

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., LEO BEAL LTD. AND
MANDERLEY NATURAL TURF SYSTEMS INC.**

the Applicants

**SECOND REPORT OF THE MONITOR AND INTERIM RECEIVER
DOYLE SALEWSKI INC.**

June 2, 2005

DOYLE SALEWSKI INC.
404 Bank Street
Ottawa, ON K2P 1Y5

Phone: (613) 569-4444

Fax: (613) 569-1116

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I. Introduction, Purpose and Qualifications

(a) Introduction

1. On March 18, 2005, the Applicants filed an application with the court under the *Companies' Creditors Arrangement Act* (the "CCAA"). Doyle Salewski Inc. ("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 June 2, 2005 (the "Hope Affidavit").

2. By order dated April 22, 2005 of the Honourable Mr. Justice Farley, the Initial Order was amended to add Manderley Natural Turf Systems Inc. as a party, to authorize Manderley to develop a marketing plan and to provide Royal Bank of Canada and Farm Credit Corporation (the "Senior Lenders") with certain financial information on a bi-weekly basis. The terms of the Initial Order were further extended to June 8, 2005 (the "April 2005 Order"). A copy of the April 2005 Order is included as **Exhibit "B"** in the Hope Affidavit.

3. Further background information is outlined in the first report of the Monitor/Interim Receiver dated April 19, 2005 (the "First Report") and the supplement to the First Report dated April 18, 2005. Copies of the First Report, the supplement with the exception of certain portions which were ordered by the court to be sealed, the court orders and other motion material issued to date are available on the Monitor/Interim Receiver's website www.doylegroup.ca.

(b) Purpose

4. The purpose of the Second Report is to provide information to the court in connection with the following:

- (a) the activities of the Monitor/Interim Receiver to date;
- (b) the status of the Applicants' current financial position, operations and restructuring efforts since the Monitor's First Report and supplemental report as at May 22, 2005;
- (c) the Applicants' motion for approval of a marketing plan for the sale of the Applicants' assets and/or investment/financing of the Applicants;
- (d) the Applicants' motion to extend the terms of the Initial Order to July 31, 2005;
- (e) the Applicants' motion to approve the increase in the interest payable on the debtor-in-possession facility (the "DIP Facility") from 15% to 17.5%.

(c) Qualifications

5. 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.

6. 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.

7. The Monitor/Interim Receiver 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 Monitor/Interim Receiver's Activities

8. Pursuant to paragraph 7 of the April 2005 Order, the Monitor/Interim Receiver is to provide bi-weekly reporting to the Senior Lenders of the Applicants. The information required is as per the April 2005 Order and was developed in conjunction with the Senior Lenders. The Monitor/Interim Receiver has provided three bi-weekly reports to the Senior Lenders. The last bi-weekly report was for the period ended May 22, 2005. The third bi-weekly reporting letter of the Monitor/Interim Receiver dated May 27, 2005 will be handed to the court. We would request that this information be sealed by the court.

9. 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, \$55,309 has been billed by the Monitor/Interim Receiver to April 30, 2005, \$55,309 has been paid and there currently exists an estimated \$32,095 unbilled time for the Monitor/Interim Receiver. Counsel to the Monitor/Interim Receiver has billed \$72,804, \$16,809 has been paid. In addition, \$95,551 has been billed by legal counsel for the Applicants, \$10,341 has been paid and there currently exists an estimated \$10,545 unbilled time.

10. The Initial Order authorized the Applicants to borrow up to \$1,000,000 from Naples Real Estate Holding Company Ltd. ("NREC") by way of a DIP Facility which provides a first ranking priority charge upon all present and future property of the Applicants. The Applicants' current outstanding obligations under the DIP Facility are \$997,000.

11. In April 2005, NREC agreed to increase the availability under the DIP Facility by \$377,000 in exchange for an increase in the interest rate from 15% to 17.5%. The April 2005 Order authorized the Applicants to increase the DIP Facility to \$1,377,000. As such, the Applicants are requesting that the court approve the increase in interest payable pursuant to the DIP Facility at the return of this hearing.

