

## TO BE POSTED ON TRUSTEE'S WEBSITE

March 17, 2011

### LETTER TO STAKEHOLDERS

Dear Sir/Madam:

**FactorCorp Inc. and FactorCorp Financial Inc. ("FFI") (collectively, the "Companies")**

Please find attached a copy of the Trustee's Second Report dated March 9, 2011 (the "Second Report") as amended on March 17, 2011. The Second Report is posted on the Trustee's website ([www.kpmg.ca/factorcorp](http://www.kpmg.ca/factorcorp)) as are earlier reports. The Second Report was amended on March 17, to correct some minor errors.

In follow-up to the October 22, 2010 Notice to Stakeholders, and as discussed in the Second Report, the Inspectors have authorized the Trustee to (i) pay approximately \$330,000 to BMO in accordance with the BMO Reimbursement Agreement (as defined in the Second Report) and (ii) make an initial distribution from the Customer Pool to the Customers in proportion to their net equity on March 31, 2011 in the amount of approximately \$2,002,375 which represents approximately four (4) cents on the dollar (after taking into consideration the BMO Payment, the amount of which was previously distributed by BMO to all Customers with admitted claims).

Should you have any questions, please contact the Trustee at (416) 777-8408 or email us at [factorcorp@kpmg.ca](mailto:factorcorp@kpmg.ca).

Yours very truly,

**KPMG INC., in its capacity as Trustee of the Consolidated Estate of  
FactorCorp Inc. and FactorCorp Financial Inc.**



Per: Elizabeth J. Murphy  
*Vice President*

*ONTARIO*  
**SUPERIOR COURT OF JUSTICE  
(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE BANKRUPTCY OF  
FACTORCORP INC. AND FACTORCORP FINANCIAL INC.,**  
each of which is a corporation incorporated pursuant to the *Business  
Corporations Act* (Ontario) with its principal place of business in the  
City of Mississauga, in the Province of Ontario

**SECOND REPORT OF KPMG INC., THE TRUSTEE OF THE CONSOLIDATED ESTATE**

March 9, 2011  
(Amended on March 17, 2011)

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## ***Listing of Appendices***

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- Appendix A - Order of the Ontario Superior Court of Justice (in Bankruptcy and Insolvency) dated March 25, 2008
- Appendix B - Combined Summary Statement of Receiver's Receipts and Disbursements for the period from October 17, 2007 to February 28, 2011 and the Trustee's Summary Statement of Trustee's Receipts and Disbursements for the period from March 25, 2008 to February 28, 2011
- Appendix C - Summary of Assets in the Customer Pool and Amount of Initial Distribution as at February 28, 2011.

## *1. Notice*

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- 1.1 In preparing this Second Report, the Trustee (as defined in Section 2.1.5) has relied upon information and records available from the Companies (as defined in Section 2.1.3) and from third parties, which may be incomplete and may or may not be accurate. The Trustee's review of this information does not constitute an audit of the financial position or operating results of the Companies.
- 1.2 In view of the uncertainties surrounding a corporation in bankruptcy, the ultimate financial position of the Consolidated Estate (as defined in Section 2.1.4) and the ultimate realizations (each of which is set forth in this Second Report) may differ from the preliminary information provided in the Preliminary Report of the Trustee dated April 24, 2008 (the "Preliminary Report") and the First Report of the Trustee dated December 4, 2008 (the "First Report").
- 1.3 This Notice must be considered in the context of the entire Second Report.

## 2. Introduction

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### 2.1 Bankruptcy of the Companies

- 2.1.1 FactorCorp Inc. (“**FCI**”) is an Ontario corporation which was incorporated on August 13, 2002. FCI was registered as a limited market dealer under the *Securities Act* (Ontario) (the “**Securities Act**”).
- 2.1.2 FactorCorp Financial Inc. (“**FFI**” or “**FactorCorp**”) is an Ontario corporation which was incorporated on May 26, 2003. FFI was not registered in any capacity under the Securities Act.
- 2.1.3 FCI and FFI are collectively referred to as the “Companies” in this Second Report.
- 2.1.4 Pursuant to the Order of the Ontario Superior Court of Justice (In Bankruptcy and Insolvency) dated March 25, 2008 (the “**Bankruptcy Order**”) the Companies were adjudged bankrupt and a Bankruptcy Order was made against the Companies on a consolidated basis (the “**Consolidated Estate**”). A copy of the Bankruptcy Order is attached as **Appendix A** hereto.
- 2.1.5 Pursuant to the Bankruptcy Order, KPMG Inc. was appointed as the trustee (the “**Trustee**”) of the Consolidated Estate.
- 2.1.6 The Bankruptcy Order provides that the effective date of bankruptcy is December 4, 2007 (the “**Date of Bankruptcy**”).
- 2.1.7 The Bankruptcy Order also provides that the Companies are “securities firms” within the meaning of Part XII of the *Bankruptcy and Insolvency Act* (the “**BIA**”). Accordingly, the Consolidated Estate is being administered in accordance with Part XII of the BIA (“**Part XII**”).

### 2.2 Background

- 2.2.1 Mark Twerdun (“**Twerdun**”) was the sole officer, director and shareholder of FCI. Twerdun was registered as the sole trading officer and the sole compliance officer of FCI. Twerdun was the sole officer and director and majority shareholder of FFI. Certain of Twerdun’s family members own the remaining shares.
- 2.2.2 The Companies raised approximately \$58 million by issuing approximately 700 non-prospectus qualified debentures (the “**Debentures**”) to Ontario investors (the “**Customers**”).<sup>1</sup> The Trustee understands that the Companies first issued Debentures in late 2003. As at the Date of Bankruptcy, approximately \$50 million of the Debentures remained outstanding and were held by approximately 631 Customers.

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<sup>1</sup> To be consistent with the wording of the BIA, holders of debentures issued by the Companies are referred to herein as “Customers”.

- 2.2.3 Customers purchased Debentures primarily through registered market fund dealers and limited market dealers. The Trustee understands that Farm Mutual Financial Services Inc. (“**FMFS**”) and/or its branches sold most of the Debentures to the Customers. Interglobe Financial Services Corp. was also one of the dealers.
- 2.2.4 The Companies pooled the funds raised from the issuance of the Debentures. FFI advanced the funds raised from the issuance of the Debentures in the form of loans to third parties (referred to herein as the “**Clients**”) and, in some instances, the Clients used the funds advanced by FFI to make loans to (or enter into other credit arrangements with) third party borrowers of the Client. In some instances, the Clients used the funds advanced by FFI in their own businesses and did not re-lend such funds to other parties. In one instance, FFI purchased preferred shares in a Client.
- 2.2.5 During the spring of 2007, FFI received numerous redemption requests from Customers which it could not honour. On May 7, 2007, FFI gave written notice to certain of the Customers who had submitted redemption requests that it could not redeem their Debentures.
- 2.2.6 In accordance with the terms set forth in a temporary order issued by the Ontario Securities Commission (the “**OSC**”) on July 6, 2007 (the “**OSC Temporary Order**”), KPMG Inc. was retained by the Companies as a monitor on August 1, 2007. While the Companies were subject to the OSC Temporary Order and the engagement of the monitor, the Companies made attempts to obtain new financing to fund, among other things, the redemption of the Debentures.
- 2.2.7 The Companies’ efforts to obtain new financing were unsuccessful. As a result, on October 17, 2007, the OSC sought and obtained the appointment of KPMG Inc. as receiver and manager (the “**Receiver**”) of all of the property, assets and undertaking (collectively, the “**Property**”) of the Companies. The primary mandate of the Receiver was to preserve, protect and monetize the property, assets and undertakings of the Companies.
- 2.2.8 The Receiver issued five reports to the Court, all of which are available on KPMG Inc.’s website at [www.kpmg.ca/factorcorp](http://www.kpmg.ca/factorcorp) (the “**Trustee’s Website**”). A copy of the Receiver’s Fourth Report to the Court dated March 10, 2008 (with selected Appendices only) was mailed to all creditors along with the Notice of Bankruptcy.
- 2.2.9 The Receiver was discharged pursuant to an Order issued by the Ontario Superior Court of Justice on March 18, 2009 (the “**Receiver’s Discharge Order**”). A copy of the Receiver’s Discharge Order is available on the Trustee’s Website.
- 2.2.10 Upon the discharge of the Receiver, the Trustee took over the administration of all of the Property.

