

**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.**

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

**April 12, 2007**

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## I. PURPOSE, QUALIFICATIONS AND RESTRICTIONS OF THIS REPORT

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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” or the remaining “Applicant”).

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

Capitalized terms not defined in this Eighth Report of the Monitor (the “Report”) are as defined in the Initial Order, the Sale Agreement, the Claims Order or previous reports of the Monitor.

The purpose of this Report is to provide information to this Honourable Court and the Applicant’s stakeholders in connection with the following:

- (i) the status of the legal proceedings involving the Applicant;
- (ii) the Company’s updated net cash position;
- (iii) an update on the process for advancing to a distribution to shareholders;
- (iv) the Company’s request to vary the previous Order of this Court dated December 27, 2006; and
- (v) the Company’s request to extend the stay of proceedings.

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

The financial information of the Company 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 Company. 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.

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## II. LEGAL PROCEEDINGS

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This Honourable Court has granted the following orders in connection with the CCAA proceedings of the Applicant:

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
July 7, 2006	Order Extending Stay of Proceedings
September 6, 2006	Order Amending Title of Proceedings, Order Amending Initial Order and Extending the Stay of Proceedings, and Claims Order
October 13, 2006	Creditor Distribution Order
December 27, 2006	Shareholder Distribution Order

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

On February 27, 2007, this Honourable Court granted an Order (the "Extension Order") which, among other things, extended the Stay Date to April 30, 2007.

On March 9, 2007, this Honourable Court granted an Order (the "Distribution Direction Order") which, among other things, ordered that:

- (i) the claim of any person including those persons served with a copy of the Order, against the Monitor or the Company, past or present (including, without limitation, any claim based in any manner whatsoever, on any indemnity provided by the Company in favour of any Founder, as defined in the Scott Affidavit, including any such claims based on any tax matters) would, to the extent not already barred and extinguished by prior order of this Court, be forever barred and extinguished unless by 5:00 p.m. (Eastern Standard Time) on March 30, 2007 (the "Effective Time"):
  - (a) any such person served upon both the Company and the Monitor a motion to this Court seeking an exemption from such provisions of the Order; or
  - (b) any party had appealed the Order.
- (ii) each of the Founders, as defined in the Scott Affidavit, were ordered to surrender to the Company for cancellation, and were deemed to have surrendered to the Company for cancellation, those issued and outstanding shares of the Company held by them and required to be returned to the Company for cancellation by the Founders as described in the Founders' Undertaking, also as

defined in the Scott Affidavit (the “Founders’ Shares”), with effect as of the Effective Time, unless prior to the Effective Time, either:

- (a) any such Founder served upon both the Company and the Monitor a motion to this Court seeking an exemption from such provisions of the Order; or
  - (b) any party had appealed the Order.
- (iii) the Monitor could proceed with a distribution to the shareholders of the Company, after the Effective Time, as contemplated in, *inter alia*, the Order of this Court dated December 27, 2006 (the “Shareholder Distribution Order”) and the provisions of the paragraph below, if there was no appeal of that Order nor any other motion with respect to the Order; and
- (iv) following the cancellation of the Founders’ Shares pursuant to the Founders’ Undertaking and the provisions of the Order, that the Monitor was to obtain from Computershare Trust Company (“Computershare”) a revised shareholder register of the Company reflecting such cancellation, and Computershare was ordered to provide such revised register to the Monitor, and thereafter the Monitor could proceed to distribute the money in its control as Monitor of the Company to the shareholders of the Company as recorded on such revised register, less such reserves for costs and other matters as it deems appropriate, in consultation with the Company, as contemplated in accordance with the Shareholder Distribution Order and the Order.

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](http://www.kpmg.ca/cervus).

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### III. UPDATED NET CASH POSITION

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As indicated in previous reports of the Monitor, the Monitor continues to hold the remaining proceeds from the sale of the Purchased Assets (the "Sale Proceeds") in trust in an interest bearing account.

As discussed in Seventh Report of the Monitor (the "Seventh Report"), in accordance with the Creditor Distribution Order, the Monitor has made distributions to creditors totaling \$7,168,332.32 from the net Sale Proceeds, which resulted in all creditors with Proven Claims being paid in full. In addition, in accordance with the Order Amending Initial Order and Extending the Stay of Proceedings, the Monitor has made certain other disbursements, with the approval of the Company, in connection with the CCAA proceedings.

A rollforward of the Company's net cash position from February 21, 2007 (the date of the last update to the net cash position provided in the Seventh Report) to April 10, 2007 is summarized below.

**CFG Holdings Inc.**  
**Rollforward of Net Cash Position**  
**For the Period February 21 to April 10, 2007**

Opening cash position (1)		\$ 3,662,387
Add:		
Interest income		15,839
Less:		
Professional fees	133,699	
Other (2)	8,022	141,721
<b>Cash position as at April 10, 2007</b>		<b>\$ 3,536,505</b>

Notes:

(1) The opening cash position was summarized in the Seventh Report of the Monitor.

(2) Other charges includes GST, bank charges and other miscellaneous expenses.

As indicated in the previous reports of the Monitor, the Company has no ongoing operations and the balance of these proceedings will relate primarily to facilitating the distribution of the remaining Sale Proceeds to the shareholders of CFG Holdings. As such, a weekly cash flow projection has not been prepared.

