



**WELCOME TO THE FIRST MEETING OF CREDITORS
IN THE CONSOLIDATED BANKRUPTCY OF**

**FACTORCORP INC. AND
FACTORCORP FINANCIAL INC.**

April 24, 2008

Agenda

1. Call to Order

- Introduction of Head Table
- Tabling of prescribed documents
- Role of Monitor and Receiver and Manager
- Role of Trustee
- Role of Inspectors
- Duties of Bankrupt
- Explanation of Part XII of the BIA

2. Presentation of Trustee's Preliminary Report

Agenda (continued)

- 3. Affirm appointment of Trustee**
- 4. Election of Inspectors**
- 5. Questions Posed to Officer of Bankrupt**
- 6. Special Instructions by Creditors to Trustee and Inspectors**
- 7. Adjournment**

First Meeting of Inspectors will follow immediately

Notice

In preparing this Report, the Trustee has relied upon information and records available from the Companies and from third parties, including information obtained by KPMG Inc. in its capacity as the Receiver, as hereinafter defined. The Trustee's review of this information does not constitute an audit of the financial position or operating results of the Companies as hereinafter defined. In addition, any financial information presented by the Trustee is preliminary and the Trustee is not yet in a position to project the outcome of the administration of the bankrupt estate.

Head Table

Representing the Trustee:

- **Bob Rusko, Chairman of Meeting**
- **Elizabeth Murphy**
- **Brad Butcher, Secretary of Meeting**

Representing ThorntonGroutFinnigan LLP:

- **James Grout**
- **Rachelle Moncur**

Tabling of Prescribed Documents

Role of the Monitor and of the Receiver and Manager

Timeline regarding insolvency proceedings:

- **May 2007 - Companies commenced advising some customers of inability to honour redemptions**
- **July 6, 2007 – OSC issues first Temporary Order**
- **August 1, 2007 – KPMG Inc. retained by Companies as Monitor**
- **October 17, 2007 – KPMG Inc. appointed as Receiver and Manager**
- **December 4, 2007 – Application for consolidated bankruptcy granted by Court**
- **March 25, 2008 – Consolidated bankruptcy order made**

Role of Trustee

- **Trustees in bankruptcy are licensed by the Superintendent of Bankruptcy, an official of Industry Canada**
- **A Trustee in bankruptcy is an officer of the Court who acts in a fiduciary capacity for creditors**
- **The Trustee carries out its duties under the guidance and direction of the Inspectors**
- **The Trustee is responsible for realization on the assets on the bankrupt and for distribution of the net realizations to the creditors in accordance with the scheme of distribution set out in the BIA**

Role of Inspectors

- **Creditors can elect between one to five Inspectors**
- **Inspectors are representatives of the Investors and other creditors**
- **Inspectors have a fiduciary obligation to stakeholders**
- **Inspectors provide oversight in the administration of the estate**
- **Inspectors provide instructions to the Trustee in realizing upon assets and commencing legal actions**

Duties of Bankrupt

- **Requirement to attend First Meeting of Creditors**
- **Requirement to swear Statement of Affairs and be examined by the Official Receiver**

Explanation of Part XII of the BIA

- **Governs bankruptcy proceeding for securities firms**
- **Presumes that the bankrupt purchased securities with funds received by its customers (i.e. the Debenture Holders)**
- **Recoveries are allocated to Debenture Holders in priority to all other claims except the costs of administration**

Report of the Trustee's Preliminary Administration - Outline

1. Background
2. Overview of Receivership Proceeding
3. Contributing Reasons to Insolvency
4. Assets
5. Liabilities
6. Status of Pre-receivership FactorCorp Litigation
7. Other sources of recovery
8. Trustee Fees and Expenses
9. Summary of Proofs of Claim Submitted
10. Future Administration

Presentation of Trustee's Preliminary Report

Background

- Incorporation
- Business of companies
- Inability to honour redemptions
- Intervention by OSC
- Appointment of Monitor

