

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 PETER WILLIAMS
(Sworn July 6, 2006)

I, PETER H. WILLIAMS, of the City of Toronto, in the Province of
Ontario, MAKE OATH AND SAY:

1. I am the Chief Executive 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 (the "**Initial Order**"). Attached hereto as Exhibit "A" is a true copy of the Initial Order.
4. The Applicants required 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.
5. The Company requires an extension of the stay period granted under the Initial Order to September 22, 2006, in order to have sufficient time to implement a claims procedure, and to formulate a plan of arrangement.

II. Sale Transaction

6. 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.

7. The Proposed Transaction envisions CFC continuing as a going concern, with all creditors of CFC and the Company paid, all employees save myself continuing with their employment and the possibility of some return being made to the shareholders of the Company.
8. 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. On the same date Justice Cumming also granted an Order amending certain language in the Initial Order. Attached hereto as Exhibit “C” is a copy of the June 15th Order of Justice Cumming amending the Initial Order.
9. 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 (the “**Vesting Certificate**”).
10. On June 29th, 2006 Justice Morawetz granted an Order (the “**Settlement Approval Order**”) approving the terms of a settlement between the Applicants and Gary Bartholomew, the former Chief Executive Officer of the Company, and a director of the Company and CFC. The settlement of the claims by Bartholomew against CFC was a precondition of closing the Proposed

Transaction. Attached hereto as Exhibit "D" is a copy of the Settlement Approval Order.

11. 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. Closing of Proposed Transaction

12. The Applicants anticipate that the Proposed Transaction will close on July 6, 2006 upon the expiry of the 21 day period under s.14(2) of the CCAA. To the knowledge of the Applicants, all other conditions precedent to closing should be fulfilled by the Applicants or waived by the Purchaser by such time. The Applicants anticipate that the Vesting Certificate will be delivered, after 4:30 p.m. on July 6, 2006, completing the Proposed Transaction.

IV. Claims Procedure

13. After the closing of the Proposed Transaction, the Monitor will proceed to disburse a portion of the "Sale Proceeds", as described in the Approval and Vesting Order, in accordance with the provisions of the Definitive Agreement and the Settlement Approval Order. With respect to the distribution of the remaining Sale Proceeds, the Company will bring a motion to this Court to establish a claims identification procedure to identify the claims of the creditors of the Company, as well as claims against the directors and officers of the Applicants.

V. Proposed Restructuring

14. After the Company completes the claims identification procedure described above, the Company will endeavour to put forward a plan of arrangement to its creditors. It is anticipated that under the terms of this plan of arrangement the creditors of the Company will be paid in full, and some amount will be paid to the shareholders of the Company.

VI. Financial Position of the Applicants

15. The Applicants have been operating in the ordinary course of business, under the supervision of the Monitor, pending the closing of the Proposed Transaction, and there has been no material adverse change in the financial state of the Applicants. In the view of the Applicants they have been acting in good faith and with due diligence.

VII. Requirement for extension of Stay of Proceedings

16. In order to have sufficient time to conduct the claims identification procedure, and to formulate an acceptable plan of arrangement, the Company will require an extension of the "stay date" as defined in paragraph 4 of the Initial Order to September 22, 2006.
17. Under the provisions of paragraph 11 of the Initial Order any action, suit or other proceeding against the Officers and Directors of each of the Applicants was stayed. The Company requests that this stay also be extended.
18. Under the provisions of the Definitive Agreement, and also under the provisions of paragraph 11 of the Sale Approval Order, upon the filing of the Vesting Certificate, the CCAA proceedings with respect to CFC and Funding shall be terminated.

Schedule "A"

Cervus Financial Corp.
Cervus Funding Corp.