### **2.3 Purpose of this Second Report**

- 2.3.1 The Trustee has prepared this Second Report to update the creditors with respect to the status of the administration of the Consolidated Estate. The Preliminary Report and the First Report are available on the Trustee's Website and should be read in conjunction with this Second Report.

### ***3. Administration of the Estate***

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#### **3.1 The Claims Process**

- 3.1.1 The claims process in these proceedings is described in detail in the Bankruptcy Order. In compliance with the claims process, the Trustee mailed a Notice of Bankruptcy package to all known Customers and all other known unsecured creditors (the “**Other Creditors**”) of the Consolidated Estate on April 7, 2008.
- 3.1.2 The package mailed to the Customers included an “Investment Statement” which set forth the Trustee’s calculation of the amount of each Customer’s claim as follows:
- (i) the principal outstanding at October 1, 2007;
  - (ii) plus interest for October 2007;
  - (iii) less any payment received from Bank of Montreal (BMO) on November 1, 2007;<sup>2</sup>
  - (iv) plus interest for November 2007; and
  - (v) plus interest for the period December 1 to December 4, 2007, the Date of Bankruptcy.
- 3.1.3 Each Investment Statement was prepared based upon information set forth in the Companies’ records. While this information was reviewed for reasonableness by the Trustee, the Trustee did not audit the information and its review would not necessarily disclose any errors or irregularities.
- 3.1.4 Where a Customer agreed with the amount set forth in the Investment Statement, they simply attached a copy of the Investment Statement to their executed proof of claim form and returned their proof of claim to the Trustee. No other additional information was required.
- 3.1.5 The following is a summary of the proofs of claim filed with the Trustee against the Consolidated Estate as at February 28, 2011:

<b>Category</b>	<b>Number</b>	<b>Claim</b>
Secured	Nil	Nil
Preferred	Nil	Nil
Customers (Investors)	628	\$50,059,383
Other Creditors	4	38,111
Contingent Creditors	1	250,000
<b>Total</b>	<b>633</b>	<b>\$50,347,494</b>

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<sup>2</sup> In accordance with the BMO Reimbursement Agreement as defined and described in Paragraphs 8.1.4 and 8.1.5.

3.1.6 The Trustee has now received and reviewed the proofs of claims from all known Customers and the Other Creditors. The Trustee notes that there are minor deficiencies with four of the claims received from the Customers and the Trustee is in the process of attempting to resolve these deficiencies. If these minor discrepancies are not resolved prior to the initial distribution, the Trustee may either (i) issue a partial Notice of Disallowance together with the affected Customer's initial distribution as calculated by the Trustee or (ii) hold back the amount of the initial distribution with respect to the affected Customer(s) until a later date as determined by the Trustee.

### **3.2 The Role of the Inspectors and Meetings to Date**

3.2.1 Since the issuance of the Bankruptcy Order, the Trustee and the Inspectors of the Consolidated Estate have held 32 meetings (the "**Inspectors' Meetings**"). Three of the Inspectors' Meetings were conducted in person and the remainder were conducted by conference call.

3.2.2 The Inspectors took an active role in these bankruptcy proceedings. The Trustee notes that a large number of meetings was necessary due to the complexity of these bankruptcy proceedings, the myriad of issues, and the particular difficulties faced in collecting certain amounts owing to the Consolidated Estate and realizing on the portfolio of loans held by the Consolidated Estate (the "**Loan Portfolio**").

3.2.3 Since the date of the First Report, numerous issues surrounding the administration of the Consolidated Estate have been addressed at the Inspectors' Meetings. Such issues include, but are not limited to:

- ongoing review and consideration of the Loan Portfolio;
- ongoing review and analysis of the ability to collect or realize on the Loan Portfolio and the costs associated with such efforts;
- presentation and detailed consideration of various alternatives for maximizing the realizable value of the Loan Portfolio, while weighing the benefits and costs associated with each alternative;
- ongoing discussion of the status of recovery efforts and further proposed courses of action, including authorizing the Trustee to demand and enforce security and enter into settlement agreements where appropriate;
- authorization for the Trustee to undertake investigations into certain legal matters and to conduct examinations of individuals who may have knowledge of the business and affairs of the Companies (pursuant to Section 163 of the BIA);
- review and discussion of outstanding litigation and the authority for the Trustee to proceed with same;

### 3.4 Further Investigations and Inquiries

- 3.4.1 As set forth in the First Report, Section 163(1) of the BIA provides that the Trustee may examine persons reasonably thought to have information regarding the business and affairs of the Companies. This type of examination is referred to as a “**Section 163 Examination**”. Throughout the course of these proceedings, the Inspectors authorized the Trustee to conduct a number of Section 163 Examinations in an effort to assist in the process of realizing on the Loan Portfolio and maximizing value to the Consolidated Estate.
- 3.4.2 The Trustee has conducted five Section 163 Examinations: (i) Twerdun on July 10, 2008; (ii) Paul Zilkey (“**Zilkey**”), the principal of two of FactorCorp’s Clients, Breken Financial Inc. (“**Breken**”) and FCB Financial Inc. (“**FCB**”) on September 4, 2008; (iii) Mr. Phillip Jackson, the president of Spaceworks Entertainment Inc. (“**Spaceworks**”) and Ice Planet (I) Ltd. (“**Ice Planet (I)**”) on December 4, 2008; (iv) Mr. Arthur Milan, Chairman of Forbes/Hutton Financial Corp. (“**Forbes Hutton**”) on January 15, 2009; and (v) Mr. Robert McAllister, the principal of Capmor Financial Services Corporation (“**Capmor**”) on February 11, 2009.
- 3.4.3 Further, as set forth in the First Report, the Trustee (and, initially, the Receiver) did not receive complete books and records for the Companies from Twerdun and certain of the solicitors retained by the Companies (each of whom have claimed privilege with respect to certain of the books and records and/or have claimed that the requested documents are irrelevant to the administration of the Consolidated Estate). As a result, a number of steps were taken to obtain such information including, but not limited to, requests for documentation (i.e. copies of cheques, bank drafts, wire transfer vouchers, electronic funds transfer listing) from the Companies’ bank to support deposits to and disbursements from the Companies’ bank accounts.
- 3.4.4 Some of the Trustee’s information requests of various parties remain outstanding and, given the costs involved in pursuing these inquiries further, the Trustee will not be continuing any further investigation. In the event that new information becomes available prior to the Trustee’s discharge, the Trustee and the Inspectors will consider whether to pursue such issues further.

