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June 13, 2008

**TO THE CREDITORS OF FACTORCORP INC. AND FACTORCORP FINANCIAL INC.**

Dear Sir/Madam:

**Re: Consolidated Bankruptcy of FactorCorp Inc. and FactorCorp Financial Inc.**

We are writing to update you on certain matters with respect to the Consolidated Estate.

Role of the Trustee

KPMG Inc. was appointed as trustee (the "Trustee") of the Consolidated Estate of FactorCorp Inc. and FactorCorp Financial Inc., bankrupts (collectively, "FactorCorp" or "Consolidated Estate") on March 25, 2008. The Trustee owes a duty of utmost good faith to the investors and creditors of the Consolidated Estate (collectively, the "Creditors"). The Trustee is an officer of the Court and must impartially represent the interests of the Creditors. The *Bankruptcy and Insolvency Act* ("BIA") establishes the rules under which the Trustee must perform its obligations. The Trustee administers the Consolidated Estate on a day-to-day basis.

The First Meeting of Creditors of the Consolidated Estate was held on April 24, 2008. At that meeting, five inspectors (the "Inspectors") were elected to represent the interests of the creditors and to work with the Trustee in respect of the administration of the Consolidated Estate.

Role of the Inspectors

The Inspectors act similar to a Board of Directors of a company. They are the collective representatives of the Creditors (which in the case of FactorCorp are primarily the Investors) and owe a fiduciary duty to the Creditors. Inspectors should perform their duties impartially and in the interest of the Creditors who elected them. The Inspectors supervise the Trustee and it is their function to instruct the Trustee to take whatever steps they consider appropriate in order to protect the Consolidated Estate and the Creditors with the objective being to maximize recoveries in a cost effective manner.

Inspectors should not use their access to the books and records of the bankrupt to determine whether they or others might have causes of action against third parties who had dealings with the bankrupt. Such access should be used for investigating the affairs of the bankrupt and for no other purpose.

### Meetings of the Inspectors

Meetings of the Inspectors are generally called by the Trustee. The frequency of Inspector meetings is determined by the Trustee in consultation with the Inspectors, based upon the requirements of the administration of the bankrupt estate. To date, the Trustee and the Inspectors have held eight meetings and have discussed the following issues, among others:

- the details of FactorCorp's portfolio of loans and preferred shares, including collection issues and realization alternatives;
- outstanding litigation;
- other possible sources of recovery, including possible recoveries from litigation and certain questionable transactions entered into by FactorCorp. Prior to initiating any litigation, the Trustee and the Inspectors need to identify the possible source of recovery, whose cause of action it is, the costs of pursuing the litigation and the likelihood of success;
- the claims process and potential distributions;
- possible means by which additional information may be obtained, including examinations under oath of certain individuals who have knowledge of the affairs of FactorCorp; and
- the examination of Mark Twerdun under oath pursuant to Section 163 of the BIA, which is scheduled for July 10, 2008.

### Communication

The Trustee and the Inspectors have agreed that, in order to ensure an orderly and efficient process of communication, any and all questions the Creditors may have regarding the administration of the Consolidated Estate shall be made of the Trustee. The Trustee and the Inspectors have also agreed that any information Creditors or other parties may seek ought to be sought from the Trustee. To this end, the Trustee has continued the website established by the Receiver (<http://www.kpmg.ca/en/ms/cl/factorcorp/>). The Trustee has also continued the phone number and email address established by the Receiver.

### FAQs

Below are some frequently asked questions and answers:

#### *Can Investors contact the Inspectors directly?*

No. Investors are asked to contact the Trustee directly with their information requests through email or the phone line.

#### *How much on the dollar will Investors get back?*

It is not possible to answer this question at this point in time as there remain many variables and unknowns.

**In the Report of Trustee's Preliminary Administration, dated April 24, 2008, the Trustee noted that, based on the information currently available and the Trustee's assessment of the potential impact of numerous factors, the ultimate realization on the assets of FactorCorp and subsequent realization to Creditors will likely be substantially less than the book values of FactorCorp's investments.**

The Trustee is concerned that further disclosure of detailed information on the financial status of FactorCorp's investments and the possible range of realization to Creditors could be prejudicial to the overall realization.

*When do you think Investors will begin to get some of their money back?*

At this point in time, the Trustee cannot predict when an interim distribution may be made.

*How long will the bankruptcy process take?*

It is very difficult to estimate how long the bankruptcy process will take. There are many factors which can affect the length of the process. Bankruptcies involve clearly defined legal and financial procedures. The Trustee and the Inspectors are committed to moving the process along as efficiently and effectively as possible.

*What impact does the recently issued Notice of Hearing by the Mutual Fund Dealers Association of Canada ("MFDA") regarding Farm Mutual Financial Services Inc. ("FMFS") have on the Consolidated Estate?*

The Notice of Hearing issued by the MFDA against FMFS does not involve the Consolidated Estate. The Trustee is not party to the MFDA's disciplinary proceeding. The Notice of Hearing has only recently been issued and the proceeding is in its early stages. Accordingly, it is too early to speculate on the impact it may or may not have on the Consolidated Estate.

*What is the status of the claim against FMFS?*

In September 2007, FactorCorp commenced an action for damages against FMFS. The appointment of the Receiver occurred before FMFS's statement of defence was due. Legal counsel for the Receiver advised counsel for FMFS that the filing of a statement of defence could be deferred until further notice. The Trustee has been reviewing this matter with the Inspectors and continues to do so. Please note that any claim that FactorCorp may have against FMFS is separate and distinct from any claim which the Investors/Creditors may have against FMFS.

*What is the status of potential legal claims?*

The Trustee has been reviewing potential legal claims that FactorCorp may have against third parties. Any legal action to be commenced or continued by the Trustee must be authorized by the Inspectors after a detailed analysis has been conducted.

**Investors of the Consolidated Estate may have causes of action against third parties which are separate and distinct from any claims the Consolidated Estate may have. Additionally, statutory limitation periods may apply which may restrict the time period within which Investors can make claims. The Trustee recommends that Investors obtain independent legal advice regarding the claims they may have as soon as possible. The Trustee cannot give advice to Investors and cannot represent Investors with respect to their potential claims against third parties.**

We will keep you apprised of significant developments through further letters and/or postings on the Trustee's website.

Yours very truly,

**KPMG INC.**

Trustee of the Consolidated Estate of  
FactorCorp Inc. and FactorCorp Financial Inc.



Per: Elizabeth Murphy  
*Vice-President*