

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 PLAN OF COMPROMISE OR
ARRANGEMENT OF CERVUS FINANCIAL GROUP INC., CERVUS
FINANCIAL CORP., AND CERVUS FUNDING CORP.**

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

September 1, 2006

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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. (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.

Capitalized terms not defined in this Fourth Report (as defined below) are as defined in the Initial Order or the Purchase and Sale Agreement between CFG, CFC and 6578268 Canada Inc. (the “Sale Agreement”).

The purpose of this Fourth Report of the Monitor (the “Report”) is to provide information to this Honourable Court and the Applicants’ stakeholders in connection with the following:

- (i) the status of the legal proceedings involving the Applicants;
- (ii) the Companies’ post-filing cash flow and draws under the DIP Operating Facility;
- (iii) the Closing of the Sale Agreement;
- (iv) the motion for Court approval of the proposed Claims Order;
- (v) the request to amend the Initial Order and extend the stay of proceedings; and
- (vi) estimated distributions to creditors and shareholders based on available preliminary information.

The information contained in this report has been obtained from the records of the Companies and is based on discussions with, and representations made by, management of the Companies and other professional advisors retained in this matter.

The financial information of the Companies 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 Companies. 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 decisions 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 Applicants:

- June 8, 2006 Initial Order
- June 8, 2006 Sale Approval Process Order
- June 15, 2006 Order Amending Initial Order
- June 15, 2006 Approval and Vesting Order
- June 29, 2006 Order Approving Settlement

Each of the above orders has been described in previous Monitor's reports.

On July 7, 2006, this Honourable Court granted the Order Extending Stay of Proceedings which provided an extension of the Stay Date to September 22, 2006 with respect to CFG and the Directors.

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/cervus (the "Website").

III. CASH FLOW AND DRAWS UNDER THE DIP OPERATING FACILITY UP TO CLOSING OF THE SALE AGREEMENT

The Companies' cash receipts and disbursements for the period June 9 to July 6, 2006 are summarized below and are compared with the Cash Flow Projection (as defined in the notes below). Actual cash flow results for the period beyond July 6, 2006 are not shown as the Sale Agreement closed on July 6, 2006 and the net sale proceeds, which the Monitor continues to hold, are summarized in section IV. of this Report.

Cervus Financial Group Inc., et al
Summary of Actual Versus Projected Cash Flow
For the Period June 9 to July 6, 2006

(unaudited)	Actual Results [1]	CCAA Projection [2]	Variance Favourable/ (Unfavourable)
<i>Inflows</i>			
Servicing Revenue	213,531	240,460	(26,929)
Gain on Sale of Mortgages	339,182	615,245	(276,063)
Sale of Non-Qualifying Mortgages [3]	730,269	-	730,269
Other [4]	548,973	-	548,973
Total Inflows	1,831,955	855,705	976,250
<i>Outflows</i>			
Payroll Expenses	(323,329)	(347,372)	24,043
Professional Fees	(722,453)	(540,000)	(182,453)
Consultants	(26,475)	(64,652)	38,177
Miscellaneous Office	(145,973)	(67,000)	(78,973)
Technology	(9,018)	(97,000)	87,982
Brokers	(423,486)	(653,325)	229,839
Rent	(38,531)	(38,753)	222
Other [5]	(2,468,580)	(2,325,033)	(143,547)
Total Outflows	(4,157,845)	(4,133,135)	(24,710)
<i>Net Cash Inflow/(Outflow)</i>	(2,325,890)	(3,277,430)	951,540

Notes:

- [1] Actual results include actual cash flow experience for the period June 9 to July 6, 2006. 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 Projection for the five-week period ended July 7, 2006, appended to the Affidavit of Peter Williams, CEO of CFG, sworn June 8, 2006, and filed in support of the CCAA application.

Notes continue on next page

- [3] Non-qualifying mortgages as at June 8, 2006 of \$730,269 were sold during the period.
- [4] Other inflows include unanticipated receipts of mortgage insurance claims and accrued interest.
- [5] Other outflows include mortgage insurance premiums outstanding as at June 8, 2006 of approximately \$2.1 million

Overall, during the period June 9 to July 6, 2006, the Companies experienced a net cash flow variance that was, in aggregate, approximately \$950,000 favourable relative to the Cash Flow Projection. Management attributes the variance to unanticipated receipts resulting from the sale of non-qualifying mortgages (i.e. mortgages that were in default), mortgage insurance claims and significant differences related to broker commissions and technology payments, offset by less than expected gains on mortgage sales to Merrill Lynch, pre-filing mortgage insurance premium payments and professional fees.