### 3.5 Litigation - Claim by New Solutions

- 3.5.1 As set forth in the First Report, shortly after its appointment, the Receiver became aware of litigation commenced in 2006 against Twerdun, a party by the name of “Factor Corp” and Zilkey (collectively, the “**Defendants**”) by New Solutions Financial Corporation and New Solutions Financial (IV) Corporation (collectively, “**New Solutions**”) (this litigation is hereinafter referred to as the “**New Solutions Action**”). In its claim, New Solutions alleged misconduct against the Defendants during a period (which was prior to the commencement of full-scale operations by FFI) in which the Defendants were associated with New Solutions.
- 3.5.2 Over the course of these proceedings and, in particular during the past twelve months, counsel for New Solutions has requested that the Trustee produce certain records of the Companies which New Solutions believes are relevant to the New

- authorization for the Trustee to seek orders from the Court, where necessary, to obtain additional information to assist in collecting funds due to the Consolidated Estate;
- presentation and consideration of information to assist the Inspectors with oversight of the claims process and any issues associated with that process;
- ongoing consideration of (and response to) various claims and allegations asserted by Wasserman (as defined in Paragraph 5.3.1 and as discussed in greater detail in Section 5.3);
- ongoing consideration of (and response to) various motions brought by third parties against the Consolidated Estate for production of information related to third party litigation;
- review and discussion of the Trustee's activities to reconcile/trace bank balances and transactions and related requests of the Companies' bank for copies of supporting documents;
- where necessary, queries of Twerdun regarding the background and purpose of certain transactions;
- updates from the Trustee with respect to meetings with regulators, such as the OSC, and other stakeholders; and
- consideration of the timing and amount of distributions to the Customers, particularly in light of the costs involved with distributions and the timing of the OSC Proceedings.

### **3.3 Consultation and Other Communications**

- 3.3.1 The Trustee has spent a considerable amount of time over the past three years consulting with regulatory authorities with respect to various matters relating to the Consolidated Estate, including the OSC and the Mutual Fund Dealers Association. The Trustee has also met with and addressed the inquires from other stakeholders in the Consolidated Estate.
- 3.3.2 On October 22, 2010 the Trustee posted a Notice to Stakeholders on the Trustee's Website. The purpose of the notice was to update Customers on a number of matters, including the discharge of the Receiver, the potential timing of a distribution to Customers and the potential timing of further reports.
- 3.3.3 The Trustee has communicated with all of the creditors of the Consolidated Estate by written correspondence (dated April 7, 2008, June 13, 2008 and September 3, 2008), copies of which are posted on the Trustee's Website.
- 3.3.4 In addition, the Trustee has responded to inquiries from individual creditors made by email and/or telephone.

Solutions Action. After numerous motions brought by counsel to the New Solutions, all of which necessitated a response from the Trustee, the New Solutions Action was dismissed by the Court on January 25, 2011. However, counsel for New Solutions filed an appeal of the dismissal of the New Solutions Action on February 23, 2011. The timing of this appeal is unknown.

## ***4. Realization on Assets***

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### **4.1 Overview**

- 4.1.1 As at March 25, 2008 (the date of the appointment of the Trustee), the primary realizable assets of the Companies consisted of (i) the Loan Portfolio and (ii) preferred shares of Express Commercial Services Inc. (“ECS”). The Loan Portfolio and the preferred shares of ECS are collectively referred to as the “Assets”. The Assets are summarized in Table I set forth below. Based upon the books and records of the Companies, the Trustee estimated the value of the Assets to be approximately \$51 million as at March 25, 2008.
- 4.1.2 In the First Report, the Trustee cautioned that it was expected that the ultimate realization on the Assets may be nominal. Since the issuance of the First Report, the Trustee has continued with its efforts to realize on the Assets of the Companies. As at the date of this Second Report, the Trustee has received principal payments totalling approximately \$3,126,067 and interest payments totalling approximately \$645,446. These principal payments include amounts received pursuant to negotiated settlements with certain Clients.
- 4.1.3 A number of factors have affected the realizable value of the Assets including, but not limited to, the validity, enforceability and completeness of the security granted to FFI by the Clients, the existence (or lack thereof) of the underlying security documents, the value of the assets pledged in favour of the Companies by the Clients, the willingness and/or ability of the Client to make its payments or cooperate with the Trustee, the financial position of the Client and external economic conditions.

## 4.2 Table of Assets and Realization Efforts

4.2.1 The table lists the Assets and the results of the Trustee's realization efforts for each Asset:

Client (a)	Estimated Gross Value Mar. 25, 2008 (b)	Adjustments	Principal Payments Received	Interest Payments Received	Realizable Value at February 28, 2011
Breken	\$1,800,000		\$(1,400,000)	\$(10,438)	\$ Nil
CanFactor	630,000		(110,000)	(235,805)	Nil
Romco /Capmor	3,502,000	(1,727,534) (c)	(355,299)	(22,888)	(d)
FCB	8,759,102		(7,190)		Nil
Forbes/Hutton	9,310,000 (e)		(375,000)	(376,324)	Nil
Integra	407,000 (f)		(12,970)		Nil
Lease Capital	2,552,500		(150,000)		Nil
MBSG	1,744,476				Nil
Sydcom	796,500				Nil
W3	1,630,563		(715,623)		(d)
Ice Planet	250,000	50,000 (g)			Nil
ECS	19,718,300				Nil
Activecore	-	50,000 (h)			Nil
<b>Total</b>	<b>\$51,100,441</b>		<b>(3,126,082)</b>	<b>(645,445)</b>	

(a) Client names as defined herein.

(b) As presented in the Preliminary Report and the First Report.

(c) Certain principal repayments were not recorded in the Companies' records. This adjustment also includes \$162,493 in principal repayments made to the Receiver during the period from October 17, 2007 to March 25, 2008.

(d) (The Trustee anticipates future recoveries. However, any such recoveries will be nominal.

(e) Of this balance, \$1,050,000 is due in U.S. dollars. For purposes of this table, the Trustee has treated U.S. currency at par with Canadian dollars at March 25, 2008.

(f) The estimate gross value as at March 25, 2008 is net of a principle payment of \$293,465 received by the Receiver prior to March 25, 2008.

(g) Investment was not properly recorded in Companies' records.

(h) Investment was not properly recorded in Companies' records. Balance is in U.S. dollars but the Trustee has not converted due to nominal impact.

### 4.3 Summary of Realization Efforts and Recoveries

The following is an updated summary for each Asset and the associated realization efforts and results since the issuance of the First Report. The following should be read in conjunction with the First Report.

