

**IN THE MATTER OF THE BANKRUPTCY OF FACTORCORP INC. AND  
FACTORCORP FINANCIAL INC.**

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April 7, 2008

Dear Sir/Madam:

**Re: FactorCorp Inc. and FactorCorp Financial Inc., in Bankruptcy  
Notice of First Meeting of Creditors to be held on Thursday, April 24, 2008  
at 1:00 p.m. at the Ramada Inn (Churchill Room), 817 Exeter Road, London, Ontario.**

On March 25, 2008, KPMG Inc., in its capacity as Court Appointed Receiver and Manager of FactorCorp Inc. and FactorCorp Financial Inc. ("FFI") (collectively, "FactorCorp"), obtained an Order relating to, among other things, the call for claims of creditors of FactorCorp. Enclosed please find a copy of that Order, along with a copy of the Receiver and Manager's Fourth Report to the Court dated March 10, 2008 (with selected Appendices only), which was prepared in connection with the motion to obtain the attached Order.

The database compiled by the Trustee from FactorCorp's records identifies you as a person with a potential claim against FactorCorp. Accordingly, enclosed please find a Proof of Claim form together with an instruction letter for use in completing the Proof of Claim. In addition, if you are a holder of debentures issued by FFI (an "Investor"), enclosed please find an Investment Statement setting out the Trustee's calculation of your claim. While the Order was obtained on March 25, 2008, the effective date of the bankruptcy is December 4, 2007 and, accordingly, claims must be calculated as at December 4, 2007.

In the event the Trustee receives any new information regarding the amount of an Investor's claim, the Trustee shall deliver to the Investor an amended Investment Statement.

The appropriate number of Proof of Claim forms should have been provided to you herein. Should you require additional forms, please contact the Trustee.

**Please note that the Proof of Claim must be properly completed and received by the Trustee's office on or before April 23, 2008 if you intend to vote at the first meeting of creditors. Alternatively, you may bring your Proof of Claim to the meeting.**

Instructions for properly completing the Proof of Claim and the GENERAL PROXY are on the second page of the proof of claim form. Please read these carefully and please retain copies of the completed Proof of Claim for your own records.

Please note that if you hold more than one debenture issued by FFI, you may combine all of your holdings and submit only one Proof of Claim which covers your combined position.

The attached Order declares, amongst other things, that FactorCorp is a securities firm for purposes of the *Bankruptcy and Insolvency Act*. Accordingly, if you are an Investor, it is appropriate for you, in completing your Proof of Claim, to indicate that your claim is that of a "CUSTOMER OF A BANKRUPT SECURITIES FIRM" (see box 4 (C)). If you are also in agreement with the balance on the Investment Statement(s), enter this amount as the claim amount under "C: CLAIM OF A CUSTOMER OF A BANKRUPT SECURITIES FIRM", and attach your Investment Statement(s) as Schedule A to the completed Proof of Claim form.

Although only creditors who have filed proper proofs of claim are entitled to vote at the first meeting of creditors, a creditor who has not proved a claim is entitled to attend the meeting, the details of which are noted above.

The purpose of the first meeting of creditors includes appointing inspectors. Inspectors play a key role in the administration of the bankrupt estate. Please see the attached summary regarding the role and duties of Inspectors.

At the first meeting of creditors, the appointment of KPMG Inc. as Trustee is subject to affirmation by the creditors or substitution of another trustee by the creditors.

At the first meeting of creditors, the Trustee will present its Report to the Creditors on Preliminary Administration (the "Trustee's Report"). A copy of the Trustee's Report will also be available on the Trustee's website: [www.kpmg.ca/factorcorp](http://www.kpmg.ca/factorcorp).

Should you have any questions with respect to completing your Proof of Claim, please call the KPMG/FactorCorp Information line at 416-777-8408.

Yours very truly,

**KPMG Inc. in its capacity as  
Trustee in Bankruptcy of  
FactorCorp Inc. and FactorCorp Financial Inc.**



Per: J. Bradley Butcher  
Vice President

**FACTORCORP INC. AND  
FACTORCORP FINANCIAL INC.,  
IN BANKRUPTCY  
INFORMATION SHEET RE ROLE OF THE TRUSTEE AND INSPECTORS**

**Role of the Trustee**

Pursuant to an Order of the Court dated March 25, 2008, KPMG Inc. was appointed as the Trustee in Bankruptcy (the "Trustee") of the consolidated estate of FactorCorp Inc. and FactorCorp Financial Inc. (together, the Bankrupt Companies or the "Estate"). The Trustee owes a duty of utmost good faith to the Creditors of the Estate (which in the case of the FactorCorp bankruptcy are comprised mainly of the holders of debentures issued by FactorCorp Financial Inc., referred to as the "Investors"). The *Bankruptcy and Insolvency Act* (the "BIA") establishes the rules under which the Trustee performs its obligations. The Trustee administers the Estate on a day-to-day basis.

