

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)

**SUPPLEMENTAL REPORT OF THE MONITOR AND INTERIM RECEIVER
DOYLE SALEWSKI INC.
April 18, 2005**

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I. Purpose

1. The purpose of this supplemental report is to provide additional information to the Court pertaining to the affairs of The Manderley Corporation, 1310500 Ontario Inc. and Leo Beal Ltd. (collectively the "Applicants"). It should be read in conjunction with the First Report of the Monitor/Interim Receiver dated April 18, 2005.
2. This information relates to the Applicant's current financial information, details of an appraisal of assets conducted by Danbury Sales Inc. and its projected orderly liquidation cash flow. As this information could severely impact the Applicants' operations and business plan if it were made available to competitors, we request that this information be sealed.
3. 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.
4. 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.

5. 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 The Applicants' Current Financial Position

6. Attached as **Appendix "A"** is the original cash flow projection for the period March 14, 2005 to May 30, 2005 (the "March 2005 Cash Flow") prepared by the Applicants and filed in connection with the Initial Order. A second cash flow was presented to the Court demonstrating an orderly "retail" liquidation. This cash flow was sealed pursuant to the Initial Order and will be discussed later in this report.

7. As set out in the application materials, the March 2005 Cash Flow anticipated a deficit of approximately \$1,370,990 if there was no financing arrangement in place by May 30, 2005. The Applicants were able to secure a debtor-in-possession ("DIP") financing from Naples Real Estate Holding Company ("Naples"). Since the date of the Initial Order, Naples has advanced \$587,000 to the Applicants, which is comprised of the original \$250,000 and a further advance in the week of April 11, 2005 of \$337,000. This brings the DIP funds advanced to the amount the Applicants forecasted in the March 2005 Cash Flow until April 24th when another advance is expected.

8. The Monitor/Interim Receiver and the Applicants believe that the DIP facility will provide the Applicants with the financing they require during the CCAA process. It is reasonable, in the circumstances, to assume that the Applicants have sufficient DIP available during these proceedings to ensure that they have a prudent and responsible level of liquidity and that they can meet their post-filing obligations as they become due.

9. Attached as **Appendix "B"** is Statement of Receipts and Disbursements from March 23, 2005 to April 10, 2005 along with Variances from Plan. Below is a summary of that Statement noting major categories:

Manderley Corporation
Variance Analysis
March 23, 2005 to April 10, 2005

	<u>Actual</u>	<u>Plan</u>	<u>Variance</u>	<u>Comments</u>
			<u>FAV/(UNFAV)</u>	
Receipts	<u>\$425,709</u>	<u>394,465</u>	<u>\$31,244</u>	This is a favourable variance as the Applicants collected \$43,626 more in receivables than was forecasted and utilized \$12,382 less in DIP financing.
Operating Expenses	211,727	186,111	(25,616)	This is an unfavourable variance due to the fact that payroll from the period March 11 onward was funded after March 23 rd .
Distribution Costs	26,483	42,141	15,658	This is a favourable variance as no significant trucking occurred.
General and Admin	103,874	132770	28,896	This is a favourable variance due to the Applicants keeping careful control of various costs
Direct Debits	21,098	33,343	12,345	This is a favourable variance due the fact that debits to secured creditors originally in the plan have been suspended.
Total Disbursements	<u>363,182</u>	<u>394,464</u>	<u>31,283</u>	
Net Cash Flow	<u>\$62,527</u>	<u>\$1</u>	<u>\$62,527</u>	

10. As can be seen the Applicant's post CCAA filing operations, excluding the positive variance from not drawing down the full DIP are \$74,909 better than forecasted. On a positive note the Applicants have begun shipping product from its Fort Saskatchewan location and expects to ship product from its Kemptville location in the week of April 18, 2005. This is approximately two weeks ahead of shipments in 2004.

11. Attached as **Appendix "C"** is a revised cash flow projection for the period April 11, 2005 to June 27, 2005 (the "April 2005 Cash Flow") prepared by the Applicants. This cash flow was amended to take into account operations up to the end of the extension period being sought. It also takes into account the Applicants' intended operations after being afforded additional time to review its farm properties for damages, etc, after the spring thaw. The April 2005 Cash Flow assumes that the Applicants are continuing a retail sale scenario on inventory, but are not conducting a full-scale liquidation.

12. The April 2005 Cash Flow assumes that the Applicants will require an additional \$1,127,000 of DIP lending, in addition to the \$250,000 advanced prior to April 10, 2005. This would bring total projected DIP financing required to \$1,377,000, which is approximately \$6,000 greater than originally forecasted in the March 2005 Cash Flow. The Applicants obviously will continue to limit their operational costs whenever they are able to do so. The April 2005 Cash Flow assumes that as at June 27, 2005, the Applicants will have repaid the DIP lender \$400,000 of its advances, leaving a net amount of \$977,000 due to the DIP lender. It also assumes that the balance of accounts receivable as at that date will be \$3.671 million as follows:

	<u>April 2005</u>	<u>May 2005</u>	<u>June 2005</u>	<u>Total</u>
Opening	\$427,000	\$654,000	\$2,448,000	\$427,000
Sales	283,000	2,219,000	2,475,000	4,977,000
Collections	<u>(56,000)</u>	<u>(425,000)</u>	<u>(1,252,000)</u>	<u>(1,733,000)</u>
Ending	<u>\$654,000</u>	<u>\$2,448,000</u>	<u>\$3,671,000</u>	<u>\$3,671,000</u>

III Revised Orderly Liquidation Cash Flow

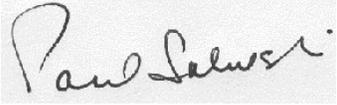
13. [The Court has sealed this information.

[Pages 6,7 and 8 sealed by the Court.]

All of which is respectfully submitted on this 18th day of April 2005.

DOYLE SALEWSKI INC.

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

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

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