#### 4.3.1 Breken Financial Inc.

As set forth in the First Report, the amounts owing by Breken to the Consolidated Estate were the subject of a settlement in the aggregate amount of \$1,400,000. This settlement amount, together with interest payments received by the Trustee, resulted in aggregate payments from Breken of \$1,410,438.

#### 4.3.2 Canfactor Inc. (“Cantor”)

The amounts owing by Canfactor to the Consolidated Estate were the subject of a settlement following the issuance of demand letters and a Notice of Intention to Enforce Security by the Trustee. Negotiations between the Trustee and Canfactor resulted in a settlement in the amount of \$110,000 which was paid by Canfactor to the Trustee on December 31, 2010. This amount, together with interest payments received by the Receiver and the Trustee from Canfactor throughout the proceedings, resulted in aggregate payments from Canfactor of \$345,806.

#### 4.3.3 Romco Capital Partners Corporation (“Romco”) and Capmor Financial Services Corporation

Since the issuance of the First Report, the Trustee has continued to receive intermittent payments from Romco with respect to realizations made by Romco on its loan portfolio. In March 2009, the Trustee entered into an agreement with Romco pursuant to which Romco would receive a fee of 15% on the collections it made and remitted to the Trustee. Although the arrangement reached with Romco remains in place as at the date hereof, the Trustee does not expect that future recoveries will be anything more than nominal. As at February 28, 2010, the Trustee had received interest and principal totaling \$378,177 from Romco.

#### 4.3.4 FCB Financial Inc. (“FCB”)

As set forth in the First Report, the Trustee demanded on the FCB loan and issued a Notice of Intention to Enforce Security in July 2008, but did not expect the recovery to be significant. In March 2009, the Trustee entered into a settlement agreement with FCB which provided that FCB would continue to collect payments from its customers and remit funds to the Trustee in exchange for a fee based on a percentage of the amount collected (the “FCB Agreement”). In accordance with its terms, the FCB Agreement was terminated by FCB in June, 2010 and the balance of FCB’s portfolio was assigned to the Trustee. The Trustee is of the view that this portfolio does not have any value and does not intend to take any further steps in respect of this loan. Pursuant to and during the term of the FCB Agreement, the Trustee received payments of \$7,190 from FCB.

Based on the limited information made available to the Receiver and the Trustee by FCB, it appears that the funds advanced to FCB by FFI were used by FCB to make loans to third parties. For example, FCB advanced \$4.550 million to Spaceworks and Ice Planet Canada Ltd. No recoveries were made by FCB on this loan as it is related to the production of a television show which never commenced.

#### 4.3.5 Forbes/Hutton Financial Corp.

On October 15, 2008, the Trustee issued a demand for payment and a Notice of Intention to Enforce Security against Forbes Hutton, as the primary obligor, and Forbes Hutton Leasing Inc. ("**Leasing**") as a guarantor of Forbes Hutton's indebtedness. In addition, the Trustee issued a demand against Arnold Milan, as an additional guarantor of Forbes Hutton's indebtedness. After months of discussions between the parties, the Trustee considered appointing a receiver over the property of Forbes Hutton.

On December 19, 2008, the Portuguese Canadian Credit Union Limited (the "**PCCU**") sought the appointment of Deloitte & Touche Inc. ("**Deloitte**") as receiver in respect of Forbes/Hutton Armoured Car Service Inc. ("**Armoured Car**"), a company related to Forbes Hutton. The report filed by Deloitte in aid of the application to appoint a receiver in respect of Armoured Car (the "**Deloitte Report**") called into question the ability of Forbes Hutton to conclude any settlement negotiations with the Trustee and to effect a settlement by way of financing from an independent third party. In addition, the Deloitte Report raised concerns with respect to the questionable use of funds advanced by the PCCU to Armoured Car. During this time, the Deposit Insurance Corporation of Ontario ("**DICO**") was appointed as administrator of the estate of the PCCU.

To protect FFI's security interest in the assets of Forbes Hutton, the Trustee filed an application for the appointment of a receiver over the assets of Forbes Hutton and Leasing on January 28, 2009. Forbes Hutton subsequently made an offer to settle its indebtedness to FFI by way of a payment from a third party, Mr. Pfeiffer, in exchange for an assignment of the debt and security owing by Forbes Hutton to Mr. Pfeiffer (the "**Pfeiffer Offer**"). After much negotiation, the Trustee and Mr. Pfeiffer entered into a letter of intent dated January 29, 2009, which was amended on February 2, 2009, the terms of which provided that Mr. Pfeiffer would purchase the debt owing by Forbes Hutton to FFI and the related security \$3 million.

Prior to the Trustee and Mr. Pfeiffer finalizing the transaction documents in respect of the Pfeiffer Offer, DICO requested a meeting with the Trustee and expressed concerns to the Trustee about the source of the funds that may be used by Mr. Pfeiffer to purchase the debt and security. On May 29, 2009, an offer was received by the Trustee from DICO (the "**DICO Offer**") wherein DICO offered to purchase the debt and security, subject to certain terms and conditions - one of which was that the Court authorize the Trustee to enter into the DICO Offer and complete the transaction contemplated therein.

As a result, the Trustee, upon authorization from the Inspectors, brought a motion before the Court seeking the advice and direction of the Court with respect to whether the Trustee should be entitled to terminate the Pfeiffer Offer and enter into a transaction with DICO. On June 17, 2009, the Court issued an order compelling the Trustee to proceed with the Pfeiffer Offer.

Between June, 2009 and April, 2010, the Trustee, Forbes Hutton and Mr. Pfeiffer continued to negotiate the final terms of the transaction documents in respect of the Pfeiffer Offer. The negotiations were lengthy and delayed due partly as a result of ongoing issues between the PCCU, DICO, Armoured Car and Mr. Milan. In addition, the closing of the Pfeiffer Offer was linked to the outcome of the receivership application brought by the PCCU and certain other litigation. As a result of these, plus a number of other issues, the Pfeiffer Offer did not close on its original terms. Rather, it was amended and closed in April, 2010 for \$375,000. Had this transaction not closed, the Trustee was of the view that the Consolidated Estate would not have received any proceeds on account of the Forbes Hutton indebtedness and may have been involved in costly litigation over a number of years.

The amount received from the Pfeiffer Offer, together with interest payments received by the Trustee from Forbes Hutton, resulted in aggregate payments from Forbes Hutton of \$751,324.

#### 4.3.6 Integra Investment Services Ltd. (“**Integra**”)

Integra, whose principal business was the operation of a mortgage investment fund, was placed into receivership in September 2006. In January 2008, the Receiver received \$293,466 on account of FFI’s loan to Integra. In December 2010, the Receiver received a final distribution of \$12,970.64.

#### 4.3.7 Lease Capital Corporation of Canada (“**Lease Capital**”)

As set forth in the First Report, the Trustee entered into two settlement agreements with Lease Capital. However, Lease Capital defaulted under each of these settlement agreements. In March 2010, Lease Capital approached the Trustee with a further revised offer to settle. That revised offer, which called for a cash payment of \$150,000, was accepted by the Trustee with the approval of the Inspectors and the cash payment was received in May 2010. In addition to this payment, the original settlement with Lease Capital provided that Lease Capital would assign to the Trustee its debt and security with respect to W3 Connex. As discussed below, the portion of the settlement related to W3 Connex Inc. was completed in late 2008.

