

**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**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KOREX DON VALLEY ULC**

APPLICANT

MOTION RECORD

(Returnable: March 31, 2009)

March 25, 2009

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TO: SERVICE LIST

SERVICE LIST

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**MOTION RECORD
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TAB 1
NOTICE OF MOTION

**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**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KOREX DON VALLEY ULC**

APPLICANT

**NOTICE OF MOTION
(Returnable: March 31, 2009)**

Ira Smith Trustee & Receiver Inc., the Court-appointed Monitor (“**Monitor**”) in proceedings commenced by Korex Don Valley ULC (the “**Applicant**”) and appointed pursuant to an order of the Honourable Justice Mr. Cumming dated February 6, 2009 (the “**Initial Order**”), will make a motion to a judge of the Commercial List on Tuesday, the 31st day of March 2009 at 10:00a.m., or as soon after that time as the motion can be heard at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

1. **THE MOTION IS FOR** an Order substantially in the form of the Order attached hereto as Schedule “A”, including without limitation, an Order,
 - (a) Abridging the time for service and filing of this Notice of Motion and the Motion Record, if necessary;
 - (b) Approving the following reports of the Monitor and the activities described therein:
 - (i) The Proposed Monitor’s First Report to Court dated January 9, 2009;

- (ii) The Proposed Monitor's First Supplementary Report to Court dated January 22, 2009;
 - (iii) The Proposed Monitor's Second Supplementary Report to Court dated January 22, 2009;
 - (iv) The Monitor's First Report to Court dated March 6, 2009; and
 - (v) The Monitor's Second Report to Court dated March 25, 2009.
- (c) Approving the Monitor's Fees and Disbursements for the period from February 6, 2009 through to March 20, 2009 as set out in Exhibit "A" to the Affidavit of Ira Smith in the amount of \$132,473.01.
 - (d) Approving the fees and disbursements of the Monitor's legal counsel, Aird & Berlis LLP, for the period from January 8, 2009 through to March 18, 2009, inclusive, as set out in **Exhibit "A"** to the Affidavit of Richard Epstein in the amount of \$20,350.96.
 - (e) Such further and other relief as this Honourable Court deems just.

2. THE GROUNDS FOR THE MOTION ARE:

- (a) The Initial Order directs and empowers the Monitor to report to the Court in respect of these proceedings at such times and intervals as the Monitor may deem appropriate;
- (b) The Initial Order directs and empowers the Monitor to pass its accounts from time to time, and to include any necessary fees and disbursements of its legal counsel in the passing of its accounts;
- (c) The *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and
- (d) Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

- (a) The First Report of the Monitor dated March 6, 2009, filed;
- (b) The Second Report of the Monitor dated March 25, 2009, filed;
- (c) The Affidavit of Ira Smith sworn March 24, 2009, filed;
- (d) The Affidavit of Richard Epstein sworn March 24, 2009, filed; and
- (e) Such further and other material as counsel may advise and this Honorable Court May permit.

March 24, 2009

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Solicitors for the Monitor

TO: SERVICE LIST

TAB A
DRAFT ORDER

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE

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TUESDAY, THE 31st DAY

OF MARCH, 2009

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*
R.S.C. 1985, c. C - 36, as amended**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KOREX DON VALLEY ULC**

APPLICANT

ORDER

THIS MOTION, made by Ira Smith Trustee & Receiver Inc. in its capacity as the Court-appointed monitor (the "**Monitor**") of Korex Don Valley ULC (the "**Applicant**") pursuant to the Order of the Honourable Mr. Justice Cumming dated February 6, 2009 (the "**Initial Order**"), was heard on Tuesday, the 31st day of March, 2009, at 330 University Avenue, Toronto, Ontario.

ON READING the First Report of the Monitor dated March 6, 2009, the Second Report of the Monitor dated March 25, 2009, the affidavits of the Monitor and its counsel as to fees, and on hearing the submissions of counsel for the Monitor, UL Canada Inc., Comerica Bank and the Applicant, no one else appearing although served as evidenced by the Affidavit of Richard Epstein sworn March 24, 2009, filed;

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and Motion Record be and is hereby abridged such that the motion is properly returnable today, and, further, that any requirement for service of the Notice of Motion and the Motion Record upon any interested party, other than the parties herein mentioned, is hereby dispensed with.

2. **THIS COURT ORDERS** that the activities of the Monitor in these proceedings, including, without limitation, as set out in the Proposed Monitor's First Report to Court dated January 9, 2009, the Proposed Monitor's First Supplementary Report to Court dated January 22, 2009, the Proposed Monitor's Second Supplementary Report to Court dated January 22, 2009, the Monitor's First Report to Court dated March 6, 2009 and the Monitor's Second Report to Court dated March 25, 2009 (collectively, the "**Reports**"), and the Reports themselves, be and are hereby approved.

3. **THIS COURT ORDERS** that the fees and disbursements of the Monitor in respect of the period from February 6, 2009 to March 20, 2009, in the amount of \$132,473.01, be and are hereby approved and allowed.

4. **THIS COURT ORDERS** that the fees and disbursements of counsel to the Monitor, Aird & Berlis LLP, in respect to the period from January 8, 2009 to March 18, 2009, in the amount of \$20,350.96 be and are hereby approved and allowed.

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

APPLICANT

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDINGS COMMENCED AT TORONTO

ORDER

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IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

APPLICAN

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDINGS COMMENCED AT TORONTO

NOTICE OF MOTION

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Solicitors for the Monitor

TAB 2

SECOND REPORT
OF IRA SMITH TRUSTEE & RECEIVER INC.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT
ACT
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- and -

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF
KOREX DON VALLEY ULC**

APPLICANT

SECOND REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.

**IN ITS CAPACITY AS COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED MARCH 25, 2009

1.0 INTRODUCTION

This Second Report (the “**Second Report**”) is filed by Ira Smith Trustee & Receiver Inc. (“**ISI**”) in its capacity as court-appointed monitor (the “**Monitor**”) of all of the assets, undertakings and properties of Korex Don Valley ULC (“**Korex**”).

On January 2, 2009, by Endorsement of the Honourable Mr. Justice Campbell, prior to its appointment as Monitor, ISI was directed to perform certain work and prepare its First Report in its capacity as proposed court-appointed monitor as part of an adjournment on a consent basis of the within application.

On January 12, 2009, the parties attended before the Honourable Madam Justice Pepall to seek an adjournment of the hearing of Korex's motion. By endorsement of Justice Pepall, the First Report was not filed with this Honourable Court at that time. A copy of Her Honour's Endorsement was attached to the proposed Monitor's Supplementary First Report as Exhibit "A" (further discussed below).

On January 19, 2009, the parties attended before the Honourable Mr. Justice Morawetz to seek a further adjournment of the hearing of Korex's motion. By endorsement of Justice Morawetz on that same date, His Honour directed that the proposed monitor file a further report for the next attendance on January 23, 2009 providing an up to date summary of key events.

On January 23, 2009, the parties attended before the Honourable Mr. Justice Cumming and scheduled the hearing of the Korex motion for February 3, 2009. By Endorsement of Mr. Justice Cumming, the proposed monitor was directed to file a Supplementary Second Report with this Honourable Court on February 2, 2009. Justice Cumming also directed the proposed monitor to file the First Report and the Supplementary First Report with this Honourable Court which was done at the same time.

On February 6, 2009, Korex's motion was heard and an Order was made granting Korex the requested relief, including, the stay of proceedings, the appointment of ISI as Monitor and directing that a further hearing in this Application should be heard on March 9, 2009, or such alternate date as the Court may fix.

On March 6, 2009, the Monitor's legal counsel, Aird & Berlis LLP, filed the Monitor's First Report to Court (the "**First Report**") with this Honourable Court in connection with the Applicant's motion for an extension to the Initial Stay Order being heard on March 9, 2009

before the Honourable Madam Justice Hoy. Her Honour advised Mr. S. Mitra of Aird & Berlis LLP, who appeared on the March 9 attendance on behalf of the Monitor, that the First Report was not contained in the Court file. Accordingly, the First Report was neither considered nor approved by Her Honour.

Attached hereto as **Exhibit “A”** is an original signed copy of the First Report. Included in the Exhibits to the First Report is a copy of all Reports filed by ISI in its capacity as proposed monitor. Attached hereto as **Exhibit “B”** is the Affidavit of Service dated March 6, 2009 confirming the service of the First Report together with an email from the process server which confirms the filing of same with this Honourable Court on that date.

By Order of the Honourable Madam Justice Hoy dated March 9, 2009, the Initial Stay Order and the initial stay was extended to March 31, 2009 (the “**First Extension Order**”). Attached hereto as **Exhibit “C”** is a copy of the First Extension Order.

Purpose of this Report

The purpose of this Report is to:

1. Assist this Honourable Court by reporting on the Monitor’s review of Korex’s operations since its monitoring report for the week ended February 28, 2009, being the last monitoring report included in the Monitor’s First Report.
2. Advise this Honourable Court of: a) the status of the dispute between Korex and its major customer (see further description in Section 4.0 of this Second Report), which has led substantially to Korex not collecting its accounts receivable as quickly as it originally budgeted; and, b) Comerica Bank declaring Korex to be in default of the forbearance agreement and ceasing funding any advances to Korex,

The failure to collect receivables and the current lack of funding represent a material adverse change, in the Monitor's view.

3. Provide additional information, in connection with Korex's motion for its application for a further extension of the Initial Stay Order.
4. Provide further information in connection with the Monitor's motion for the approval of this Honourable Court of the actions and activities of ISI as described in and approval of:
 - (i) the Proposed Monitor's First Report to Court dated January 9, 2009;
 - (ii) the Proposed Monitor's First Supplementary Report to Court dated January 22, 2009;
 - (iii) the Proposed Monitor's Second Supplementary Report to Court dated January 22, 2009;
 - (iv) the Monitor's First Report; and
 - (v) the Monitor's Second Report.
5. Provide further information in connection with the Monitor's motion for the approval of this Honourable Court of the fees and disbursements of ISI and Aird & Berlis LLP as further described in this Second Report.

2.0 DISCLAIMER

The Monitor has relied upon the financial records and financial statements of Korex, as well as other information supplied by Messrs. S. Pensler (President) and Mr. J. Bojkovski (Chief Financial Officer). Our procedures did not constitute an audit or review engagement.

Our procedures and enquiries did not include verification work or constitute an audit in accordance with generally accepted auditing standards. In the event any of the information we relied upon was inaccurate or incomplete, the results of our analysis could be materially affected. As well, in our Monitoring Reports, we have assumed that Korex will continue for as long as required in order to properly liquidate at least its accounts receivable and inventory for the benefit of Comerica Bank, its secured lender, as a going-concern, and that current business conditions will remain status quo, including but not limited to, commodity and other input prices. As well, the Monitor did not review internal plans and support budgets such as sales, manufacturing and marketing plans or budgets. The Monitor's analysis is subject to the reasonableness of all of the assumptions used in such plans and budgets, and the future business conditions Korex will encounter.

Therefore, the Monitor is unable to and does not express an opinion on any financial statements, or elements of accounts referred to in this First Report, or any of the attached Appendices or Exhibits forming part of this First Report. We reserve the right to review all calculations included or referred to in this First Report and, if we consider it necessary, to revise our calculations or conclusions in light of new information as such information becomes available.

3.0 MONITORING

The Monitor has been regularly monitoring the operations of Korex since the granting of the Initial Stay Order, and has provided on a weekly basis, a memorandum to both Korex and Comerica Bank and their respective legal counsel, contemporaneously, on the findings of the Monitor for the week ended immediately prior to the week in which the Monitor's memorandum was issued.

Attached hereto as **Exhibits "D" and "E"** are the reports issued by the Monitor for the weeks ended March 7 and 14, respectively.

The Monitor has also been involved in numerous email communications with representatives of both Korex and Comerica Bank regarding both Korex's financial operations and the monitoring in general, and has also been involved in several conference calls between Korex and Comerica Bank representatives and their respective legal counsel. Korex has provided complete cooperation to the Monitor, and Comerica Bank has had complete access to the Monitor.

4.0 UL CANADA INC. ("Unilever")

In the First Report, the Monitor reported on the then evolving dispute between Korex and Unilever. Korex and Unilever have several trade relationships. Korex and Unilever are both customers and suppliers of and to each other. Further, Unilever is Korex's landlord.

In the First Report, the Monitor advised that it had been involved in discussions with both Korex and Comerica Bank regarding the financial impact on Korex by Unilever not remitting payment to Korex as was the case during their pre-filing relationship, and the negative impact it had on both Korex and its indebtedness to Comerica Bank. Korex has been continuing production of

certain products for Unilever, so that Unilever will not suffer any damage as a result of having to attempt to source such product from a new supplier before it otherwise would be ready to.

The Monitor questioned Korex on the wisdom of continuing to produce for Unilever without assurance of payment for product on a timely basis and thereby putting both itself and Comerica Bank at further risk. Comerica Bank had also questioned Korex on this issue. Korex had advised the Monitor that it concurs that it cannot continue to do so indefinitely, and was attempting to do so in good faith with a view to resolving the situation.

It does not appear that the procedure prescribed by paragraph 15 the Initial Stay Order was followed. The Monitor has reminded both Unilever and Korex of the procedure mandated regarding set-off claims contained in the Initial Stay Order. Korex advised that although there have been ongoing discussions between Korex and Unilever to attempt to resolve these differences, such discussions have intensified since March 9, 2009. As a result of those ongoing discussions, a meeting was arranged to be held on March 23, 2009 for Korex and Unilever to attempt to find a solution of the current impasse. Korex requested the Monitor to attend that meeting.

On March 18, 2009, Comerica Bank advised Korex that it could not continue funding production if Korex could not collect outstanding Unilever accounts receivable. On March 20, 2009, Korex's legal counsel requested the Monitor to advise Comerica Bank, immediately after the conclusion of the March 23 meeting with Unilever of what was agreed to at such meeting, so that Comerica Bank could further consider its position in connection with the funding of Korex's operations and Korex's application for an extension of the stay and the CCAA proceedings.

Unilever's last payment to Korex was on February 4, 2009. Unilever's indebtedness to Korex for product shipped has increased by \$918,814 since that date. According to Korex's books and records, as at the week ended March 14, 2009, the Unilever accounts receivable that was acceptable collateral for borrowing purposes was \$3,422,746, which is the total of such accounts receivable under 90 days.

The ageing of the Unilever accounts receivable, as per Korex's records, is:

<u>1-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>		<u>Total</u>
<u>\$918,814.33</u>	<u>\$1,633,349.04</u>	<u>\$870,582.86</u>	<u>\$1,044,490.93</u>		<u>\$4,467,237.16</u>
<u>20.57%</u>	<u>36.56%</u>	<u>19.49%</u>	<u>23.38%</u>		<u>100.00%</u>

Total Korex accounts receivable at the same date was the amount of \$7,429,330.27. Therefore, Unilever represented 60.13% of the total outstanding accounts receivable dollars of Korex before ineligible, contras, and affiliate offsets.

After deduction of amounts admitted to be owed by Korex to Unilever from the eligible receivables for the borrowing base the result is a net receivable of \$1,726,596 (see further discussion below regarding Unilever's position).

According to Korex, there were four main areas of either Unilever set-offs against amounts owing by it to Korex, or amounts not yet recognized by Unilever as owing to Korex requiring resolution, described as follows:

1. guarantees granted by Unilever to suppliers of Korex in order for Korex to receive continued supply to enable it to produce goods for Unilever - \$668,284;
2. reserve for property taxes payable by Korex to Unilever for 2008 (\$334,169) and 2009 (\$220,638) (of which the amount of \$441,270 is not due to the City of Toronto until subsequent to April 2009) – \$996,077;
3. hand dish inventory on hand at the end of the supply contract– \$468,287; and
4. invoicing to Unilever listed by Unilever as unenterable into the Unilever accounting system – \$750,846.

The above amounts represent the four major areas, but not all items, requiring reconciliation as between Korex's and Unilever's accounting records. Based upon discussions at the March 23, 2009 meeting it appeared that the currently undisputed amount owed by Unilever to Korex, according to Unilever's records, is \$329,000.

The Monitor has requested copies of the documentation in support of Unilever's claim that it has guaranteed certain suppliers to Korex. At the conclusion of the March 23, 2009 meeting, it was agreed that Unilever and Korex would work as expeditiously as possible to perform any required reconciliations, that Unilever would provide the Monitor with the guarantee documentation and that Unilever would seriously consider the payment of the apparently undisputed amount of \$329,000 owing to Korex and advise the Monitor of its decision on March 24, 2009.

Attached hereto as **Exhibit "F"** is a copy of the Monitor's memo to file regarding the Unilever/Korex meeting.

On March 24, 2009, the Monitor received a voicemail message from Unilever's external legal counsel, Ms. H. Meredith of McCarthy Tétrault, advising that the Unilever Finance Group were today amending the schedule discussed at yesterday's meeting (and attached as part of Exhibit "F" to this Second Report). There was no mention of the guarantee documents or payment of the net amount owing.

By mid-morning, no further information was forthcoming, so the Monitor sent an email to the Unilever representatives in attendance at the March 23 meeting, inquiring as to the timing for receipt of the guarantee documentation and if the net amount discussed yesterday as owing to Korex would be paid. The Monitor received a response stating that Unilever was pulling together the information and that it was to be reviewed first by Ms. Meredith.

Mid-afternoon on March 24, Ms. Meredith contacted the Monitor to advise that:

1. She has requested the supplier guarantee documentation. She has not seen it all yet but she can advise the Monitor that it is not comprised of the traditional executed contracts or guarantee documentation the Monitor may be accustomed to seeing. Rather, in one case it is an email, in another case is an oral arrangement and in the third case, it is comprised of a master supply agreement and a subsidiary agreement with Korex.
2. There is a reconciling amount of \$750,000 which, in Unilever's view has not been adequately explained by Korex. Until such time as it is resolved to Unilever's total satisfaction, the amount of \$350,000 discussed at yesterday's meeting will not be forthcoming.
3. She will provide the Monitor with the supplier guarantee documentation as soon as it is available.

5.0 COMERICA BANK POSITION

Late in the afternoon of March 23, 2009, Korex's legal counsel, Mr. B. Darlington, advised the Monitor that he and Messrs. Pensler and Bojkovski held a telephone conversation with legal counsel for Comerica Bank. Mr. Darlington advised that they told Comerica Bank's legal counsel about the Unilever meeting described above and then discussed Comerica Bank's position that it was not advancing any further funds to Korex. Mr. Darlington advised the Monitor that they advised Comerica Bank's legal counsel that if Comerica Bank would not fund further, Korex would have no choice but to discontinue production and lay off the remaining production staff.

Mr. Darlington advised that Comerica Bank's legal counsel advised that he would discuss this with his client and respond on March 24. On March 24, legal counsel for Comerica Bank requested that all parties, including the Monitor and its legal counsel, attend a telephone conference meeting later that same day. In the late afternoon, the Monitor took part in the conference call meeting.

Comerica's legal counsel, Mr. J. Leslie of Miller Canfield LLP, began the meeting by stating that Comerica Bank continues to be dissatisfied with the lack of payment by Unilever, notwithstanding Korex's and the Monitor's best efforts in connection with the Unilever situation. Mr. Leslie also stated that Comerica Bank cannot consider funding Korex any further, if no Unilever funds are to be received.

