIDATION AND
DISSOLUTION WITH RESPECT TO CFG HOLDINGS INC., FORMERLY
CERVUS FINANCIAL GROUP [COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF EDMONTON, ACTION NUMBER 0703 04915]**

**SECOND REPORT OF
KPMG INC., RECEIVER OF
CMB I GP LIMITED
AND CMB I LIMITED PARTNERSHIP**

March 20, 2008

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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").

On August 9, 2006, the above referenced name change was completed and on September 6, 2006, this Honourable Court granted orders which, among other things, amended the title of the CCAA proceedings in order to reflect the name change of CFG to CFG Holdings.

On April 19, 2007, an Order (the "Liquidation Order") was granted by the Court of Queen's Bench for Alberta (the "Alberta Court") which, among other things, appointed KPMG (the "Liquidator") as liquidator of CFG Holdings pursuant to Section 215 of the Alberta *Business Corporations Act*, R.S.A. 2000 c. B-9. It was necessary to apply to the Alberta Court for the Liquidation Order as the Company was incorporated under the Alberta Act.

On August 30, 2007, an Order (the "Receivership Order") was granted by this Honourable Court which, among other things, appointed KPMG ("Receiver") as receiver, without security, of all of the assets, undertakings and properties of CMB I GP Limited ("GP") and CMB I Limited Partnership ("CMB"). A copy of the Receivership Order is attached hereto as **Appendix 1**.

Capitalized terms not defined in this Second Report of the Receiver (the "Report") are as defined in the Receivership Order or First Report of the Receiver (the "First Report").

The purpose of this Report is to provide information to this Honourable Court and the stakeholders of GP and CMB in connection with the following:

- (i) the status of the legal proceedings;
- (ii) approval of the filing of the outstanding tax returns of GP and CMB;
- (iii) an update on other matters as previously reported on by the Receiver;
- (iv) an update on the Receiver's net cash position; and
- (v) the proposed distribution to the limited partners of CMB.

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

The financial information of CMB, GP and the Company has not been audited, reviewed or otherwise verified by the Receiver 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 CMB, GP and the Company. Accordingly, the Receiver does not express an opinion or any other form of assurance on the financial or other information presented herein. The Receiver may refine or alter its observations as further information is obtained or is brought to its attention after the date of this report.

The Receiver 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, are 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 receivership proceedings of the Company:

August 30, 2007 Receivership Order

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

III. OTHER MATTERS

A. Canada Revenue Agency Claims

As previously indicated in the First Report, Canada Revenue Agency (“CRA”) had submitted one claim related to CMB for \$3,689.50 and one claim related to GP for \$1.00. Both claims related to allegedly unpaid GST. In accordance with the proposed actions set out in the First Report designed to resolve CRA’s claims (which were approved by the Court) the Receiver contacted CRA and obtained certain additional information and/or documentation. The Receiver, together with CRA, then determined that the claim related to CMB should be revised to \$1,200.50. On February 6, 2008, the Receiver issued, by fax, Notices of Revision or Disallowance (the “Notices”), in accordance with the Receivership Order, to revise the claim of CRA related to CMB to \$1,200.50 and disallow the claim related to GP. Upon expiry of the 10-day period to appeal the Notices, and after confirming that CRA did not intend to appeal the Notices, the Receiver made a distribution of \$1,200.50 to CRA on February 21, 2008.

With the resolution of the CRA claims as described above, the Court approved claims barring process was concluded.

B. Outstanding Tax Returns

As previously discussed in the First Report, the Receiver noted that there was an apparent failure by CMB and GP to file certain tax returns with CRA. On further review of the books and records of CMB and GP, the Receiver has determined that tax returns for the following periods have not yet been filed: (1) CMB – October 1, 2005 to September 30, 2006; (2) CMB – October 1, 2006 to September 30, 2007; (3) GP - May 7, 2004 to April 30, 2005; (4) GP - May 1, 2005 to April 30, 2006; and (5) May 1, 2006 to April 30, 2007.