#### 4.3.8 The Trustee received a total of principal and interest of \$150,000 from Lease Capital.

#### 4.3.9 Mohawk Business Solution Group (“**MBSG**”) and Four Directions

Further to the discussion in the First Report, the Trustee understands that MBSG was engaged in the construction and operation of service stations located on Indian reservations in southeastern Ontario and upstate New York. As at March 25, 2008, FFI had advanced \$1,659,643.00 to Four Directions and MBSG. The

Trustee had issued demands for payment and Notices of Intention to Enforce Security against both Four Directions and MBSG. The principals of Four Directions and the guarantors have not been cooperative with the Trustee. After consideration of all of the impediments to realization of assets located on an Indian reserve and the costs associated with such efforts, the Trustee was instructed by the Inspectors to take no further action with respect to this loan.

#### 4.3.10 Sydcom Wireless Group

Sydcom was located in Markham, Ontario. The nature of Sydcom's business is not familiar to the Trustee. For a more detailed discussion of the activities of the Trustee related to Sdycom please refer to the First Report. On instructions from the Inspectors, the Trustee is taking no further action with respect to this loan.

#### 4.3.11 W3 Connex Inc. ("W3")

In the First Report, the Trustee advised that the receiver appointed by the Court in respect of W3 expected to seek Court approval to distribute the net sale proceeds to various parties, including the Consolidated Estate. This approval was obtained in December, 2008 and the Trustee received an initial distribution \$684,623 in December 2008, and a second distribution of \$31,000 in June 2009. The Trustee expects any future distributions from the W3 estate to be nominal, if any.

The total principal received from W3 as at the date hereof is \$715,623.

#### 4.3.12 Ice Planet Canada (I) Ltd.

As discussed in the First Report, FFI entered into two loans with Ice Planet ( the "Ice Planet Loans"). One of the loans was guaranteed by Spaceworks and Sidereal Media Lab, a division of Pigeon Inc. Canada, both of which are associated with Ice Planet. The loans and the guarantees were unsecured. Neither the Trustee nor the Receiver has received payments on account of the Ice Planet Loans. In December 2008, the Trustee conducted a Section 163 examination of Mr. Jackson, the principal of Spaceworks and Ice Planet. The recovery on the Ice Planet Loans related to the FCB Agreement discussed above in Paragraph 4.3.4. On instructions from the Inspectors, the Trustee is taking no further action with respect to this loan.

#### 4.3.13 ECS

As set forth in the First Report, ECS is a factoring business based in Burlington, Ontario. FFI purchased preferred shares in ECS having an aggregate purchase price of approximately \$19,718,300. Based upon information provided from third parties, the Trustee understands that the funds received by FactorCorp were used to operate ECS's factoring/financing business, to pay dividends to FactorCorp, and a significant portion of these funds were loaned by ECS to Estates International Inc. ("EII"), an Ontario company related to ECS. EII then loaned the funds it received from ECS to Royal Reef Resort Ltd. ("RRR Ltd."), a Turks & Caicos company controlled by the shareholders of ECS. RRR Ltd. is

the developer of a condominium project known as Royal Reef Resort, located on North Caicos Island in the Turks & Caicos. In the context of its investigations, in July 2009 the Trustee received a sworn affidavit from one of the principal's of ECS discussing the financial position of the Royal Reef Resort and the nature of the investment by FFI in ESC.

The Trustee sent a formal redemption request in respect of the C Shares to ECS. ECS responded by advising the Trustee that it is prohibited from redeeming the C Shares without being in breach of certain provisions in the *Business Corporations Act* (Ontario). While the Trustee continues to hold the preferred shares in ECS there is a very limited likelihood of any recoveries for the following reasons: FFI is a shareholder of ECS and only has limited recourse to pursue recovery against ECS, ECS is insolvent, and ESC does not control Royal Reef and the fate of that project is effectively in the hands of the secured lenders in Turks & Caicos.

The Trustee understands that the Royal Reef Resort project has been seized by the local lenders and that no recoveries will be available to ECS.

Further to the instruction of the Inspectors the Trustee will be taking no further action.

On another note, in its 2007 corporate income tax return, FFI reported the receipt of approximately \$2.7 million of capital gains from ECS. In April 2008 the Receiver replied to inquiries from Canada Revenue Agency ("CRA") advising that it was not aware of any basis upon which such dividends could have arisen from capital gains. CRA has not issued any further correspondence to the Trustee in this respect.

#### 4.3.14 Activecore Technologies Inc. ("Activecore")

On or about May 15, 2006, FFI paid approximately \$50,000 to purchase 1,111,111 treasury shares in Activecore, a Toronto-based public company which represents itself to be a "payment technology solution provider". Activecore appears to have ceased business operations and its shares are now essentially worthless. FFI's investment in Activecore was not disclosed to KPMG Inc., whether in its capacity as Monitor, Receiver or the Trustee, by Twerdun and only came to light as a result of the Receiver's unrelated investigation into certain questionable banking transactions by FFI.

#### 4.3.15 Other

The Inspectors have directed the Trustee not to pursue or investigate further any fraudulent preferences or reviewable transactions and, other than incidental actions to complete decisions already made and approved by the Inspectors, have directed the Trustee not to pursue any additional realization efforts on the Assets of the Consolidated Estate. This decision was made after considering, among other things, the likelihood of any additional recovery and potential additional costs involved.

## ***5. Other Matters***

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### **5.1 The OSC Proceedings**

- 5.1.1 The OSC issued an Order on October 22, 2010 against the Companies and Twerdun which provides that a hearing (the “**OSC Hearing**”) shall commence on September 12, 2011 and continue to September 30. A copy of this Order is available at [www.osc.gov.on.ca](http://www.osc.gov.on.ca).
- 5.1.2 The Trustee may be required to participate in the OSC Hearing and, as a result, the Trustee cannot seek its discharge until after the OSC Hearing is complete.
- 5.1.3 The Trustee has made a formal request that the OSC provide funding for its participation in the OSC Hearing, especially given the very low recoveries for the Customers. As at the date hereof, the OSC has not confirmed whether it intends to provide such funding.

### **5.2 KPMG as Administrator in the FMFS Class Action**

- 5.2.1 As described in greater detail in the First Report, a class action was commenced by Robert Zopf, as Representative Plaintiff, against the former directors and officers of FMFS on behalf of certain Customers (the “**FMFS Class Action**”). The Trustee and the Consolidated Estate were not parties to the FMFS Class Action.
- 5.2.2 Counsel for the Customers comprising the Class Action approached KPMG Inc. in December 2009 and requested that KPMG Inc. act as the “administrator” in respect of any distributions to be made in the FMFS Class Action should the parties to the FMFS Class Action reach a settlement. The rationale for this request was that KPMG Inc., in its capacity as the Trustee, had access to information which would assist in a cost-effective and efficient distribution in the event of a settlement.
- 5.2.3 The parties to the FMFS Class Action reached a settlement on May 19, 2010 which was approved by the Ontario Superior Court of Justice on June 14, 2010 (the “**FMFS Settlement Order**”). Pursuant to the terms of the FMFS Settlement Order, KPMG Inc. was appointed as the administrator of the Class Action (the “**Administrator**”). The Administrator’s mandate has been substantially completed. KPMG Inc.’s fees and costs for its work as the Administrator were paid by the parties to the FMFS Class Action and have not been paid out of the Consolidated Estate.

