

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.**

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

December 22, 2006

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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”), 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 Sixth 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 creditor claims process and distribution to creditors;
- (iii) the Company’s updated net cash position;
- (iv) the proposed interim distribution to shareholders; and
- (v) the proposed plan to wind up the Company under the *Alberta Corporations Act* (the “ABCA”).

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

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

On October 13, 2006, this Honourable Court granted an Order (the "Creditor Distribution Order") which, among other things: (i) approved the distribution of \$7,082,948.70 to CFG Holdings' creditors as set out in **Schedule A** to the Fifth Report of the Monitor dated October 11, 2006 (the "Fifth Report"); and (ii) extended the Stay Date to December 29, 2006 with respect to CFG Holdings and the Directors.

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.

III. CREDITOR CLAIMS PROCESS AND DISTRIBUTION TO CREDITORS

On October 13, 2006, in accordance with the Creditor Distribution Order, the Monitor distributed \$7,082,948.70 to the Company's creditors. As described below, the Monitor made a further distribution of \$512.88 on November 1, 2006, such that total distributions to creditors as at the date of this Report are \$7,083,461.58.

As indicated in the Fifth Report, as a result of the Claims Process, the Monitor received three Proofs of Claim that were not resolved as at the time the Creditor Distribution Order was granted. The results/status of the Monitor's efforts to resolve those three Proofs of Claim are summarized below:

- i) on October 18, 2006, the Monitor issued, by mail, a Notice of Revision or Disallowance, in accordance with the Claims Order, to disallow the claim of 1632200 Ontario Inc./Your Mortgage Connection in the amount of \$50,257.66. That creditor did not file a Notice of Dispute of Revision or Disallowance. The 10-day appeal period for such notice to be filed with the Monitor expired on October 31, 2006;
- ii) on November 1, 2006, with the approval of the Company, the Monitor made a distribution of \$512.88 to the Ontario Ministry of Finance as its claim was admitted as a Proven Claim, including a minor amount of additional interest; and
- iii) the Monitor is continuing to liaise with the Canada Revenue Agency ("CRA") regarding its claim of \$139,921.05, including interest and penalties (the "CRA Claim"), in order to resolve the claim. The claim primarily relates to the treatment of Goods and Services Tax related to one of the Company's former revenue streams. CRA has indicated to the Monitor that a CRA ruling is required prior to finalizing the CRA's position. It is anticipated that the claim will be resolved prior to February 15, 2007.

IV. UPDATED NET CASH POSITION

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 section III of this Report, in accordance with the Creditor Distribution Order, the Monitor has made distributions to creditors totaling \$7,083,461.58 from the net Sale Proceeds. 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 October 13, 2006 (the date of the last update to the net cash position provided in the Fifth Report) to December 20, 2006 is summarized below.

CFG Holdings Inc.
Rollforward of Net Cash Position
For the Period October 13 to December 20, 2006

Opening cash position (1)		\$ 11,109,541
Add:		
Interest income		25,452
Less:		
Distribution to creditors	7,083,462	
Professional fees	204,014	
Publication of notice re: Claims Bar Date	8,219	
Other (2)	14,216	7,309,911
Cash position as at December 20, 2006		\$ 3,825,082

Notes:

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

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

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

V. PROPOSED INTERIM DISTRIBUTION TO SHAREHOLDERS

A. Update on the Process for Advancing to a Distribution to Shareholders

As described in the Fifth Report, as a result of the Founders' Undertaking, the Company proposed, and the Monitor supported, a sequential plan to clarify the share register of the Company which included the following:

- the Company, through its legal counsel, would make a formal request of the Founders to satisfy their undertakings under the Founders' Undertaking;
- the Company proposed that to the extent possible, the undertakings of the Founders under the Founders' Undertaking would be satisfied through a release to the Company of applicable Escrowed Shares;
- the Company proposed that all of the shares committed under the Founders' Undertaking, being 8,100,000 common shares, be surrendered to the Company for cancellation. There would therefore be no transfer of shares to senior management or to a trust established for the benefit of senior management;
- shares surrendered to the Company would be cancelled and returned to unissued capital of the Company, thus reducing the aggregate number of issued and outstanding shares of the Company; and
- the right of senior management of the Company and the Chairman of the Board of Directors (the "Senior Management") to receive 1,350,000 common shares of the Company would be satisfied in due course through the payment in cash to those members of senior management equal to the amount that would be distributable to holders of that number of common shares.

