Doyle Salewski Inc.
MEMBER DOYLE GROUP

Court File No. 04-CL-5491

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 AFTON FOOD GROUP LTD., AFTON FOOD GROUP INC., JOINT TECHNOLOGIES INC., KEDARD HOLDINGS LTD., ROBIN'S FOODS INC., MRS POWELL'S (CANADA) INC., 241 PIZZA (1997) INC., RUFFAGE INTERNATIONAL INC., CYBERSENSATIONS CAFÉ INC., MRS. POWELL'S, INC. and KIDSPORTS CAPITAL CORPORATION AND OTHER APPLICANTS LISTED ON SCHEDULE "A"

(the Applicants)

FOURTH REPORT OF THE MONITOR – DOYLE SALEWSKI INC.
December 8, 2004

Introduction

1. On July 16, 2004, Afton Food Group Ltd. and certain of its subsidiaries (collectively, the "Applicants") filed for, and obtained, protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36 (the "CCAA"). The terms of this proceeding are governed by an order of this court dated July 16, 2004 (the "Initial Order"). Pursuant to the Initial Order, Doyle Salewski Inc. ("DSI") was appointed as monitor (the "Monitor") of the Applicants. A copy of the Initial Order is attached as **Appendix "A"**.

2. By order dated July 27, 2004 of the Honourable Mr. Justice Nordheimer, the Initial Order was amended *nunc pro tunc* to include the companies listed in Schedule "A". A copy of the July 27, 2004 order is attached as **Appendix "B"**.

3. The terms of the Initial Order were extended by order of the Honourable Madam Justice Hoy on August 13, 2004 (the "August 13, 2004 Order"). The terms of the Initial Order were further extended to December 13, 2004 by order of the Honourable Mr. Justice Farley dated October 6, 2004. Copies of the August 13, 2004 Order and the October 6, 2004 Order are attached as **Appendix "C"** and **"D"**, respectively.

4. Further background information is outlined in the Monitor's previous reports and the court orders issued to date which are available on the Monitor's web-site www.doylegroup.ca.

Purpose

5. The purpose of this fourth report of the Monitor (the "Fourth Report") is to provide information to the court in connection with the following:

i. the status of the Applicants' current financial position, operations, and restructuring efforts since the Monitor's third report dated October 1, 2004 (the "Third Report"); and

ii. the Applicants' motion to extend the terms of the Initial Order to February 14, 2005.

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 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. The reader is cautioned that this report may not disclose all significant matters about the Applicants. 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.

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 are the sole responsibility of such party. All dollar amounts identified in this report are expressed in Canadian dollars, unless otherwise specified.

I. The Applicants' Current and Projected Financial Position, Status of Operations and Restructuring Efforts

(i) Current and Projected Financial Position

9. Attached as **Appendix "E"** is the revised consolidated cash flow projection, which was presented to the court at the initial application held on July 16, 2004 (the "July 16, 2004 Cash Flow"). The July 16, 2004 Cash Flow covers the period July 14, 2004 to September 11, 2004.

10. As at December 4, 2004, the Applicants experienced net cash flow which is favourable relative to the July 16, 2004 Cash Flow. The net cash position of the Applicants as at December 4, 2004 is $647,222 versus a projected deficiency of $117,964. This is a favorable variance of $765,186. Attached as **Appendix "F"** is a copy of the consolidated cash position of the Applicants to December 4, 2004.

11. For the period from July 14, 2004 to December 4, 2004, the Applicants' consolidated cash receipts were $6,477,312 compared to a budget of $5,817,426. This represents an increase of $659,886. Management has advised the Monitor that the most significant reasons for this increase is due to, *inter alia*:

(a) volume rebates collections are $906,516.78 compared to a budget of $715,000.00, representing an increase of $191,516.78. The principal contributor is $117,000 received from Mother Parkers Tea & Coffee Inc.;

(b) the July 16, 2004 Cash Flow did not incorporate the receipt of $50,000 in volume rebates that were earned pre-filing which have been received from all suppliers save for Dawn Food Products (Canada) Ltd. ("Dawn Food") which total approximately $65,000;

(c) in November 2004, the Applicants received a post-filing volume rebate payment of $53,000 from Lily Cups Inc.;

(d) volume rebates earned by 241 Pizza (1997) Inc. were $183,077.63 compared to a budget of $140,000.00 representing an increase of $43,077.63;

(e) miscellaneous collections to date (which include the receipt of a GST rebate of approximately $75,000) are $139,796.63; and

(f) corporate store sales were $1,967,293.41 compared to a budget of $1,602,000, representing an increase of $365,293.41.