The Receiver has made several attempts to obtain the necessary financial information required to complete the tax returns from former management and has been unable to obtain any such information to date. However, it is the Receiver’s understanding from prior discussions with former management that the operations of CMB and GP during the periods in question would not have resulted in tax liabilities. The books and records indicate that CMB incurred net losses in 2004 and 2005 and GP had operations limited to its capacity as the general partner of CMB. As a result, the Receiver recommends that it be authorized to file the above noted tax returns as “nil” returns with CRA and the provincial tax authorities, as applicable.

The Receiver has served CRA, the Ministry of Finance (Ontario) and Revenu Quebec with notice of the motion seeking approval of this Report, including the recommended approach to dealing with the outstanding tax returns for CMB and GP as referred to above.

C. Proposed Activities with respect to the Final Administration of the Receivership, Liquidation and CCAA proceedings

The Receiver respectfully requests approval of the Court to proceed with the following program of activities designed to complete the final administration of: (i) the receivership of CMB and GP; (ii) the liquidation of the Company; and (iii) accordingly the CCAA proceedings involving the Company. The proposed activities are as follows:

- (1) The Receiver will file and deliver the outstanding tax returns for CMB and GP to CRA, the Ministry of Finance (Ontario) and Revenu Quebec, as described in section III. B. of this Report (the "Returns"). The Returns to be filed are: (a) CMB – October 1, 2005 to September 30, 2006; (b) CMB – October 1, 2006 to September 30, 2007; (c) GP - May 7, 2004 to April 30, 2005; (d) GP - May 1, 2005 to April 30, 2006; and (e) May 1, 2006 to April 30, 2007. The Returns are nil returns which provide that no taxes are payable by GP and CMB.
- (2) The Returns shall be deemed final and conclusive tax returns for the CMB and GP and CRA, the Ministry of Finance (Ontario) and Revenu Quebec will have no further claim for taxes with respect to CMB and GP, unless CRA, the Ministry of Finance (Ontario) and/or Revenu Quebec bring a motion to challenge the Returns within 30 days of delivery of the Returns ("Tax Return Motion"). The Receiver recommends this as a fair approach to permit both notice to the taxing authorities of the Returns and a process for the timely conclusion of the administration of these proceedings which will permit remaining funds to be distributed to the Limited Partners. It is noted that a claims process has been concluded in this matter and there are no outstanding claim from any of CRA, the Ministry of Finance (Ontario) and Revenu Quebec.
- (3) The Liquidator will bring a motion in the Alberta Court in the liquidation proceedings seeking an order approving its reports, recognizing the Orders in the CCAA proceedings, approving its accounts and approving dissolution of CFG Holdings (the "Alberta Order");
- (4) Following the expiry of time for any appeals of the Alberta Order and the proposed Order and provided that no Tax Return Motion is brought, then the Receiver is authorized to distribute available funds to the Limited Partners in accordance with section V. of this Report;
- (5) Following distribution of funds referenced in paragraph (4) above and payment of outstanding professional fees, the Receiver and the Monitor are authorized to file a certificate with respect to the receivership and the CCAA proceedings in the form attached as Schedule "A" to the proposed Order (the "Discharge Certificate") with this Court certifying that:
 - (i) the distribution of funds to the Limited Partners referenced in paragraph (4) above has been completed; and
 - (ii) the administration of the receivership of the CMB and the GP and the administration of the CCAA proceedings has been completed as described in this Report and the Twelfth Report of the Monitor;

Upon the filing of the Discharge Certificate by the Receiver and Monitor with this Honourable Court:

- (a) the Monitor shall be discharged as Monitor of the Applicant in the CCAA proceedings;
- (b) the Receiver is discharged as Receiver of the GP and CMB;
- (c) the CCAA proceedings relating to the Applicant shall be terminated; and

- (d) the Stay of Proceedings as set out in the Initial Order shall cease to be effective.
- (4) Following filing of the Discharge Certificate, the Liquidator is authorized to seek the Certificate of Dissolution of CFG Holdings Inc. from the Registrar of Corporations, as described in the *Business Corporations Act*, R.S.A. 2000 c. B-9, as contemplated in the Alberta Order. The proposed Alberta Order provides that the Liquidator shall be discharged upon the issuance of the Certificate of Dissolution.

IV. NET CASH POSITION

The net cash position of the Receiver from November 23, 2007 (the date of the last update to the net cash position provided in the First Report) to March 15, 2008 is presented below.