A discussion ensued regarding the position of Korex, Comerica Bank and the actions of Unilever. Mr. Leslie concluded the conference call by advising that he would need to consult his client to determine what direction Comerica Bank wished to proceed, given the March 31

expiration of the forbearance agreement in place, and Korex's upcoming application to Court on March 31 for an extension of the Initial Stay Order and the initial stay of proceedings.

6.0 FEES AND DISBURSEMENTS OF ISI

Attached hereto as **Exhibit "G"** is the sworn Affidavit of Mr. Ira Smith, President of ISI, in support of the fee and disbursements of ISI for the period from January 2 to March 20, 2009, inclusive.

7.0 FEES AND DISBURSEMENTS OF AIRD & BERLIS LLP

Attached hereto as **Exhibit "H"** is the sworn Affidavit of Mr. Richard Epstein, Partner of Aird & Berlis LLP, in support of the fee and disbursements of Aird & Berlis LLP for the period from January 8 to March 18, 2009, inclusive.

The Monitor believes that the fees of Monitor and its counsel as submitted are fair and reasonable in the circumstances and recommends approval of same.

8.0 CONCLUSION

Korex has been acting in good faith and co-operating. The Applicant is in active discussions with both Comerica Bank and Unilever. As of the time of the writing of this Second Report, the Monitor does not know how the applicant intends to proceed on March 31, 2009. It is therefore premature to make any further recommendations in this Second Report and a Second Supplementary Report will be filed.

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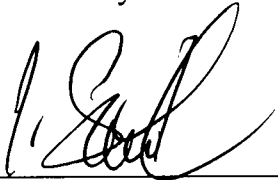
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All of which is respectfully submitted at Toronto, Ontario this 25th day of March, 2009.

IRA SMITH TRUSTEE & RECEIVER INC.
solely in its capacity as Court-Appointed Monitor
of Korex Don Valley ULC and not in its personal Capacity

Per:



President

Attached is Exhibit "A"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

**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
KOREX DON VALLEY ULC**

APPLICANT

FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.

**IN ITS CAPACITY AS COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED MARCH 6, 2009

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**FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED MARCH 6, 2009**

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**FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED MARCH 6, 2009**

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**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
KOREX DON VALLEY ULC**

APPLICANT

FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.

**IN ITS CAPACITY AS COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED MARCH 6, 2009

1.0 INTRODUCTION

This First Report (the "**First Report**") is filed by Ira Smith Trustee & Receiver Inc. ("**ISI**") in its capacity as court-appointed monitor (the "**Monitor**") of all of the assets, undertakings and properties of Korex Don Valley ULC ("**Korex**").

On January 2, 2009, by Endorsement of the Honourable Mr. Justice Campbell, prior to its appointment as Monitor, ISI was directed to perform certain work and prepare its First Report in its capacity as proposed court-appointed monitor as part of an adjournment on a consent basis of the within application. Attached hereto as **Exhibit "A"** is a copy of the proposed monitor's First Report to Court dated January 9, 2009.

On January 12, 2009, the parties attended before the Honourable Madam Justice Pepall to seek an adjournment of the hearing of Korex's motion. By endorsement of Justice Pepall, the First Report was not filed with this Honourable Court at that time. A copy of Her Honour's Endorsement was attached to the proposed Monitor's Supplementary First Report as Exhibit "A" (further discussed below).

On January 19, 2009, the parties attended before the Honourable Mr. Justice Morawetz to seek a further adjournment of the hearing of Korex's motion. By endorsement of Justice Morawetz on that same date, His Honour directed that the proposed monitor file a further report for the next attendance on January 23, 2009 providing an up to date summary of key events. Attached hereto as **Exhibit "B"** is a copy of the proposed monitor's First Supplementary Report to Court dated January 22, 2009.

On January 23, 2009, the parties attended before the Honourable Mr. Justice Cumming and scheduled the hearing of the Korex motion for February 3, 2009. By Endorsement of Mr. Justice Cumming, the proposed monitor was directed to file a Supplementary Second Report with this Honourable Court on February 2, 2009. Justice Cumming also directed the proposed monitor to file the First Report and the Supplementary First Report with this Honourable Court which was done at the same time. Attached hereto as **Exhibit "C"** is a copy of the proposed monitor's Second Supplementary Report to Court dated February 2, 2009.

On February 6, 2009, Korex's motion was heard and an Order was made granting Korex the requested relief, including, the stay of proceedings, the appointment of ISI as Monitor and directing that a further hearing in this Application should be heard on March 9, 2009, or such alternate date as the Court may fix.

Attached hereto as **Exhibit "D"** is such Order of the Honourable Mr. Justice Cumming dated February 6, 2009 (the "**Initial Stay Order**").

Purpose of this Report

The purpose of this Report is to assist this Honourable Court by reporting on the Monitor's review of Korex's operations since the granting of the Initial Stay Order, and to provide additional information, in connection with Korex's motion dated March 4, 2009 for its application to extend the Initial Stay Order to June 8, 2009.

2.0 Disclaimer

The Monitor has relied upon the financial records and financial statements of Korex, as well as other information supplied by Messrs. S. Pensler (President) and Mr. J. Bojkovski (Chief Financial Officer). Our procedures did not constitute an audit or review engagement.

Our procedures and enquiries did not include verification work or constitute an audit in accordance with generally accepted auditing standards. In the event any of the information we relied upon was inaccurate or incomplete, the results of our analysis could be materially affected. As well, we have assumed that Korex will continue for as long as required in order to properly liquidate at least its accounts receivable and inventory for the benefit of Comerica Bank, its secured lender, as a going-concern, and that current business conditions will remain status quo, including but not limited to, commodity and other input prices. As well, the Monitor did not review internal plans and support budgets such as sales, manufacturing and marketing plans or budgets. The Monitor's analysis is subject to the reasonableness of all of the assumptions used in such plans and budgets, and the future business conditions Korex will encounter.

Therefore, the Monitor is unable to and does not express an opinion on any financial statements, or elements of accounts referred to in this First Report, or any of the attached Appendices or Exhibits forming part of this First Report. We reserve the right to review all calculations included or referred to in this First Report and, if we consider it necessary, to revise our calculations or conclusions in light of new information as such information becomes available.

3.0 MONITORING

The Monitor has been regularly monitoring the operations of Korex since the granting of the Initial Stay Order, and has provided on a weekly basis, a memorandum to both Korex and Comerica Bank and their respective legal counsel, contemporaneously, on the findings of the Monitor for the week ended immediately prior to the week in which the Monitor's memorandum was issued.

Attached hereto as **Exhibits "E", "F", "G" and "H"**, are the reports issued by the Monitor for the weeks ended February 7, 14, 21 and 28 respectively.

The Monitor has also been involved in numerous email communications with representatives of both Korex and Comerica Bank regarding both Korex's financial operations and the monitoring in general, and has also been involved in several conference calls between Korex and Comerica Bank representatives and their respective legal counsel. Korex has provided complete cooperation to the Monitor, and Comerica Bank has had complete access to the Monitor.

4.0 OTHER MATTERS

UL CANADA INC. (“Unilever”)

The Monitor has reviewed the Affidavit of Sanford Pensler dated March 4, 2009, and specifically in connection with is description of Korex’s dealings with Unilever. The Monitor has been involved in discussions with both Korex and Comerica Bank regarding the financial impact on Korex by Unilever not remitting payment to Korex as was the case during their pre-filing relationship, and the negative impact it is having on both Korex and its indebtedness to Comerica Bank. As indicated in Mr. Pensler’s Affidavit, Korex has been continuing production of certain product for Unilever, so that Unilever will not suffer any damage as a result of having to attempt to source such product from a new supplier before it otherwise would be ready to.

The Monitor has questioned Korex on the wisdom of continuing to produce for Unilever with the negative impact on Korex’s operations, thereby putting itself and Comerica Bank at further risk, if Unilever is not going to pay for product shipped to it on a timely basis. Comerica Bank has also recently questioned Korex on this same issue. Korex has advised the Monitor that it concurs that it cannot continue to do so indefinitely, and as indicated in Mr. Pensler’s affidavit, he is currently attempting to resolve this situation.

5.0 CONCLUSION

The Monitor has considered Korex’s request for an extension of the Initial Stay Order until June 8, 2009. The Monitor advises this Honourable Court that:

- (a) Korex has acted, and is acting, in good faith and with due diligence;

(b) Korex would likely be able to make a viable Plan of Arrangement if the extension being applied for were granted, conditional on Comerica Bank's continuing support of Korex's operations; and

(c) conditional upon Comerica Bank continuing to fund Korex's operations during the entire extension period, no creditor would be materially prejudiced if the extension being applied for were granted.

**

**

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All of which is respectfully submitted at Toronto, Ontario this 6th day of March, 2009.

IRA SMITH TRUSTEE & RECEIVER INC.

solely in its capacity as Court-Appointed Monitor
of Korex Don Valley ULC and not in its personal Capacity



Per: _____

President

Court File No. 08-CL-7925

**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
KOREX DON VALLEY ULC**

APPLICANT

**FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED JANUARY 9, 2009

IRA SMITH TRUSTEE & RECEIVER INC.
Suite 6-167 Applewood Crescent
Concord, ON L4J 7N8

FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED JANUARY 9, 2009

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**FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED JANUARY 9, 2009

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**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT
ACT
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**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
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FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.

**IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED JANUARY 9, 2009

1.0 INTRODUCTION

This report (the "**First Report**") is filed by Ira Smith Trustee & Receiver Inc. ("**ISI**") in its capacity as proposed court-appointed monitor (the "**Monitor**") of all of the assets, undertakings and properties of Korex Don Valley ULC ("**Korex**").

On January 2, 2009, by Endorsement of the Honourable Mr. Justice Campbell, the Monitor was directed to perform certain work as part of an adjournment on a consent basis of the within application. Attached as **Exhibit "A"** is a copy of the Endorsement and Consent.

Purpose of this Report

Paragraph 5 of the Consent states:

“5 / The proposed Monitor, Ira Smith Trustee & Receiver Inc. shall proceed to verify the financial information as referred to in paragraphs 34, 35 and 38 and the Balance Sheet that is part of Exhibit G and the cash flow that is Exhibit J to the affidavit of John Bojkovski sworn December 31, 2008”

The Monitor was not party to the detailed discussions leading to the wording of the Consent and specifically, this paragraph 5. The Monitor’s work is qualified by the disclaimer contained in this First Report and specifically **Section 2.0** below.

The Monitor’s work consisted of:

1. reviewing the Affidavit of Mr. J. Bojkovski sworn December 31, 2008 (the “**Affidavit**”) and Exhibits thereto (the “**Motion Record**”);
2. reviewing the Korex audited financial statements for the fiscal year ending July 31, 2007, being the last fiscal year for which an audit was performed (the “**audited financial statements**”);
3. discussions on site at the Korex facility with Mr. Bojkovski, Chief Financial Officer and Mr. S. Pensler, President of Korex;
4. a review of certain Korex internal unaudited financial information and accounting records as provided to the Monitor by Mr. Bojkovski; and
5. the Monitor’s independent analysis of the Motion Record.

As indicated in the Motion Record, the sole secured creditor is Comerica Bank (“Comerica”). The Monitor has been communicating on a regular basis with representatives of Comerica. Both Comerica and Korex, and their respective legal counsel, have received a copy of this First Report.

2.0 Disclaimer

The Monitor has relied upon the financial records and financial statements of Korex, as well as other information supplied by Messrs. Pensler and Bojkovski. Our procedures did not constitute an audit or review engagement.

Our procedures and enquiries did not include verification work or constitute an audit in accordance with generally accepted auditing standards. In the event any of the information we relied upon was inaccurate or incomplete, the results of our analysis could be materially affected. As well, we have assumed that Korex will continue as a going-concern, and that current business conditions will remain status quo, including but not limited to, commodity and other input prices. As well, the Monitor did not review internal plans and support budgets such as sales, manufacturing and marketing plans or budgets. The Monitor’s analysis is subject to the reasonableness of all of the assumptions used in such plans and budgets, and the future business conditions Korex will encounter.

Therefore, the Monitor is unable to and does not express an opinion on any financial statements, or elements of accounts referred to in this First Report, or any of the attached Appendices or Exhibits forming part of this First Report. We reserve the right to review all calculations included or referred to in this First Report and, if we consider it necessary, to revise our calculations or conclusions in light of new information as such information becomes available.

3.0 AFFIDAVIT PARAGRAPH 34

In this paragraph, Mr. Bojkovski attests that:

1. Korex's operations, which suffered substantial losses as a result of the strike, were improving.
2. As at November 30, 2008, Korex had inventories totalling \$4,843,000, accounts receivable totalling \$5,979,000, of which only \$300,000 were classified as doubtful and retained earnings of \$3,735,000.

Retained earnings –

In order to test the calculation of retained earnings as at November 30, 2008, the Monitor reviewed the audited financial statements, the internal unaudited financial statements for the fiscal year ending July 31, 2008 (included in the Motion Record in Exhibit "G") and the internal unaudited financial statements for the four month fiscal period ending November 30, 2008, in order to prepare a roll forward test calculation of retained earnings.

According to the audited financial statements, the closing retained earnings on July 31, 2007 was \$6,008,000. Further, the unaudited financial information indicates that in the 2008 fiscal year, Korex suffered a loss in the amount of \$1,168,000 and for the four month fiscal period ending November 30, 2008, Korex suffered a loss in the amount of \$1,107,000.

Accordingly, the Monitor's test roll forward calculation of retained earnings produces calculated estimated retained earnings in the amount of \$3,733,000, calculated as follows:

Closing retained earnings, July 31, 2007								\$ 6,008,000
Less:								
Fiscal 2008 loss								\$ 1,168,000
Loss for the fiscal period August 1 to November 30, 2008								<u>1,107,000</u>
								<u>2,275,000</u>
Calculated retained earnings, November 30, 2008								<u>\$ 3,733,000</u>

The difference between the calculated amount above and the amount recorded in the internal unaudited financial information, being a difference of \$2,000, is in the Monitor's view, not material.

Accounts receivable –

As indicated above, the Affidavit evidence is that accounts receivable as at November 30, 2008 totals the amount of \$5,979,000, of which \$300,000 is classified as doubtful. The Monitor obtained from Korex a copy of the aged trade accounts receivable listing as at November 30, 2008. Attached as **Exhibit "B"** is a copy of such listing totalling CDN\$4,232,111 and US\$1,347,725. Korex is using a US dollar exchange rate of \$1.2372 to translate the US\$ receivables into a CDN dollar balance of \$1,667,357. These two CDN dollar amounts totals \$5,899,468, for a difference of CDN\$79,532. Mr. Bojkovski advised the Monitor that this difference represents various non-trade receivable amounts. Given that the trade accounts receivable represents the majority of the amounts receivable, the Monitor, in the allotted time, only concentrated on trade accounts receivable.

The Monitor performed a test check of twenty invoices picked at random, contained in the accounts receivable balance, and reviewed the invoices to satisfy itself that the sales terms were reasonable and consistent. Nothing untoward was identified from this review.

The Monitor traced ten of these invoices from the sales and bill of lading documents, to the accounts receivable subledger. The Monitor traced the remaining ten invoices from the accounts receivable subledger back to original sales and bill of lading documents. Nothing untoward was identified from this review, so the Monitor concluded that it could rely on the internal unaudited aged accounts receivable trial balance as being accurate.

The Monitor also reviewed the accounts receivable from the perspective of concentration of customers and to also determine which customers, if any, could potentially invoke a right of set-off and accordingly, refuse to pay the amount owing to Korex. The Monitor notes that it has not reviewed any sales contracts with customers, and such contracts may contain other remedies for set-off. Accordingly, this analysis does not take into consideration any special set-off terms specific customers may be entitled to in addition to those noted herein.

The Monitor notes in the CDN dollar receivables, that Unilever Canada comprises 62.8% of Korex's outstanding CDN dollar accounts receivable outstanding as at November 30, 2008. Unilever Canada is also a creditor of Korex. The Korex internal unaudited financial information indicates a balance owing by Korex to Unilever as at November 30, 2008 in the amount of \$1,243,145.

The Monitor also notes that another customer, Phoenix Brands LLC comprises 32.0% of Korex's CDN dollar accounts receivable outstanding as at November 30, 2008. The Monitor anticipates

that such concentration and potential for offset could lead to collection problems in the event Korex ceased operations.

The Monitor also notes in the CDN dollar receivables that two apparently related parties are listed as Korex Canada and Korex Corporation. The listing indicates that they owe Korex \$27,348 and \$2,856, respectively.

The Monitor also notes that the total balance of accounts receivable outstanding in excess of ninety days totals \$1,444,044 as at November 30, 2008. For Comerica borrowing base calculations, this amount must be excluded. In the normal course of operations, these customers do pay the amount owing by them respectively.

The Monitor also notes that the Affidavit is silent on the appropriateness of the amount of \$300,000 indicated in the Affidavit as doubtful. Mr. Bojkovski advised the Monitor that in addition to this amount, there is an additional provision of \$472,000 included in the net accounts receivable figure of \$5,979,000. The Monitor is of the view that the amount excluded from the borrowing base calculation is a more appropriate proxy for potential collection problems, assuming Korex remains a going-concern.

The Monitor was not requested to assess the estimated accounts receivable collections on a liquidation basis, and accordingly, that work was not performed in order for such opinion to be rendered herein. The Monitor would be pleased to perform that work should this Honourable Court so direct.

With respect to the US dollar accounts receivable, there are three customers which comprise 36.7% of the total US dollar accounts receivable as at November 30, 2008, as follows:

Phoenix Brands, LLC	16.2%
Johnson Diversey Inc.	8.7%
Ecolab-Kay Chemical Co.	<u>11.8%</u>
	<u>36.7%</u>

Concentration does not appear to be an issue with respect to the US dollar accounts receivable. With respect to apparently related parties, the Monitor notes the existence of three entities listed as owing funds to Korex: (i) Korex Canada (US\$139); (ii) Korex Corporation (US\$21,767); and (iii) Korex Chicago (US\$401,971).

Inventory –

The Monitor's review of the Korex unaudited balance sheet as at November 30, 2008 indicates that inventory is comprised of:

Raw material, packaging and work-in-process	\$4,546,000
Finished goods	<u>297,000</u>
Total as per Affidavit	<u>\$4,843,000</u>

The Monitor did not perform an inventory count and therefore cannot conclude that the inventory as indicated in Korex's books and records physically exists and should be valued as indicated above. The Monitor has no reason to question these balances, but has not done any work to confirm them.

Mr. Bojkovski has advised the Monitor that there are third party owned inventory and fixed assets at the Korex premises. He also advised that Korex has inventory at third party locations totalling \$972,000 as at November 30, 2008. Mr. Bojkovski also advised the Monitor that the third party property on the Korex premises is not included in Korex's asset values.

Improving operations –

With respect to this comment, please see **Section 7.0 – Cash flow – Affidavit Exhibit “G”** below.

4.0 AFFIDAVIT PARAGRAPH 35

In this paragraph, Mr. Bojkovski attests that Korex established a bank account outside of Comerica's control and as of November 30, 2008, the balance was \$1,759,000. The Monitor determined that in fact there are three bank accounts maintained at The Toronto-Dominion Bank representing the "...account outside of Comerica's control...". Pursuant to the Monitor's request, Mr. Bojkovski provided the online printouts from the accounts as at November 30, 2008, December 31, 2008 and January 6, 2009.