12. The cash disbursements to December 4, 2004 were $5,097,120 compared to a budget of $5,161,605 representing a decrease of $64,485. The principal reduction arises because supplier payments are $169,625 less then what was budgeted. Approximately $65,000 is attributed to reduction of outlays for the period from July 14, 2004 to July 31, 2004. This decrease is the result various suppliers payments being stayed by the CCAA.

13. Attached as **Appendix "G"** is a consolidated cash flow projection for the period December 6, 2004 to February 28, 2005. The Applicants are projecting a net cash flow balance of $706,371 as at February 28, 2005. The Applicants are up to date with all their post-filing obligations and are in a position to do so during the proposed extension period.

(ii) Status of Operations

14. At this stage of the CCAA proceedings, it appears that the Applicants have stabilized their operations and have continued to maintain the integrity and functionality of their businesses. As noted above, the cash flow for operations is well above the forecast and is projected to be satisfactory for the proposed extension period.

15. Customers and suppliers have continued to support and maintain business relations with the Applicants. The issues the Applicants faced with respect to one of their suppliers, Dawn Food, have not been resolved. Although the latter is continuing to provide products to the Applicants, there has been no negotiated solution regarding the set-off issues.

Directors and Officer's Insurance

16. Great American Insurance Group is the Applicants' current carrier for Directors & Officers ("D & O") liability insurance. The carrier has provided insurance since November 26, 2003 and the current policy including extensions will expire on January 25, 2005. The carrier has notified the Applicants that it will not renew the policy upon its expiry. The Applicants through their insurance brokers have attempted but have failed to obtain a new carrier to provide D & O insurance coverage. The result of a termination will be to leave the Directors and Officers of the Applicants uninsured for any actions that may take subsequent to expiry of the current policy on January 26, 2005.

17. The Applicants were, however, successful in securing a Discovery Period/Trail Coverage which will provide D & O coverage for claims filed against the Applicants for a one year period commencing from January 26, 2005 to January 25, 2006 ("Trail Period"). The effect of this coverage is to provide D & O liability insurance coverage for any claims filed during the Trail Period that relate to the insured period from November 26, 2003 to January 25, 2005.

18. The Monitor will be discussing with the Applicants, its directors and the secured lender ways to move forward if a renewal can not be obtained. It is possible that there could be a need for a further motion to the Court prior to the proposed extension deadline in order to deal with this issue. The Monitor is, however, confident that a solution can be found that will neither disrupt or delay the current sales/investment process or negatively impact upon continued day to day operation of the business.

Good Faith and Due Diligence

19. The Applicants have been proceeding in good faith and with due diligence in continuing to restructure their operations. Some of the most significant events since the Third Report are described below.

241 Pizza ® Call Centre

20. The Applicants have finalized their agreement with the new call centre, Call Cast, to service the 241 Pizza® franchisees. This agreement replaced the existing call centre host, 958424 Ontario Inc., c.o.b. Opalonline ("Opalonline"). The agreement was concluded on November 23, 2004. On November 30, 2004, Call Cast commenced operations. The transition encountered a number of significant problems. Management undertook corrective action and is continuing to monitor the situation.

21. Opalonline's contract, which included processing credit card transactions and holding the proceeds of same in trust for the franchisees, was terminated on November 23, 2004. Although the Applicants faced some resistance from Opalonline with respect to the transfer of the 241 Pizza® franchisees' trust funds, the matter has now been resolved. As set out in the affidavit of P. Bruce Smith sworn December 8, 2004, the Monitor has agreed to hold $10,000 in escrow for 60 days to ease some of Opalonline's concerns regarding potential credit card charge backs and/or shortfalls.

Sale of Surplus Restaurant Equipment

22. As a result of the closing of a number of Robin's Donuts® franchises over the past year, the Applicants' accumulated surplus restaurant equipment is warehoused in a leased facility at 845 Herrington Court, in Burlington, Ontario. It is management's opinion that the majority of this equipment should be sold and the warehouse lease terminated in order to further reduce operating costs. The Monitor shares that view. Zeifman & Partners Inc. ("Zeifman"), the agent for the Applicants' senior lenders (Rabobank Nederland, Canadian Branch, Credit Union Central of Ontario Limited and Hepcoe Credit Union) was consulted with respect to this transaction.