CMB I GP Limited and CMB I Limited Partnership
Summary of the Receiver's Net Cash Position
For the Period November 23, 2007 to March 15, 2008

Opening cash position (1)	\$	367,209
Less:		
Distribution to CRA re: GST claim	(1,201)	
Professional fees	(7,040)	
GST	(422)	
Other (2)	(12)	(8,675)
Cash position as at March 15, 2008	\$	358,534

Notes:

(1) The opening cash position was summarized in the First Report of the Receiver.

(2) Other charges includes bank charges and other miscellaneous expenses.

The Receiver is currently holding \$358,534 in its trust bank account. These funds will be distributed to the Limited Partners, net of professional fees related to the receivership proceedings. Outstanding professional fees payable from the commencement of matters related to the receivership, including ancillary matters in the CCAA and liquidation proceedings, to March 15, 2008 are approximately \$75,000 (which includes billed and unpaid fees of \$25,000 and unbilled fees of \$50,000). Furthermore, additional professional fees required to complete the receivership proceedings, assuming the final administration occurs as described in section III. C. of this Report, are estimated to be between \$20,000-30,000.

V. PROPOSED DISTRIBUTION TO THE LIMITED PARTNERS OF CMB

As previously indicated in the First Report, the Receiver recommended the distribution to the Limited Partners be calculated based on the percentage earned during the period of operations from October 2005 to July 2006 calculated for each of the Limited Partners (the "Earned Interest"). On further review of the Limited Partnership Agreement dated May 14, 2004 and the books and records of the CMB and GP, the Receiver further recommends that any remaining funds after calculation of the Earned Interest be distributed to the Limited Partners based on their proportionate capital account balances. Any distribution to the Limited Partners will be treated as a dividend for Canadian income tax purposes, and accordingly the Limited Partners are urged to consult their own tax advisors regarding the income tax consequences of such a distribution. A summary of the proposed distribution to the Limited Partners on a percentage basis is presented below.

**CMB I GP Limited and CMB I Limited Partnership
Proposed Distribution to the Limited Partners
As at March 15, 2008**

Limited Partner Name	% of Total
1238327 Ontario Ltd. (R/E Active Mortgages)	2%
1500123 Ontario Inc. dba Fairchoice Mortgage	1%
1546664 Ontario Inc. (dba Mortgage Edge)	8%
1632200 Ontario Inc. (dba Your Mortgage Connection)	1%
Assured Mortgage Services Inc.	2%
Capital Mortgages Inc.	1%
CMB I GP Limited	0%
Commerce Solutions Inc. (dba CSI Mortgages)	1%
Discount Mortgage Canada Inc.	6%
Homeguard Funding Ltd.	1%
Jaipur Financial Group Inc.	1%
Mortgage Alliance Franchising Inc.	1%
Multi-Prets Hypotheques Inc.	25%
Northwood Mortgage Ltd.	1%
Oriana Financial Group of Canada Ltd.	4%
Pro Link Mortgage Inc.	5%
RBD Financial Inc. (dba MC Mortgage Connection)	2%
Re/Max Macklem Mortgage Limited	2%
The Mortgage Alliance Company of Canada	25%
TMG The Mortgage Group Canada Inc.	10%
Total	100%

VI. SUMMARY AND CONCLUSIONS

The Receiver requests that this Honourable Court make an Order:

- (i) approving the activities of the Receiver as described in this Report; and
- (ii) authorizing the Receiver to proceed with the distribution to the Limited Partners as setout in this Report; and
- (iii) authorizing the proposed activities with respect to the final administration of the receivership, liquidation and CCAA proceedings.

RESPECTFULLY SUBMITTED,

Dated the 20th day of March, 2008.

KPMG INC.

In its capacity as Court-Appointed Receiver of
CMB I GP Limited and CMB I Limited Partnership



Per: *Todd Martin*
Senior Vice-President

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED
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Court File No: 06-CL-6482

SUPERIOR COURT OF JUSTICE

Commercial List

Proceeding commenced at Toronto

**SECOND REPORT OF KPMG INC., RECEIVER
OF CMB I GP LIMITED
AND CMB I LIMITED PARTNERSHIP**

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