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## **IV. UPDATE ON ADVANCING TO A DISTRIBUTION TO SHAREHOLDERS**

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### **A. Update Regarding Compliance with the Founders' Undertaking**

As described in the Seventh Report, as at the date of that report (February 23, 2007), seven out of eight Founders had provided the Company's legal counsel with the required documentation to comply with the Founders' Undertaking and the remaining Founder was cooperating to comply. Since that date, the Monitor has been informed that all of the Founders provided the required documentation, to the Company's satisfaction, to comply with the Founders' Undertaking (as noted in the Seventh Report, one of the Founders was unable to fully comply with the Undertaking which resulted in a very small shortfall of 3,573 shares in the total number of shares surrendered, which the Company does not intend to pursue). As such, approximately 8.1 million common shares of the Company have been surrendered and cancelled.

On March 21, 2007, Computershare provided the Company's legal counsel with an adjusted share register reflecting the surrender and cancellation of the Founders' Shares. The adjusted share register of the Company as of the close of business on March 20, 2007 reflected issued and outstanding common shares of 34,277,233.

### **B. Further Claims Bar Process**

As described in the Seventh Report, the Founders' Undertaking contained a provision whereby the Company indemnified the Founders for "any losses, claims, liabilities and expenses incurred by any of the [Founders]... related to any legal proceedings or any taxation liability to which [a Founder] becomes liable in any way connected with [the completion of the Undertaking]" (the "Indemnity").

In order to proceed toward a distribution to shareholders, the Company required that any possible liability with respect to the Indemnity be brought forward prior to making a distribution. Accordingly, the Company sought and the Court granted the Distribution Direction Order on March 9, 2007 which provided for a further claims bar process to be run in tandem with the appeal period under that same Order.

Pursuant to the Distribution Direction Order the claim of any person against the Monitor or any officer or director of the Company, past or present, to the extent not already barred and extinguished by prior order of the Court, would be forever barred and extinguished unless such person served upon the Company and the Monitor a motion to this Court to seek exemption from such bar by the Effective Time (March 30, 2007). As of the expiry of the Effective Time, no such motions had been served on the Company nor the Monitor.

### **C. Distribution to Shareholders**

With the receipt of the adjusted share register and expiry of the further claims bar process, the Monitor is now in a position to proceed with a distribution of the remaining Sale Proceeds, less a reserve for costs and other matters, as originally contemplated in, and in accordance with, the Shareholder Distribution Order. However, certain further technical issues have arisen as to the tax implications of the distribution from the perspective of the shareholders.



As noted in the Sixth Report of the Monitor, following completion of the distribution to the shareholders, the Company intended to apply to the Court of Queen's Bench of Alberta (the "Alberta Court") for an Order winding up the Company under the provisions of the Alberta *Business Corporations Act* (the "ABCA"). The Shareholder Distribution Order therefore stipulates a proposed procedure for the winding up of the Company and in particular contemplates that the distribution of the Sale Proceeds to shareholders would occur *prior to* the winding up of the Company under the ABCA. As described below, the Company and the Monitor have now determined that it is significantly more practical and tax effective to have the distribution to shareholders occur as part of, rather than prior to, the liquidation and dissolution of the Company under the provisions of the ABCA.

The Monitor has recently participated in a series of discussions with the Company's legal counsel and the Monitor's legal counsel, including tax personnel from both law firms, wherein it was concluded that a tax effective method for shareholders to receive the distribution would be, for the distribution to be treated for income tax purposes, as a return of paid-up capital rather than a dividend. It was further concluded that in order for the distribution to be considered a return of paid-up capital for tax purposes, it must represent a reduction of stated capital for corporate law purposes. Under the ABCA, shareholder approval is normally required to affect a return of stated capital. As it is not practical or cost effective for the Company in its current circumstances to convene a shareholders' meeting, and as the proposal would inevitably be passed at any such shareholders' meeting, it was concluded that the Company (through a nominee shareholder as required under the ABCA) would apply to the Alberta Court to obtain an Order directing the liquidation and eventual dissolution of the Company, and that as part of those proceedings the distribution to the shareholders would be made by the Court appointed Liquidator in those proceedings. As such, the Company will be bringing a motion to this Honourable Court to seek to vary certain provisions of the Shareholder Distribution Order in order to facilitate the making of the distribution by the Court appointed Liquidator within the liquidation and dissolution of the Company under the ABCA as a return of stated capital, rather than by the Monitor under these CCAA proceedings.

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**V. EXTENSION OF CCAA PROCEEDINGS**

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The stay period provided by the Extension Order expires April 30, 2007. In order to allow sufficient time to complete the distribution to shareholders and advance the liquidation and dissolution of the Company, the Company is requesting an extension of the stay of proceedings to May 31, 2007.

The Monitor supports the Company's request to extend the Stay Date through to May 31, 2007.

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## VI. SUMMARY AND CONCLUSIONS

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As described above, with the receipt of the adjusted share register and expiry of the further claims bar process, the Monitor is of the view that it is now in position to proceed with a distribution of the remaining Sale Proceeds, less a reserve for costs and other matters, as originally contemplated in the Shareholder Distribution Order. In order to affect the distribution in a tax effective manner for shareholders, the Monitor supports the Company's request to vary the Shareholder Distribution Order such that the distribution will be made within the Company's intended liquidation and dissolution proceedings under the ABCA.

The Monitor believes that CFG Holdings is acting in good faith and with due diligence in these proceedings. Accordingly, the Monitor respectfully recommends that the Court approve an extension of the Stay Date to May 31, 2007, as requested by the Company.

**RESPECTFULLY SUBMITTED,**

Dated the 12th day of April, 2007.

**KPMG INC.**

**In its capacity as Court-Appointed Monitor of  
CFG HOLDINGS INC., formerly 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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO CFG HOLDINGS INC., FORMERLY CERVUS FINANCIAL GROUP INC.

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**SUPERIOR COURT OF JUSTICE**

**Commercial List**

Proceeding commenced at Toronto

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