

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 PLAN OF COMPROMISE OR ARRANGEMENT
OF THE MANDERLEY CORPORATION,
1310500 ONTARIO INC., AND LEO BEAL LTD.**

(the Applicants)

**FIRST REPORT OF THE MONITOR AND INTERIM RECEIVER
DOYLE SALEWSKI INC.
April 19, 2005**

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I. Introduction, Purpose and Qualifications

(a) Introduction

1. This report is Doyle Salewski Inc.'s (the "Monitor/Interim Receiver" or "DSI") first report (the "First Report") to the Ontario Superior Court of Justice and provides information pertaining to the affairs of The Manderley Corporation, 1310500 Ontario Inc. and Leo Beal Ltd. (collectively the "Applicants").

2. On March 11, 2005, the Applicants filed a notice of intention ("NOI") to file a proposal under Division I of the *Bankruptcy and Insolvency Act* (the "BIA") which named DSI as the proposal trustee.

3. On March 18, 2005, the Applicants filed an application with the court under the *Companies' Creditors Arrangement Act* (the "CCAA"). DSI was subsequently appointed as monitor (the "Monitor") and interim receiver (the "Interim Receiver") of the Applicants by order of the Honourable Mr. Justice C. Campbell dated March 23, 2005 (the "Initial Order"). A copy of the Initial Order is included as **Exhibit "A"** in the affidavit of E. Christopher Hope sworn April 19, 2005 (the "Hope Affidavit").

4. Further background information is outlined in the first report of the proposal trustee dated March 16, 2005, which was filed with this Court on March 18, 2005.

(b) Purpose

5. The purpose of the First Report is to provide information to the Court in connection with the following:

- (a) the activities of the Monitor/Interim Receiver;
- (b) the status of the Applicants' operations, restructuring efforts and cash flow, on a preliminary basis, in the short period subsequent to their filing under the CCAA from March 14, 2005 to April 10, 2005;
- (c) the Applicants' request that the Initial Order be amended *nunc pro tunc* to include Manderley Natural Turf Systems Inc. ("Manderley Turf");
- (d) the Applicants' motion to extend the terms of the Initial Order to June 23, 2005.

(c) Qualifications

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

7. The financial information of the Applicants have not been audited, reviewed or otherwise verified by the Monitor/Interim Receiver 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 Applicants. Accordingly, the Monitor/Interim Receiver does not express an opinion or any other form of assurance on the financial or other information presented herein. The Monitor/Interim Receiver may refine or alter its observations as further information is obtained or is brought to its attention after the date of this report.

8. 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 that any party makes of this report or any reliance on or decisions that are made based on this report is the sole responsibility of such party. All dollar amounts identified in this report are expressed in Canadian dollars, unless otherwise specified.

II. RECENT DEVELOPMENTS

(a) The CCAA Proceedings

9. Paragraph 4 of the Appointment Order stipulates that any interested party who wishes to seek an amended to the Appointment Order may do so on or before April 4, 2005, or such later date as the court may direct. To date, no motion has been brought under this provision, although it is understood that Royal Bank of Canada may do so. The Monitor/Interim Receiver has made the Initial Order available on its website at www.doylegroup.ca.

(b) The Monitor/Interim Receiver's Activities

10. Pursuant to paragraph 28 of the Initial Order contemplates that the Applicants are to provide a copy of the Appointment Order to all creditors having claims in excess of \$1,000.

11. The Monitor/Interim Receiver has provided a copy of the Initial Order to all interested parties by regular mail on the Applicants' behalf on March 24, 2005

12. The Initial Order provides the Monitor/Interim Receiver and counsel to each of the Applicants and the Monitor/Interim Receiver a second ranking priority charge upon all present and future property of the Applicants (the "Administrative Charge") up to the principal limit of \$250,000. With respect to the Administrative Charge, \$26,149.49 has been billed by the Monitor/Interim Receiver to March 31, 2005 and there currently exists an estimated \$16,156 unbilled time for the Monitor/Interim Receiver. Counsel to the Monitor/Interim Receiver has billed \$16,809 and there currently exists an estimated \$6,000 unbilled time. In addition, \$26,964 has been billed by legal counsel for the Applicants and there currently exists an estimated \$12,195 unbilled time.

(c) Security of Royal Bank of Canada

13. From its review of the materials filed by Royal Bank of Canada ("RBC") in these proceedings, counsel for the Monitor/Interim Receiver identified certain concerns about the security held by RBC in so far as it extends to the sod presently under cultivation. While discussions have ensued among counsel for the Monitor/Interim Receiver, RBC and the Applicants concerning this issue further documents and review are required. The Monitor/Interim Receiver believes that it is appropriate to alert the Court to the existence of this issue. It is also of note that the issue which has been identified is confined to the question of RBC's security in the sod and no issue has been raised about RBC's security over receivables and equipment. In this respect it is of note that, if it was to be determined that the RBC's security did not extend to the sod, the post-CCAA sale of sod by the Applicants, so as to convert the value of the sod into receivables, would have the effect of creating collateral for RBC's loans which would not otherwise exist. The Monitor/Interim Receiver is attempting to complete its review in this area so as to be

more definitive on the issue. However, it may also be that the questions that have been raised are not covered by clear legal authority.

