

Court File No. 06-CL-6482

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR
ARRANGEMENT WITH RESPECT TO CFG HOLDINGS INC., FORMERLY
CERVUS FINANCIAL GROUP INC.**

**AND IN THE MATTER OF THE PROPOSED LIQUIDATION AND
DISSOLUTION WITH RESPECT TO CFG HOLDINGS INC., FORMERLY
CERVUS FINANCIAL GROUP [COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF EDMONTON, ACTION NUMBER 0703 04915]**

**FIRST REPORT OF
KPMG INC., RECEIVER OF
CMB I GP LIMITED
AND CMB I LIMITED PARTNERSHIP**

November 26, 2007

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I. PURPOSE, QUALIFICATIONS AND RESTRICTIONS OF THIS REPORT

On June 8, 2006, Cervus Financial Group Inc. (“CFG”) and certain of its direct and indirect subsidiaries, Cervus Financial Corp. (“CFC”) and Cervus Funding Corp. (“Funding”) (collectively the “Applicants” or the “Companies”) filed for and obtained protection from their creditors under the *Companies’ Creditors Arrangement Act* R.S.C. 1985 c. C-36, as amended (the “CCAA”). The terms of this proceeding are governed by an order of this Court dated June 8, 2006 (the “Initial Order”), as amended by a further order of this Court dated June 15, 2006. Pursuant to the Initial Order, KPMG Inc. (“KPMG”) was appointed as monitor (the “Monitor”) of the Applicants during these CCAA proceedings.

On June 15, 2006, this Honourable Court granted an Approval and Vesting Order, which among other things, provided for the approval of an agreement of purchase and sale among CFG, CFC and 6578268 Canada Inc. (the “Sale Agreement”) as well as termination of the CCAA proceedings in connection with CFC and Funding upon the delivery, by the Monitor, of the Vesting Certificate as defined in the Sale Agreement. The Monitor delivered the Vesting Certificate on July 6, 2006 and, as such, the CCAA proceedings for CFC and Funding were terminated at that time. In addition, under the provisions of the Approval and Vesting Order, CFG was permitted to change its name to CFG Holdings Inc. (“CFG Holdings” or the “Company”).

On August 9, 2006, the above referenced name change was completed and on September 6, 2006, this Honourable Court granted orders which, among other things, amended the title of the CCAA proceedings in order to reflect the name change of CFG to CFG Holdings.

On April 19, 2007, an Order (the “Liquidation Order”) was granted by the Court of Queen’s Bench for Alberta (the “Alberta Court”) which, among other things, appointed KPMG (the “Liquidator”) as liquidator of CFG Holdings pursuant to Section 215 of the Alberta *Business Corporations Act*, R.S.A. 2000 c. B-9. It was necessary to apply to the Alberta Court for the Liquidation Order as the Company was incorporated under the Alberta Act.

On August 30, 2007, an Order (the “Receivership Order”) was granted by this Honourable Court which, among other things, appointed KPMG (“Receiver”) as receiver, without security, of all of the assets, undertakings and properties of CMB I GP Limited (“GP”) and CMB I Limited Partnership (“CMB”). A copy of the Receivership Order is attached hereto as **Appendix 1**.

Capitalized terms not defined in this First Report of the Receiver (the “Report”) are as defined in the Receivership Order.

The purpose of this Report is to provide information to this Honourable Court and the stakeholders of GP and CMB in connection with the following:

- (i) the status of the legal proceedings;
- (ii) an update on the activities of the Receiver to date; and
- (iii) an update on the Receiver’s net cash position.

The information contained in this report has been obtained from the records of CMB, GP and the Company and is based on discussions with, and representations made by, management of CMB, GP and the Company, including former management and the Board of Directors, and other professional advisors retained in this matter.

The financial information of CMB, GP and the Company has not been audited, reviewed or otherwise verified by the Receiver 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 CMB, GP and the Company. Accordingly, the Receiver does not express an opinion or any other form of assurance on the financial or other information presented herein. The Receiver may refine or alter its observations as further information is obtained or is brought to its attention after the date of this report.

The Receiver assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this report. Any use which any party makes of this report, or any reliance on or decisions to be made based on this report, are the sole responsibility of such party.

All references to dollars are in Canadian currency unless otherwise noted.

II. LEGAL PROCEEDINGS

On August 30, 2007, the Receivership Order was granted by this Honourable Court which, among other things:

- (i) ordered that KPMG be appointed as receiver, without security, of all of CMB and GP's current and future assets, undertakings and properties pursuant to Section 101 of the *Courts of Justice Act*, R.S.O 1990 c. C.43, as amended;
- (ii) ordered that KPMG, in the fulfillment of its duties as Receiver, is entitled to run a claims barring process designed to establish that there are no remaining claims by any party as against CMB and GP, in accordance with the claims process outlined in Schedule "B" of the Receivership Order; and
- (iii) requested the aid and recognition of any court (including the Alberta Court), tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to the Receivership Order and to assist the Receiver and its agents in carrying out the terms of the order.

As previously indicated, a copy of the Receivership Order is attached hereto as **Appendix 1**.