As reported in the Third Report, as at July 5, 2006, total draws on the DIP Operating Facility were approximately \$1.2 million, as compared to projected draws of \$1.9 million in the Cash Flow Projection. Prior to Closing of the Sale Agreement on July 6, 2006, the Companies made a repayment against the DIP Operating Facility of \$250,000. As at Closing, the total net draws on the DIP Operating Facility were approximately \$988,000 (net of \$5,300 of interest). Pursuant to the terms of the Sale Agreement, the amount due under the DIP Operating Facility as at Closing was applied against the purchase price. The Closing of the Sale Agreement and the proceeds derived therefrom are discussed in section IV. of this Report.

IV. CLOSING OF THE SALE AGREEMENT

Closing of the Sale Agreement occurred on July 6, 2006. As such, all conditions for Closing contemplated by the Sale Agreement have either been satisfied or waived and CFG, CFC and the Purchaser have completed, complied with and satisfied all terms, conditions and obligations under the Sale Agreement and the Monitor has received the sale proceeds on behalf of CFG.

Under the terms of the Sale Agreement, the purchase price payable on Closing was \$12.5 million, less the amount due under the DIP Operating Facility. The net proceeds from the sale transaction are summarized below:

Net Proceeds From Sale Transaction

Purchase Price	\$	12,500,000
Less:		
Due under DIP	(982,487)	
Interest	(5,301)	(987,788)
Net proceeds from sale transaction		11,512,212
Settlement payment [1]		(227,900)
Net proceeds from sale transaction received by the Monitor	\$	11,284,312

Notes:

[1] Pursuant to the Order Approving Settlement granted on June 29, 2006, the Monitor directed payment of the settlement amount to Mr. Bartholomew's legal counsel from the proceeds of the sale transaction.

Pursuant to the Approval and Vesting Order, the Monitor is to hold the proceeds of the Purchased Assets (the "Sale Proceeds") in trust in an interest bearing bank account. The Sale Proceeds are not to be disbursed without further order of the Court. The Monitor has deposited the Sale Proceeds with a Canadian chartered bank.

In accordance with the Approval and Vesting Order, the Monitor delivered the Vesting Certificate upon Closing of the Sale Agreement which contemplated that:

- (i) all right, title, benefit and interest of CFG in the Intercompany Transferred Assets vested in CFC;
- (ii) all right, title, benefit and interest of CFG in the Purchased Assets vested in the Purchaser; and
- (iii) the CCAA proceedings in connection with CFC and Cervus Funding Corp. were terminated and that the terms and provisions of the Initial Order no longer apply to CFC and Cervus Funding Corp.

As the CCAA proceedings for CFC and Cervus Funding Corp. were terminated on July 6, 2006, creditors of those companies that are seeking payment or other information should contact those companies through normal channels.

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 name change was completed. On September 6, 2006, CFG Holdings is to bring a motion to this Honourable Court to amend the title of the proceedings to reflect the change in the name of CFG to CFG Holdings Inc.

V. PROPOSED CLAIMS ORDER

As previously indicated in this Report, the Sale Proceeds are not to be distributed by the Monitor without further order of the Court. Prior to seeking such an order, the claims to the Sale Proceeds must first be determined through a claims procedure administered by the Monitor. On September 6, 2006, CFG Holdings is to bring a motion to this Honourable Court to establish a claims identification process to identify claims of the creditors of the Company and any former, present or future director or officer of the Company, CFC or Cervus Funding Corp., or any other person that is deemed to be, or that is treated similarly to, a director of the Company, CFC or Cervus Funding Corp. (the "Officers and Directors"). The following section of this Report reflects the Monitor's understanding of what the terms of the claims identification process will be, all as more particularly to be described in the motion to be filed by counsel for the Company in advance of the September 6, 2006 motion.

A. Notice to Creditors

A notice to creditors, substantially in the form presented in Schedule "A" of the proposed Claims Order, is to be published by the Monitor in the Globe and Mail (National Edition) on or before September 8, 2006.

B. Claims Bar Date

Pursuant to the proposed Claims Order, any creditor or debenture holder asserting a claim is required to provide a Proof of Claim to the Monitor on or before October 6, 2006 (the "Claims Bar Date"), with the exception of Known Creditors (as defined below) that are in agreement with the amount included in the Notice of Creditor Claims as described below.

C. Known Creditors

Creditors and debenture holders with claims as at June 8, 2006 that are claims of which the Company has knowledge, based on the accounting records of the Company at that time (the "Known Creditors"), will be sent the following materials by the Monitor by mail on or before September 10, 2006:

- (a) the Notice to Creditors;
- (b) the Claims Order;
- (c) Notice of Claims;
- (d) blank form of a Proof of Claim;
- (e) blank form of Notice of Dispute of Revision or Disallowance; and
- (f) the Instructions to Creditors and Debenture Holders.