12. The Applicants, at the request of the Monitor, have commissioned updated appraisals of their farm properties in Eastern Ontario and Alberta. These appraisals are approximately \$1 million higher than previous appraisals and higher than information previously presented to the court. The Senior Lenders have been provided a copy of these appraisals.

(b) Current Financial Position

13. As at May 22, 2005, the Applicants have experienced a net cash flow, which is favourable relative to the cash flow that was presented to the court at the return of the April 22, 2005 hearing.

14. In the third bi-weekly reporting letter to the Senior Lenders, the Applicants' net cash flow from operations was \$165,000 better than originally forecasted. This is due to the Applicants' continuing efforts to reduce or eliminate costs wherever possible and in prudent collection of current sales and revenue initiatives. The positive variance is made up of a number of various accounts and the major variances, in excess of \$50,000 are as follows:

	<u>\$</u>
<u>Category</u>	<u>Favourable/(Unfavourable)</u>
Receipts	\$51,980
Wages	65,670
Seed, Fertilizer	102,217
Machine Repairs	54,600
Fuels and Lubricants	(51,297)
Machinery and Equipment Repair	(53,014)
Other Variances less than \$50,000	<u>(5,156)</u>
	<u>\$165,000</u>

15. The Applicants have prepared revised cash flow projections for the period May 23, 2005 to July 31, 2005 (the "Revised Cash Flow Projections"). A copy of the Revised Cash Flow Projection is included as **Exhibit "D"** in the Hope Affidavit. The Revised Cash Flow Projection assumes that the Applicants will not commence the liquidation phase of their dual track plan until August 2005. This ties into the period where the Applicants must either prepare and seed the crops for harvest in 2006 or abandon that effort. The liquidation scenario from August 2005 onwards assumes no planting for 2006 crops.

16. The Applicants, with the assistance of the Monitor/Interim Receiver, have compiled a revised liquidation cash flow projection for the period March 11, 2005 to

November 30, 2005 (the "Revised Liquidation Cash Flow"). The Revised Liquidation Cash Flow is to be submitted sealed to the Court.

(c) Royal Bank Security

17. We have previously apprised the court of concerns that have arisen concerning the status of the security held by Royal Bank of Canada ("RBC"), which security is subject to a motion made by RBC presently scheduled to be heard on June 8, 2005.

18. After consultation with the solicitors for the Applicants and Monitor/Interim Receiver, the Monitor/Interim Receiver felt that it would be prudent to ensure that all significant unsecured creditors were aware of the reports filed by the Monitor/Interim Receiver and their availability on our website. On May 10, 2005, the Monitor/Interim Receiver corresponded to the largest unsecured creditors being all known creditors who had pre-filing debts over \$20,000 as shown on the books of the Applicants (the "Material Unsecured Creditors"). A copy of that letter is included as **Appendix "A"** to this Report.

19. Since the general body of unsecured creditors is not specifically represented by counsel herein, the Monitor/Interim Receiver also felt it prudent to advise the Material Unsecured Creditors of the motion to be made by RBC. On June 1, 2005, the Monitor/Interim Receiver sent a second letter to the Material Unsecured Creditors advising that the RBC's motion material been posted on the Monitor/Interim Receiver's website and directing enquiries to their counsel. A copy of that letter is included as **Appendix "B"** to this Report.

(d) The DIP Facility

20. The April 2005 Order authorizes the Applicants to borrow up to \$1,377,000 from Naples Real Estate Holding Company Ltd. ("NREC") by way of a DIP facility (the "DIP Facility"). In April 2005, NREC agreed to increase the availability under the DIP Facility by \$377,000 in exchange for an increase in the interest rate from 15% to 17.5%. The Court was advised of this increase at the return of the April 22, 2005 hearing. However, there was insufficient time to reduce the agreement to writing. Accordingly, the Applicants are requesting that the court approve the increase in interest payable pursuant to the DIP Facility at the return of this hearing. Attached as **Exhibit "E"** in the Hope Affidavit is a copy of an executed letter amending the interest payable pursuant to the DIP Facility, which has been executed by all parties and was approved by the Monitor/Interim Receiver.