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A summary of these accounts are:

							\$		
							BALANCE		
							30-Nov-08	31-Dec-08	6-Jan-09
CDN CHEQUING ACCOUNT ENDING IN 229						525,876	482,291	451,786	
CDN INVESTMENT ACCOUNT ENDING IN 237						302,958	303,240	303,240	
						828,834	785,531	755,026	
US CHEQUING ACCOUNT ENDING IN 052						174,435	650,599	596,693	

The Monitor believes (subject to the qualifications set out in this First Report) that using Korex's US\$ exchange rate of \$1.2372, the US dollar balance as at November 30, 2008 translates to CDN\$222,091 for a total of all three accounts of CDN\$1,050,925, or \$708,075 less than the amount contained in the Affidavit.

The Monitor has determined that this difference is primarily a result of Mr. Bojkovski obtaining the amount indicated in the Affidavit from the Korex general ledger, while the amounts indicated above are from the printouts from the Bank. Also, in the Affidavit, Mr. Bojkovski included, in error, the amount of \$804,071 contained in the accounts controlled by Comerica.

Based on the Monitor's review of bank reconciliations for these three accounts prepared at the request of the Monitor, the Monitor believes that the proper reconciled CDN dollar equivalent balance in accounts not controlled by Comerica is \$1,050,925, as stated above.

5.0 AFFIDAVIT PARAGRAPH 38

The Monitor has reviewed this paragraph and has nothing of significance to report. This paragraph relates to the accounts payable listing, and other than for potential set-off issues as against the accounts receivable as described above, the Monitor does not believe any further value would have been obtained by further analyzing these amounts of unsecured claims against Korex.

6.0 BALANCE SHEET – AFFIDAVIT EXHIBIT “G”

The Monitor has reviewed the unaudited internal balance sheet of Korex as at July 31, 2008 attached to the Affidavit as Exhibit “G”. Attached hereto as Exhibit “C” is a copy of that balance sheet.

By its nature, that balance sheet is a historical document in that it shows the financial position of Korex as at July 31, 2008. Further, Comerica has had the benefit of collateral reports from Korex and the ability to conduct field audits subsequent to July 31, 2008.

The Monitor’s review did not reveal any information that would cause us concern on relying on those numbers, as appropriate, to carry out this limited mandate. Accordingly, the Monitor has not focussed on this information, except as it may be relevant to understanding Korex’s current financial position as indicated in this First Report.

7.0 CASH FLOW – AFFIDAVIT EXHIBIT “J”

In the available time, the Monitor has performed an initial review of Korex’s cash flow statement attached to the Affidavit as Exhibit G. Attached hereto as Exhibit “D” is a copy of that cash flow statement.

The most significant observation initially made by the Monitor in reviewing the cash flow statement is that Korex anticipates during the period January 1 through the week ending April 4, 2009, approximately \$1 million will be utilized in operations, or alternatively, there will be a cash burn of that amount over this time period (\$1.572 million estimated on hand December 31, 2008 and \$566K estimated on hand at end of the week of April 4, 2009).

The Monitor was obviously concerned with this anticipated cash burn. Also, Korex's projections, of which this cash flow statement is one aspect, estimates that Korex's projected loss from operations for the fiscal period August 1, 2008 through March 31, 2009 will be the amount of \$2.756 million. With this information, the Monitor was concerned on what basis Mr. Bojkovski could state that operations were improving.

From discussions with Mr. Bojkovski, Korex's view is that the improvement referred to in the Affidavit is indicated by:

1. the amount of Korex's monthly loss from operations is diminishing as it gains from further efficiencies;
2. Korex recently resumed producing Dove soap which it believes will be a profitable line; and
3. notwithstanding losses from operations and the cash burn, Comerica's security position is improving through this period.

The Monitor reviewed Korex's borrowing base projections, which show that during the period January 1 through the week ending April 4, 2009, Korex calculates that Comerica's borrowing base position increases from \$4.284 million to \$5.650 million. During the same period, the amount owing to Korex's unsecured creditors is projected to remain flat.

The Monitor has not had sufficient time to further investigate the correctness of this result on both the Comerica borrowing base and the unsecured creditor position. The Monitor understands that approximately \$1 million of the cash portion of the projected loss from operations can be funded from funds currently held by Korex; however, the Monitor would require more time to properly study the projections to determine if this projected result is accurate.

8.0 OTHER

The Monitor notes that during the course of this limited mandate, it observed the Korex accounts contain a large and regular amount of related party transactions. The Monitor was not directed to review or otherwise assess these transactions. The Monitor advises this Honourable Court that this analysis and the findings of the Monitor as contained in this First Report would be subject to change, in the event it was found that Korex accounting estimates or entries might otherwise need to be adjusted once all related party transactions, and any potential effect on the balance sheet and income statement accounts, were eliminated.

9.0 SUMMARY

The Monitor advises this Honourable Court that Korex is of the view that it should be allowed to attempt to restructure under these proposed proceedings and that no stakeholder will suffer any prejudice, as outlined in this First Report.

**

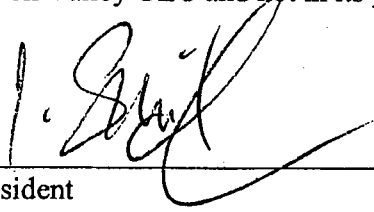
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All of which is respectfully submitted at Toronto, Ontario this 9th day of January, 2009.

IRA SMITH TRUSTEE & RECEIVER INC.
solely in its capacity as the Putative Court-Appointed Monitor
of Korex Don Valley ULC and not in its personal Capacity

Per:



President

Ontario
Superior Court of Justice
(Commercial List)

In the matter of the CCAA

and

In the matter of a plan of compromise or arrangement of
Korex Don Valley ULC ApplicantConsent

The Applicant Korex Don Valley ULC ("Korex") and the Respondent ^{of this Application} Comerica Bank ("Comerica") consent to an adjournment on the following terms:

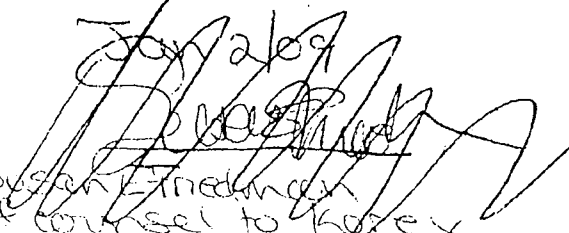
1/ This Application is to be adjourned to January 12, 2009;

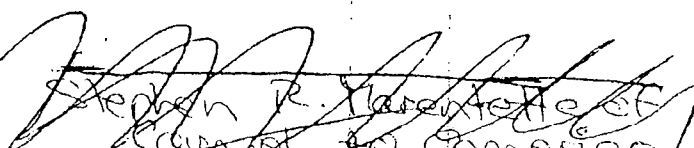
2/ Until this Application is returned, Comerica agrees to forbear in realizing on or enforcing its security and will not seek to appoint a receiver;

3/ Paragraph 2 is subject to there not being a material adverse change in the operations of the business of Korex. Should there be such a material adverse change, Comerica may bring this matter back before the court on two days notice;

4/ Korex ~~will not~~ agrees that until the return of the Application it will not use the funds referred to in paragraph 35 of its Affidavit of John Boykowski sworn December 31, 2008, other than in the ordinary course of business and will report once daily to Comerica as to the balance in the account.

Jan 2, 09


Susan Etredman
of counsel to Korex


Stephen R. Parente of
Counsel to Comerica

5/ The proposed Monitor, Ira Smith
Trustee & Receiver Inc. shall
proceed to verify the financial
information as referred to in
paragraphs 34, 35 and 38 and
the Balance sheet that is part of
Exhibit G and the Cash flow that
is Exhibit J to the affidavit
of John Boykowski sworn
December 31, 2008

Jan 2/09

Susan Friedman
Susan Friedman
of counsel to Korex

Stephen R. Marentette
Stephen R. Marentette
of counsel to America

2 Jan 2009

Court File No. 08-CL-7925

IN THE MATTER OF THE COMPANIES' CREDITORS' ARRANGEMENT ACT, S.C. 1985 c.c. - 36, as amended

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

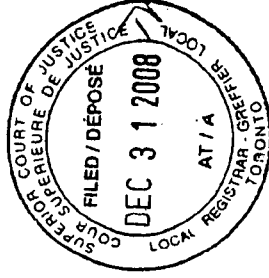
*Jan. 2/09.
New consent - adjournment granted
to Jan. 12/09 for 1 hr. in terms
as set out in consent signed
by parties & attached hereto.
R. Friedman*

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

LATE FILING

APPLICATION RECORD OF THE APPLICANT
(Returnable January 2, 2009)



DAVIS LLP
Barristers & Solicitors
1 First Canadian Place, Suite 5600
100 King Street West
Toronto, ON M5X 1E2

Susan E. Friedman (LSUC #24991U)
Tel: 416.365.3503
Fax: 416.777.7415
Email: sfriedman@davis.ca

Lawyers for the Applicant

EXHIBIT "B"

06 Jan/2009 Korex Don Valley
 14:01 AVR Aged Trial Balance
 As of: Nov 30, 2008 Aged by: Invoice Date

Customer	Current	O/D Und.30	Over 30	Over 60	Over 90	Total
Currency CDN						
5100000 Unilever Canada	\$ -	\$ 1,257,882.48	\$ 626,222.48	\$ 41,263.76	\$ 734,170.10	\$ 2,659,538.82
5100001 Johnson Diversey	\$ -	\$ 52,988.04	\$ 51,064.65	\$ -	\$ 3,132.13	\$ 107,184.82
5100008 Swissplas	\$ -	\$ -	\$ -	\$ -	\$ 150.00	\$ 150.00
5300000 Korex Canada	\$ -	\$ -	\$ 3,998.60	\$ -	\$ 23,349.70	\$ 27,348.30
5400003 Queen Bleach Company Ltd.	\$ -	\$ -	\$ -	\$ -	\$ 7,374.37	\$ 7,374.37
5400020 Pattison Outdoor Advertisi	\$ -	\$ -	\$ -	\$ -	\$ 2,701.48	\$ 2,701.48
5400026 Jempak GK	\$ -	\$ -	\$ 5,067.92	\$ 11,081.65	\$ -	\$ 16,149.57
5400028 Ashland Canada	\$ -	\$ -	\$ 54,136.23	\$ -	\$ -	\$ 54,136.23
6100014 Phoenix Brands LLC	\$ -	\$ 1,064,136.53	\$ 290,535.23	\$ -	\$ -	\$ 1,354,671.76
6300000 Korex Corporation	\$ -	\$ -	\$ -	\$ -	\$ 2,856.00	\$ 2,856.00
Grand Total CDN Bookeeping	\$ -	\$ 2,375,007.05	\$ 1,031,025.11	\$ 52,345.41	\$ 773,733.78	\$ 4,232,111.35
Currency US						
5100006 Stepan Canada Inc.	\$ -	\$ 7,140.95	\$ 3,684.39	\$ -	\$ 591.80	\$ 11,417.14
5300001 Korex Canada (Ascendia)	\$ -	\$ -	\$ -	\$ -	\$ 138.94	\$ 138.94
6100005 Rhodia Inc.	\$ -	\$ 44,768.93	\$ -	\$ -	\$ -	\$ 44,768.93
6100007 Phoenix Brands, LLC	\$ -	\$ -	\$ -	\$ -	\$ 218,958.03	\$ 218,958.03
6100010 Johnson Diversey Inc.	\$ -	\$ 38,980.86	\$ 38,975.22	\$ -	\$ 39,435.74	\$ 117,391.82
6100011 Young Chemical	\$ -	\$ -	\$ 56,334.23	\$ 2,508.75	\$ 1,283.21	\$ 60,126.19
6100012 Church and Dwight	\$ -	\$ -	\$ -	\$ -	\$ 5,423.50	\$ 5,423.50
6300001 Korex Corporation	\$ -	\$ -	\$ -	\$ 20,058.85	\$ 1,708.08	\$ 21,766.93
6300020 Korex Chicago	\$ -	\$ -	\$ 95,065.71	\$ 136,273.85	\$ 170,631.91	\$ 401,971.47
6400002 Oil Chem. Inc.	\$ -	\$ 46,201.53	\$ -	\$ -	\$ 5,989.70	\$ 52,191.23
6400003 PVS Nolwood Chemicals, INC	\$ -	\$ -	\$ 43,008.05	\$ -	\$ 17,752.54	\$ 60,760.59
6400005 Brenntag Northeast, Inc.	\$ -	\$ 45,340.03	\$ 47,835.73	\$ -	\$ 3,655.33	\$ 96,831.09
6400007 Ecolab-Key Chemical Co.	\$ -	\$ 28,185.39	\$ 70,309.99	\$ -	\$ 60,188.37	\$ 158,683.75
6400009 Ashland Inc.	\$ -	\$ 44,564.64	\$ -	\$ -	\$ 1,088.35	\$ 45,652.99
6400010 Pride Solvents & Chemical	\$ -	\$ 36,875.70	\$ -	\$ -	\$ 4,518.18	\$ 41,393.88
6400011 Auto-Chlor System	\$ -	\$ -	\$ -	\$ -	\$ (1,111.50)	\$ (1,111.50)
6400013 Lincoln Manufacturing	\$ -	\$ -	\$ -	\$ -	\$ 1,922.22	\$ 1,922.22
6400014 Access Business Group	\$ -	\$ -	\$ -	\$ -	\$ 9,637.34	\$ 9,637.34
Grand Total US Currency	\$ -	\$ 291,858.03	\$ 355,213.32	\$ 158,841.45	\$ 541,811.74	\$ 1,347,724.54
FX Rate:	\$ 1.2372	\$ 1.2372	\$ 1.2372	\$ 1.2372	\$ 1.2372	\$ 1.2372
Grand Total CDN Bookeeping	\$ -	\$ 361,076.37	\$ 439,457.28	\$ 196,512.99	\$ 670,310.21	\$ 1,667,356.85
Grand Total	\$ -	\$ 2,736,083.42	\$ 1,470,482.39	\$ 248,858.40	\$ 1,444,043.99	\$ 5,899,468.20

Korex Don Valley ULC
Balance Sheet
For the period ended July 31, 2008
(000s Canadian Dollars)

	Jul-08
ASSETS	
<i>Current Assets</i>	
Cash / Short Term Investments	416
Accounts Receivable	8,444
Inventory	5,558
Prepaid Expenses	639
Total Current Assets	15,056
Fixed Assets (NBV)	5,781
Total Assets	20,837
LIABILITIES	
<i>Current Liabilities</i>	
Accounts Payable	9,210
Wages Payable	1,419
Unearned Revenue	9
Taxes Payable	(574)
Bank Loan Payable	-
Bank Revolving Loan	5,074
Total Current Liabilities	15,138
Long Term Liabilities	48
Provision for Income Taxes	810
Total Liabilities	15,996
SHAREHOLDER'S EQUITY	
Capital Stock	0
Retained Earnings	4,840
Total Shareholder's Equity	4,840
Total Liabilities and Equity	20,837

EXHIBIT "D"

Korax Don Valley ULC
 Net Cash Flow
 13 Week Projection
 (000 Canadian Dollars)

	Actuals Aug-08	Actuals Sep-08	Actuals Oct-08	Actuals Nov-08	Forecast Dec-08	Forecast 1-Jan-09	Forecast 16-Jan-09	Forecast 17-Jan-09	Forecast 24-Jan-09	Forecast 31-Jan-09	Forecast 7-Feb-09	Forecast 14-Feb-09	Forecast 21-Feb-09	Forecast 28-Feb-09	Forecast 7-Mar-09	Forecast 14-Mar-09	Forecast 21-Mar-09	Forecast 28-Mar-09	Forecast 4-Apr-09	Forecast Year 7 Totl
Cash from Operations																				
Net Income	26	(429)	(443)	(264)	(329)	(60)	(33)	(47)	(51)	(61)	(17)	(2)	(28)	(41)	(29)	(8)	(15)	(20)	(34)	1,259
Depreciation	83	83	83	83	83	19	19	19	19	19	19	19	19	19	19	19	19	19	19	685
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	13	(26)	(214)	(128)	(159)	(17)	(16)	(23)	(25)	(29)	(8)	(1)	(14)	(20)	(14)	(6)	(7)	(10)	(17)	(693)
Total Cash from Income	122	(344)	(574)	(309)	(405)	(64)	(30)	(61)	(69)	(71)	(6)	15	(22)	(41)	(24)	1	(3)	(11)	(32)	(207)
Receivables																				
Decr / (Incr)	(462)	4,458	(2,228)	717	(103)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	1,951
Inventories	500	756	(198)	(344)	35	178	(47)	(81)	(74)	(88)	-	-	-	-	-	-	-	-	-	659
Accounts Payable/Accounts																				
GRN (Goods Forwarded not Invoiced)	(307)	(2,889)	3,751	(398)	(531)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(641)
Liabilities Payable	(244)	862	(640)	878	721	13	13	13	13	13	13	13	13	13	13	13	13	13	13	1,578
Unearned / Prepaid	56	56	56	56	56	-	-	-	-	-	-	-	-	-	-	-	-	-	-	452
Unearned Revenue	25	9	49	32	(142)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(26)
Serial Liabilities Payable	(3)	(3)	(3)	16	(4)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(7)
Wages Payable	5	11	6	6	(19)	38	68	(110)	88	(70)	88	(70)	88	(70)	88	(70)	88	(70)	88	(10)
Other Accounts	(439)	(39)	198	(101)	181	(167)	8	8	8	8	8	8	8	8	8	8	8	8	8	(631)
Other Taxes Payable	370	(207)	(62)	(2)	29	-	-	-	-	-	-	-	-	-	-	-	-	-	-	138
Other Working Capital	20	12	(93)	22	20	4	4	4	4	4	4	4	4	4	4	4	4	4	4	37
Total Cash from Working Capital	(857)	2,888	818	695	232	18	(4)	(198)	(32)	(183)	42	(88)	42	(88)	42	(88)	42	(88)	42	(96)
TOTAL CASH FROM OPERATIONS	(439)	2,148	241	386	(173)	(19)	(24)	(247)	(69)	(254)	38	(60)	20	(137)	18	50	(189)	31	(277)	1,197
Investments																				
Fired Asset Additions	-	(13)	(0)	10	(0)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(1)
Fixed Asset Retirements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CASH USED FOR INVESTMENT	-	(13)	(0)	10	(0)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(1)
Cash from Financing																				
Payments on Long-Term Loans	-	(1,000)	-	-	(14)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(22)
Other Loans / Interest (Recover)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,200)
TOTAL CASH FROM FINANCING	-	(1,000)	-	-	(14)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1,222)
NET CASH FLOW	(439)	1,135	240	398	(187)	(19)	(25)	(267)	(89)	(269)	36	(81)	19	(137)	18	50	(189)	31	(128)	(44)
Cash - Beginning of Period	416	(10)	1,122	1,363	1,759	1,572	1,553	1,616	1,271	1,182	927	943	882	902	764	782	832	832	663	694
Cash - End of Period	(19)	1,122	1,363	1,759	1,572	1,533	1,518	1,271	1,182	927	963	882	902	784	782	832	832	663	664	782
	3	3	1	1							(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	7

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
KOREX DON VALLEY ULC

APPLICANT

Court File No. 08-CL-7925

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED JANUARY 9, 2009

IRA SMITH TRUSTEE & RECEIVER INC.
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Fax: 905.738.9848

Court File No. 08-CL-7925

**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
KOREX DON VALLEY ULC**

APPLICANT

SUPPLEMENTARY FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.

**IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED JANUARY 22, 2009

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**SUPPLEMENTARY FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED JANUARY 22, 2009**

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**SUPPLEMENTARY FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED JANUARY 22, 2009**

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Mr. B. Darlington email dated January 22, 2009	“D”
Monitor’s email to Comerica Bank representatives dated January 22, 2009	“E”

**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
KOREX DON VALLEY ULC**

APPLICANT

SUPPLEMENTARY FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.

**IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED JANUARY 22, 2009

1.0 INTRODUCTION

This Supplementary First Report (the "**Supplementary First Report**") is filed by Ira Smith Trustee & Receiver Inc. ("**ISI**") in its capacity as proposed court-appointed monitor (the "**Monitor**") of all of the assets, undertakings and properties of Korex Don Valley ULC ("**Korex**"). This is supplementary to the First Report of the Monitor dated January 9, 2009 (the "**First Report**").

On January 2, 2009, by Endorsement of the Honourable Mr. Justice Campbell, the Monitor was directed to perform certain work as part of an adjournment on a consent basis of the within

application. A copy of the Endorsement and Consent was included as Exhibit "A" in the First Report.

On January 12, 2009, the parties attended before the Honourable Madam Justice Pepall to seek an adjournment of the hearing of Korex's motion. By endorsement of Justice Pepall, the First Report was not filed with this Honourable Court at that time. Attached as Exhibit "A" is a copy of that endorsement.

Purpose of this Report

On January 19, 2009, by Endorsement of the Honourable Mr. Justice Morawetz, the Monitor was directed to file a Report for the next attendance (January 23, 2009) providing an up to date summary of key events (the "**January 19 Endorsement**").

Attached as Exhibit "B" is a copy of January 19 Endorsement.

As indicated in Korex's Motion Record, the sole secured creditor is Comerica Bank ("**Comerica**"). The Monitor has been communicating on a regular basis with representatives of Comerica. Both Comerica and Korex, and their respective legal counsel, have received a copy of this Supplementary First Report.

2.0 Disclaimer

The Monitor has relied upon the financial records and financial statements of Korex, as well as other information supplied by Messrs. S. Pensler (President) and Mr. J. Bojkovski (Chief Financial Officer). Our procedures did not constitute an audit or review engagement.

Our procedures and enquiries did not include verification work or constitute an audit in accordance with generally accepted auditing standards. In the event any of the information we relied upon was inaccurate or incomplete, the results of our analysis could be materially affected. As well, we have assumed that Korex will continue as a going-concern, and that current business conditions will remain status quo, including but not limited to, commodity and other input prices. As well, the Monitor did not review internal plans and support budgets such as sales, manufacturing and marketing plans or budgets. The Monitor's analysis is subject to the reasonableness of all of the assumptions used in such plans and budgets, and the future business conditions Korex will encounter.

Therefore, the Monitor is unable to and does not express an opinion on any financial statements, or elements of accounts referred to in this First Report, or any of the attached Appendices or Exhibits forming part of this Supplementary First Report. We reserve the right to review all calculations included or referred to in this Supplementary First Report and, if we consider it necessary, to revise our calculations or conclusions in light of new information as such information becomes available.

3.0 FINANCIAL UPDATE

The Monitor requested updated financial information for the purpose of this Supplementary First Report. Korex was able to provide certain updated information, which is commented on below. The Monitor cannot make any comment on categories where no additional information was provided.

Cash

In the First Report, the Monitor reported on the bank accounts which Korex established outside of Comerica's control maintained at The Toronto-Dominion Bank (the "Bank"). The Monitor further reported that the Monitor believed that, as at November 30, 2008, the proper reconciled CDN dollar equivalent balance in accounts not controlled by Comerica was \$1,050,925. The Monitor advises that based on its review, it believes the balance as at January 22, 2009 is \$1,267,457.

Below is an update to the summary previously provided by the Monitor in the First Report on such cash balance maintained at the Bank.

	\$ BALANCE		
	<u>31-Dec-08</u>	<u>6-Jan-09</u>	<u>22-Jan-09</u>
CDN CHEQUING ACCOUNT ENDING IN 229	482,291	451,786	499,076
CDN INVESTMENT ACCOUNT ENDING IN 237	<u>303,240</u>	<u>303,240</u>	<u>387,184</u>
	<u>785,531</u>	<u>755,026</u>	<u>886,260</u>
US CHEQUING ACCOUNT ENDING IN 052	<u>650,599</u>	<u>596,693</u>	<u>308,113</u>
CDN TOTAL (US\$=CDN\$1.2372)	<u>1,590,452</u>	<u>1,493,255</u>	<u>1,267,457</u>

Therefore, there has not been any diminution in the funds on hand in these accounts.

Accounts receivable

The Monitor reported on the trade accounts receivable in the First Report. The Monitor advises that based on the trade accounts receivable listing reviewed as at January 20, 2009, the combined

converted balance of US and CDN accounts receivable as at that date is CDN\$5,842,683 (CDN\$5,899,468 as at November 30, 2008 as described in the First Report and CDN\$5,753,144 as at December 31, 2008).

The Monitor notes that although the change in total trade accounts receivable is not significant, there is an increase in the 91+ days old category in the amount of \$107,234.

Sales

Korex reported that sales for the month of December 2008 were in the amount of \$1,827,037, which is accordance with its earlier forecast. Korex has advised the Monitor that sales for the period January 1 to 20, 2009, inclusive, were \$1,676,724, as compared to a forecast of \$1,494,000. The Monitor has not been provided with any additional information regarding sales product mix or profitability of products sold.

4.0 CASH FLOW

The Monitor's review, as indicated above, indicates that Korex's cash balance has decreased by the amount of CDN\$322,995 between December 31, 2008 and January 22, 2009 (CDN\$1,590,452 minus CDN\$1,267,457). Korex's cash flow forecast previously provided to the Monitor and Comerica Bank indicated that during this period, cash would decrease by the amount of CDN\$389,000.

The major use of cash was the wire transfer of US\$390,000 to two major suppliers for the supply of sulphination and other raw materials. Korex advises that it is required by these suppliers to pay when the products are ordered, given Korex's current financial position. Korex advises that

these products are essential to Korex's business, and that the lead time between the order and payment for the purchases, and the delivery of such raw materials is several weeks.

5.0 OTHER MATTERS

Comerica

Korex advises that as Comerica has frozen Korex's borrowings, and as Korex has not paid any amounts to Comerica, the amount of Korex indebtedness to Comerica has not changed, except for accrued interest and costs. The Monitor requested an updated borrowing base calculation, but Korex advised that it had not prepared one. Accordingly, the Monitor cannot express any view on the borrowing base calculation at this time. Subject to the qualifications contained in this Supplementary First Report, the Monitor is of the view that since the date of the First Report, the position of Comerica has not been prejudiced.

Requests by Monitor

On January 19, 2009, the Monitor sent an email (the "**January 19 email**") to representatives of both Korex and Comerica, and their respective legal counsel, advising of the January 19 Endorsement and that the Monitor's representative would be contacting the Korex representative to obtain updated financial information. The Monitor also requested of both Korex and Comerica that, in order for the Monitor to be able to discharge its duties pursuant to the January 19 Endorsement, both Korex and Comerica should keep the Monitor apprised of any events of significance that may transpire.

Attached as **Exhibit "C"** is a copy of the January 19 email.

6.0 MATERIAL ADVERSE CHANGE

Subsequent to issuing the renewed request for information on January 22, 2009, the Monitor was copied on an email sent by Mr. B. Darlington of Davis LLP, legal counsel to Korex to legal counsel for Comerica. Attached as **Exhibit "D"** is a copy of that email.

That email makes reference to discussions that had been ongoing between counsel concerning an attempt for Korex and Comerica to enter into a forbearance agreement. However, more importantly, the email advises of a material adverse change in that "Our client has advised us that one of its most significant customers appears to be withdrawing its support and reducing its orders from Korex...". Mr. Darlington further states on behalf of Korex that:

"It is our view that an orderly winding down of the Korex Business under CCAA protection and the supervision of the Monitor over the next 30 to 60 days will be in the best interest of all stakeholders. In addition to providing an opportunity to maximize recoveries for Comerica, the process will permit Korex to continue to explore its options for downsizing and restructuring its business."

The Monitor sent an email to Comerica representatives advising that the Monitor was completing the Supplementary First Report and that Mr. Darlington's email was: (i) obviously a new and significant matter that the Monitor must report on; and (ii) advising that prior to finalizing the Supplementary First Report, requesting that if Comerica had any information it wished to provide to the Monitor for inclusion in such Report, it should do so. Attached as **Exhibit "E"** is a copy of that email.

At the time of writing this Supplementary First Report that Monitor has had no reply to that email, but the Monitor is advised that Mr. Darlington and Comerica's legal counsel have had subsequent conversations regarding this material adverse change.

Messrs. I. Smith and S. Sugar of the Monitor held a conference call with Messrs. Pensler and Bojkovski, Mr. B. Darlington and Ms. T. Buchanan of Davis LLP and Mr. S. Mitra of Aird & Berlis LLP, counsel to the Monitor, in order for the Monitor to further explore this material adverse change with Korex. The Monitor was advised that the major customer is Phoenix Brands LLC (commented on in the First Report).

Messrs. Pensler and Bojkovski further advised that the anticipated reduction in purchases by this significant customer will produce long term irreparable harm to Korex's business such that continuing to attempt to restructure as originally contemplated in Korex's original application was no longer an option, and that an orderly liquidation of the assets subject to Comerica's security, in order to retire the Comerica indebtedness, while restructuring Korex's financial affairs and business, was the only viable option.

The Monitor asked if Korex had revised its cash flow to show how operations would continue between now and when it was anticipated that the motion for Korex's request for protection pursuant to the *Companies' Creditors Arrangement Act* R.S.C. 1985 c.C - 36, as amended ("CCAA") would be heard, so that the Monitor could review it and provide its comments in this Supplementary First Report, and to provide comfort to Comerica in the intervening period. Korex advised that as this material adverse change was very recent, it had not yet had the opportunity to revise its cash flow projections and budget, but it undertook to do so as soon as possible.

The Monitor advised Korex that it would be preferable for the Monitor to be able to obtain and review such revised cash flow projection as soon as practical, and to be able to report to both Korex and Comerica on it. Further, the Monitor advised Korex that given this material adverse

change, and Korex's view that a self-liquidation was in the best interests of all stakeholders, a revised cash flow projection would also have to be submitted to this Honourable Court as part of the hearing of Korex's application for CCAA protection.

7.0 MONITOR'S INITIAL ASSESSMENT OF KOREX REACTION

The Monitor has considered Korex's position that its restructuring under CCAA, should such protection be granted by this Honourable Court, must now take the form of a debtor in possession self-liquidation of assets in order to retire the Comerica indebtedness, while attempting to restructure its business and affairs for the benefit of its other stakeholders. The Monitor believes that Korex liquidating its inventory and accounts receivable, while continuing to produce product on a more limited basis, in order to support its customer base for as long as necessary for those customers who will not be continuing as Korex customers, and to support those customers that Korex wishes to attempt to continue with as part of its restructuring, will produce the highest realizable value on the inventory and accounts receivable, as opposed to a recovery under either a non-operating receivership or bankruptcy proceeding.

The Monitor also notes that in the Affidavit of Mr. Bojkovski, previously filed in Korex's motion record, Mr. Bojkovski provides information concerning the unionized Korex employees on strike and the circumstances under which Korex has been attempting to operate in that unionized employee environment. The Monitor also understands that Korex's Toronto manufacturing facility provides challenges from an environmental perspective.

The Monitor believes that by pursuing a debtor in possession self-liquidation plan, Korex is also aiding Comerica Bank. The Monitor believes that without a secured creditor providing either a receiver or trustee in bankruptcy a significant indemnity, it may not be possible to find a firm

willing to take on a mandate to act as either receiver or trustee in bankruptcy for the purpose of liquidating the assets of Korex. The Monitor does not believe that any secured creditor would be willing to give an indemnity to allow such receiver or trustee to operate the business.

The Monitor further believes that the combination of the unionized environment, environmental challenges and a reduced realization if Korex ceases to operate, will assure no recovery for the unsecured creditors. This conclusion is tentative and subject to change.

Therefore, the Monitor supports Korex's view that it should seek CCAA protection in order to self-liquidate the assets subject to Comerica's security for the benefit of Comerica, under the supervision of this Honourable Court, while attempting to restructure its financial affairs and business for the benefit of its other stakeholders. This support is subject to Comerica's right to information on whatever basis it requires during the initial stay period, and any extensions to be granted by this Honourable Court, and Korex's cash flow projections supporting such endeavour.

**

**

**

All of which is respectfully submitted at Toronto, Ontario this 22nd day of January, 2009.

IRA SMITH TRUSTEE & RECEIVER INC.

solely in its capacity as the Proposed Court-Appointed Monitor
of Korex Don Valley ULC and not in its personal Capacity

Per: _____

President

IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, S.C. 1985 c.c. - 36, as amended
IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF KOREX DON VALLEY ULC

Court File No. 08-CL-7925

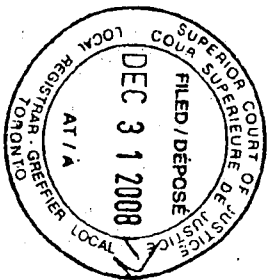
2 Jan 2009

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

LATE FILING

APPLICATION RECORD OF THE APPLICANT
(Returnable January 2, 2009)



DAVIS LLP
Barristers & Solicitors
1 First Canadian Place, Suite 5600
100 King Street West
Toronto, ON M5X 1E2

Susan E. Friedman (LSUC #24991U)
Tel: 416.365.3503
Fax: 416.777.7415
Email: sfriedman@davis.ca

Lawyers for the Applicant

Jan 2/09
Dear Counsel - ed: immediate (granted)
re Jan 2/09 per / M. on letter
re not sent in (revised) Mgr 2
by letters of effect as below.

DLCC Company

Don 12/109

1. Counsel for Mr Smith has advised that the work described in para 5 of the consent order by Campbell's has been done. 4 copies will be filed for the purpose of the next court hearing.
2. On consent, the application is returned to Don 19/109 for a hearing on the above terms as set forth - Campbell's order with the exception of para 5 + 1. Consent requires time to file materials in response.

DLCC, 3

Ira Smith

From: Ian Aversa [iaversa@airdberlis.com]
Sent: January 19, 2009 1:00 PM
To: Ira Smith
Cc: Sanj Mitra; Richard Epstein
Subject: Korex Don Valley ULC
Attachments: Endorsement of Justice Morawetz made on Jan. 19_09.PDF; Endorsement of Justice Morawetz made on Jan 19_09.DOC

Gentlemen,

Please find attached Justice Morawetz's Endorsement dated January 19, 2009 in respect of the above noted matter. For your convenience, I've also prepared and attached a transcription of the Endorsement.

Regards,

Ian

Ian E. Aversa | Associate
Aird & Berlis LLP | Barristers and Solicitors
Brookfield Place | 1800 - 181 Bay Street
Toronto, ON | M5J 2T9 | Canada
Bus: 416.865.3082 | Fax: 416.863.1515
Cell: 416.509.3822 | Res: 416.363.0806
Email: iaversa@airdberlis.com

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<<Endorsement of Justice Morawetz made on Jan. 19_09.PDF>> <<Endorsement of Justice Morawetz made on Jan 19_09.DOC>>

January 19/89

The parties are not in a position to proceed.
Proposed mediation ^{in Jan} 23/10/89 at 9:30 a.m.
Parties to meet and ^{in Jan} 23/10/89 at 9:30 a.m.
Proposed Monitor to file a Report ~~at~~
for next attendance which provides up to
date summary of his work.

The purpose of the hearing - Jan 23/10/89
is to settle schedule a fixed hearing
date if matter is going to proceed
or to consider whether the Applicant
should be withdrawn.

A. A. [Signature]

**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
KOREX DON VALLEY ULC**

APPLICANT

ENDORSEMENT OF JUSTICE MORAWETZ

January 19, 2009

The parties are not in a position to proceed. Protracted negotiations ongoing. Parties to re-attend Friday, January 23, 2009 at 9:30 a.m.

Proposed Monitor to file a Report for next attendance which provides up to date summary of key events.

The purpose of the hearing on January 23/09 is to either schedule a fixed hearing date if matter is to proceed or to consider whether the Application should be withdrawn.

Justice Morawetz

Ira Smith

From: Ira Smith
Sent: January 19, 2009 5:14 PM
To: 'John Bojkovski'; ELJones@comerica.com; Sandy Pensler
Cc: Darlington, Bruce; Stanley Sugar; 'Richard Epstein'; Sanj Mitra; 'iaversa@airdberis.com'
Subject: Korex - Endorsement of Morawetz J 01 19 09
Attachments: Endorsement of Justice Morawetz made on Jan 19_09_3.pdf

Gentlemen:

As you know, this morning in Court, Mr. Justice Morawetz directed the Proposed Monitor file a Report this coming Friday in Court with an update of key events. Attached is a typed version of His Honour's Endorsement.

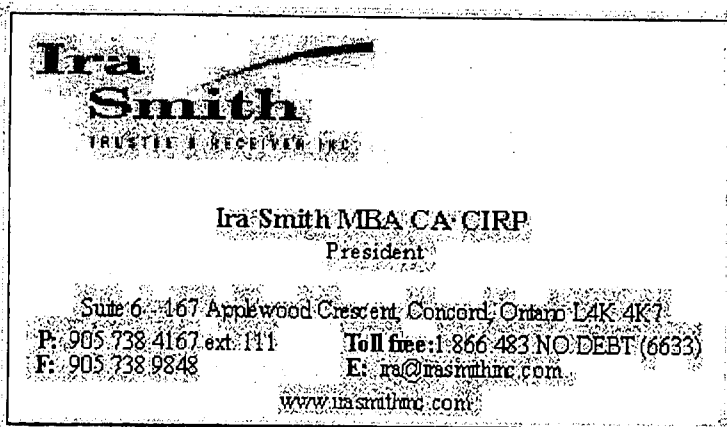
Therefore, Stan Sugar of my office will be contacting John Bojkovski tomorrow morning by telephone, in order to obtain updated financial information for the key areas discussed in our First Report to Court, with appropriate backup. John, my current thinking is that Stan can do this by telephone, email and fax and not need to attend at the Korex premises.

As well, in order for us to be able to discharge our duties, I would ask that both Korex and Comerica representatives keep us apprised, preferably by email, on any events of any significance that may transpire, including, but not limited to, Korex's operations, Comerica's loan position the proposed forbearance agreement or any other matters or things you believe may be appropriate for us to report on.

If you have any questions, please contact us.