23. The Applicants' retained the services of Jim McCartney Auction Service and Appraisals Ltd. to inspect and appraise this surplus equipment. The appraisal indicates that the fair market value of this equipment based on a liquidation value method of disposal ranges from gross proceeds of $39,230 to $49,955.

24. Management undertook the following steps to market the surplus equipment;

(a) a letter was sent to all Robin's Donuts® franchisees advising them that they could acquire individual pieces of equipment;

(b) management accepted the offers of two Robin's Donuts® franchisees, subject to court approval, for specific pieces of equipment;

(c) the residual equipment was offered *en bloc* to four restaurant equipment dealers;

(d) the Applicants' received three *en bloc* offers from independent restaurant equipment dealers; and

(e) subject to court approval, the Applicants accepted the *en bloc* offer that was submitted by Butcher & Restaurant Equipment.

25. The Butcher & Restaurant Equipment' *en bloc* offer, when combined with the individual offers received from the two franchisees, will yield net proceeds of $30,918. The Monitor

believes that the proposed sale is in the best interests of the stakeholders. The reasons are as follows:

(a) the offers will yield net proceeds of $30,918 and fall in the range of net proceeds available from conducting an auction process;

(b) an auction may fail to yield the anticipated results; and

(c) the Applicants will no longer require the leased warehouse space which is leased at $4,110.59 monthly.

Asset Sale – Robin's Donuts® Corporate Restaurant

26. The Applicants have identified a purchaser for the assets of a Robin's Donuts® franchise located at 1015 King Edward Street, Winnipeg, Manitoba. This location was running under a corporate profile prior to the CCAA. Management advises that it experienced, and continues to experience, considerable difficulty in its attempts to re-franchise this location due to the significant renovations this restaurant requires.

27. In November 2004, an offer to purchase these assets for $75,000 was received by an existing Robin's Donuts® franchisee. The Applicants have accepted the purchase price and will conclude a sale subject to court approval. While the terms of this asset sale have not been concluded, the Monitor believes that the purchase price is reasonable given the costs that would be incurred to renovate the site. The sale is reasonable and in the best interest of the stakeholders. Zeifman was also consulted with respect to this transaction.

Actions Against Delinquent Franchisees

25. The Applicants will also be commencing actions against various franchisees for the collection of royalties and other monies. Local counsel has been retained and these actions will be underway shortly.

(iii) Restructuring Efforts

26. As part of its role as Monitor, DSI has continued to meet with management of the Applicants to discuss and implement restructuring initiatives. Some of the specific actions taken by the Applicants since the Third Report include:

(a) terminated 2 unprofitable leases;

(b) terminated 8 under-performing franchises;

(c) terminated a total of 29 employees since the Initial Order;

(d) continued to develop and source outside financing;

(e) met with franchisees to address their concerns; and

(f) met with various potential strategic partners.

27. As set out in the Third Report, the Applicants retained a merchant banking firm, Capitalink L.C. ("Capitalink"), whose mandate it is to canvass the market and assist them in identifying a strategic partner.

28. Since their retainer, the Applicants have been working diligently with Capitalink and the Monitor to identify a strategic partner and develop a refinancing and restructuring plan. A detailed report of the marketing efforts and the results are outlined in the affidavit of P. Bruce Smith sworn December 8, 2004, which the Monitor has reviewed and confirms to be an accurate reflection of events.

29. The combined marketing efforts of Capitalink and the Applicants to date include:

(a) the assembly a listing of approximately 300 prospective strategic partners;

(b) the solicitation of approximately 2,000 investment bankers, financial professionals, and other intermediaries; and

(c) the receipt of 9 non-binding letters of interests.

30. Currently, there are 3 parties conducting due diligence. The Applicants and Capitalink (with the Monitor's assistance) have also prepared a standard asset purchase agreement. This agreement will be used to negotiate with the parties that are performing due diligence. Based on the discussions and results to date, the Monitor is cautiously optimistic that a strategic partner will be identified.

II. Extension of the Stay

33. Pursuant to the October 6, 2004 Order, the stay period expires on December 13, 2004.

34. An extension of the stay to February 14, 2005 is necessary to enable the Applicants to proceed with the investment/sale process and to enable the Applicants to be in a position to provide their creditors with a plan of arrangement or compromise.

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

All of which is respectfully submitted on this 8th day of December, 2004.

DOYLE SALEWSKI INC.
In its capacity as Monitor of the Applicants

Brian P. Doyle, CA • CIRP
President

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12/08/04