

Court File No. 06-CL-6746

**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 PLAN OF COMPROMISE OR
ARRANGEMENT WITH RESPECT TO 3791351 CANADA INC. CARRYING ON
BUSINESS AS "CU-CONNECT" (THE "APPLICANT")**

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

February 9, 2007

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I. PURPOSE, QUALIFICATIONS AND RESTRICTIONS OF THIS REPORT

On November 20, 2006, 3791351 Canada Inc., carrying on business as “CU-Connect” (the “Applicant” or the “Company” or “CU-Connect”), filed for and obtained protection from its 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 November 20, 2006 (the “Initial Order”). Pursuant to the Initial Order, KPMG Inc. (“KPMG”) was appointed as monitor (the “Monitor”) of the Applicant during these CCAA proceedings.

Capitalized terms not defined in this Third Report of the Monitor (the “Report”) are as defined in the Initial Order, the proposed Directors and Officers Claims Bar Order or the 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 Company;
- (ii) the Company’s post-filing cash flow, draws under the DIP financing facility and updated cash flow forecast;
- (iii) the closing of the sale transaction;
- (iv) the ongoing forensic investigation;
- (v) the proposed director and officer (including the CRO) claims bar process for the post-CCAA-filing claims;
- (vi) an update on other matters; and
- (vii) CU-Connect’s request to extend the stay period.

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, 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 decision 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:

| | |
|-------------------|-----------------------------|
| November 20, 2006 | Initial Order |
| December 7, 2006 | Sale Process Approval Order |

The above Orders were described in previous reports of the Monitor.

On January 22, 2007, this Court granted an Order (the "Sale Approval and Vesting Order") which, among other things:

- (i) approved the Asset Purchase Agreement dated January 9, 2007, between the Company and Threshold Financial Technologies Inc. ("Threshold");
- (ii) authorized, empowered and directed the Company to:
 - a) execute and deliver the Asset Purchase Agreement;
 - b) complete and implement the transaction contemplated by the Asset Purchase Agreement (the "Sale Transaction");
 - c) perform its obligations under the Asset Purchase Agreement; and
 - d) take such steps, actions and proceedings and execute and deliver such ancillary or related documents and assurances as are necessary or incidental to the performance of the obligations of the Applicant pursuant to the Asset Purchase Agreement and for the completion of the transactions contemplated by the Asset Purchase Agreement or in furtherance of the Sale Approval and Vesting Order, without giving any further notice of any kind with respect thereto;
- (iii) declared that, effective upon delivery of the Closing Certificate (as defined in the Asset Purchase Agreement), all of the Purchased Assets (as defined in the Asset Purchase Agreement) were vested in Threshold;
- (iv) approved the Bidding Agreement dated January 8, 2007 and the Break Fee payable to Bidder 1 as set out in the Bidding Agreement; and
- (v) authorized and directed the Applicant to pay the final installment of \$50,000 to Bidder 1, within three days of execution of the Closing Certificate.

The Sale Transaction was completed on January 31, 2007 and is discussed in Section V of this Report.

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/cu-connect.

III. CASH FLOW AND DRAWS UNDER THE DIP FACILITY

The Company's cash receipts and disbursements from November 20, 2006 (the date of the Initial Order) to February 4, 2007 are summarized below and are compared with the Cash Flow Forecast (as defined in the notes below).

| 3791351 Canada Inc. (o/a CU-Connect) Summary of Actual Versus Projected Cash Flow For the period November 20, 2006 to February 4, 2007 | | | |
|---|-----------------------|------------------------|---|
| Unaudited | Actual Results [1] | CCAA Projection [2] | Variance Favourable/ (Unfavourable) |
| Inflows: | | | |
| Fees - Switching and Prepaid Card Program | 329,530 | 374,300 | (44,770) |
| Collection of AR | 111,810 | 131,000 | (19,190) |
| Foreign Exchange & Other | 171,865 | 156,100 | 15,765 |
| Proceeds from Sale, Net | 2,210,000 | - | 2,210,000 |
| Total Inflows | 2,823,205 | 661,400 | 2,161,805 |
| Outflows: | | | |
| Payroll | (346,128) | (322,500) | (23,628) |
| Communications | (88,135) | (45,000) | (43,135) |
| Rent & Utilities | (18,325) | (30,000) | 11,675 |
| Maintenance - Software & Hardware | (82,222) | (60,000) | (22,222) |
| Selling, General and Admin | (32,316) | (66,900) | 34,584 |
| Professional Fees | (357,849) | (270,000) | (87,849) |
| Interest/Capital CU-Connection Ltd. | (38,176) | (54,000) | 15,824 |
| Total Outflows | (963,151) | (848,400) | (114,751) |
| Net Cash Inflow/(Outflow) | 1,860,054 | (187,000) | 2,047,054 |
| Cumulative draws on DIP Facility | 350,000 | 241,800 | (108,200) |
| Notes: | | | |
| [1] Actual results include actual cash flow experience for the period November 20, 2006 to February 4, 2007. Amounts are presented on the basis that cheques/wire transfers are issued and cleared on the same day. | | | |
| [2] Projected amounts are those set out in the cash flow forecast that was appended to the Affidavit of Terry Chapman, CRO of CU-Connect, sworn November 16, 2006, and filed in support of the CCAA application. | | | |

Excluding the net proceeds from the Sale Transaction, the net cash flow variance relative to the Cash Flow Forecast was approximately \$160,000 unfavourable for the 11-week period ended February 4, 2007.