### **5.3 The Robbins Bankruptcy and Ongoing Dealings with Wasserman**

- 5.3.1 As set forth in greater detail in the First Report, prior to the appointment of the Receiver, FFI filed four proofs of claim with the trustee of Lisa Robbins, a bankrupt (the “**Robbins Estate**”). The trustee of the Robbins Estate is Mr. Howard Wasserman (“**Wasserman**”). The ultimate treatment and outcome with respect to all four proofs of claim are set forth in the First Report. The

Consolidated Estate has not (and will not) receive any funds on account of these claims.

- 5.3.2 For the purposes of this Second Report, the Trustee continues to respond to numerous requests from Wasserman for access to the books and records of both the Trustee and the Companies. It is clear to the Trustee that such requests are related to issues in the Robbins Estate and will not generate any recovery for the Consolidated Estate.
- 5.3.3 While the Trustee is prepared to provide Wasserman with access to the books and records of the administration of the Consolidated Estate, as is required under the BIA, Wasserman is not entitled to unfettered access to the books and records of the Companies. In this respect, the Trustee has advised Wasserman that it does not intend to continue to spend what little funds are available for distribution to the Customers to continue to debate the issue. The Trustee has also advised Wasserman that in the event he feels that he is entitled to unfettered access the Companies' books and records, then he must obtain a Court Order authorizing such access and any such access will be at his own expense.
- 5.3.4 The costs associated with the ongoing dealings with Wasserman have been and continue to be borne by the Consolidated Estate. The Trustee is hopeful this issue will come to an end shortly.

## ***6. Statement of Receipts and Disbursements***

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- 6.1 The Trustee's Summary Statement of Receipts and Disbursements for the Consolidated Estate for the period March 25, 2008 to February 28, 2011 is included as **Appendix B** to this Second Report. This statement indicates total funds on hand of \$3,303,149, of which \$3,028,433 has been invested in redeemable GICs.
- 6.2 In accordance with the terms of the Receiver's Discharge Order, on March 29, 2009, the Receiver transferred \$900,000 to the Trustee. As at February 28, 2011, the Receiver held approximately \$26,192 in its accounts for FFI which will be remitted to the Trustee forthwith. As at February 28, 2011, the Receiver held approximately \$5,504.98 in its accounts for FCI. The Receiver's Summary Statements of Receipts and Disbursements for the period from October 17, 2007 to February 28, 2011 is included in **Appendix B**.
- 6.3 The professional fees paid to date are set forth in **Appendix B** and cover the period from the commencement of the date of the Bankruptcy Order (being March 25, 2008) to October 31, 2010. The Trustee and its counsel, Thornton Grout Finnigan LLP ("**TGF**"), have prepared detailed billings on a monthly basis and submitted same to the Inspectors for approval. Payment of these accounts has been made pursuant to written Resolutions of the Inspectors which authorize such fee draws from the Consolidated Estate. The professional fees and disbursements by the Trustee and TGF are ultimately subject to review and approval by the Court in accordance with the process set forth in the BIA, as is described in greater detail in the paragraph below.
- 6.4 The Trustee intends to seek an appointment with the Registrar in Bankruptcy in April 2011 for the taxation of the professional fees and disbursements to January 31, 2011.

## ***7. Tax Consequences***

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- 7.1 A number of Customers have advised the Trustee that they would like to report capital losses to CRA with respect to their investments in FCI and/or FFI. **The Trustee cautions that it cannot provide tax advice to Customers and therefore Customers should obtain independent tax advice.** The Trustee suggests that Customers provide their tax advisors with a copy of this Second Report.

## ***8. Initial Distribution***

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### **8.1 Initial Distribution**

- 8.1.1 Section 262 of Part XII provides that all of the cash and securities in the possession or control of the bankrupt constitutes the customer pool fund (the “**Customer Pool**”). Part XII also provides that the Customer Pool is to be allocated to the customers of a bankrupt securities firm in priority to all other claims, other than the costs of the administration of the estate, to the extent that sufficient funds are not available from the other assets of the bankrupt to pay such costs.
- 8.1.2 The assets in the Customer Pool held by the Trustee, together with amounts to be transferred from the Receiver to the Trustee, is currently comprised of the assets of FFI and is in the form of cash in the amount of approximately \$3,229,341. A Summary of Assets in the Customer Pool as at February 28, 2011 is included as **Appendix C**.
- 8.1.3 Since the Customer Pool is insufficient to cover the full claims of the Customers, no other creditors will receive a distribution on account of their claim(s) filed with the Trustee against the Companies or otherwise. In addition, the Bankruptcy Order provides that the levy pursuant to Section 147 of the BIA is not payable upon distributions made by the Trustee from the Customer Pool to the Customers.
- 8.1.4 As described in the Preliminary Report, the Companies’ bank, the Bank of Montreal (“**BMO**”), inadvertently made payments to the Customers totaling approximately \$330,000 on November 1, 2007 (the “**BMO Payment**”). Pursuant to the BMO Reimbursement Agreement (described in the Preliminary Report), BMO is to recover the amount of the BMO Payment prior to any distribution to the Customers.
- 8.1.5 On February 14, 2011, the Inspectors authorized the Trustee to (i) pay approximately \$330,000 to BMO in accordance with the BMO Reimbursement Agreement and (ii) make an initial distribution from the Customer Pool to the Customers in proportion to their net equity (the “**Initial Distribution**”) on March 31, 2011 in the amount of approximately \$2,002,375 which represents approximately four (4) cents on the dollar (after taking into consideration the BMO Payment, the amount of which was previously distributed by BMO to all Customers with admitted claims).
- 8.1.6 The Trustee anticipates mailing the cheques in respect of the Initial Distribution to the Customers on March 31, 2011.

### **8.2 Additional Distributions**

- 8.2.1 With reference to **Appendix C**, after the payment of the BMO Payment and the Initial Distribution, the balance in the Customer Pool will be approximately \$896,966. This amount is being held as a reserve, primarily in respect of anticipated future costs of the Consolidated Estate, including the anticipated fees associated with the Trustee’s participation in the OSC Hearing (in the event such

costs are required to be borne by the Consolidated Estate) and dealing with ongoing issued such as the New Solutions Action.

- 8.2.2 The Trustee is not yet able to estimate the amount or timing amount of any additional distributions to the Customers. As discussed above, the Inspectors have directed the Trustee to cease all realization efforts in respect of the Assets of the Consolidated Estate (other than incidental actions necessary to complete decisions made on settlements already reached and approved by the Inspectors). Hence, the Trustee cautions Customers that any further distributions, if any, will be nominal.
- 8.2.3 One of the factors that will affect the timing of an additional distribution is the OSC Hearing. As discussed above, the Trustee may be required to participate in the OSC Hearing which is currently scheduled to commence on September 12, 2011.