These materials will be substantially in the form as presented in Schedule "A" of the proposed Claims Order (the "Claims Materials").

The Notice of Claims included in the Claims Materials is to set out, to the extent practicable, the Company's estimate of the claim of each such Known Creditor (as shown in the Company's books and records at the time of mailing) which the Company is not disputing. If a Known Creditor wishes to

dispute the amount set out in the Notice of Claims, such Known Creditor is to provide the Monitor with a completed and signed Proof of Claim on or before the Claims Bar Date. If a Known Creditor does not provide the Monitor a Proof of Claim disputing the amount in the Notice of Claims, such Known Creditor shall be deemed to have accepted the amount and it will be treated as a Proven Claim (as defined in the proposed Claims Order).

D. Unknown Creditors

The Monitor will mail the Claims Materials, to any creditor or debenture holder with claims which are not claims of Known Creditors (the "Unknown Creditors") upon written request from such Unknown Creditors prior to the Claims Bar Date. Every Unknown Creditor is to provide the Monitor with a completed and signed Proof of Claim on or before the Claims Bar Date. If the Monitor does not receive a Proof of Claim by the Claims Bar Date, the claim of the Unknown Creditor will be forever extinguished and barred.

E. Creditors with Specified Unaffected Claims

Certain claims will be unaffected by the claims procedure and creditors with such claims will not participate in the claims process. Such claims include claims by creditors against the Company that were: (a) specifically assumed by CFC under the terms of the Sale Agreement; (b) with respect to reasonable fees, costs and expenses of counsel for the Applicants, the Monitor, the Monitor's counsel, the claims officer and such other advisors and consultants, as and to the extent authorized by the Court; (c) against the Company imposed by statute and referred to in section 18.2 of the CCAA; (d) against any party other than the Company or the Officers and Directors (as defined in the proposed Claims Order); (e) claims arising under the Settlement Agreement, Definitive Agreement and Founders Undertaking (all as defined in the proposed Claims Order); or (f) subrogated claims by any insurer pursuant to any policy of director and officer liability insurance.

F. Procedure for Determination of Creditor Claims and Debenture Holder Claims

The Company, with the assistance of the Monitor, shall review each Proof of Claim received by the Monitor on or before the Claims Bar Date and may, with the consent of the Monitor, accept, revise or reject such claim.

If the Company revises or rejects a claim, the Monitor will notify such creditor or debenture holder, that its claim has been revised or rejected, and the reasons therefore, by issuing a Notice of Revision or Disallowance. Claims of recipients of a Notice of Revision or Disallowance will be deemed to be as set out in the Notice of Revision or Disallowance, and will be treated as a Proven Claim, unless the creditor or debenture holder, disputes by delivering to the Monitor a Notice of Dispute of Revision or Disallowance, within 10 days of receipt of the Notice of Revision or Disallowance.

If the Company, with the assistance of the Monitor, accepts the claim (as disputed), no notice will be sent by the Monitor and the claim will be treated as a Proven Claim.

G. Disputed Claims

The Company, with the assistance of the Monitor, is to review any Notice of Dispute of Revision or Disallowance received, and attempt to resolve the dispute with the creditor or debenture holder.

In the event that the Company is unable to resolve the dispute, it will notify the creditor or debenture holder and the Monitor. The Company, with the consent of the Monitor, will make arrangements, on notice to all the interested parties, to have the dispute determined by the Court or by a claims officer.

A disputed claim, is to be determined by Order of the Court, or, in the sole discretion of the Company, with the consent of the Monitor, by a claims officer.

VI. ILLUSTRATIVE ESTIMATED DISTRIBUTION TO CREDITORS AND SHAREHOLDERS

At this time, in accordance with previous Monitor's reports, it is still anticipated that on completion of the claims procedure and formulation of a Plan of Arrangement, the creditors of the Company will receive a distribution to pay their claims in full and the shareholders of the Company will also receive a distribution. It also remains necessary to complete the claims procedure in order to determine actual claim amounts. Subject to the foregoing and for illustrative purposes only, at this time, the estimated distributions per share, under some of the possible differing creditor claim and outstanding share scenarios, are presented in the table below.

Again, the Monitor cautions that the information presented in the table below is based on preliminary information regarding creditor and shareholder claims and is provided for illustrative purposes only and is subject to change. Neither the Monitor, nor its affiliates, partners, directors, officers, employees, counsel or agents will have any liability to any creditor, shareholder, or any other party as a result of decisions made or actions taken based on this information. Without limitation, in no circumstances should this information be relied on by any party in connection with any decisions to retain, sell or purchase any portion of the claims against the Company by any creditor, shareholder or any assignee thereof.