Management attributes the negative variance to: (i) the discontinuance of the prepaid card program (discussed later in this Report) which resulted in a negative impact on forecast receipts of approximately \$45,000; (ii) increased professional fees as a result of the discontinuance of the prepaid card program, the extended sales process and ongoing dealings with the Canada Revenue Agency (“CRA”) and the Department of Justice Canada (the “DOJ”); and (iii) higher than anticipated communications costs.

The first draw on the DIP Facility occurred on December 1, 2006 in the amount of \$110,000. Further draws of \$90,000, \$20,000 and \$130,000 occurred on December 7, 2006, January 4 and February 1, 2007 respectively, such that total draws on the DIP Facility as at the date of this Report were \$350,000, as compared to projected draws in the Cash Flow of \$241,800. The additional DIP funding was required primarily as a result of the cash flow variances noted above.

The Company has prepared an updated cash flow forecast which includes cumulative actual results for the period November 20, 2006 to February 4, 2007 and weekly forecasts for the 13-week period from February 5, 2007 to April 29, 2007 (the “Updated Cash Flow Forecast”). The Updated Cash Flow Forecast is appended to the Affidavit of Terry Chapman sworn on February 8, 2007 (the “Fourth Chapman Affidavit”) that has been filed with this Court.

According to the Updated Cash Flow Forecast, the Company’s cash position as at February 5, 2007 was \$2,215,591. However, throughout the 13-week period beyond February 5, the cash position is projected to decrease significantly as payments are made to repay the DIP Facility and satisfy the DIP Lender’s Charge, and to pay projected professional fees.

During the week ending February 18, 2007, the Company is projected to disburse approximately \$765,000, to repay the DIP Facility and satisfy the DIP Lender’s Charge (\$379,813) and to pay professional fees for work performed up to January 31, 2007 (\$396,240). Disbursements during the remainder of the forecast period primarily relate to final payments to trade suppliers for goods and services provided during the post-CCAA filing period, employee costs, professional fees and additional costs related to the ongoing forensic investigation (discussed in Section V of this Report). The Updated Cash Flow Forecast indicates that the Company will have a cash balance of approximately \$1.2 million at the end of the forecast period on April 29, 2007.

IV. CLOSING OF THE SALE TRANSACTION

Closing of the Sale Transaction occurred on January 31, 2007. As such, all conditions for closing contemplated by the Asset Purchase Agreement have either been satisfied or waived and the Company and Threshold have completed, complied with and satisfied all terms, conditions and obligations under the Asset Purchase Agreement.

Pursuant to the Sale Approval and Vesting Order, the Closing Certificate (as defined in the Sale Approval and Vesting Order) was filed with this Honourable Court on January 31, 2007, as confirmation that the Sale Transaction had closed.

The net sale proceeds from the Sale Transaction were \$2.21 million (purchase price of \$2.26 million, less \$50,000 representing the final installment of the Break Fee payable to Bidder 1). The Break Fee paid to Bidder 1 was approved by the Sale Approval and Vesting Order.

V. ONGOING FORENSIC INVESTIGATION

The Fourth Chapman Affidavit provides a summary of the initial results of the investigation by BDO Dunwoody LLP (“BDO”) regarding its forensic investigation to date with respect to the vault cash program. The Company is of the view that a full report on BDO’s investigation is required so as to provide more fulsome information to the stakeholders and to the Court as to the missing vault cash. The estimated cost to prepare this report is approximately \$28,000, which does not include any further investigation work. It is expected that if this report is obtained that the report would be made available to the Court at a further Court hearing.

VI. PROPOSED DIRECTOR AND OFFICER CLAIMS BAR PROCESS

On February 14, 2007, CU-Connect will bring a motion to this Honourable Court for an Order establishing a director and officer (including the CRO) claims bar process so that any claims which may have recourse against the D&O Charge provided for in the Initial Order can be addressed in these proceedings. Key aspects of this director and officer claims bar process are described below.

A. Notice to Creditors

A notice, substantially in the form presented in Schedule "A" of the proposed Directors and Officers Claims Bar Order (the "D&O Claims Bar Order") (the "Claims Bar Notice"), is to be published by the Company in the Globe and Mail (National Edition) on or before February 21, 2007.

