

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.**

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

March 20, 2008

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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”), attached hereto as **Appendix A**, and 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 Twelfth 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) an update on the Company’s liquidation and dissolution proceedings;
- (iii) the proposed actions for completion of the receivership, liquidation and CCAA proceedings; and
- (iv) 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.

II. LEGAL PROCEEDINGS

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
February 27, 2007	Extension Order
March 9, 2007	Distribution Direction Order
April 13, 2007	Amended Shareholder Distribution
May 28, 2007	Stay Extension Order
August 30, 2007	Stay Extension Order

On November 29, 2007, an Order was granted which approved the Monitor's activities as disclosed in the Eleventh of the Monitor dated November 26, 2007 and extended the Stay Date to March 31, 2008.

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

III. UPDATE ON THE COMPANY'S LIQUIDATION AND DISSOLUTION PROCEEDINGS

As discussed in previous reports of the Monitor, on April 17, 2007, an Order (the "Liquidation Order") was granted by the Court of Queen's Bench for Alberta which, among other things, appointed KPMG as liquidator of CFG Holdings ("Liquidator"). The Third Report of the Liquidator dated March 20, 2008 provides an update on the status of the liquidation proceedings.

In addition, 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"). The Second Report of the Receiver dated March 20, 2008 provides further detail on the status of the receivership proceedings.

IV. PROPOSED ACTIVITIES WITH RESPECT TO THE FINAL ADMINISTRATION OF THE RECEIVERSHIP, LIQUIDATION AND CCAA PROCEEDINGS

The Monitor respectfully requests approval of this Honourable Court to proceed with the following program of activities designed to complete the final administration of: (i) the receivership of CMB and GP; (ii) the liquidation of the Company; and (iii) the CCAA proceedings involving the Company. The proposed activities are as follows:

- (1) The Receiver will file and deliver the outstanding tax returns for CMB and GP to CRA, the Ministry of Finance (Ontario) and Revenu Quebec, as described in section III. of the Second Report of the Receiver (the "Returns"). The Returns to be filed are: (a) CMB – October 1, 2005 to September 30, 2006; (b) CMB – October 1, 2006 to September 30, 2007; (c) GP - May 7, 2004 to April 30, 2005; (d) GP - May 1, 2005 to April 30, 2006; and (e) May 1, 2006 to April 30, 2007. The Returns are nil returns which provide that no taxes are payable by GP and CMB.
- (2) The Returns shall be deemed final and conclusive tax returns for the CMB and GP and CRA, the Ministry of Finance (Ontario) and Revenu Quebec will have no further claim for taxes with respect to CMB and GP, unless CRA, the Ministry of Finance (Ontario) and/or Revenu Quebec bring a motion to challenge the Returns within 30 days of delivery of the Returns ("Tax Return Motion"). The Receiver recommends this as a fair approach to permit both notice to the taxing authorities of the Returns and a process for the timely conclusion of the administration of these proceedings which will permit remaining funds to be distributed to the Limited Partners. It is noted that a claims process has been concluded in this matter and there are no outstanding claim from any of CRA, the Ministry of Finance (Ontario) and Revenu Quebec.
- (3) The Liquidator will bring a motion in the Alberta Court in the liquidation proceedings seeking an order approving its reports, recognizing the Orders in the CCAA proceedings, approving its accounts and approving dissolution of CFG Holdings (the "Alberta Order");
- (4) Following the expiry of time for any appeals of the Alberta Order and the proposed Order and provided that no Tax Return Motion is brought, then the Receiver is authorized to distribute available funds to the Limited Partners in accordance with the Second Report of the Receiver;
- (5) Following distribution of funds referenced in paragraph (4) above and payment of outstanding professional fees, the Receiver and the Monitor are authorized to file a certificate with respect to the receivership and the CCAA proceedings in the form attached as Schedule "A" to the proposed Order (the "Discharge Certificate") with this Court certifying that:
 - (i) the distribution of funds to the Limited Partners referenced in paragraph (4) above has been completed; and

- (ii) the administration of the receivership of the CMB and the GP and the administration of the CCAA proceedings has been completed as described in this Report and the Second Report of the Receiver;

Upon the filing of the Discharge Certificate by the Receiver and Monitor with this Honourable Court:

- (a) the Monitor shall be discharged as Monitor of the Applicant in the CCAA proceedings;
 - (b) the Receiver is discharged as Receiver of the GP and CMB;
 - (c) the CCAA proceedings relating to the Applicant shall be terminated; and
 - (d) the Stay of Proceedings as set out in the Initial Order shall cease to be effective.
- (4) Following filing of the Discharge Certificate, the Liquidator is authorized to seek the Certificate of Dissolution of CFG Holdings Inc. from the Registrar of Corporations, as described in the *Business Corporations Act*, R.S.A. 2000 c. B-9, as contemplated in the Alberta Order. The proposed Alberta Order provides that the Liquidator shall be discharged upon the issuance of the Certificate of Dissolution.

V. EXTENSION OF CCAA PROCEEDING

The stay period provided by the Stay Extension Order expires March 31, 2008.

Among other things, the Liquidation Order provides that “all rights and protections afforded to the Monitor, as an officer of the Court under the Initial Order granted in the CCAA Proceedings (including but not limited to paragraph 52 thereof, which is expressly incorporated herein by reference) and the subsequent Orders granted in the CCAA proceedings, all of which are recognized by this Order are hereby extended to KPMG Inc. in respect to the fulfillment of its function and duties whether as Monitor or as liquidator, and in its carrying out of the provisions of this Order or any Order recognized by this Order.”

As described in the First Report of the Receiver, in order to advance the liquidation proceedings of CFG Holdings, the Company successfully applied to this Honourable Court, within the context of its CCAA proceedings, for the Receivership Order regarding GP and CMB. As previously described in the First Report of the Liquidator, the Company has an interest in GP, the general partner of CMB. The administration of the receivership of those entities will necessarily extend the time required to conclude the liquidation proceedings of the Company.

As the Liquidation Order refers back to the rights and protections afforded to the Monitor under the Initial Order, it is preferable to the Monitor and the Company that the CCAA proceeding continue until such time as the liquidation proceedings are concluded.

The Monitor supports the Company’s request to extend the Stay Date to the earlier of:

- (a) July 31, 2008; or
- (b) the date of filing of the Discharge Certificate by the Monitor (as described in section IV. of this Report).

VI. SUMMARY AND CONCLUSIONS

The Monitor believes that CFG Holdings is acting in good faith and with due diligence in these proceedings. Accordingly, the Monitor respectfully requests approval of the Court to proceed with the program of activities (as described in this report) to complete the final administration of: (i) the receivership of CMB and GP; (ii) the liquidation of the Company; and (iii) the CCAA proceedings involving the Company.


In addition, the Monitor respectfully recommends that the Court approve an extension of the Stay Date to the earlier of (a) July 31, 2008; or (b) the date of filing of the Discharge Certificate by the Monitor, as requested by the Company.

RESPECTFULLY SUBMITTED,

Dated the 20th day of March, 2008.

KPMG INC.

In its capacity as Court-Appointed Monitor of
CFG HOLDINGS INC., formerly Cervus Financial Group Inc.


Per: *Todd Martin*
Senior Vice-President

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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