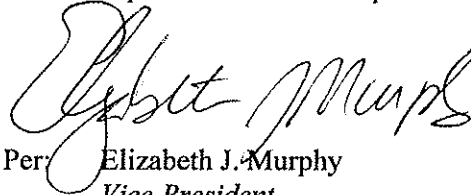
## 9. Summary

- 9.1 The Trustee has presented this Second Report to update the Creditors with respect to the Trustee's activities to date, receipts and disbursements to date and disclosure, to the extent considered advisable by the Trustee, of the status and outcome of the Trustee's realization efforts.

All of which is respectfully submitted this 17th day of March, 2011.

**KPMG INC.**

In its capacity as Trustee of the Consolidated Estate of  
FactorCorp Inc. and FactorCorp Financial Inc.

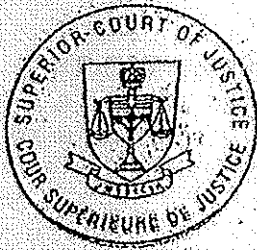
A handwritten signature in cursive script, appearing to read "Elizabeth Murphy".

Per: Elizabeth J. Murphy  
*Vice President*

Court File No. 31-OR-207506 T

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(IN BANKRUPTCY AND INSOLVENCY)

THE HONOURABLE MR. ) TUESDAY, THE 25<sup>th</sup> DAY  
JUSTICE GEOFFREY B. MORAWETZ ) OF MARCH, 2008



IN THE MATTER OF THE BANKRUPTCY OF  
FACTORCORP INC. AND FACTORCORP FINANCIAL  
INC., each of which is a corporation incorporated pursuant to  
the *Business Corporations Act* (Ontario) with its principal  
place of business in the City of Mississauga, in the Province of  
Ontario.

**ORDER**

**THIS MOTION** made by KPMG Inc., in its capacity as the Receiver and Manager (the "Receiver") of all of the property, assets and undertaking of FactorCorp Inc. and FactorCorp Financial Inc. (collectively, "the Companies"), for a Bankruptcy Order against the Companies on a consolidated basis was heard this day at 330 University Avenue, Toronto, Ontario.

**UPON READING** the Application for a Consolidated Bankruptcy Order dated December 4, 2007, the Affidavit of Verification dated December 4, 2007, the First Report of the Receiver dated October 29, 2007, the Second Report of the Receiver dated November 21, 2007, the Supplemental Report to the Second Report of the Receiver dated November 26, 2007 (the "Second Supplemental Report"), the Fourth Report of the Receiver dated March 10, 2008 (the "Fourth Report") and on hearing the submissions of counsel for the Receiver and counsel for the Ontario Securities Commission and Farm Mutual Financial Services.

AND UPON this Honourable Court being satisfied that, during the six month period immediately prior to the date of the Application for a Bankruptcy Order, the Companies committed the following acts of bankruptcy:

- (a) ceased to meet their liabilities generally as they became due, and
- (b) gave notice to their creditors that they have suspended payment of their debts.

1. **THIS COURT ORDERS AND DECLARES** that the time for the service of the Notice of Motion, the Motion Record, the Fourth Report of the Receiver and the Fourth Supplemental Report be and it is hereby abridged to the date of actual service, this Motion is properly returnable today and service upon any other party other than those served with the Notice of Motion be and it is hereby dispensed with.
2. **THIS COURT ORDERS** that the Fourth Report and the activities and conduct of the Receiver described therein be and they are hereby approved.
3. **THIS COURT ORDERS** that the Companies, of the City of Mississauga, in the Province of Ontario, be and they are hereby adjudged bankrupt and a Bankruptcy Order be and it is hereby made against the Companies on a consolidated basis.
4. **THIS COURT ORDERS** that KPMG Inc., of the City of Toronto, in the Province of Ontario, shall be and it is hereby appointed Trustee of the Consolidated Estate of the Companies (the "Consolidated Estate").
5. **THIS COURT ORDERS AND DECLARES** that the Companies are "securities firms" within the meaning of and governed by the provisions of Part XII of the *Bankruptcy and Insolvency Act (Canada)* (the "BIA").
6. **THIS COURT ORDERS AND DIRECTS** that the Consolidated Estate be administered pursuant to and in accordance with Part XII of the BIA.

7. **THIS COURT ORDERS AND DECLARES** that the date of the initial bankruptcy event for the Consolidated Estate is December 4, 2007 (the "Effective Date of Bankruptcy").
8. **THIS COURT ORDERS AND DECLARES** that the form and substance of the Notice Documents attached hereto as Schedule "A" shall be and they are hereby approved.
9. **THIS COURT ORDERS** that the Trustee be and it is hereby authorized and directed to rely on the best available records in its possession for the purposes of mailing the Notice Documents.
10. **THIS COURT ORDERS** that the Trustee be and it is hereby authorized and directed to send the Notice Documents to all persons who purchased debentures from the Companies (the "Investors") and other creditors by way of regular mail.
11. **THIS COURT ORDERS** that the Trustee be and it is hereby authorized and directed to publish the Notice Documents in the *Globe and Mail* in accordance with the provisions of subsection 103(4) of the BIA.
12. **THIS COURT ORDERS AND DECLARES** that the proposed methodology for the calculation of the provable claims (the "Claims") of the Investors as set out in the Fourth Report, whereby Claims will be calculated on the basis that the amount of an Investor's Claim shall be the amount invested by the Investor plus any accrued and unpaid interest thereon to the Effective Date of Bankruptcy less any redemption proceeds received by the Investor from the Bankrupts prior to the Effective Date of Bankruptcy be and it is hereby approved.
13. **THIS COURT ORDERS AND DECLARES** that notice of paragraph 12 of this Order is to be given to Investors through the inclusion of a statement in the Notice Documents (the "Investment Statement") prepared using the prescribed methodology for the calculation of Claims.

14. **THIS COURT ORDERS** that the Trustee is authorized to accept a proof of claim from each Investor based upon the Investor Statement delivered to each Investor unless the Investor disputes the Investor Statement by filing a proof of claim in the prescribed form, with the prescribed schedules thereto, setting out the Investor's calculation of its claim against the Consolidated Estate.
15. **THIS COURT ORDERS** that the funds in the possession of KPMG Inc., in its capacity as Receiver and Manager of all of the property, assets and undertaking of the Companies, and all amounts recovered from any fraudulent preferences, fraudulent conveyances, settlements and other reviewable transactions constitute cash and securities and comprise the customer pool fund of the Consolidated Estate all within the meaning of Part XII of the BIA.
16. **THIS COURT ORDERS** that the Receiver be and it is hereby authorized to advance sufficient funds to the Trustee to fund the administration of the Consolidated Estate.
17. **THIS COURT ORDERS AND DECLARES** that nothing contained herein shall affect the Orders of this Honourable Court dated October 17, 2007 and October 30, 2007 made in the proceeding commenced by the Ontario Securities Commission against the Companies in which KPMG Inc. was appointed the Receiver and Manager of all property, assets and undertaking of the Companies and that those Orders shall remain in full force and effect unamended by this Order.
18. **THIS COURT ORDERS** that the Reimbursement Agreement between the Receiver and Bank of Montreal dated November 13, 2007 is binding upon the Trustee and the Consolidated Estate.
19. **THIS COURT ORDERS AND DECLARES** that nothing contained herein shall affect the validity, enforceability and/or priority of the Receiver's Charge established by paragraph 19 of the Order of this Honourable Court appointing KPMG Inc. Receiver and Manager of all of the property, assets and undertaking of the Companies dated October 17, 2007 (the "Appointment Order").