The Monitor is also required to send by ordinary mail, as soon as practicable and no later than seven (7) days after the issuance of the D&O Claims Bar Order, a copy of the Claims Bar Notice and the D&O Instruction Letter to:

- (a) all of the creditors of the Applicant, as disclosed by the accounts payable records of the Applicant as at the date of the D&O Claims Bar Order, with claims in excess of \$1,000;
- (b) all person who have notified the Monitor in writing of a potential D&O Claim on or before the date of the D&O Claims Bar Order; and
- (c) all persons on the Service List.

B. Claims Bar Date

Pursuant to the proposed D&O Claims Bar Order, any Claimant wishing to assert a D&O Claim is required to deliver a Claim Notice to the Monitor on or before 5:00 p.m. (Eastern Daylight Time) on April 5, 2007 (the "Claims Bar Date"). The D&O Claims of all Persons who do not deliver a Claim Notice to the Monitor by the Claims Bar Date shall be forever extinguished and barred.

C. Procedure for Determination of D&O Claims

Following the receipt of one or more Claim Notices by the Monitor on or prior to the Claims Bar Date, the Monitor will provide a copy of the Claim Notice(s) to the Director or Officer in respect of whom the Claim Notice relates to and the solicitors of the Applicant. It is anticipated that this Honourable Court will be provided with the results of the process contemplated by the D&O Claims Bar Order after the Claims Bar Date at a subsequent Court hearing.

VII. OTHER MATTERS

A. Discontinuance of Prepaid Card Program

The discontinuance of the prepaid card program was first discussed in the Second Report of the Monitor (the "Second Report"). In mid-January 2007, North York Community Credit Union ("NYCCU"), the card issuer under the prepaid card program, commenced a claims administration process in connection with the discontinuance of the prepaid card program. NYCCU posted a notice to cardholders on its website, which among other things, stated that: (i) cardholders can no longer access funds through the CIRRUS network; (ii) a plan has been developed by NYCCU whereby card balances, subject to a processing fee, would be remitted to cardholders; and (iii) cardholders are required to submit a claim form and return the cards to NYCCU.

As indicated in the Fourth Chapman Affidavit, the Company provided technical assistance to NYCCU when it was formulating its plan to run-off the prepaid card program, however it is NYCCU's plan, and neither the Company nor Threshold have any role in implementing the plan.

NYCCU has made its notice to cardholders and the claim form available on its website at www.nyccu.com.

B. JAWZ Canada Inc. and Canada Revenue Agency/Department of Justice

As described in the Second Report, the Company has exchanged correspondence with CRA and the DOJ regarding a deemed trust claim in the amount of \$1.46 million that CRA has asserted against the Company. On February 2, 2007, the CRO, the Company's legal counsel and the Monitor and its counsel met with the DOJ. At that meeting, the Company's counsel presented its views on the transactions and events that are the basis for CRA's alleged claim. A further meeting was held with the DOJ on February 7, 2007. The Company has agreed to provide certain documents to the DOJ so that it can assess its position regarding the deemed trust claim advanced by CRA.

VIII. CU-CONNECT'S REQUEST TO EXTEND THE STAY PERIOD

The stay period provided by the Sale Process Approval Order expires February 16, 2007. In order to allow sufficient time to implement the director and officer claims bar process and to have BDO complete its report regarding the forensic investigation to date, the Company is requesting an extension of the stay of proceedings to April 27, 2007.

The Monitor does not foresee any reason why an extension of the stay period would not benefit all affected stakeholders and recommends such an extension, subject to the approval of this Honourable Court.

IX. SUMMARY AND CONCLUSIONS

The Monitor believes that the Company is acting in good faith and with due diligence in these proceedings.

The Monitor respectfully recommends that the Court approve the Company's request to extend the stay period to April 27, 2007 in order to allow for sufficient time to conduct the director and officer claims bar process and for BDO to complete its report regarding the forensic investigation to date. The Monitor also supports the Company's request for payment of the amount required to satisfy the DIP Lender's Charge, which Charge is provided for in the Initial Order.

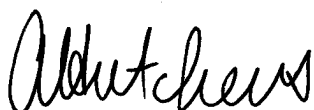
Following the receipt of BDO's report, the Monitor understands that the Company will consider the options available to it, which may include a bankruptcy, in order to facilitate an orderly wind-down of the affairs of the Company.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

Dated the 9th day of February, 2007.

KPMG INC.

**In its Capacity as Court-Appointed Monitor of
3791351 Canada Inc, Carrying on Business as "CU-Connect"**



*Per: Alan J. Hutchens
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IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS
AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO
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Court File No: 06-CL-6746

(The "Applicant")

ONTARIO

SUPERIOR COURT OF JUSTICE
(Commercial List)

Proceeding commenced at Toronto

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