With a view to ensuring a practical and effective means of communication between Investors and the Trustee, the Trustee has continued both the website and the telephone call-in number established by the Receiver. Investors may use either of these means to make any inquiries of the Trustee about the administration of the Estate, including the Proof of Claim process.

**Role of the Inspectors**

Inspectors of the Estate will be nominated and elected by the creditors voting at the first meeting of creditors. Up to five Inspectors may be appointed.

The Inspectors act in a role similar to a Board of Directors of a company. They are the collective representatives of the Creditors of the Estate (which in the case of the FactorCorp bankruptcy, are primarily the Investors) and owe a duty to Creditors to act in utmost good faith for the benefit of the Investors and creditors. Inspectors are not representatives of their respective employers, if employed. They will determine, in conjunction with the Trustee, how the assets of the Estate will be dealt with and when funds will be distributed to the Investors.

**Duties and Powers of the Inspectors**

The Inspectors are the supervisors of the Trustee, and their role is to instruct the Trustee to take whatever steps they consider appropriate in order to protect the Estate and the Creditors.

The powers of the Inspectors may be exercised by a simple majority vote. The amount owed to a creditor who has been appointed as an Inspector is not relevant to voting by the board of Inspectors.

The duties and responsibilities of Inspectors are set out in various sections of the BIA and can be divided into two main areas of activity:

- Authorization: giving permission to the Trustee to take specific actions; and
- Supervision: approving various reports, documents and accounts and general supervision of the Trustee's administration of the Estate.

The Inspectors are expected to satisfy themselves that the Trustee's administration is satisfactory by examining certain documents and accounts connected with the administration. The BIA

enables the Inspectors to carry out this function by providing them with access to the Estate's books and records.

The Inspectors are also required to approve the Trustee's final statement of receipts and disbursements, dividend sheet and disposition of unrealized property.

The Inspectors only have the powers given them by the BIA and cannot obtain a personal benefit or advantage from the bankrupt Estate.

### **Meetings of the Inspectors**

Meetings of the Inspectors are generally called by the Trustee. The Inspectors do not have the power to hold meetings on their own. The Trustee is required to call a meeting when requested in writing by a majority of the Inspectors. The Inspectors must pass resolutions at a properly called meeting by a simple majority. If all the other Inspectors consent, an Inspector may participate in a meeting of Inspectors by telephone or other communication facilities.

An Inspector cannot appoint some other person to represent him or her at a meeting of the Inspectors that the Inspector is unable to attend. An Inspector is entitled to be accompanied by his or her solicitor at a meeting of the Inspectors. The solicitor cannot take part in the deliberations nor can the solicitor propose or second motions.

The frequency of Inspector meetings is determined based on the requirements of the administration of the bankrupt Estate.

Meetings can be held in person or by telephone.

### **Resolution of Disputes**

If, at a meeting of the Inspectors, the Inspectors cannot arrive at a majority decision, the Trustee has the power to decide the matter, unless it concerns the Trustee's personal conduct. However, the opinion of any absent Inspectors must be sought to resolve the difference.

When there is a conflict between the directions given to the Trustee by the Creditors at any Creditors' meeting and directions given by the Inspectors, the directions of the Creditors will prevail.

In the event that the Trustee or another interested person challenges the decisions and actions of the Inspectors, the Trustee or other person have a right to apply to the Court for a review of the matter. The Court can revoke or vary any act or decision of the Inspectors and give directions, permission or authority as it considers appropriate. In the alternative, a Creditors' meeting can be called at which the Investors and Creditors can give instructions to the Trustee.

### **Inspectors' Remuneration**

Each Inspector may be paid (a) actual and necessary travel expenses incurred in relation to performance of his or her duties as Inspector; and (b) fees per meeting as prescribed by the BIA, depending on the "net receipts" realized by the Trustee, ranging from \$10 to \$40 per meeting. An Inspector may be allowed a special fee for special services provided to the Estate. The special services and related fees must be requested and authorized by the Creditors or other Inspectors and subject to approval by the Court.