

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.**

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

February 23, 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 Seventh 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 creditor claims process and distribution to creditors;
- (iii) the Company’s updated net cash position;
- (iv) an update on the process for advancing to a distribution to shareholders; and
- (v) 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

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

On December 27, 2006, this Honourable Court granted an Order which, among other things: (i) approved a procedure towards implementing an interim shareholder distribution; and (ii) approved the process for the eventual winding up of the Company (the "Shareholder Distribution Order").

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.

III. CREDITOR CLAIMS PROCESS AND DISTRIBUTION TO CREDITORS

As described in the Fourth Report of the Monitor, this Court granted the Claims Order which set 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 was treated similarly to, a director of the Company, CFC or Funding (the "Claims Process"). The Claims Process involved, among other things: (i) publishing a notice to creditors in the Globe and Mail newspaper; (ii) establishing the Claims Bar Date; (iii) a process for the distribution of the Claims Materials to Known Creditors and Unknown Creditors; (iv) a process for dealing with specified unaffected claims; (v) a procedure for determination of creditor claims and debenture holder claims; and (vi) a process for dealing with disputed claims.

As described in the Sixth Report of the Monitor (the "Sixth Report"), in accordance with the Creditor Distribution Order, the Monitor had distributed \$7,083,461.58 to the Company's creditors as at December 22, 2006 (the date of the Sixth Report). As described below, the Monitor made a further distribution of \$84,870.74 on February 14, 2007, such that total distributions to creditors as at the date of this Report are \$7,168,332.32.

As indicated in the Sixth Report, one Proof of Claim remained unresolved as at December 22, 2006, a claim submitted by the Canada Revenue Agency ("CRA") in the amount of \$139,921.05. Following several discussions with CRA and the conclusion of certain audit and other work by CRA, the Monitor and the Company's former CFO, met with CRA on February 1, 2007. During that meeting, CRA presented a Statement of Audit Adjustments (the "Statement") which indicated a balance due in the amount of \$84,870.74, including interest and penalties. The Monitor reviewed and discussed the Statement with the former CFO, and concluded that the revised claim should be admitted as a Proven Claim. On February 1, 2007, with the approval of the Company, the Monitor issued a Notice of Revision or Disallowance (the "Notice"), in accordance with the Claims Order, to revise CRA's claim to \$84,870.74. Upon expiry of the 10-day period to appeal the Notice, and after confirming that CRA did not intend to appeal the Notice, with the approval of the Company, the Monitor made a distribution of \$84,870.74 to CRA on February 14, 2007.

With the resolution of the CRA claim as described above, the Claims Process was concluded and all creditors with claims admitted as Proven Claims have been paid in full.

IV. UPDATED NET CASH POSITION

As indicated in previous reports of the Monitor, the Monitor continues to hold the remaining proceeds from the sale of the Purchased Assets (the "Sale Proceeds") in trust in an interest bearing account.

As discussed in section III of this Report, in accordance with the Creditor Distribution Order, the Monitor has made distributions to creditors totaling \$7,168,332.32 from the net Sale Proceeds. In addition, in accordance with the Order Amending Initial Order and Extending the Stay of Proceedings, the Monitor has made certain other disbursements, with the approval of the Company, in connection with the CCAA proceedings.

A rollforward of the Company's net cash position from December 20, 2006 (the date of the last update to the net cash position provided in the Sixth Report) to February 21, 2007 is summarized below.

CFG Holdings Inc.
Rollforward of Net Cash Position
For the Period December 20, 2006 to February 21, 2007

Opening cash position (1)		\$ 3,825,082
Add:		
Interest income	31,475	
Other	1,094	32,569
Less:		
Distribution to creditors	84,780	
Professional fees	104,230	
Other (2)	6,254	195,264
Cash position as at February 21, 2007		\$ 3,662,387

Notes:

(1) The opening cash position was summarized in the Sixth Report of the Monitor.

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

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 distribution of the remaining Sale Proceeds to the shareholders of CFG Holdings. As such, a weekly cash flow projection has not been prepared.

V. UPDATE ON ADVANCING TO A DISTRIBUTION TO SHAREHOLDERS

A. Update Regarding Compliance with the Founders' Undertaking

As described in the Fifth and Sixth Reports of the Monitor, the Company, through its legal counsel has been working toward effecting the surrender for cancellation of 8,100,000 common shares of the Company pursuant to the Founders' Undertaking.