(e) Continued Restructuring Efforts

21. As part of its role as Monitor/Interim Receiver, DSI has continued to meet with management of the Applicants to discuss and implement restructuring initiatives. Some of the specific actions by the Applicants and the Monitor/Interim Receiver since the First Report include:

- (a) preparation of bi-weekly reports and meetings with Senior Lenders to address their concerns;
- (b) providing assistance in the development of a marketing plan, which marketing plan has been presented to Senior Lenders in accordance with the April 2005 Order; and
- (c) implementing cost reduction initiatives, including downsizing operations.

22. Management has advised the Monitor/Interim Receiver that the Applicants are up to date on their post filing obligations and are in position to maintain that status during the proposed extension period.

(f) Marketing Plan

23. Pursuant to the April 2005 Order, the Applicants were authorized to prepare a confidential information memorandum for the purpose of marketing the Applicants' business for sale, or any part thereof and soliciting investors.

24. The Monitor/Interim Receiver recommends that a sale/investment process proceed on a dual track basis with the Applicants' development of a refinancing and restructuring plan.

25. The Applicants' strategy is to seek a strategic partner or an en bloc purchaser for a period of time. If a neither can be found, the Applicants will commence an orderly retail sale liquidation of inventory for a time period in order to maximize the value of sod currently growing. During this period, the Applicants would not increase their current sod inventory. After this time period, the liquidation of remaining assets will occur.

26. The Applicants have proposed the following marketing plan, portions of which have been already commenced:

- i. The Monitor/Interim Receiver will distribute an offering ("teaser") letter to a list of potential purchasers advising of the availability of the Applicants' businesses as an investment opportunity or as an en bloc asset sale. This offering letter was sent June 1, 2005 to direct competitors in each of Applicants' marketplaces, large landscape enterprises, other sod producers throughout Canada and the United States, being 180 parties in all.
- ii. Any interested party who desires more information will be asked to sign a confidentiality agreement. Once that agreement is signed, they will receive a corporate profile of the Applicants.
- iii. After a review of the corporate profile, if there is further interest, and the interest is in investing rather than purchasing assets, the intended party will be directed to Round Oak Management and the party will be given an Investment

Opportunity Memorandum (“IOM”). If the party is interested in a sale, they will deal with the Monitor/Interim Receiver and will be provided with the Confidential Information Memorandum (“CIM”). Copies of these documents were delivered to the Senior Lenders on May 25, 2005 for their review.

- iv. The CIM has set July 15, 2005 as the final date for which offers will be accepted. Any sale pursuant to the CIM will be subject to court approval which is expected to be received July 31, 2005.
- v. The Monitor/Interim Receiver believes that a formal advertising program should not be carried out at this juncture. If the proposed marketing plan does not attract sufficient interest in the assets then an advertising plan, including advertisements in a national newspaper(s) along with advertisements in local areas where the Applicants have farms will be considered.
- vi. The Monitor/Interim Receiver will post business/assets for sale information on any appropriate industry related websites.
- vii. The Monitor/Interim Receiver will continue to discuss the sale of the Applicants’ business and assets with parties known to have an interest in the businesses and/or assets of the Applicants.
- viii. The Monitor/Interim Receiver will continue to work with the Applicants and Round Oak to identify and contact parties who may have a potential interest in the businesses and/or assets of the Applicants.

(g) Extension of Stay

27. Pursuant to the April 2005 Order, the stay period expires June 8, 2005. The Applicants are seeking an extension of the stay period until July 31, 2005.

28. An extension of the stay is necessary for the Applicants to complete their revised marketing plan. All this activity must occur before the Applicants are in a position to fully develop a plan of arrangement.

29. 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

30. The Monitor/Interim Receiver recommends that the Applicants’ request for the relief contained in the Applicants’ motion record dated June 2, 2005 be granted.

31. The Monitor/Interim Receiver recommends that the marketing and sale process for the assets and property of the Applicants described above be approved.

All of which is respectfully submitted on this 2nd day of June, 2005.

DOYLE SALEWSKI INC.