IRA SMITH TRUSTEE & RECEIVER INC.
solely in its capacity as Proposed Monitor of
Korex Don Valley ULC and not in its personal capacity

Ira Smith
President



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Ira Smith

From: Darlington, Bruce [bdarlington@davis.ca]
Sent: January 22, 2009 2:44 PM
To: Marentette, Stephen R.; Leslie, John D.; Hewitt, Jeffrey J.
Cc: Friedman, Susan; Buchanan, Teresa; Sanford Pensler; Ira Smith; smitra@airdberlis.com
Subject: FW: Forbearance Agreement, Jan 21, 12:00pm

Stephen, John and Jeffery:

I think our clients have two fundamental issues that they are not going to be able to reach agreement on. Your client is insisting that our client provide security over its equipment. This is security over assets that your client currently does not have an interest in. The second issue, which is related to the first, is that your client's obligation to fund and to standstill is subject to discretionary defaults such as "material further deterioration in the financial condition" or "further deterioration in Bank's collateral position beyond what is contemplated herein" or even more broad if the Bank "for any reason, believes that the prospect of payment or performance is impaired".

My client feels that it is not in the best interests of Korex and the other stakeholders in Korex to add assets to your client's collateral and leave continuing funding and worse, continued forbearance, essentially to your client's discretion.

I think we may have to leave these issues to be determined by the court. We do caution your client that in our client's view a forced liquidation of the assets by a receiver will generate considerably less proceeds for the stakeholders than an orderly winding down of the business under CCAA protection.

Our client has advised us that one of its most significant customers appears to be withdrawing its support and reducing its orders from Korex as a result of the continued and perhaps increased uncertainty about Korex's ability to deliver. This puts Korex's plan to restructure in serious jeopardy. As a result, it is now our client's intention to reduce its staff dramatically. The plan is to announce the reduction of about 50% of its workforce on Monday and implement the reduction on Friday. Therefore starting February 2nd, Korex's primary focus will be on liquidating its existing inventory and collecting the outstanding receivables. The sulfonation production will continue as will the Defi operation but only for the short term for Defi. The expectation is that Korex will cease to produce liquids by the end of March or April. The goal will be to run through as much raw material as possible in co-ordination with notice to the customers to maximize receivable collection by minimizing set off claims.

You should also be aware that discussions are underway with a potential customer that may result in a liquid soap order. If this project is landed there will be need for an employee recall and additional funding to be negotiated likely involving a new lender. However, as the order has not been received, Korex is now focusing on the plan to wind down to sulfonation production only within the first quarter of this year. Korex is developing updated financial projections based on the winding down scenario. These projections should be available within the next 10 days.

It is our view that an orderly winding down of the Korex business under CCAA protection and the supervision of the Monitor over the next 30 to 60 days will be in the best interests of all stakeholders. In addition to providing an opportunity to maximize recoveries for Comerica, the process will permit Korex to continue to explore its options for downsizing and restructuring its business.

Under the circumstances, we would ask that you turn your attention to the proposed Initial Order and are prepared to discuss your comments in that regard at your earliest convenience.

Regards, Bruce

From: Marentette, Stephen R. [mailto:Marentette@MillerCanfield.com]
Sent: Wednesday, January 21, 2009 12:39 PM
To: Darlington, Bruce
Subject: Forbearance Agreement, Jan 21, 12:00pm

Bruce,

Please find attached hereto changes made to the forbearance agreement, not yet approved by the bank. I accepted the changes that we were fine with. You will see that paragraph 26 is new. Paragraph 25 and 38 have changes. The remainder of the redlined changes are primarily a return to the agreement we sent you last week.

I will be in and out of the office until 3pm. Therefore here are my comments:

- a- Regarding page 2 "As a result... the Borrower". This must stay in.
- b- Paragraphs 2-9. These are standard terms in forbearance agreements to protect the bank from future disputes.
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My client is fine with the salary of \$10,000 per month. We can acknowledge it in a letter or otherwise if you wish.

Please let me know if you are able to discuss this matter after 3pm today and we can finalise it. Please be advised that the bank will not support the CCAA proceeding should a forbearance agreement not be reached. It will seek to appoint a receiver.

Very Truly Yours,

**MILLER
CANFIELD**

Stephen Marentette
Miller, Canfield, Paddock and Stone LLP
Barristers and Solicitors
300-443 Ouellette Avenue
P.O. Box 1390
Windsor, Ontario N9A 6R4
Phone: (519) 561-7433
Fax: (519) 977-1565

NOTICE TO PERSONS SUBJECT TO UNITED STATES TAXATION (MCPS)

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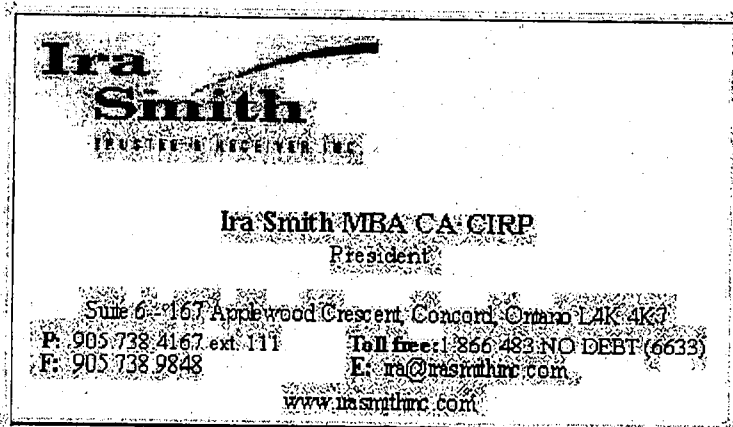
return e-mail, delete this e-mail and do not copy, use or disclose it.
Please advise us if you do not want to receive unencrypted e-mails.

Ira Smith

From: Ira Smith
Sent: January 22, 2009 4:23 PM
To: 'Darlington, Bruce'; Marentette, Stephen R.; Leslie, John D.; Hewitt, Jeffrey J.; 'ELJones@comerica.com'
Cc: Friedman, Susan; Buchanan, Teresa; Sanford Pensler; smitra@airdberlis.com
Subject: RE: Forbearance Agreement, Jan 21, 12:00pm

We are completing our report to Court and the email below is obviously a new and significant matter that we must report on. Prior to finalizing our report today, I would ask if Comerica has any information it wishes to provide us with so that we may include it in our Report to Court.

Thank you.



 This e-mail is intended only for the person to whom it is addressed (the "addressee") and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use that a person other than the addressee makes of this communication is prohibited and any reliance or decisions made based on it, are the responsibility of such person. We accept no responsibility for any loss or damages suffered by any person other than the addressee as a result of decisions made or actions taken based on this communication or otherwise. If you received this in error, please contact the sender and destroy all copies of this e-mail.

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Very Truly Yours,

**MILLER
CANFIELD**

Stephen Marentette

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Phone: (519) 561-7433

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NOTICE TO PERSONS SUBJECT TO UNITED STATES TAXATION (MCPS)

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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
KOREX DON VALLEY ULC

APPLICANT

Court File No. 08-CL-7925

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

SUPPLEMENTARY FIRST REPORT OF
IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED JANUARY 22, 2009

IRA SMITH TRUSTEE & RECEIVER INC.
Suite 6-167 Applewood Crescent
Concord, Ontario L4K 4K7

Ira Smith, MBA CA•CIRP
Tel: 905.738.4167
Fax: 905.738.9848

Court File No. 08-CL-7925

**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
KOREX DON VALLEY ULC**

APPLICANT

**SUPPLEMENTARY SECOND REPORT OF
IRA SMITH TRUSTEE & RECEIVER INC.**

**IN ITS CAPACITY AS PROPOSED COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC**

DATED FEBRUARY 2, 2009

1.0 INTRODUCTION

This Supplementary Second Report (the "**Supplementary Second Report**") is filed by Ira Smith Trustee & Receiver Inc. ("**ISI**") in its capacity as proposed court-appointed monitor (the "**Monitor**") of all of the assets, undertakings and properties of Korex Don Valley ULC ("**Korex**"). This is supplementary to the Monitor's First Report dated January 9, 2009 (the "**First Report**") and the Supplementary First Report dated January 22, 2009.

On January 2, 2009, by Endorsement of the Honourable Mr. Justice Campbell, the Monitor was directed to perform certain work as part of an adjournment on a consent basis of the within

application. A copy of the Endorsement and Consent was included as Exhibit "A" in the First Report.

On January 12, 2009, the parties attended before the Honourable Madam Justice Pepall to seek an adjournment of the hearing of Korex's motion. By endorsement of Justice Pepall, the First Report was not filed with this Honourable Court at that time. A copy of Her Honour's Endorsement was attached to the Supplementary First Report as Exhibit "A".

On January 19, 2009, the parties attended before the Honourable Mr. Justice Morawetz to seek a further adjournment of the hearing of Korex's motion. By endorsement of Justice Morawetz on that same date, His Honour directed that the Monitor file a further report for the next attendance on January 23, 2009 providing an up to date summary of key events. A copy of that Endorsement was attached to the Supplementary First Report as Exhibit "B".

Purpose of this Report

On January 23, 2009, the parties attended before the Honourable Mr. Justice Cumming and scheduled the hearing of the Korex motion for February 3, 2009. The First Report and the Supplementary First Report were filed with this Honourable Court on this attendance. Mr. Justice Cumming further directed the Monitor to file a Supplementary Second Report on February 2, 2009 in his endorsement (the "**January 23 Endorsement**"). Attached as **Exhibit "A"** is a copy of January 23 Endorsement.

As indicated in Korex's Motion Record, the sole secured creditor is Comerica Bank ("**Comerica**"). The Monitor has been communicating on a regular basis with representatives of

Comerica. Both Comerica and Korex, and their respective legal counsel, have received a copy of this Supplementary Second Report.

2.0 Disclaimer

The Monitor has relied upon the financial records and financial statements of Korex, as well as other information supplied by Messrs. S. Pensler (President) and Mr. J. Bojkovski (Chief Financial Officer). Our procedures did not constitute an audit or review engagement.

Our procedures and enquiries did not include verification work or constitute an audit in accordance with generally accepted auditing standards. In the event any of the information we relied upon was inaccurate or incomplete, the results of our analysis could be materially affected. As well, we have assumed that Korex will continue for as long as required in order to properly liquidate at least its accounts receivable and inventory for the benefit of Comerica, as a going-concern, and that current business conditions will remain status quo, including but not limited to, commodity and other input prices. As well, the Monitor did not review internal plans and support budgets such as sales, manufacturing and marketing plans or budgets. The Monitor's analysis is subject to the reasonableness of all of the assumptions used in such plans and budgets, and the future business conditions Korex will encounter.

Therefore, the Monitor is unable to and does not express an opinion on any financial statements, or elements of accounts referred to in this Supplementary Second Report, or any of the attached Appendices or Exhibits forming part of this Supplementary Second Report. We reserve the right to review all calculations included or referred to in this Supplementary Second Report and, if we consider it necessary, to revise our calculations or conclusions in light of new information as such information becomes available.

3.0 FINANCIAL UPDATE

The Monitor requested updated financial information for the purpose of this Supplementary Second Report. Korex was able to provide certain updated information, which is commented on below. The Monitor cannot make any comment on categories where no additional information was provided.

Cash

In the First and Supplementary First Reports, the Monitor reported on the bank accounts which Korex established outside of Comerica's control maintained at The Toronto-Dominion Bank (the "**Bank**"). The Monitor further reported that the Monitor believed that, as at November 30, 2008, the proper reconciled CDN dollar equivalent balance in accounts not controlled by Comerica was \$1,050,925. The Monitor advises that based on its review, it believes the balance as at January 29, 2009 is \$1,403,983.

Below is an update to the summary previously provided by the Monitor on such cash balance maintained at the Bank.

BALANCE OF THIS PAGE LEFT INTENTIONALLY BLANK

	\$			
	BALANCE			
	<u>31-Dec-08</u>	<u>6-Jan-09</u>	<u>22-Jan-09</u>	<u>29-Jan-09</u>
CDN CHEQUING ACCOUNT ENDING IN 229	482,291	451,786	499,076	677,258
CDN INVESTMENT ACCOUNT ENDING IN 237	<u>303,240</u>	<u>303,240</u>	<u>387,184</u>	<u>379,834</u>
	<u>785,531</u>	<u>755,026</u>	<u>886,260</u>	<u>1,057,092</u>
US CHEQUING ACCOUNT ENDING IN 052	<u>650,599</u>	<u>596,693</u>	<u>308,113</u>	<u>280,384</u>
CDN TOTAL (US\$=CDN\$1.2372)	<u>1,590,452</u>	<u>1,493,255</u>	<u>1,267,457</u>	<u>1,403,983</u>

Therefore, there has not been any diminution in the funds on hand in these accounts. The overall increase in the cash balance of \$136,526 can be summarized as follows:

	\$
Receivable collections	<u>860,955</u>
<u>Disbursements</u>	
CDN supplier payments	81,546
US supplier payments (CDN \$)	83,060
Payroll	253,693
Hydro	135,443
Gas	<u>170,687</u>
Total expenditures	<u>724,429</u>
 Net cash increase	 <u>136,526</u>

Accounts receivable

The Monitor reported on the trade accounts receivable in both prior Reports. The Monitor advises that based on the trade accounts receivable listing reviewed as at January 29, 2009, the combined converted balance of US and CDN accounts receivable as at that date is CDN\$5,150,583 (CDN\$5,899,468 as at November 30, 2008 as described in the First Report, CDN\$5,753,144 as at December 31, 2008, and CDN\$5,842,683 as described in the Supplementary First Report).

The Monitor notes that during the one week period ending January 29, the accounts receivable in the ninety-one (91) day plus category was reduced by \$105,631. Of this total reduction, \$68,776 was a result of cash collections and the balance of \$36,855 was a result of credit notes being

4.0 CASH FLOW

In the available time, the Monitor has performed an initial review of Korex's cash flow statement and resultant estimated income statement and balance sheet for the four (4) weeks ending February 28, 2009. Attached hereto as **Exhibit "B"** is a copy of the estimated statements. Attached as **Exhibit "C"** is a copy of an email sent by Mr. Bojkovski explaining the reasons why the actual January 2009 loss of \$829,000 differs from the original projected loss of \$339,000.

With respect to these projections, the Monitor notes:

1. Projected net cash flow for the month of January 2009 in the amount of \$249,000 will be closer to the calculated amount of \$136,526 described above.
2. Projected operating income for February 2009 in the amount of \$96,000 is subject to at least certain implicit assumptions that there will be no further negative inventory

revaluations, negative material usage variances, inventory write-offs and no outsourcing costs.

The Monitor has considered these implicit assumptions in connection with the historic information available for the Monitor to review and in connection with Korex's planned self liquidation. The Monitor believes that these assumptions may prove to be optimistic. To the extent the assumptions are incorrect and that Korex experiences negative variances and further inventory revaluations or write offs, the monthly projected operating income will actually be a net loss.

5.0 OTHER MATTERS

Comerica's borrowing base

Korex advises that as Comerica has frozen Korex's borrowings, and as Korex has not paid any amounts to Comerica, the amount of Korex indebtedness to Comerica has not changed, except for accrued interest and costs. The Monitor requested an updated borrowing base calculation, which Korex provided.

The Monitor's review of the updated borrowing base report indicates that:

1. There is currently a deficiency in Comerica's collateral position. Korex's collateral is deficient by \$867,057 to support existing borrowings under the current margining formulae.
2. Korex's eligible accounts receivables have decreased by \$722,865.

3. Korex's inventory lending summary indicates that the eligible inventory value has also decreased by \$481,730.

The Monitor has made regular requests of both Korex and Comerica, to keep the Monitor apprised of any matters of importance that the Monitor should be reporting on to this Honourable Court in this Supplementary Second Report. Both Korex and Comerica have kept the Monitor apprised of such matters, which since the date of the Supplementary First Report have revolved around negotiations upon what basis Korex could expect Comerica's support on its application for protection under the *Companies' Creditors Arrangement Act* R.S.C. 1985 c.C - 36, as amended ("CCAA").

In the Supplementary First Report the Monitor reported on the material adverse change to Korex's business, leading it to the conclusion that any CCAA restructuring could only be a liquidating CCAA, to permit Korex to realize primarily on the assets subject to the existing Comerica security (which the Monitor understands to be cash, accounts receivable and inventory) to firstly retire the Comerica indebtedness and then secondly, reach a compromise with its unsecured creditors through a Plan of Arrangement. Korex has advised the Monitor that its aim is to restructure its business operations, so that it can continue as a going concern after the Comerica indebtedness is repaid in full and the unsecured debt has been compromised. The Monitor also previously reported to this Honourable Court that it supported Korex's aim to conduct such restructuring under a liquidating CCAA Plan of Arrangement. The Monitor advises this Honourable Court that it continues to support Korex's decision (as further described below).

Based on the above, it is obvious that Korex cannot continue as a going-concern in its current form. The above information may lead the reader to the conclusion that Korex should be liquidated for the benefit of its secured and unsecured creditors, under Comerica led enforcement

proceedings, rather than through a liquidating CCAA. The Monitor has carefully considered this.

In the Supplementary First Report, the Monitor advised that:

“The Monitor has considered Korex’s position that its restructuring under CCAA, should such protection be granted by this Honourable Court, must now take the form of a debtor in possession self-liquidation of assets in order to retire the Comerica indebtedness, while attempting to restructure its business and affairs for the benefit of its other stakeholders. The Monitor believes that Korex liquidating its inventory and accounts receivable, while continuing to produce product on a more limited basis, in order to support its customer base for as long as necessary for those customers who will not be continuing as Korex customers, and to support those customers that Korex wishes to attempt to continue with as part of its restructuring, will produce the highest realizable value on the inventory and accounts receivable, as opposed to a recovery under either a non-operating receivership or bankruptcy proceeding.

The Monitor also notes that in the Affidavit of Mr. Bojkovski, previously filed in Korex’s motion record, Mr. Bojkovski provides information concerning the unionized Korex employees on strike and the circumstances under which Korex has been attempting to operate in that unionized employee environment. The Monitor also understands that Korex’s Toronto manufacturing facility provides challenges from an environmental perspective.

The Monitor believes that by pursuing a debtor in possession self-liquidation plan, Korex is also aiding Comerica Bank. The Monitor believes that without a secured creditor providing either a receiver or trustee in bankruptcy a significant indemnity, it may not be possible to find a firm willing to take on a mandate to act as either receiver or trustee in bankruptcy for the purpose of liquidating the assets of Korex. The Monitor does not believe that any secured creditor would be willing to give an indemnity to allow such receiver or trustee to operate the business.

The Monitor further believes that the combination of the unionized environment, environmental challenges and a reduced realization if Korex ceases to operate, will assure no recovery for the unsecured creditors. This conclusion is tentative and subject to change.

Therefore, the Monitor supports Korex’s view that it should seek CCAA protection in order to self-liquidate the assets subject to Comerica’s security for the benefit of Comerica, under the supervision of this Honourable Court, while attempting to restructure its financial affairs and business for the benefit of its other stakeholders. This support is subject to Comerica’s right to information on whatever basis it requires during the initial stay period, and any extensions to be granted by this Honourable Court, and Korex’s cash flow projections supporting such endeavour.”¹

¹ Page 9, Section 7.0 MONITOR’S INITIAL ASSESSMENT OF KOREX REACTION, Supplementary First Report of Ira Smith Trustee & Receiver Inc. in its capacity as Proposed Court-appointed Monitor of Korex Don Valley ULC dated January 22, 2009.