Illustrative Estimated Distributions to Shareholders of CFG

Estimated Total Shares Outstanding	Estimated Total Creditor Claims			
	7,500,000	8,000,000	8,500,000	9,000,000
35,000,000	10.81¢	9.38¢	7.96¢	6.53¢
37,500,000	10.09¢	8.76¢	7.42¢	6.09¢
40,000,000	9.46¢	8.21¢	6.96¢	5.71¢
42,500,000	8.90¢	7.73¢	6.55¢	5.37¢
45,000,000	8.41¢	7.30¢	6.19¢	5.08¢

A. Creditors

According to a preliminary list of creditors compiled by the Monitor based on information provided by CFG as at August 8, 2006, CFG's total debt obligations were approximately \$7.0 million. Based on estimated claims of Known Creditors, it is anticipated that such obligations will be paid in full. A range of \$7.5 million to \$9.0 million of estimated total creditor and debenture holder claims has been presented in the table above in order to account for accrued interest, potential further claims of Unknown Creditors and professional fees to complete these CCAA proceedings. At this time, there is no assurance that the claims of such Unknown Creditors and creditors whose share acquisition rights have been repudiated or are party to a repudiated contract, will not materially exceed the amounts estimated in the table above which could materially decrease the distribution to shareholders.

B. Shareholders

As at June 9, 2006, there were approximately 42.4 million shares of CFG issued and outstanding, including approximately 8.3 million shares held by the founding shareholders of CFG (the "Founders' Shares"). Management has informed the Monitor that the Founders' Shares were to be transferred to CFG pursuant to written undertakings dated March 2, 2006, executed by the founding shareholders. These arrangements were referred to in connection with the settlement with Mr. Bartholomew. The Monitor is working with the Company, its Board of Directors and legal counsel to determine the status of the Founders' Shares. Specifically, whether some or all of the Founders' Shares have been transferred.

As previously indicated in prior reports of the Monitor, the common shares of CFG were suspended from trading on June 9, 2006 for failure to meet the continued listing requirements of the TSX. Trading in the common shares of CFG remains suspended.

The Monitor cautions that the claims procedure outlined in the proposed Claims Order needs to be completed prior to a determination as to the timing and amount of any distribution of the remaining Sale Proceeds to the shareholders of CFG. The Company and the Monitor will make such determination after the claims procedure has been completed. After which, the Company intends to seek additional instructions from this Honourable Court on an appropriate procedure and mechanism for any distribution to the shareholders of CFG.

VII. REQUEST TO AMEND INITIAL ORDER AND EXTEND THE STAY PERIOD

The Initial Order allowed for the payment of all reasonable costs and expenses incurred by the Company, as described in paragraph 20 of the Initial Order. The proposed amendment will allow the Monitor to pay all such costs and expenses, upon the approval of the Company, out of the Sale Proceeds being held by the Monitor.

The stay period provided by the Order Extending Stay of Proceedings expires September 22, 2006. In order to allow sufficient time to conduct a claims identification procedure, as specified in the proposed Claims Order, and to formulate a Plan of Arrangement, the Company is requesting an extension of the stay of proceedings with respect to the Company to November 30, 2006.

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

VIII. SUMMARY AND CONCLUSION

Total Sale Proceeds of approximately \$11.3 million are being held by the Monitor pursuant to the Approval and Vesting Order. Subject to the important qualifications noted above, based on the estimated claims of Known Creditors, on completion of the claims procedure and formulation of a Plan of Arrangement, it is anticipated that the Known Creditors of the Company will receive a distribution to pay their claims in full and that the shareholders of the Company will also receive a distribution. However, again we caution that this projection is based on preliminary information regarding creditor and shareholder claims and is subject to change.

In order to allow sufficient time to conduct a claims identification procedure, as specified in the proposed Claims Order, and to formulate a Plan of Arrangement, the Company is requesting an extension of the stay of proceedings with respect to the Company, for 69 days, to November 30, 2006.

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

The Monitor respectfully recommends that the Court approve the proposed Claims Order and an extension of the Stay Date (as defined in the Initial Order) to November 30, 2006.

RESPECTFULLY SUBMITTED,

Dated the 1st day of September, 2006.

KPMG INC.

**In its capacity as Court-Appointed Monitor of
CERVUS FINANCIAL GROUP INC.**



*Per: Alan J. Hutchens
Senior Vice-President
416-777-8916*

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 OF CERVUS FINANCIAL GROUP INC., CERVUS FINANCIAL CORP., AND CERVUS FUNDING CORP.

Court File No: 06-CL-6482

	<p>SUPERIOR COURT OF JUSTICE</p> <p>Commercial List</p> <p>Proceeding commenced at Toronto</p>
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