In this regard, since the date of the Fifth Report, the Monitor has been informed by the Company's legal counsel that:

- (i) on December 1 and 4, 2006, the Company's legal counsel wrote to the Founders (eight parties in total) and Equity Transfer Services Inc. ("ETS"), GMP Securities Ltd., and Lawrence Asset Management Inc. to request that the remaining 5,737,501 common shares held in escrow by ETS be released from escrow and provided directions for the Founders to execute and return those shares to the Company by December 8, 2006. The release from escrow would facilitate transfers to the Company for cancellation of the 8,100,000 common shares committed under the Founders' Undertaking; and
- (ii) all of the Founders have agreed to comply with the Founders' Undertaking and have or have agreed to execute the directions, as requested, with the following exceptions, as described in the Affidavit of Peter Williams, Chief Executive Officer of CFG Holdings, sworn December 21, 2006:
 - three of the Founders have indicated that they are prepared to fulfill the terms of the Founders' Undertaking provided that certain technical issues related to indemnity language contained in the Undertaking can be resolved. As at the date of this Report, the Monitor

understands that the Company and its legal counsel are continuing to attempt to resolve these issues; and

- one Founder (with 415,698 common shares committed to be returned in accordance with the Undertaking) has not responded to the initial correspondence from the Company's counsel nor any subsequent telephone calls or email correspondence. As at the date of this Report, the Monitor understands that the Company and its legal counsel are continuing to attempt to seek a response from this Founder.

B. Proposed Interim Distribution to Shareholders

In light of the above, the Company proposes to make an interim distribution to shareholders, subject to the following considerations:

- (i) receipt by the Monitor of a revised shareholder register for the Company from the registrar, Computershare Ltd., (the "Revised Shareholder Register") reflecting the surrender to the Company of all of the 8,100,000 of Founders' shares as described above (including the shares committed under the Founders' Undertaking by the four Founders that the Company is continuing to attempt to seek resolution with);
- (ii) in the event that the Company does not receive the required consents and directions from certain of the Founders or certain Founders do not withdraw all alleged claims, if any, against the Company, in form and content satisfactory to the Company, as approved by the Monitor, then, as part of the interim distribution to shareholders, the Monitor may, in consultation with the Company, make a distribution to such Founders attributable to the net amount of their shareholdings after a hold back to account for the shares committed by such Founder(s) under the Founders' Undertaking. If the Company is unable to resolve all matters related to the Founders' Undertaking by January 19, 2007, then the Company will apply to the Court for advice and direction as to the further treatment of those issues;
- (iii) that the right of certain members of Senior Management to receive 1,350,000 common shares of the Company under the Founders' Undertaking be satisfied through the payment in cash equal to the amount that would be distributable to holders of that number of common shares;
- (iv) the Company, in consultation with the Monitor, will determine a reserve amount to be held back from the interim distribution in order to:
 - fund future professional fees and costs in order to complete the administration of the CCAA proceedings and the intended winding up of the Company under the ABCA;
 - potentially fund a distribution to CRA if its claim is ultimately admitted as a Proven Claim;
 - potentially fund a distribution to certain Founders of any hold back amounts as described in point (ii) above; and
 - act as reserve for other potential contingencies as the Company continues through the CCAA process.

Therefore, following receipt of the Revised Shareholder Register as described in point (i) above, and subject to the provisions described in points (ii) through (iv) above, the Monitor believes that the Company will be in a position to make an interim distribution to the shareholders free and clear of any of the charges provided for earlier in these proceedings. Provided that the documentation required to effect

the surrender and cancellation of the shares committed under the Founders' Undertaking is received and processed by Computershare expeditiously, the Company anticipates that the interim distribution can be completed prior to January 31, 2007.

C. Extension of CCAA Proceedings

The Monitor supports the Company's request to extend the Stay Date through to February 28, 2007.

VI. PROPOSED PROCEDURE FOR WINDING UP THE COMPANY

Following completion of the interim distribution to shareholders described in section V. of this Report, and the resolution of the CRA Claim, the Company intends to apply to the Court of Queen's Bench for Alberta (the "Alberta Court") for an Order winding up the Company under the provisions of the ABCA.

The Company intends to seek an Order requesting that the Alberta Court consider the CCAA proceedings as the proceeding in which all distributions of the assets of the Company to creditors and shareholders occur. The Company will also request that the Alberta Court coordinate proceedings with this Honourable Court under the CCAA.

VII. SUMMARY AND CONCLUSIONS

The Monitor is of the view that the activities of the Company and its legal counsel in advancing toward an interim distribution to shareholders were performed in accordance with the proposed process as described in the Fifth Report. Accordingly, the Monitor respectfully recommends that the Court approve the proposed Order that is being sought on December 27, 2006.

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 (as defined in the Initial Order) to February 28, 2007, as requested by the Company.

RESPECTFULLY SUBMITTED,

Dated the 22nd day of December, 2006.

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

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Commercial List

Proceeding commenced at Toronto

SIXTH REPORT OF KPMG INC., MONITOR

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