IN THE MATTER OF THE BANKRUPTCY OF FACTORCORP INC. AND FACTORCORP  
FINANCIAL INC.

Court File No. 31-OR-207506 T

ONTARIO

SUPERIOR COURT OF JUSTICE  
(IN BANKRUPTCY AND INSOLVENCY)

Proceeding commenced at Toronto

ORDER

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Solicitors for KPMG Inc., in its capacity as Receiver  
and Manager of the property, assets and undertaking of  
FactorCorp Inc. and FactorCorp Financial Inc.

APPENDIX B - SECOND REPORT OF THE TRUSTEE

IN THE MATTER OF THE BANKRUPTCY OF FACTORCORP INC. AND FACTORCORP FINANCIAL INC.  
 COMBINED SUMMARY STATEMENT OF RECEIVER'S AND TRUSTEE'S  
 RECEIPTS AND DISBURSEMENTS  
 To February 28, 2011

	Receiver & Manager of FactorCorp Inc. from October 17, 2007 to February 28, 2011	Receiver & Manager of FactorCorp Financial Inc. from October 17, 2007 to February 28, 2011	Trustee of Consolidated Estate from March 25, 2008 to February 28, 2011	Total
<b>RECEIPTS:</b>				
Interest Receivable (Note 1)	-	\$842,316.89	\$645,445.51	\$1,487,762.40
Transfer from FactorCorp Financial Inc. accounts	-	666,136.20	-	666,136.20
Transfer from FactorCorp Inc. accounts	\$5,665.00	-	-	5,665.00
Repayment of Principal (Note 2)	-	455,958.82	3,126,082.47	3,582,041.29
Refund of Retainer	-	16,583.74	-	16,583.74
Transfer from Receiver's account for FactorCorp Financial Inc. to Trustee's account	-	(905,000.00)	905,000.00	0.00
Deposit interest	-	35,831.85	30,228.48	66,060.33
Miscellaneous	-	-	1,400.00	1,400.00
Total receipts	\$5,665.00	\$1,111,827.50	\$4,708,156.46	\$5,825,648.96
<b>DISBURSEMENTS:</b>				
Monitor's fees	-	85,684.34	-	85,684.34
Receiver's fees	-	598,206.77	-	598,206.77
Receiver's legal fees	-	296,068.79	-	296,068.79
Company's legal fees	-	15,000.00	-	15,000.00
Trustee's legal fees (Note 3)	-	-	499,234.64	499,234.64
Trustee's fees (Note 3)	-	-	902,567.78	902,567.78
Computer Consulting fees	-	10,373.95	-	10,373.95
Professional Services	-	19,437.32	2,649.85	22,087.17
Advertising	-	-	3,169.20	3,169.20
Filing fees	70.00	70.00	150.00	290.00
Redirection of mail	-	110.00	-	110.00
Creditors meeting expense	-	-	826.80	826.80
Inspectors fees and expenses	-	-	6,114.00	6,114.00
Mail Expense	-	1,476.66	-	1,476.66
GST paid	-	57,255.17	72,975.98	130,231.15
Collection fees	-	-	10,348.23	10,348.23
Storage of records	-	-	1,461.12	1,461.12
Miscellaneous and office expenses	90.02	1,951.91	5,510.02	7,551.95
Total disbursements	\$160.02	\$1,085,634.91	\$1,505,007.62	\$2,590,802.55
Excess of Receipts over Disbursements	\$5,504.98	\$26,192.59	\$3,203,148.84	\$3,234,846.41
<b>Represented By:</b>				
Balance in Receiver's/Trustee's Accounts at CIBC		\$26,192.59	\$174,715.36	\$200,907.95
CIBC GIC maturing November 8, 2011	-	-	611,721.22	611,721.22
CIBC GIC maturing January 12, 2012	-	-	659,387.60	659,387.60
CIBC GIC maturing March 4, 2011	-	-	352,800.00	352,800.00
CIBC GIC maturing March 31, 2011	-	-	904,524.66	904,524.66
CIBC GIC maturing September 21, 2011	-	-	500,000.00	500,000.00
	\$0.00	\$26,192.59	\$3,203,148.84	\$3,229,341.43

Note

1 Interest payments received are comprised of:

Customer	Receiver	Receiver	Trustee	Total
Breken Financial Inc.	-	\$86,437.05	\$10,438.35	\$96,875.40
CanFactor Inc.	-	47,174.10	235,805.52	282,979.62
Capmor Financial	-	20,110.13	22,877.65	42,987.78
Forbes Hutton I	-	423,500.00	294,100.00	717,600.00
Forbes Hutton II	-	66,666.32	39,999.99	106,666.31
Forbes Hutton III	-	48,918.12	42,224.00	91,142.12
Lease Capital	-	149,511.17	-	149,511.17
	\$0.00	\$842,316.89	\$645,445.51	\$1,487,762.40

2 Principal payments received are comprised of:

Customer	Receiver	Receiver	Trustee	Total
Integra	-	\$293,465.62	\$12,970.64	\$306,436.26
Capmor Financial	-	162,493.20	355,299.11	517,792.31
CanFactor Inc.	-	-	110,000.00	110,000.00
Breken Financial Inc.	-	-	1,400,000.00	1,400,000.00
W3 Connex Inc.	-	-	715,623.00	715,623.00
Forbes Hutton	-	-	375,000.00	375,000.00
FCB Financial	-	-	7,189.72	7,189.72
Lease Capital	-	-	150,000.00	150,000.00
	\$0.00	\$455,958.82	\$3,126,082.47	\$3,582,041.29

3 Relates to fees incurred from March 25, 2008 to October 31, 2010.

4 In accordance with March 25, 2008 Court Order, Bank of Montreal is entitled to receive \$330,000 from the first distribution by the Trustee as reimbursement for the November 1, 2007 interest payments to debenture holders which were made in error.

**APPENDIX C - SECOND REPORT OF THE TRUSTEE**

**IN THE MATTER OF THE BANKRUPTCY OF FACTORCORP INC.  
FACTORCORP FINANCIAL INC.**

**Summary of Assets in Customer Pool and Amount of Initial Distribution  
As at February 28, 2011**

Total funds on deposit per Trustee's Statement of Receipts & Disbursements	\$3,203,149
Total funds on deposit per Receiver's Statement of Receipts & Disbursements for FactorCorp Financial	<u>26,193</u>
Total assets in Customer Pool	3,229,341
Court-ordered reimbursement to BMO	(330,000)
Initial Allocation	<u>(2,002,375)</u>
Holdback	<u><u>896,966</u></u>
Amount of Initial Allocation	(2,002,375)
Total of Debenture Holders' claims	50,059,383
Dividend rate after Bmo payment	<b>4.00%</b>