The Monitor has not changed its opinion. Although the Monitor has not been requested to provide an Estimated Realization statement under secured creditor enforcement, the Monitor continues to believe, based on its experience, that Comerica will suffer a substantial shortfall if it enforces its security. Therefore, the only chance of their being a successful restructuring of Korex, a full repayment of the Comerica indebtedness and some distribution to the unsecured creditors is through a debtor in possession liquidation, as requested by Korex. The Monitor cannot state that Korex will be successful in its attempt to fully repay Comerica, but the Monitor is certain that secured creditor enforcement will provide no realization for the unsecured creditors.

5.0 ONGOING NEGOTIATIONS BETWEEN KOREX AND COMERICA

On January 28, 2009, Comerica served its Motion Record on the parties, and on January 30, 2009 Korex served its Supplementary Application Record on the parties. The matters raised in these materials describe largely the current impasse between Korex and Comerica. The Affidavits supporting these materials may also be the subject of examinations to be held on February 2, 2009. Accordingly, it would be inappropriate for the Monitor to comment on such materials.

The Monitor has participated in various email communications with each of Korex and Comerica representatives and legal counsel, as well as telephone conference call meetings with such Korex and Comerica representatives and respective legal counsel, both independently and together. The Monitor has also been provided with, and has reviewed and commented on, the form of initial stay CCAA Order the Applicant is attempting to seek.

Although there appears to be agreement between Korex and Comerica on many matters involved in the seeking of the initial stay Order, there remain certain outstanding requirements of Comerica in order to support the application that Korex does not believe it can comply with.

Accordingly, the Monitor believes that it must bring certain matters to the attention of this Honourable Court regarding the proposed initial stay Order as sought by Comerica and the effect it may have on various of Korex's stakeholders, and the Monitor. The Monitor's current understanding of the differences between Comerica and Korex, as it relates to the proposed initial stay Order only, is summarized in an email dated January 30, 2009 from Comerica's legal counsel to Korex's and the Monitor's legal counsel, sent after a conference call that the Monitor and its legal counsel participated in with the Korex representatives and Comerica's legal counsel

(the “**post conference call email**”). A representative of Comerica was not available for that conference call. Attached as **Exhibit “D”** is a copy of the post conference call email which refers to the draft Order contained in Exhibit “F” to the Comerica affidavit.

The Monitor’s comments on the matters raised in the post conference email are:

1. **Proposed paragraph 30** – Comerica is seeking a charge over all assets and undertaking of Korex as security for **existing** (emphasis added) as well as future obligations of Korex. The Monitor’s understanding is that proposed charge would cover equipment of Korex against which Comerica currently does not have security. The Monitor believes that if such a charge was granted, it may be prejudicial to other Korex stakeholders, including governmental entities with priority over secured creditors such as Canada Revenue Agency and also unsecured creditors. The unsecured creditors have made credit decisions to advance credit to Korex based on their understanding of the limited security granted by Korex to Comerica.

2. **All moneys held in TD Bank accounts are transferred forthwith to Comerica**
Comerica is seeking to have all funds in the TD Bank accounts transferred to accounts controlled by Comerica. There are surplus funds contained in the TD Bank accounts that are not required for current operations. The Monitor has advised the parties that at the hearing, it will be requesting this Honourable Court direct a sum equal to the full amount of the Administrative Charge be directed to be paid into the to the Monitor’s trust account to stand as security for the Administrative Charge. The Monitor’s concern is that if all cash is directed to the

Comerica account, there will be no cash available to fund the Administrative Charge if Korex continues to be out of margin in its Comerica borrowing base, as described above.

3. **Proposed paragraph 37(a)** – Comerica is seeking confirmation that any forbearance agreement it may enter into with Korex will not constitute a breach of any agreement of the debtor. As at the time of the writing of this Supplementary Second Report the Monitor does not know whether the parties have agreed on the terms of a forbearance agreement or the terms of same. The Monitor cannot comment on the effect that they may have on other agreements of Korex. Neither Korex nor Comerica have put forward any evidence on this point.

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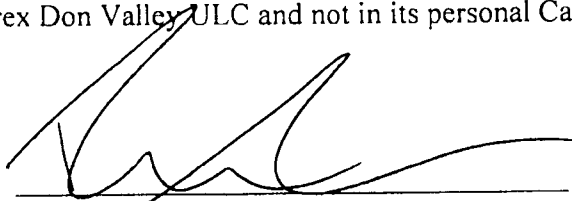
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All of which is respectfully submitted at Toronto, Ontario this 2nd day of February, 2009.

IRA SMITH TRUSTEE & RECEIVER INC.
solely in its capacity as the Proposed Court-Appointed Monitor
of Korex Don Valley ULC and not in its personal Capacity

Per:



Estate Manager

4817119.2

COURT FILE NO. 08-CL-7925

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE MR.) FRIDAY, THE 6TH DAY OF
JUSTICE CUMMING) FEBRUARY, 2009.

**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
KOREX DON VALLEY ULC**

APPLICANT

INITIAL ORDER

THIS APPLICATION, made by the Applicant, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Application issued December 31, 2008, the affidavit of John Bojkovski, sworn December 31, 2008, and the Exhibits thereto, the Notice of Motion of the Respondent Secured Party, Comerica Bank, dated January 28, 2009, the Affidavit of Jacob Villemure, sworn January 27, 2009 and the Exhibits, thereto, the Affidavit of Sanford Pensler sworn February 2, 2009, and the Exhibits thereto, the First Report, Supplementary First Report and Supplementary Second Report, dated January 9, 2009, January 22, 2009 and February 2,

2009, respectively, of Ira Smith Trustee & Receiver Inc. in its capacity as proposed Court - Appointed Monitor and being advised that their respective clients consent to the terms hereof, and on reading the consent of Ira Smith Trustee & Receiver Inc. to act as the Monitor, filed.

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICANT

2. THIS COURT ORDERS AND DECLARES that the Applicant is a company to which the CCAA applies.

FURTHER HEARING

3. THIS COURT ORDERS that a further hearing in this Application shall be held on March 9, 2009, or such alternate date as this Court may fix, at which time this Order may be supplemented or otherwise varied, and the Stay Period (as herein defined) extended or terminated. The Applicant and the Monitor shall serve their materials for this further hearing on all parties who serve a Notice of Appearance on the Applicant and the Monitor, such materials to be served by no later than five (5) days prior to the date scheduled for the further hearing.

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "Business") and Property. The Applicant shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.
5. THIS COURT ORDERS that the Applicant shall be entitled to continue to utilize their existing bank accounts and any other bank accounts permitted under the Forbearance Agreement with its lender, Comerica Bank ("Comerica") (as defined below) (the "Bank Accounts") and that all banks in which the Applicant maintains any Bank Account are authorized and directed to deliver the balance of such funds held on behalf of the Applicant to Comerica.
6. THIS COURT ORDERS that the Applicant is authorized and empowered to continue to manage their cash and cash equivalents and transfer funds among their respective Comerica Bank Accounts pursuant to the cash management system currently in place, or replace it with another substantially similar central cash management system satisfactory to Comerica (the "Cash Management System").
7. THIS COURT ORDERS that the Applicant shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

- a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay, bonuses and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and
- b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges.

8. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- b) payment for goods or services actually supplied to the Applicant following the date of this Order.

9. THIS COURT ORDERS that the Applicant shall remit, in accordance with legal requirements, or pay:

- a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (a) employment insurance, (b) Canada Pension Plan, (c) Quebec Pension Plan, and (d) income taxes;
- b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and
- c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.

10. THIS COURT ORDERS that, except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of this date; (b) to grant no security interests, trust, liens, charges or

encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

11. THIS COURT ORDERS that until and including March 9, 2009, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court. Notwithstanding the foregoing, nothing in this Order shall stay the exercise by Comerica of any of its rights or remedies under the Forbearance Agreement (as defined below).

NO EXERCISE OF RIGHTS OR REMEDIES

12. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry

on, (ii) exempt the Applicant from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

13. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

14. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed

upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

15. THIS COURT ORDERS that, notwithstanding anything else contained herein, no creditor of the Applicant shall be under any obligation after the making of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA, provided however that, any Person that seeks to advance a claim of, or analogous to set-off or equitable set-off to justify the non-payment of any existing or accruing debt to the Applicant shall advise the Applicant and the Monitor in writing prior to so doing so as to enable the Applicant to have the validity of the set-off adjudicated upon by this Honourable Court on an urgent basis if so advised.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

16. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.5(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicant, if one

is filed, is sanctioned by this Court or is refused by the creditors of the Applicant or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

17. THIS COURT ORDERS that the Applicant shall indemnify its directors and officers from all claims, costs, charges and expenses relating to the failure of the Applicants, after the date hereof, to make payments of the nature referred to in subparagraphs 7(a), 9(a), 9(b) and 9(c) of this Order which they sustain or incur by reason of or in relation to their respective capacities as directors and/or officers of the Applicants, except to the extent that, with respect to any officer or director, such officer or director has actively participated in the breach of any related fiduciary duties or has been grossly negligent or guilty of wilful misconduct.
18. THIS COURT ORDERS that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property, which charge shall not exceed an aggregate amount of \$250,000, as security for the indemnity provided in paragraph 17 of this Order. The Directors' Charge shall have the priority set out in paragraph 31.
19. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such

coverage is insufficient to pay amounts indemnified in accordance with paragraph 18 of this Order.

APPOINTMENT OF MONITOR

20. THIS COURT ORDERS that Ira Smith Trustee & Receiver Inc. is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the Property and the Applicant's conduct of the Business with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations.

21. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- a) monitor the Applicant's receipts and disbursements;
- b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- c) have full and complete access to the books, records and management, employees and advisors of the Applicant and to the Business and the Property to the extent required to perform its duties arising under this Order;

- d) assist the Applicant in preparing the cash flow projections, budgets and any other reporting or information they may require in relation to the Business and the Property, and to report to Comerica as required in relation to the Forbearance Agreement, which information shall be reviewed with the Monitor;
- e) assist the Applicant in its dissemination to Comerica and its counsel of financial and other information requested by Comerica and in its sole discretion, provide any creditor of the Applicant with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph 21. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree;
- f) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order; and
- g) perform such other duties as are required by this Order or by this Court from time to time.

22. THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

23. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.
24. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

25. THIS COURT ORDERS that the Monitor, counsel to the Monitor and counsel to the Applicant shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant as part of the costs of these proceedings. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicant on a bi-weekly basis.
26. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.
27. THIS COURT ORDERS that the Monitor, counsel to the Monitor, if any, and the Applicant 's counsel shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, which charge shall not exceed an aggregate amount of \$250,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraph 31 hereof.

COMERICA FACILITY

28. THIS COURT ORDERS that, notwithstanding any other provision of this Order:
 - a) the Applicant is authorized and empowered to continue to borrow under the Loan Agreement among Comerica and the Applicant made April 30, 2003, as subsequently amended, modified and supplemented, most recently pursuant to a

Forbearance Agreement between the Applicant and Comerica (the “**Forbearance Agreement**”);

- b) the Applicant is authorized and directed to perform all obligations to Comerica under the Loan Agreement and any security or other documents contemplated thereby, whether arising before or after the making of this Order as and when the same become due and are to be performed, but subject to the priority set out in paragraph 31 hereof (the “**Loan Documents**”); and
- c) the Applicant is authorized, empowered and directed to enter into and perform their obligations under a certain Forbearance Agreement, substantially in the form of the agreement attached hereto to which the Applicant is a party, and are directed and shall comply with the Loan Documents and the Forbearance Agreement and shall make all payments to Comerica provided for under the Forbearance Agreement and Loan Documents.

29. THIS COURT ORDERS that, notwithstanding any other provision of this Order:

- a) subject to the terms of the Forbearance Agreement and the Loan Agreement, Comerica may, upon the occurrence of a default (other than an Existing Default as defined in the Forbearance Agreement): (i) without notice to the Applicant or any other Person cease making advances to the Applicant and set off and/or consolidate any amounts owing by Comerica to the Applicant, against the obligations of the Applicant to Comerica under the Loan Agreement, the Loan Documents or the Comerica Charge, and (ii) upon two (2) business days notice to the Applicant and the Monitor, exercise any and all of its rights and remedies against the Applicant or the Property under or pursuant to the Forbearance Agreement, the Loan Agreement, and the Loan Documents, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Applicant or for the appointment of a trustee in bankruptcy of the Applicant, but subject to the priorities as set out in paragraph 31 of this Order; and

b) the foregoing rights and remedies of Comerica shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicant or the Property.

30. THIS COURT ORDERS AND DECLARES that, without prejudice to the stay of Comerica's right to take enforcement proceedings against the Applicant contained in the Forbearance Agreement and herein, Comerica shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicant under the CCAA, or any proposal filed by the Applicant under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the Credit Agreement or the Loan Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

31. THIS COURT ORDERS that the priorities of the Directors' Charge and the Administration Charge, as between them, shall be as follows:

a) First – Administration Charge not to exceed the amount of \$250,000;

b) Second – The Directors' Charge not to exceed the amount of \$250,000.

32. THIS COURT ORDERS that the filing, registration or perfection of the Directors' Charge, and the Administration Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

33. THIS COURT ORDERS that each of the Charges (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all

other security interests, trusts, liens, charges and encumbrances, statutory or otherwise (collectively, "Encumbrances") in favour of any Person.

34. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicant also obtains the prior written consent of the Monitor and the beneficiaries of the Charges, or further Order of this Court.

35. THIS COURT ORDERS that the Charges and the Forbearance Agreement shall not be rendered invalid or unenforceable and the rights and remedies of the parties entitled to the benefit of the Charges and the Forbearance Agreement (collectively, the "Charges") thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "Agreement") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- a) the creation of the Charges nor the execution, delivery, or performance of the Forbearance Agreement, shall not create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;
- b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges or the execution, delivery or performance by the Applicant; and
- c) any payments made by the Applicant pursuant to this Order or the Forbearance Agreement, and the granting of the Charges and the Forbearance Agreement, do not and will not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable, voidable or reviewable transactions under any applicable law.

SERVICE AND NOTICE

36. THIS COURT ORDERS that the Applicant shall, within ten (10) business days of the date of entry of this Order, send a copy of this Order to its known creditors, other than employees and creditors to which the Applicant owes less than \$500.00, at their addresses as they appear on the Applicant's records, and shall promptly send a copy of this Order (a) to all parties filing a Notice of Appearance in respect of this Application, and (b) to any other interested Person requesting a copy of this Order, and the Monitor is relieved of its obligation under Section 11(5) of the CCAA to provide similar notice, other than to supervise this process.

37. THIS COURT ORDERS that the Applicant and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant as applicable and that (i) any such service by courier, personal delivery, facsimile or electronic transmission shall be deemed to be received (i) if delivered by or forwarded by facsimile or electronic submission before 4:00 p.m. on a business day (being a day that the principal Canadian banks are open for business in Toronto), on that same day, (ii) if delivered or forwarded by facsimile or electronic submission following 4:00 p.m. on any day, on the next business day following the date of delivery or forwarding thereof, or (iii) if sent by ordinary mail, on the third business day after mailing, and (ii) any such service shall be deemed to be good and sufficient service.
38. THIS COURT ORDERS that the Applicant, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, in accordance with the E-filing protocol of the Commercial List to the extent practicable, and the Monitor may post a copy of any or all such materials on its website at www.irasmithinc.com .

GENERAL

39. THIS COURT ORDERS that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.
40. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.
41. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.
42. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.
43. THIS COURT ORDERS that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7)

days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

44. THIS COURT ORDERS that notwithstanding paragraph 43, no creditor other than Comerica, shall apply to this Court to vary, rescind or otherwise affect the provisions of this Order with respect to the Forbearance Agreement or the Charges unless notice of a Motion for such Order is served on the Applicant, the Monitor and Comerica, returnable no later than 7 days following the making of this Order.
45. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard Time on the date of this Order.

Feb 6, 2009 Peter A. Cumming J.

WWLIB:549163.3\138995-00032

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

FEB 06 2009

PER / PAR TV

IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, S.C. 1985 c.c. - 36, as amended

Court File No. 08-CL-7925

IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF KOREX DON VALLEY ULC

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

INITIAL ORDER

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Memo

To: Korex Monitoring File
From: Stan Sugar
CC: Ira Smith
Date: February 16th, 2009
Re: **Korex Don Valley ULC – Forbearance Agreement dated February 6th 2009**

I attended at Korex on Friday February 13th to monitor various issues that needed our attendance. I confirm that I supervised the process related to the mailing of the Appointment Order of Justice Cumming to the known creditors of Korex. I personally took the completed envelopes containing the copies of the order and delivered them to the post office for delivery to the respective recipients (about 450 envelopes).

As we discussed as part of our monitoring of Korex, I attended to verify Korex's cash receipts received and the bank disbursements made for the week of February 7th. To assist Comerica Bank as part of our monitoring responsibility I've prepared and attached to this memo a reconciliation of the projected financial statements prepared by Korex that were Exhibit "B" forming part of our supplementary second report dated February 2nd 2009.

As you will recall these projected financial statements were provided to us very late over the weekend of Saturday January 31st and Sunday February 1st for our second supplementary report which had to be filed in court on Monday February 2nd.

Korex thereafter during the week of February 7th decided to revise their thirteen-week financial projections relative to the order made February 6th and the executed forbearance agreement dated February 6th. I believe it is incumbent on us to advise and or provide Comerica with the numeric financial differences involved prior to the variance reports that are to be reported upon in future for the next 13 weeks.

I have also prepared a reconciliation of the TD Bank funds including the transfer of funds to Comerica as a cash pay down to their outstanding loan and the loan position of Comerica as per Korex's BBR dated February 12th.

I note that Korex had originally projected sales for the week of February 7th in the amount of \$630K which was subsequently reduced to \$126K - a decrease of \$504K.

I asked John B. as to why there was such a dramatic sales volume change.

In response to my question John and I had a meeting with Neil Chorney, Korex's Customer Service Mgr. who advised that during that week "Dove" product was down due to machine line breakdown. Product orders were still on hand and there was no loss yet of volume from the customer.

As well sulphonation orders were light for the week. Also of note during the week (February 4th) Korex invoiced Unilever Canada for \$645K relative to a powder inventory write off adjustment. Due to the significance of this invoice charge to Unilever I will monitor this invoice closely relative to subsequent payment and or disposition.

Finally, I note that Korex's indebtedness to Comerica Bank as at the reporting date as per the attached schedules is within its borrowing base, based on my review of John B.'s borrowing base report which he prepared for Comerica Bank.