(d) The Applicants' Current Financial Position, Restructuring Efforts, and Status of Operations

Current Financial Position

14. The current financial information relative to the Applicants' cash flow, if presented herein, would ostensibly be available on the Monitor/Interim Receiver's web site. As such, this information will be provided to the Court in a supplement to this report with a request that it be sealed. This is essential as this information, if available to the Applicants' competitors, will severely and negatively impact the Applicants' current retail inventory disposition and its restructuring efforts.

Restructuring Efforts

15. As part of its role as Monitor/Interim Receiver, DSI has met with management of the Applicants to discuss and implement restructuring initiatives. Some of the specific actions taken by the Monitor/Interim Receiver in this short interim period include:

- (a) Attended meetings with management and employees of the Applicants to discuss the CCAA process and the resulting implications;
- (b) Confirmed the adequacy of financial, operational and information technology controls and set up a daily and weekly reporting systems regarding operations and cash flow requirements;
- (c) Assisted in coordinating a comprehensive communication program for key stakeholder, including key suppliers, landlords and creditors;
- (d) Confirmed ongoing insurance for the assets and undertakings of the Applicants;
- (e) Attended a meeting with Royal Bank of Canada and its advisor, Raymond Chabot Inc. ("RCI") on March 30, 2005 to provide the latter with additional insight to the Applicants' restructuring plan;
- (f) Attended a review of the corporate office operations in Ottawa, Ontario;
- (g) Met with management to identify and analyze opportunities for cash flow improvements, including reducing operational costs;
- (h) Commissioned an appraisal of machinery and equipment by Danbury Sales Inc. (the "Appraisal"). The Appraisal will be provided to the Court

at the hearing at which time the Applicants will request that it be sealed, along with the supplement to this report, so as to preserve the integrity.

16. The Monitor/Interim Receiver has also reported to Royal Bank of Canada, a senior secured lender of the Applicants through its consultant RCI.

17. The Applicants have engaged the services of Round Oak Management (“Round Oak”) to assist management with its marketing efforts and to identify a strategic partner.

18. The Monitor/Interim Receiver has also introduced the Applicants to Thomas Beveridge of TCS 2000 Inc. (“TCS”) with a view to assisting the Applicants’ marketing effort to identify a strategic partner, or financing alternative. TCS is an Ottawa based company which has been very successful in matching investors to opportunities such as this one. We believe an Ottawa based organization would enhance the efforts of Round Oak. The Applicants have not as of yet engaged TCS.

19. The Monitor/Interim Receiver has been contacted by two parties expressing an interest in the Applicants’ CCAA process. The first inquiry was from the accountant for an Ottawa area sod producer (the “Ottawa Party”). The Monitor/Interim Receiver determined that their interest stemmed solely from trying to determine if the Applicants intended to sell its inventory on a bulk sale basis which would severely impact their client’s operations. The second inquiry was from a large sod producer in Alberta (the “Alberta Party”). We forwarded this information to Chris Hope who has contacted the Alberta Party. The Alberta Party was interested in determining if any assets were currently being liquidated, and if so, they were interested in discussing the Applicants’ Alberta assets. The Monitor/Interim Receiver advised that at this time, the Applicants’ operations were continuing. However, the Monitor/Interim Receiver encouraged them to discuss any potential interest in acquiring any assets directly with Mr. Hope, or in the alternative, to come back to the Monitor/Interim Receiver with any proposals they may have, or if other additional non competitive information was required.

20. The Applicants have advised the Monitor/Interim Receiver that they have met with parties who have expressed an interest in investigating an acquisition of all or part of the assets of the Applicants and/or merger with the Applicants. The Monitor/Interim Receiver believes that that there might exist an opportunity for the Applicants to maximize values in a liquidation scenario. It is evident that the company requires more time to formalize these discussions so that it may formulate a proposal that is in the best interest of all stakeholders.

21. To date, the Monitor/Interim Receiver is not aware that the Applicants have experienced any significant negative impact on operations and cash flow. The Monitor/Interim Receiver has received only a few inquiries from third parties relating to these proceedings.

Status of Operations

22. At this stage of the CCAA proceedings, it appears that the Applicants have stabilized their operations and have maintained the integrity and functionality of their businesses. However, as set out above, this stability is predicated on the DIP financing.

(e) Extension of Stay

23. Pursuant to the Appointment Order, the stay period expires April 22, 2005. The Applicants are seeking an extension of the stay period until June 23, 2005.

24. An extension of the stay is necessary for the Applicants to complete their revised business plan and commence negotiations with creditors. All this activity must occur before the Applicants are in a position to fully develop a plan of arrangement.

25. An extension to the stay is also necessary to enable the Monitor/Interim Receiver to develop and proceed with a marketing process for all or part of the Applicants' assets.

26. In the Monitor/Interim Receiver's view, the Applicants are acting in good faith and with due diligence during this CCAA proceeding. The Monitor/Interim Receiver is further of the view that that extension requested is appropriate in the circumstances.

III. RECOMMENDATIONS

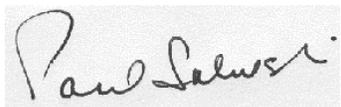
27. The Monitor/Interim Receiver recommends that the Applicants' request for the relief contained in the Applicants' motion record dated April 19, 2005 be granted.

28. The Monitor/Interim Receiver recommends that permission be given to allow Manderley to engage the services of TCS.

All of which is respectfully submitted on this 19th day of April, 2005.

DOYLE SALEWSKI INC.

**In its capacity as Monitor/Interim Receiver
and not in its personal capacity**



**Paul E. Salewski, CA•CIRP
Senior Vice-President**