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

A handwritten signature in black ink, appearing to read "Paul Salewski". The signature is written in a cursive, flowing style.

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

Appendix A

May 10, 2005

To: Various Unsecured Creditors of The Manderley Corporation, 1310500 Ontario Inc. and Leo Beal Ltd.

Dear Sirs: Re: In the Matter of The Manderley Corporation et al

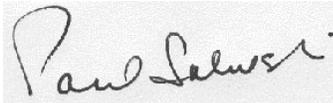
As we have previously advised, The Manderley Corporation and related parties ("Manderley") have commenced restructuring proceedings under the Companies' Creditors Arrangement Act ("CCAA"). Doyle Salewski Inc. has been named by the Court as Monitor and Interim Receiver.

We are writing to you, as a major unsecured creditor, to advise that we have issued two reports to the Court, one dated April 18, 2005 and the second dated April 19, 2005 concerning the affairs of Manderley since the commencement of the CCAA proceedings. These reports are available on our website www.doylegroup.ca. These reports highlight various issues surrounding the on-going affairs of Manderley. We strongly suggest that you review these reports as they may contain information or comments relative to your position.

Should you have any questions please do not hesitate to contact the undersigned.

Yours very truly,

Doyle Salewski Inc.
Monitor and Interim Receiver



Paul Salewski, CA•CIRP
Senior Vice-President

Appendix B

June 1, 2005

To: Various Unsecured Creditors of The Manderley Corporation, 1310500 Ontario Inc. and Leo Beal Ltd.

Dear Sirs: Re: In the Matter of The Manderley Corporation et al

As we have previously advised, The Manderley Corporation and related parties ("Manderley") have commenced restructuring proceedings under the Companies' Creditors Arrangement Act ("CCAA"). Doyle Salewski Inc. has been named by the Court as Monitor and Interim Receiver.

You will recall that on May 10, 2005 we corresponded with you advising that our first court as Monitor in Manderley's CCAA proceedings had been posted on our web site at <http://www.doylegroup.ca> and that it contained information of which it was important for creditors to be aware. In particular, in our first report we indicated that a question had arisen as to the validity of certain of the security held by Royal Bank of Canada ("RBC") as against Manderley. RBC has now brought a motion to have the court resolve this issue and to declare its security to be valid. In this regard we again direct you to our website where we have posted a copy of the RBC's motion record without exhibits (these can be obtained from RBC's lawyers). You may wish to review material and discuss it with your legal advisor.

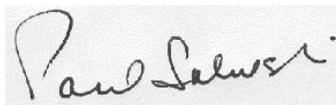
RBC's motion is returnable on June 8, 2005. At the same time Manderley will be seeking an extension of the time for filing of its plan of arrangement under the CCAA and in that regard there will be additional motion material being posted on our web site in relation to that motion. This material will include a second report from us as Monitor which will update on the progress of the restructuring. You may wish to monitor this site on an on going basis as copies of this court material will not be directly served upon you. Throughout these proceeding case we will be posting all court material and filings on this web site as it is filed so this will be a vehicle for you to keep up to date as to what is going on.

Unlike what might be the case in a bankruptcy or receivership, it is not the role of the Monitor in a CCAA proceeding to contest RBC's motion nor is there a committee of creditors or inspectors who are overseeing in these proceedings on behalf of unsecured creditors as there may be in other types of proceedings. As such it is necessary for individual creditors to represent their own interests on these sorts of issues. At present, while we have discussed this issue with counsel for two of the major creditors, we are presently uncertain as to whether any creditor intends to oppose this motion and we are writing to you so that you will be aware of this issue and have an opportunity to consider what position you may take on this matter. If you, or your counsel, have any questions concerning this please contact the Monitor's solicitor:

Mr. Daniel Dowdall
Fraser Milner Casgrain
(416) 863-4700
Dan.Dowdall@FMC-Law.com

Yours very truly,

Doyle Salewski Inc.
Monitor and Interim Receiver

A handwritten signature in cursive script that reads "Paul Salewski". The signature is written in dark ink on a light-colored background.

Paul Salewski, CA•CIRP
Senior Vice-President