As described in the Affidavit of Angela Scott sworn on February 22, 2007 (the "Scott Affidavit"), the Company anticipated, and the Monitor agreed that, the simplest and most expeditious method of implementing the Founders' Undertaking was to attempt to obtain the proper documentation from the Founders required by Equity Transfer Services Inc. ("ETS") and Computershare Trust Company ("Computershare") to have the Escrowed Shares released from escrow and to clarify the Company's share register. However, as described in paragraphs 30 to 36 of the Scott Affidavit, the Company's legal counsel encountered various impediments in its efforts to complete this exercise which have resulted in additional costs to the Company and delayed the anticipated distribution to shareholders.

Notwithstanding the foregoing, the Monitor has been informed by the Company's legal counsel that seven out of the eight Founders have now provided the Company's counsel with the required documentation. Further, the Company's legal counsel has also informed the Monitor that the sole Founder that has not provided all of the required documentation, Mr. Barley, is cooperating to comply with the Undertaking. However, it is not clear whether Mr. Barley will be able to correct certain technical deficiencies in the documents that he has already provided. Therefore, in order to bring finality to this exercise, the Company will be requesting, by motion to the Court on February 26, 2007, that in the event that the Monitor determines that the Company is unable to obtain the remaining required documents, as set out in the Scott Affidavit, or should Computershare or ETS raise additional technical issues concerning the form or execution of the documentation, that the Court direct ETS to deliver all of the share certificates held in escrow to the Company, effectively treating Mr. Barley's existing direction and all the other documentation received from the Founders as sufficient, and that Computershare shall accept such documentation as sufficient to affect the necessary cancellations on the share register in order to produce a share registry that reflects the Founders' Undertaking so that a distribution to shareholders may be made.

B. Further Claims Bar Process

The Founders' Undertaking contains a provision whereby the Company indemnifies the Founders for "any losses, claims, liabilities and expenses incurred by any of the [Founders]... related to any legal proceedings or any taxation liability to which [a Founder] becomes liable in any way connected with [the completion of the Undertaking]" (the "Indemnity").

In order to make a distribution to shareholders, the Company requires that any possible liability with respect to the Indemnity be brought forward prior to making the distribution. Accordingly, the Company proposes that a further claims bar process run in tandem with the appeal periods under any Order which may be made by the Court on February 26, 2007.

As the Company has already implemented the Claims Process, as described above, the Company will now be seeking an Order that the claim of any person against the Monitor or any officer or director of the Company, past or present, to the extent not already barred and extinguished by prior order of the Court,

will be forever barred and extinguished unless such person serves upon the Monitor a motion to this Court to seek exemption from such bar by March 26, 2007.

C. Declaration

The Indemnity also extended to any negative tax consequences to the Founders for the completion of the Founders' Undertaking. As described in the Scott Affidavit, the Monitor is advised that the Company has received an opinion from a major accounting firm (not KPMG LLP) which indicates that there would be no tax risk to the Founders provided that the Founders dealt at arms length with the Company and did not receive the shares in question as an employment benefit.

In order to obtain the consent of certain of the Founders to a distribution to shareholders without a reserve for this aspect of the Indemnity, the Company agreed with certain of the Founders that it would be sufficient if the Court issues a declaration that the Founders dealt at arms length with the Company at the time of surrendering the shares and that the Founders did not receive the shares as employment compensation.

The Monitor understands that the Company intends to seek an Order from the Court that declares that the Founders dealt at arms length with the Company and did not receive the shares as an employment benefit.

VI. EXTENSION OF CCAA PROCEEDINGS

The stay period provided by the Shareholder Distribution Order expires February 28, 2007. In order to allow sufficient time to complete the distribution to shareholders (minus a reserve in accordance with, among other things, the December 27, 2006 Order) and to then move forward with respect to the winding up of the Company (as described in the Sixth Report), the Company is requesting an extension of the stay of proceedings to April 30, 2007.

The Monitor supports the Company's request to extend the Stay Date through to April 30, 2007.

VII. 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 April 30, 2007, as requested by the Company.

RESPECTFULLY SUBMITTED,

Dated the 23rd day of February, 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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Commercial List

Proceeding commenced at Toronto

SEVENTH 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