Stan

Attachments

Korex Don Valley ULC**Balance Sheet**

(000s Canadian Dollars)

	revised Forecast <u>7-Feb-09</u>	original per report Forecast <u>7-Feb-09</u>	<u>net change</u>
<i>Current Assets</i>			
Cash / Short Term Investments	97	1,548	(1,451)
Accounts Receivable	5,661	5,500	161
Inventory	3,672	4,090	(418)
Prepaid Expenses	645	645	0
<i>Total Current Assets</i>	10,075	11,783	(1,708)
Fixed Assets (NBV)	5,255	5,255	(0)
Total Assets	15,330	17,038	(1,708)
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable & Accrued Liabilities	10,006	9,701	305
Wages Payable	1,330	1,330	(0)
Unearned Revenue	11	11	0
Taxes Payable	(1,529)	(1,539)	10
Bank Revolving Loan	2,214	4,074	(1,860)
<i>Total Current Liabilities</i>	12,032	13,577	(1,545)
Long Term Debt	32	32	0
Deferred Income Taxes	810	810	0
Total Liabilities	12,874	14,419	(1,545)
SHAREHOLDER'S EQUITY			
Capital Stock	0	0	-
Retained Earnings	2,456	2,619	(163)
Total Shareholder's Equity	2,456	2,619	(163)
Total Liabilities and Equity	15,330	17,038	(1,708)

Korex Don Valley ULC
Income Statement
(000s Canadian Dollars)

	pre week ending <u>7-Feb-09</u>	original as part of report	<u>net change</u>
Total Sales	126	630	(504)
Cost of Sales - Materials	(129)	(479)	350
Cost of Sales - Plant Spend (excludes Admin)	(109)	(109)	(0)
Total Cost of Goods Sold	<u>(238)</u>	<u>(588)</u>	<u>350</u>
Gross Profit	(112)	42	(154)
Total SG&A	(35)	(35)	(0)
Depreciation Expense	(19)	(19)	(0)
Operating Income	(166)	(12)	(154)
<u>Other Income/ (Expenses)</u>			
Interest Income/ (Expense)	(6)	(6)	(0)
Other Income/ (Expenses)	1	1	(0)
Restructuring Costs	(9)	(9)	(0)
Total Other Income/(Expenses)	<u>(15)</u>	<u>(15)</u>	<u>(0)</u>
Net Income Before Tax	(181)	(27)	(154)
Total Income Tax	<u>-</u>	<u>9</u>	<u>(9)</u>
Net Income After Taxes	<u>(181)</u>	<u>(18)</u>	<u>(163)</u>

Korex Don Valley ULC

Cash Flow

(000s Canadian Dollars)

		revised Forecast <u>7-Feb-09</u>	original per report Forecast <u>7-Feb-09</u>	<u>net change</u>
Cash From Operations				
Net Income		(181)	(18)	(163)
Depreciation		19	19	-
Deferred Taxes		-	(9)	9
Total Cash from Income		(162)	(8)	(154)
Receivables	Decr / (Incr)	(250)	(89)	(161)
Inventories	Decr / (Incr)	623	205	418
<u>Accounts Payable/Accruals</u>				
Accounts Payable	Incr / (Decr)	395	-	395
GRNI (Goods Received not Invoiced)	Incr / (Decr)	(227)	1	(228)
Unilever Payables	Incr / (Decr)	13	13	0
Intercompany Payables	Incr / (Decr)	-	-	-
Unearned Revenue	Incr / (Decr)	(1)	(1)	-
Bank Loan Payable	Incr / (Decr)	-	-	-
Wages Payable	Incr / (Decr)	64	64	-
Other Accruals	Incr / (Decr)	143	4	139
Other Taxes Payable	Incr / (Decr)	(0)	(0)	-
Other Working Capital	Decr / (Incr)	4	4	-
Total Cash from Working Capital		765	201	564
TOTAL CASH FROM OPERATIONS		603	193	410
Cash from Financing				
Payments on Long - Term Loans		(1)	(1)	-
Other Loans / Interest (Revolver)	Incr / (Decr)	(1,860)	-	(1,860)
TOTAL CASH FROM FINANCING		(1,861)	(1)	(1,860)
NET CASH FLOW		(1,258)	192	(1,450)
Cash - Beginning of Period		1,355	1,355	-
Cash - End of Period		97	1,547	(1,450)

Korex Don Valley ULC
Bank Accounts - TD Bank
As at__

BALANCE	<u>29-Jan-09</u>
CDN CHEQUING ACCOUNT ENDING IN 229	677,258
CDN INVESTMENT ACCOUNT ENDING IN 237	379,834
	<u>1,057,092</u>
USD CHEQUING ACCOUNT ENDING IN 052	<u>280,384</u>
CDN TOTAL (US\$=CDN\$1.2372)	<u>1,403,983</u>

Week of February 7th 2009

	\$
Receivable collections CDN\$	<u>620,968</u>
<u>Disbursements (in CDN\$)</u>	
CDN Supplier payments	81,157
US Supplier payments	25,818
Transferred to Comerica Bank	1,470,000
Transferred to Comerica Bank	385,028
	<u>1,962,003</u>
Net cash decrease	<u>(1,341,035)</u>
Cash in TD Bank- February 6, 2009	<u>62,948</u>

Comerica Bank Loan Position

Loan Balance as at February 6th 2009	4,074,000
Less payment rec'd February 6th 2009	-1,470,000
Less payment rec'd February 6th 2009	<u>-385,027</u>
	2,218,973
Add: past due interest	46,488
Add: forbearance fee	50,000
BBR Advance February 12th 2009	<u>450,000</u>
Loan Balance as at February 13th 2009	<u><u>2,765,461</u></u>



Stanley Sugar CA
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Memo

To: Korex Monitoring File
From: Stanley Sugar
CC: Ira Smith
Date: February 20, 2009
Re: **Korex Don Valley ULC**

As instructed, I attended at Korex on February 17th and 18th as part of our monitoring engagement. I met with John Bojkovski, CFO and various members of his staff in order to perform various aspects of our mandate. This report covers the week ending February 14, 2009. As you know, my memo of last week covered the week ending February 7, 2009.

I obtained from Korex their borrowing base report executed February 12th 2009 for week one being the period February 7th to February 15th 2009. I reviewed on a random basis the documents backing up the information as contained therein to satisfy myself that the report was appropriate.

I also reviewed the Company's cash receipts and disbursements for that week. I prepared the attached financial statement summaries from information that I obtained from the Company. I compared the cash receipts and disbursements to the Company's revised cash flow statement that I referred to in last week's memo. I also attach that to this memo.

I note that the Company's best estimate of its budgeted cash flow for the week ending February 14 was identical to the Company's prior revised cash flow statement, which was circulated by John B. on February 12, 2009. Accordingly, the Company had not prepared a new cash flow statement.

Sales for the week exceeded budget by \$116K and the loss for the week was \$91K vs. \$141K as budgeted. The loss for the week includes various restructuring costs. The Company is striving to maintain its sales levels as well as reduce its operating costs during this period. Obviously, the Company will have to continue to do so and it will be imperative for the Company to reach at least break-even status as part of its initial restructuring efforts.

Accounts receivable was higher than budget by \$671K. Inventory was lower than budget by \$289K. Accounts payable and accruals was \$170K higher than budget.

The Company's indebtedness to Comerica Bank was \$673K higher than budget. As \$511K was represented by cash on the balance sheet at cut-off time (see further summary cash analysis attached), the net amount over budget of the indebtedness to Comerica is the difference, being \$162K. Of this amount, I note that the amount of \$101K was paid to Comerica for outstanding loan interest and fees relating to the restructuring. The balance was used for normal operations.

Finally, the Company continues to be within margin based on the applicable borrowing base report prepared by the Company and reviewed by myself. Attached is a summary of the borrowing base calculation.

Stan

Attachments

Korex Don Valley ULC
Balance Sheet
(000s Canadian Dollars)

	wk1 Actual <u>14-Feb-09</u>	wk1 Forecast <u>14-Feb-09</u>	<u>net change</u>
<i>Current Assets</i>			
Cash / Short Term Investments	511	-	511
Accounts Receivable	6,107	5,436	671
Inventory	3,354	3,643	(289)
Prepaid Expenses	641	642	(1)
<i>Total Current Assets</i>	10,613	9,721	892
Fixed Assets (NBV)	5,235	5,235	-
Total Assets	15,848	14,956	892
LIABILITIES			
<i>Current Liabilities</i>			
Bank - Revolving Loan	2,765	2,092	673
Accounts Payable & Accrued Liabilities	10,118	9,948	170
Wages Payable	1,277	1,277	-
Unearned Revenue	10	10	-
Taxes Payable	(1,529)	(1,529)	-
<i>Total Current Liabilities</i>	12,641	11,798	843
Long Term Debt	32	32	-
Deferred Income Taxes	810	810	-
Total Liabilities	13,483	12,640	843
SHAREHOLDER'S EQUITY			
Capital Stock	0	0	-
Retained Earnings	2,365	2,316	49
Total Shareholder's Equity	2,365	2,316	49
Total Liabilities and Equity	15,848	14,956	892

Korex Don Valley ULC
Income Statement
(000s Canadian Dollars)

	wk1 Actual <u>14-Feb-09</u>	wk1 Forecast <u>14-Feb-09</u>	<u>net change</u>
Total Sales	580	464	116
Cost of Sales - Materials	(425)	(359)	(66)
Cost of Sales - Plant Spend (excludes Admin)	<u>(106)</u>	<u>(156)</u>	<u>50</u>
Total Cost of Goods Sold	<u>(531)</u>	<u>(515)</u>	<u>(16)</u>
Gross Profit	49	(51)	100
Total SG&A	(50)	9	(59)
Depreciation Expense	<u>(19)</u>	<u>(19)</u>	<u>-</u>
Operating Income	(20)	(61)	41
<u>Other Income/ (Expenses)</u>			
Interest Income/ (Expense)	(6)	(6)	-
Other Income/ (Expenses)	1	1	-
Restructuring Costs	<u>(66)</u>	<u>(75)</u>	<u>9</u>
Total Other Income/(Expenses)	<u>(71)</u>	<u>(80)</u>	<u>9</u>
Net Income, (Loss) Before Tax	(91)	(141)	50
Income Tax	<u>-</u>	<u>-</u>	<u>-</u>
Net Loss	<u>(91)</u>	<u>(141)</u>	<u>50</u>

Korex Don Valley ULC
Cash Flow
(000s Canadian Dollars)

		wk1 Actual 14-Feb-09	wk1 Forecast 14-Feb-09	net change
Cash From Operations				
Net Income		(91)	(141)	50
Depreciation		19	19	-
Deferred Taxes		-	-	-
Total Cash from Income		(72)	(122)	50
Receivables	Decr / (Incr)	(446)	225	(671)
Inventories	Decr / (Incr)	318	29	289
<u>Accounts Payable/Accruals</u>				
Accounts Payable	Incr / (Decr)	186	-	186
GRNI (Goods Received not Invoiced)	Incr / (Decr)	(133)	-	(133)
Unilever Payables	Incr / (Decr)	13	13	-
Intercompany Payables	Incr / (Decr)	-	-	-
Unearned Revenue	Incr / (Decr)	(1)	(1)	-
Bank Loan Payable	Incr / (Decr)	-	-	-
Wages Payable	Incr / (Decr)	(52)	(52)	-
Other Accruals	Incr / (Decr)	4	(70)	74
Other Taxes Payable	Incr / (Decr)	43	-	43
Other Working Capital	Decr / (Incr)	4	4	-
Total Cash from Working Capital		(64)	148	(212)
TOTAL CASH FROM OPERATIONS		(136)	26	(162)
Cash from Financing				
Payments on Long - Term Loans		(1)	(1)	-
Other Loans / Interest (Revolver)	Incr / (Decr)	551	(122)	673
TOTAL CASH FROM FINANCING		550	(123)	673
NET CASH FLOW		414	(97)	511
Cash - Beginning of Period		97	97	-
Cash - End of Period		511	-	511

Korex Don Valley ULC
Bank Accounts - (in CDN\$)
Week 1 ending February 14th 2009

	\$
Cash in Bank -TD - Feb. 6/09	62,948
Cash in Bank - Comerica. - Feb. 6/09	31,620
Receivable collections	<u>196,236</u>
	<u>290,804</u>
 <u>Disbursements</u>	
Supplier payments	100,956
Payroll	<u>129,288</u>
	<u>230,244</u>
Net cash increase	60,560
Increase in bank loan Feb. 12/09	<u>450,000</u>
Cash in Bank - February 14th, 2009	<u><u>510,560</u></u>

Comerica Bank Loan Position

Loan Balance as at February 14th 2009

2,765,461**Bank Borrowing Base Report (Forecast)**

(000s Canadian Dollars)

	wk1 Actual <u>14-Feb-09</u>	wk1 Forecast <u>14-Feb-09</u>	<u>net change</u>
Gross A/R	6,231	5,562	669
Ineligibles	(3,645)	(3,703)	58
Eligible A/R	<u>2,586</u>	<u>1,859</u>	<u>727</u>
Collateral @ 85% A/R Collateral	2,198	1,580	618
Gross Inventory	4,331	4,620	(289)
Ineligibles	(2,051)	(1,951)	(100)
Eligible A/R	<u>2,280</u>	<u>2,669</u>	<u>(389)</u>
Collateral @ 55% Inventory Collateral	1,254	1,468	(214)
Total Collateral (Per Formula)	3,453	3,048	405
Borrowing	<u>2,765</u>	<u>2,092</u>	<u>673</u>
Excess (under) Availability	<u>688</u>	<u>956</u>	<u>(269)</u>

	1	2	3	4	5	6	7	8	9	10	11	12	13
Week Ending:	14-Feb-09	21-Feb-09	28-Feb-09	7-Mar-09	14-Mar-09	21-Mar-09	28-Mar-09	4-Apr-09	11-Apr-09	18-Apr-09	25-Apr-09	2-May-09	9-May-09
Cash From Operations													
Net Income	(141)	(95)	(71)	(99)	(63)	(92)	(74)	(91)	(91)	(91)	(81)	(97)	(59)
Depreciation	13	13	19	19	19	19	19	19	19	19	19	19	19
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash from Income	(122)	(76)	(51)	(80)	(44)	(72)	(55)	(71)	(72)	(72)	(62)	(78)	(39)
Receivables	225	202	137	91	26	(164)	86	162	205	(26)	137	52	(74)
Inventories	28	(223)	39	147	206	111	120	70	72	196	89	65	178
Accounts Payable/Accounts													
GENI (Goods Received not Invoiced)	(0)	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Payables	13	13	13	13	13	13	13	13	13	13	13	13	13
Unearned Revenue	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Bank Loan Payable	(52)	50	(52)	50	32	(85)	32	(34)	32	(34)	32	(34)	32
Other Accruals	(71)	(21)	(21)	(21)	4	4	4	4	4	4	4	4	4
Other Taxes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Working Capital	4	4	4	4	4	4	4	4	4	4	4	4	4
Total Cash from Working Capital	146	23	116	262	284	(138)	260	218	329	166	278	118	166
TOTAL CASH FROM OPERATIONS	25	(52)	67	202	240	(211)	205	145	257	123	216	39	116
Investments													
Fixed Asset Additions	0	0	0	0	0	0	0	0	0	0	0	0	0
Fixed Asset Retirements	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CASH USED FOR INVESTMENT	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from Financing													
Payments on Long-Term Loans	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Other Loans / Interest (Revenue)	(122)	53	(66)	(202)	(240)	211	(204)	(145)	(257)	(123)	(216)	(39)	(116)
TOTAL CASH FROM FINANCING	(122)	52	(67)	(202)	(240)	211	(205)	(145)	(257)	(124)	(216)	(40)	(117)
NET CASH FLOW	(97)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Cash - Beginning of Period	97	-	-	-	-	-	-	-	-	-	-	-	-
Cash - End of Period	(0)	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

Bank Borrowing Base Report (Forecast)

Gross A/R	5,562	5,952	5,907	5,157	5,132	5,316	5,228	5,068	4,861	4,887	4,750	4,698	4,771
Eligible A/R	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)	(3,703)
Collateral %	1,859	1,849	1,504	1,454	1,429	1,613	1,525	1,365	1,158	1,184	1,047	995	1,068
A/R Collateral	1,580	1,402	1,279	1,236	1,215	1,371	1,286	1,159	984	1,006	890	845	908
Gross Inventory	4,620	4,843	4,805	4,657	4,450	4,338	4,219	4,148	4,076	3,880	3,781	3,726	3,549
Eligible Inventory	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)	(1,951)
Collateral %	2,669	2,692	2,654	2,706	2,499	2,387	2,268	2,197	2,126	1,929	1,840	1,775	1,598
Inventory Collateral	1,468	1,591	1,570	1,489	1,374	1,313	1,247	1,209	1,169	1,061	1,012	976	878
Total Collateral (Per Formula)	3,048	2,993	2,846	2,724	2,589	2,684	2,543	2,367	2,163	2,067	1,902	1,822	1,787
Forecasted Borrowing	2,092	2,145	2,079	1,877	1,637	1,849	1,644	1,499	1,242	1,119	904	865	749
Excess/(Under) Availability	956	847	769	847	952	836	899	863	911	948	898	957	1,038



Stanley Sugar CA
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Fax (905) 738-9848
Email: stan@irasmithinc.com
Website: www.irasmithinc.com

Memo

To: Korex Monitoring File
From: Stanley Sugar
CC: Ira Smith
Date: February 26th, 2009
Re: **Korex Don Valley ULC – Forbearance Agreement dated February 6th 2009**

As instructed, I attended at Korex on February 24th and 25th as part of our monitoring engagement. I met with John Bojkovski, CFO and various members of his staff in order to perform various aspects of our mandate. This report covers the week ending February 21st, 2009.

I obtained from Korex their borrowing base report prepared on February 23rd 2009 for week two being the period February 15^h to February 22nd 2009. I reviewed on a random basis the documents backing up the information as contained therein to satisfy myself that the report was appropriate.

I also reviewed the Company's cash receipts and disbursements for that week. I prepared the attached financial statement summaries from information that I obtained from the Company. I compared the cash receipts and disbursements to the Company's revised cash flow statement that I referred to in last week's memo.

Sales for the week were negative to forecast by \$131K and the loss for the week was \$154K vs \$95K as forecast. On a cumulative basis the actual loss for the overall period was \$245K vs a forecasted loss of \$236K.

Accounts receivable has increased by \$1,088K over forecast and increased by \$215K actual for the week. As indicated in the Monitor's Report dated February 16, 2009, there was one invoice to Unilever in the amount of \$645K. That amount, added to this past week's increase, represents the majority of the total increase in accounts receivable.

Inventory has decreased by \$154K over forecast and increased by \$358K actual for the week. Accounts payable and accruals have increased by \$538K over forecast and increased by \$359K actual for the week.

The changes to the financial components of accounts receivable, inventory and accounts payable appear to be having significant financial swings which the Company cannot identify other than to state that these fluctuations may be more normalized when the Company balances its records at month end. No other explanation has been provided and we will look to month end results before we can comment further on this anomaly.

I expressed my concern to the Company over it not being able to satisfactorily answering my questions regarding these financial swings. If it turns out at month end that payables are misstated because certain unpaid expenses were misstated, that is really only an accounting issue. However, if it turns out that month end payables are correct, and it is inventory that is misstated because purchases were misstated, that could be a concern that directly affects the borrowing base report and availability under the Comerica facility. Despite my best efforts, I cannot obtain a more satisfactory explanation from the Company at this time.

The Company's indebtedness to Comerica Bank did not change this week and remained at \$2,765K with no additional funding being requested. The Company reduced its cash in bank during this week by \$287K and still has \$223K to meet future obligations. The use of cash in bank funds for the week were paid to suppliers on an as required basis as the Company is on a cash (COD) payment basis with the majority of it's suppliers.

