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## NOTICE TO STAKEHOLDERS

October 22, 2010

Dear Sir/Madam:

### **Consolidated Bankruptcy of FactorCorp Inc. and FactorCorp Financial Inc.**

We are writing to update you on certain matters regarding the bankruptcy proceedings of FactorCorp Inc. and FactorCorp Financial Inc. (collectively, "FactorCorp"). KPMG Inc. was appointed as the trustee in bankruptcy (the "Trustee") of the FactorCorp estate (the "Estate") pursuant to an order of the Ontario Superior Court of Justice (the "Court") dated March 25, 2008 (the "Bankruptcy Order").

#### **A. Discharge of the Receiver**

Prior to its appointment as the Trustee, KPMG Inc. was appointed as receiver and manager of FactorCorp (the "Receiver") pursuant to an order of the Court dated October 17, 2007. The Receiver was subsequently discharged pursuant to an order of the Court dated March 18, 2009.

#### **B. FMFS Class Action**

As many of you may be aware, a class action was commenced on behalf of certain investors who purchased FactorCorp debentures through Farm Mutual Financial Services Inc. (the "FMFS Investors") against the directors of FMFS and various other defendants (the "FMFS Class Action"). A settlement with respect to the FMFS Class Action (the "Settlement Agreement") was approved and certified by the Court on June 14, 2010 (the "Certification Order"). Pursuant to the Certification Order, KPMG Inc. was appointed as the Class Action Administrator (the "Administrator").

Pursuant to the Settlement Agreement, the FMFS Investors were entitled to recover no less than 50% of the principal amount of the debentures issued by FactorCorp (the "Debentures") and purchased through FMFS. This recovery is in addition to any distributions to be made by the Trustee from the FactorCorp Estate.

The Administrator filed its First Report to the Court dated September 20, 2010 in support of the Administrator's motion for certain relief, including approval of the distribution to the FMFS Investors. On September 27, 2010, the Court granted an order approving the distribution to the FMFS Investors by the Administrator (the "FMFS Distribution Approval Order").



Pursuant to the FMFS Distribution Approval Order, cheques were mailed to the FMFS Investors in early October. The amount of compensation received by each FMFS Investor is equivalent to 50% of the principal amount of the Debenture issued by FactorCorp to such FMFS Investor.

KPMG Inc.'s fees in respect of its mandate as Administrator will be paid by the defendants in the FMFS Class Action and will not be for the account of the FactorCorp Estate.

### **C. Summary of Cash Available and Proposed Distribution**

Since the Trustee's First Report to the Court dated December 4, 2008 (the "First Report"), the Trustee has continued to pursue collection from certain of FactorCorp's debtors.

The Trustee intends to report to the Court by early December, 2010 with respect to its activities since the issuance of the First Report, including its efforts to realize on the remaining assets of the Estate. The Trustee is also considering recommending to the Court that the Trustee distribute all or substantially all of the net proceeds of the Estate to the debenture holders. The Trustee's motion to the Court for approval of the distribution will be made on notice to parties known, to the Trustee, to have a potential interest in this matter. The Trustee is hopeful that the proposed distribution will take place in December, 2010. The Trustee estimates that such distribution from the FactorCorp Estate will be in the range of 3 to 5 cents on the dollar.

Attached as **Appendix A** to this letter is the Trustee's Summary Statement of Receipts and Disbursements to October 15, 2010. The Trustee currently has a total of \$3,116,673 on deposit. As previously reported, the Bankruptcy Order provided that upon a distribution, Bank of Montreal is entitled to receive approximately \$330,000 on account of interest payments made to debenture holders in 2007 which were processed by Bank of Montreal in error.

**Yours very truly,**

**KPMG INC.**

Per: Elizabeth J. Murphy  
*Vice President*

## CONSOLIDATED ESTATE OF FACTORCORP INC. AND FACTORCORP FINANCIAL INC.

SUMMARY STATEMENT OF TRUSTEE IN BANKRUPTCY'S  
RECEIPTS AND DISBURSEMENTS  
for the period March 25, 2008 to October 15, 2010

**RECEIPTS:**

Interest receivable (Note 1)	\$645,445.51
Repayment of principal (Note 2)	2,991,840.38
Transfer from Receiver's account	905,000.00
Deposit interest	28,250.21
Miscellaneous receipts	1,100.00
Total Receipts	<u>\$4,571,636.10</u>

**DISBURSEMENTS:**

Trustee's fees (Note 3)	\$871,848.78
Legal fees (Note 3)	485,350.77
GST paid	68,291.38
Collection fees	10,348.23
Inspectors fees and expenses	6,114.00
Advertising	3,169.20
Accounting assistance	2,649.85
Storage of boxes	1,276.92
Miscellaneous and office expenses	4,937.29
Creditors meeting expense	826.80
Filing fees	150.00
Total Disbursements	<u>\$1,454,963.22</u>

Excess of Receipts over Disbursements (Note 4) \$3,116,672.88

**Represented By:**

Balance in bank account	\$40,148.22
GIC maturing on Nov 8, 2010 (redeemable)	610,800.00
GIC maturing on Jan 12, 2011 (redeemable)	708,400.00
GIC maturing on Mar 4, 2011 (redeemable)	352,800.00
GIC maturing on Mar 31, 2011 (redeemable)	904,524.66
GIC maturing on Sep 21, 2011 (redeemable)	500,000.00
Total funds on deposit	<u>\$3,116,672.88</u>

**Notes**

1. Interest payments received are comprised of payments from following debtors:

Customer	Amount
Breken Financial Inc.	\$10,438.35
CanFactor Inc.	235,805.52
Capmor Financial	22,877.65
Forbes Hutton I	294,100.00
Forbes Hutton II	39,999.99
Forbes Hutton III	42,224.00
	<u>\$645,445.51</u>

2. Principal payments received are comprised of payments from following debtors:

Customer	Amount
Capmor Financial	\$344,042.66
Breken Financial Inc.	1,400,000.00
W3 Connex Inc.	715,623.00
Forbes/Hutton	375,000.00
FCB Financial	7,189.72
Lease Capital	149,985.00
	<u>\$2,991,840.38</u>

3. Relates to fees incurred from March 25, 2008 to April 30, 2010.
4. In accordance with March 25, 2008 Court Order, Bank of Montreal is entitled to receive approximately \$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 by Bank of Montreal.