Presentation of the Trustee's Preliminary Report

Overview of Receivership Proceeding

- Court Order on October 17, 2007
- Reporting to Court
- Retention of counsel
- Receiver's activities
- Plans to terminate receivership

Presentation of Trustee's Preliminary Report

Contributing Reasons to Insolvency

- Inability to redeem Debentures
- Inability to sell additional Debentures
- Inability to raise other financing
- Impairment of realizable value of loans and investments

Presentation of Trustee's Preliminary Report

Assets

- Summarized financial statements are presented in Appendix A and Appendix B of the Trustee's Report (handout)
- Only significant assets are: cash, loans and the investment in preferred shares
- Cash in bank of \$666,000 upon Receiver's appointment on October 17, 2007
- Current cash in Receiver's account of \$1.092 million
- 11 loans with a gross book value of approximately \$31.4 million
- Preferred shares in Express Commercial Services Inc. with face value of \$19.568 million
- FactorCorp's Offering Memorandum stated that funds raised from Debentures would be used to make secured loans

Presentation of Trustee's Preliminary Report

Liabilities

- As at the effective date of bankruptcy, December 4, 2007:
 - Approximately 625 Debenture Holders (or Customers)
 - according to the Investment Statements prepared by the Trustee, obligations to the Customers of approximately \$50 million
- Appear to be only minor amounts owed to ordinary creditors in respect of office expenses, professional fees, etc.
- The Trustee does not yet have details on the amounts reflected on the March 31, 2007 balance sheet as “Due to shareholders” and “Note payable”

Presentation of Trustee's Preliminary Report

Status of Pre-receivership FactorCorp Litigation

- New Solutions
- Farm Mutual

Presentation of Trustee's Preliminary Report (cont'd)

Other Possible Sources of Recovery

- Fraudulent Preferences and Reviewable Transactions

Trustee's Fees and Expenses

- Funding, pursuant to a Court Order, of Trustee's fees and expenses by the Receiver

Presentation of Trustee's Preliminary Report

Proofs of Claim Submitted to April 23, 2008

	Claims	
Category	Number	Amount
Secured	Nil	Nil
Preferred	Nil	Nil
Investors	352	\$27,672,835
Ordinary Unsecured	1	3,843
Contingent Claims	1	\$250,000
Total	354	\$27,926,678

Presentation of Trustee's Preliminary Report

Future Administration

- Trustee to work with Inspectors to return maximum value to Investors and other creditors
- Future timelines, including timing of any distributions to Investors, are difficult to predict
- Trustee will work with Inspectors to communicate progress of administration to Investors
- BIA is a business person's statute

Questions

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7. Adjournment (First Meeting of Inspectors will follow immediately)

Affirm Appointment of Trustee

- **The appointment of the Trustee is to be affirmed by an ordinary resolution of the creditors present at the first meeting in person or by proxy**
- **A motion from the floor is required**

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Election of Inspectors

Role of Inspectors

- Act as board of directors of bankrupt estate
- Provide guidance to Trustee and approve Trustee's actions
- Appointed in their personal capacity and not as a representative of their employer, if employed by a creditor
- Participate in periodic meetings in person or by conference call
- Certain prescribed duties

Election of Inspectors (continued)

Considerations for Selection

- Aim for cross-section to be representative of creditor pool
- Larger creditors usually participate but no requirement to limit Inspectors to this group
- Conflicts may arise which will result in need for certain Inspectors to abstain from voting on certain decisions and, in rare cases, may need to resign

Process for Election

- Up to five Inspectors may be chosen
- Voting to be carried out by ordinary resolution with a majority, by dollar of claims, required to elect each Inspector unless no more than five nominees in which case a majority vote for the slate will suffice

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Questions Posed to Officer of Bankrupt

- **Duty of Officer to attend first meeting of creditors**
- **Duty to sign Statement of Affairs**
- **Official Receiver has scheduled an examination under oath of Mr. Twerdun for May 14, 2008**
- **Further examination under oath may be conducted by the Trustee pursuant to S.163 of BIA**

Overview of Agenda

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First Meeting of Inspectors to follow immediately