The Receiver has made all Orders issued by this Honourable Court in this matter, all Orders issued by the this Honourable Court in the CCAA proceedings, all Orders issued by the Alberta Court in the liquidation proceedings, and other information, available on its website at www.kpmg.ca/cervus.

III. ACTIVITIES OF THE RECEIVER

A. Results of the Claims Barring Process

In accordance with the Receivership Order:

- (i) the Receiver mailed a Proof of Claim Document Package to each potential Claimant as described in the Receivership Order; and
- (ii) on September 4, 2007, the Receiver published the Notice to Claimants in the Globe and Mail (National Edition).

As of the expiry of the Claims Bar Date on October 5, 2007, the Receiver had received only one Claim related to CMB for \$3689.50 and one Claim related to GP for \$1.00. Both claims were received from Canada Revenue Agency (“CRA”) relating to GST and are attached hereto as **Appendix 2**. In order to resolve these claims the Receiver proposes the following actions:

- (1) the Receiver shall contact CRA to request additional information or documentation to substantiate the claims and request that any such information be provided to the Receiver within 30 days of the request or such lesser period as deemed appropriate by the Receiver;
- (2) upon receipt of the requested information, the Receiver shall, within 10 days or such lesser period as the Receiver deems appropriate, contact former management of CMB, GP or the Company to seek their assistance in confirming the information; and
- (3) after having completed steps (1) and (2) above, the Receiver shall proceed to satisfy these claims by paying CRA the amount of their claims unless the Receiver has identified any component of the claims which the Receiver deems, in its sole discretion, should be contested further by issuing Notices of Revision or Disallowance to CRA.

B. Partnership Tax Returns

Upon review of the books and records of CMB and GP, it has come to the attention of the Receiver that there was an apparent failure to file certain partnership returns with CRA, specifically for the 2006 and 2007 tax years. However, the Receiver will require additional time to investigate and pursue the necessary corrective actions regarding this matter. The process may include discussions with CRA and former management of CMB, GP and the Company.

C. Proposed Scheme of Distribution of Proceeds to the Limited Partners of CMB

The Receiver has reviewed the Limited Partnership Agreement dated May 14, 2004 as between the GP as the general partner, 1617763 Ontario Inc. as the initial limited partner and various mortgage broker firms who are limited partners in CMB (the “Limited Partners”), as well as information provided by former management regarding earnings and volume commitments for each of the Limited Partners. Through discussions with former management, the Receiver has concluded that there are two alternative methods which can be utilized to distribute the remaining proceeds to the Limited Partners, as described below:

- (A) Based on the % earned during the period of operations from October 2005 to July 2006 calculated for each of the Limited Partners (i.e. mortgage origination volume funded divided by total 5-year committed volume); or
- (B) Based on the % of the total committed volume calculated for each of the Limited Partners (i.e. assuming each of the Limited Partners would have earned their full entitlement absent these proceedings).

The Receiver recommends alternative (A) above as this represents the most fair and equitable method (i.e. matching the actual contribution by each Limited Partner to their portion of the distribution), in the current circumstances, of determining an appropriate allocation of the remaining proceeds to the Limited Partners. In addition, the Receiver is currently investigating the most tax effective method for the Limited Partners to receive the distribution. Once the administration of the potential claims of creditors is completed, the Receiver intends on seeking approval of a schedule of distributions, which will include the names of Limited Partners and corresponding distribution amounts, by this Honourable Court at a later date.

IV. NET CASH POSITION

The net cash position of the Receiver from the date of its appointment to November 23, 2007 is summarized below.

CMB I GP Limited and CMB I Limited Partnership
Summary of the Receiver's Net Cash Position
For the Period to November 23, 2007

Opening cash position		\$	-
Add:			
Distribution from CFG Holdings			382,755
Less:			
Professional fees	(11,866)		
Advertising	(2,580)		
GST	(873)		
Other (1)	(226)		(15,545)
Cash position as at November 23, 2007		\$	367,209

Notes:

(1) Other charges includes bank charges and other miscellaneous expenses.

The Receiver is currently holding \$367,209 in its trust bank account. Those funds will be used to satisfy claims from CRA that may ultimately be admitted, if any, and then distributed to the Limited Partners, net of professional fees related to these proceedings.

V. SUMMARY AND CONCLUSIONS

The Receiver requests that this Honourable Court make an Order:

- (i) approving the activities of the Receiver as described in this Report;
- (ii) authorizing the Receiver to proceed with the actions set out in this Report to resolve the claims submitted by CRA and other tax related matters; and
- (iii) authorizing the Receiver to proceed with the proposed scheme of distribution of the proceeds to the Limited Partners as setout in this Report.

RESPECTFULLY SUBMITTED,

Dated the 26th day of November, 2007.

KPMG INC.

**In its capacity as Court-Appointed Receiver of
CMB I GP Limited and CMB I Limited Partnership**



*Per: Todd Martin
Senior Vice-President*

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

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SUPERIOR COURT OF JUSTICE

Commercial List

Proceeding commenced at Toronto

**FIRST REPORT OF KPMG INC., RECEIVER OF
CMB I GP LIMITED
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