Finally, the Company continues to be within margin based on the applicable borrowing base report prepared by the Company and reviewed by myself. Attached is a summary of the borrowing base calculation.

Stan

Attachments

Korex Don Valley ULC
Balance Sheet
(000s Canadian Dollars)

	wk2 Actual 21-Feb-09	wk2 Forecast 21-Feb-09	net change	wk1 Actual 14-Feb-09	For the Week net change
Current Assets					
Cash / Short Term Investments	223	-	223	511	(288)
Accounts Receivable	6,322	5,234	1,088	6,107	215
Inventory	3,712	3,866	(154)	3,354	358
Prepaid Expenses	638	638	-	641	(3)
Total Current Assets	10,895	9,738	1,157	10,613	282
Fixed Assets (NBV)	5,216	5,216	-	5,235	(19)
Total Assets	16,111	14,954	1,157	15,848	263
LIABILITIES					
Current Liabilities					
Bank - Revolving Loan	2,765	2,145	620	2,765	-
Accounts Payable & Accrued Liabilities	10,477	9,939	538	10,118	359
Wages Payable	1,336	1,327	9	1,277	59
Unearned Revenue	10	10	-	10	-
Taxes Payable	(1,529)	(1,529)	-	(1,529)	-
Total Current Liabilities	13,059	11,892	1,167	12,641	418
Long Term Debt	31	31	-	32	(1)
Deferred Income Taxes	810	810	-	810	-
Total Liabilities	13,900	12,733	1,167	13,483	417
SHAREHOLDER'S EQUITY					
Capital Stock	0	0	-	0	0
Retained Earnings	2,211	2,221	(10)	2,365	(154)
Total Shareholder's Equity	2,211	2,221	(10)	2,365	(154)
Total Liabilities and Equity	16,111	14,954	1,157	15,848	263

Korex Don Valley ULC
Income Statement
(000s Canadian Dollars)

	wk2		wk2		Cumulative to date	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	21-Feb-09	21-Feb-09	21-Feb-09	21-Feb-09	Forecast	net change
Total Sales	341	472	(131)	921	936	(15)
Cost of Sales - Materials	(293)	(366)	73	(718)	(725)	7
Cost of Sales - Plant Spend (excludes Admin)	(99)	(124)	25	(205)	(280)	75
Total Cost of Goods Sold	(392)	(490)	98	(923)	(1,005)	82
Gross Profit	(51)	(18)	(33)	(2)	(69)	67
Total SG&A	(48)	(23)	(25)	(98)	(14)	(84)
Depreciation Expense	(19)	(19)	-	(38)	(38)	-
Operating Income	(118)	(60)	(58)	(138)	(121)	(17)
Other Income/(Expenses)						
Interest Income/ (Expense)	(6)	(6)	-	(12)	(12)	-
Other Income/ (Expenses)	-	1	(1)	1	2	(1)
Restructuring Costs	(30)	(30)	-	(96)	(105)	9
Total Other Income/(Expenses)	(36)	(35)	(1)	(107)	(115)	8
Net Income, (Loss) Before Tax	(154)	(95)	(59)	(245)	(236)	(9)
Income Tax	-	-	-	-	-	-
Net Loss	(154)	(95)	(59)	(245)	(236)	(9)

Korex Don Valley ULC
Cash Flow
(000s Canadian Dollars)

	wk2		wk2		Cumulative to date	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	21-Feb-09	21-Feb-09	21-Feb-09	21-Feb-09	net change	net change
Cash From Operations						
Net Income	(154)	(95)	(154)	(95)	(245)	(236)
Depreciation	19	19	19	19	38	38
Total Cash from Income	(135)	(76)	(135)	(59)	(207)	(198)
Receivables	(216)	202	(216)	(418)	(662)	427
Inventories	(358)	(223)	(358)	(135)	(40)	(194)
<u>Accounts Payable/Accruals</u>						
Accounts Payable	151	-	151	151	337	-
GRNI (Goods Received not Invoiced)	260	-	260	260	127	-
Unlever Payables	13	13	13	-	26	26
Intercompany Payables	-	-	-	-	-	-
Unearned Revenue	(1)	(1)	(1)	-	(2)	(2)
Bank Loan Payable	-	-	-	-	-	-
Wages Payable	58	50	58	8	6	(2)
Other Accruals	(21)	(21)	(21)	-	(17)	(91)
Other Taxes Payable	(43)	-	(43)	(43)	-	-
Other Working Capital	5	4	5	1	9	8
Total Cash from Working Capital	(152)	24	(152)	(176)	(216)	172
TOTAL CASH FROM OPERATIONS	(287)	(52)	(287)	(235)	(423)	(26)
Cash from Financing						
Payments on Long - Term Loans	(1)	(1)	(1)	-	(2)	(2)
Other Loans / Interest (Revolver)	-	53	-	(53)	551	(69)
TOTAL CASH FROM FINANCING	(1)	52	(1)	(53)	549	(71)
NET CASH FLOW	(288)	-	(288)	(288)	126	(97)
Cash - Beginning of Period	511	-	511	511	97	97
Cash - End of Period	223	-	223	223	223	-

Korex Don Valley ULC
Bank Accounts - (in CDN\$)
Week 2 ending February 21st 2009

	\$	14-Feb-09	Cumulative
Cash in Bank	510,560	94,568	94,568
Receivable collections	139,190	196,236	335,426
Disbursements:			
Supplier payments	426,410	100,956	527,366
Payroll	-	129,288	129,288
	426,410	230,244	656,654
Net cash increase/(decrease)	(287,220)	(34,008)	(321,228)
Increase in Bank Loan	-	450,000	450,000
Cash in Bank - February 21st, 2009	223,340	510,560	223,340

Comerica Bank Loan Position
Loan Balance as at February 21st 2009

2,765,461

Korex Don Valley ULC
Bank Borrowing Base Report
 (000s Canadian Dollars)

	wk2		wk1	
	Actual	Forecast	Actual	Forecast
	21-Feb-09	21-Feb-09	14-Feb-09	14-Feb-09
		net change		net change
Gross A/R	6,441	5,352	6,231	5,562
Ineligibles	(3,737)	(3,703)	(3,645)	(3,703)
Eligible A/R	2,704	1,649	2,586	1,859
Collateral @ 85%				
A/R Collateral	2,298	1,402	2,198	1,580
Gross Inventory	4,689	4,843	4,331	4,620
Ineligibles	(2,334)	(1,951)	(2,051)	(1,951)
Eligible A/R	2,355	2,892	2,280	2,669
Collateral @ 55%				
Inventory Collateral	1,295	1,591	1,254	1,468
Total Collateral (Per Formula)	3,593	2,993	3,452	3,048
Borrowing	2,765	2,145	2,765	2,092
Excess (under) Availability	828	848	687	956
		(20)		(269)



Stanley Sugar CA
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Memo

To: Korex Monitoring File
From: Stanley Sugar
CC: Ira Smith
Date: March 5th, 2009
Re: **Korex Don Valley ULC – Forbearance Agreement dated February 6th 2009**

As instructed, I attended at Korex on March 3rd, 4th and 5th as part of our monitoring engagement. I met with John Bojkovski, CFO and various members of his staff in order to perform various aspects of our mandate.

This report covers the week ending February 28th, 2009.

I obtained from Korex their borrowing base report executed March 3rd 2009 for week three being the period February 23rd to February 28th 2009. I reviewed on a random basis the documents backing up the information as contained therein to satisfy myself that the report was appropriate.

I also reviewed the Company's cash receipts and disbursements for that week. I prepared the attached financial statement summaries from information that I obtained from the Company. I compared the cash receipts and disbursements to the Company's cash flow statement that I referred to in last week's memo.

Sales for the week were within forecast with a resultant loss for the week of \$138K vs a forecasted loss of \$71K. The increased loss was attributable to a \$75K inventory adjustment write down for "Dove" product currently put on hold. On a cumulative basis the actual loss for the overall period was \$383K v a forecasted loss of \$307K.

During wk3 the Company received credit notes totaling \$400K USD from its supplier Petressa Canada Inc. The credit notes were offset against a rebate receivable account which Korex had been accruing on a monthly basis. The financial impact of this gives rise to a reduction in overall trade receivables outstanding as well as reduction in wk3 in trade payables outstanding.

As well trade accounts receivable did increase by \$145K during wk3 which accounts for the net change in A/R for the week. We note that over the last three weeks there has been no receipt of A/R collections from Unilever Canada with the last payment being received February 4th 2009 in the amount of \$552K.

Inventory has decreased by \$495K over forecast with a resultant decrease of \$380K for wk three. Accounts payable and accruals have decreased by \$530K for the week which accounts for and addresses the anomaly as mentioned in our report of February 26th 2009.

The Company's indebtedness to Comerica Bank did not change during the week and remained unchanged at \$2,765,000 with no additional funding being requested until March 3rd 2009. The Company reduced its cash in bank during this week by \$91K and still had \$132K to meet its future obligations.

Finally, the Company continues to be within margin based on the applicable borrowing base report prepared by the Company and reviewed by myself. Attached is a summary of the borrowing base calculation. A further \$200K funding request and draw down under the facility was made by the Corporation on March 5th 2009.

Stan

Attachments

Korex Don Valley ULC
Balance Sheet
(000s Canadian Dollars)

	wk3		wk3		wk2		For the
	Actual	Forecast	Actual	Forecast	Actual	Actual	Week
	28-Feb-09	28-Feb-09	21-Feb-09	21-Feb-09	21-Feb-09	net change	net change
Current Assets							
Cash / Short Term Investments	132	-	223	132	223	(91)	
Accounts Receivable	6,073	5,097	6,322	976	6,322	(249)	
Inventory	3,332	3,827	3,712	(495)	3,712	(380)	
Prepaid Expenses	625	634	638	(9)	638	(13)	
Total Current Assets	10,162	9,558	10,895	604	10,895	(733)	
Fixed Assets (NBV)	5,192	5,197	5,216	(5)	5,216	(24)	
Total Assets	15,354	14,755	16,111	599	16,111	(757)	
LIABILITIES							
Current Liabilities							
Bank - Revolving Loan	2,765	2,079	2,765	686	2,765	-	
Accounts Payable & Accrued Liabilities	9,947	9,931	10,477	16	10,477	(530)	
Wages Payable	1,256	1,275	1,336	(19)	1,336	(80)	
Unearned Revenue	11	9	10	2	10	1	
Taxes Payable	(1,535)	(1,529)	(1,529)	(6)	(1,529)	(6)	
Total Current Liabilities	12,444	11,765	13,059	679	13,059	(615)	
Long Term Debt	27	30	31	-	31	(4)	
Deferred Income Taxes	810	810	810	-	810	-	
Total Liabilities	13,281	12,605	13,900	676	13,900	(619)	
SHAREHOLDER'S EQUITY							
Capital Stock	0	0	0	-	0	-	
Retained Earnings	2,073	2,150	2,211	(77)	2,211	(138)	
Total Shareholder's Equity	2,073	2,150	2,211	(77)	2,211	(138)	
Total Liabilities and Equity	15,354	14,755	16,111	599	16,111	(757)	

Korex Don Valley ULC
Income Statement
(000s Canadian Dollars)

	wk3		wk3		Cumulative to date	
	Actual 28-Feb-09	Forecast 28-Feb-09	Actual	Forecast	Actual	Forecast
Total Sales	524	517	7		1,445	1,453
						(8)
Cost of Sales - Materials	(423)	(386)	(37)		(1,141)	(1,111)
Cost of Sales - Plant Spend (excludes Admin)	(130)	(125)	(5)		(335)	(405)
						70
Total Cost of Goods Sold	(553)	(511)	(42)		(1,476)	(1,516)
						40
Gross Profit	(29)	6	(35)		(31)	(63)
						32
Total SG&A	(45)	(23)	(22)		(143)	(37)
Depreciation Expense	(25)	(19)	-		(63)	(57)
						(6)
Operating Income	(99)	(36)	(63)		(237)	(157)
						(80)
Other Income/(Expenses)						
Interest Income/ (Expense)	2	(6)	8		(10)	(18)
Other Income/(Expenses)	1	1	-		2	3
Restructuring Costs	(42)	(30)	(12)		(138)	(135)
						(3)
Total Other Income/(Expenses)	(39)	(35)	(4)		(146)	(150)
						4
Net Income, (Loss) Before Tax	(138)	(71)	(67)		(383)	(307)
						(76)
Income Tax	-	-	-		-	-
						-
Net Loss	(138)	(71)	(67)		(383)	(307)
						(76)

Korex Don Valley ULC
Cash Flow
(000s Canadian Dollars)

	wk3		Cumulative to date	
	Actual 28-Feb-09	Forecast 28-Feb-09	Actual Forecast	net change
Cash From Operations				
Net Income	(138)	(71)	(383)	(76)
Depreciation	25	19	63	6
Total Cash from Income	(113)	(52)	(320)	(70)
Receivables	249	137	(413)	564
Inventories	380	39	340	(155)
Accounts Payable/Accruals				
Accounts Payable	(591)	-	(254)	-
GRNI (Goods Received not Invoiced)	253	-	380	380
Unlever Payables	17	13	43	39
Intercompany Payables	(14)	-	(14)	(14)
Unearned Revenue	1	(1)	(1)	(3)
Bank Loan Payable	-	-	-	-
Wages Payable	(80)	(52)	(74)	(54)
Other Accruals	(230)	(21)	(247)	(112)
Other Taxes Payable	35	-	35	35
Other Working Capital	7	4	16	12
Total Cash from Working Capital	27	119	(189)	291
TOTAL CASH FROM OPERATIONS	(86)	67	(509)	41
Investments				
Fixed Asset Additions	(1)	-	(1)	(1)
TOTAL CASH USED FOR INVESTMENT	(1)	-	(1)	(1)
Cash from Financing				
Payments on Long - Term Loans	(4)	(1)	(6)	(3)
Other Loans / Interest (RevoVer)	-	(66)	551	(135)
TOTAL CASH FROM FINANCING	(4)	(67)	545	683
NET CASH FLOW	(91)	-	35	(97)
Cash - Beginning of Period	223	-	97	97
Cash - End of Period	132	-	132	-

Korex Don Valley ULC
Bank Accounts - (in CDN\$)
Week 3 ending February 28th 2009

Cash in Bank - February 21st 2009	\$	<u>223,340</u>	Previous to date	<u>94,568</u>	Total Cumulative	<u>94,568</u>
Receivable collections		<u>436,797</u>		<u>335,426</u>		<u>772,223</u>
<u>Disbursements</u>						
Supplier payments		412,255		527,366		939,621
Payroll		115,544		129,288		244,832
		<u>527,799</u>		<u>656,654</u>		<u>1,184,453</u>
Net cash increase/(decrease)		(91,002)		(321,228)		(412,230)
Increase in Bank Loan		-		450,000		450,000
Cash in Bank - February 28th, 2009		<u>132,338</u>		<u>223,340</u>		<u>132,338</u>

Cash in Bank CDN

TD - CDN	1,703
TD - US	42,911
Comerica - CDN	79,063
Comerica - US	8,661
	<u>132,338</u>

Receivable Collections

Phoenix Brands LLC	293,459
Phoenix Brands LLC	100,625
Johnson Diversey Inc.	42,713
	<u>436,797</u>

Comerica Bank Loan Position
Loan Balance as at February 28th 2009

2,765,461

Cheque Disbursements

Intelligarde International Inc.	4,234
Great West Life Ins.	1,494
Shell Energy North America	47,406
Express Mobile	3,949
Norampac Inc.	6,297
Great West Life Ins.	1,611
Specialized Boilers	2,744
VVK Transportation Inc.	8,043
GST	26,412
Chep Equipment Pooling Sys.	4,583
Silgan Plastics	5,011
Quality Carrier	20,000
Shell Energy North America	58,981
Great West Life Ins.	1,066
Intelligarde International Inc.	4,838
Standard Life	6,234
Livingston International Inc.	10,000
Livingston International Inc.	10,151
Canada Colours & Chemicals Ltd.	10,225
Ira Smith Trustee & Receiver Inc.	76,500
GST rebate	(24,066)
Petresa Canada Inc.	62,018
Essential Ingre	5,425
Akzo Nobel Chemicals Ltd	58,350
Sundry	749
	<u>412,255</u>

Korex Don Valley ULC
Bank Borrowing Base Report
(000s Canadian Dollars)

	wk3		wk2	
	Actual	Forecast	Actual	Forecast
	<u>28-Feb-09</u>	<u>28-Feb-09</u>	<u>21-Feb-09</u>	<u>21-Feb-09</u>
		net change		net change
Gross A/R	6,586	5,207	6,441	5,352
Ineligibles	(3,860)	(3,703)	(3,737)	(3,703)
Eligible A/R	<u>2,726</u>	<u>1,504</u>	<u>2,704</u>	<u>1,649</u>
Collateral @ 85%				
A/R Collateral	2,317	1,278	2,298	1,402
Gross Inventory	4,422	4,805	4,689	4,843
Ineligibles	(2,125)	(1,951)	(2,334)	(1,951)
Eligible A/R	<u>2,297</u>	<u>2,854</u>	<u>2,355</u>	<u>2,892</u>
Collateral @ 55%				
Inventory Collateral	1,263	1,570	1,295	1,591
Total Collateral (Per Formula)	3,580	2,848	3,593	2,993
Borrowing	2,765	2,079	2,765	2,145
Excess (under) Availability	815	769	828	848
		46		(20)

**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
KOREX DON VALLEY ULC**

APPLICANT

Court File No. 08-CL-7925

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**FIRST REPORT OF
IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS COURT-APPOINTED MONITOR OF
KOREX DON VALLEY ULC
DATED MARCH 6, 2009**

**IRA SMITH TRUSTEE & RECEIVER INC.
Suite 6-167 Applewood Crescent
Concord, Ontario L4K 4K7**

**Ira Smith, MBA CA-CIRP
Tel: 905.738.4167
Fax: 905.738.9848**

Exhibit "B"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

**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
KOREX DON VALLEY ULC**

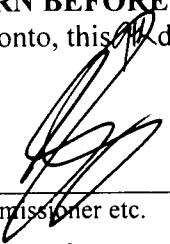
APPLICANT

AFFIDAVIT OF SERVICE


**I, CHRISTINE DOYLE, of the City of Toronto, in the Province of Ontario, MAKE OATH
AND SAY AS FOLLOWS:**

1. On March 6, 2009, I served the parties listed on the Service List (attached hereto as **Schedule "A"**) with the First Report of Ira Smith Trustee & Receiver Inc. for a motion returnable March 9, 2009, by causing copies to be sent by email transmission to the addresses listed on the attached Service List.

SWORN BEFORE ME at the City)
of Toronto, this 6 day of March,)
2009.)
)
)
)
)
)
A Commissioner etc.)



S. MITRA



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IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

APPLICANT

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDINGS COMMENCED AT TORONTO

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Solicitors for the Trustee

Attached is Exhibit "C"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE) MONDAY, THE 9TH DAY OF
JUSTICE HOY) MARCH, 2009.

**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
KOREX DON VALLEY ULC**

APPLICANT

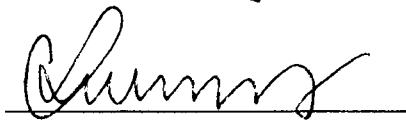
ORDER

This Motion, made by Korex Don Valley ULC (hereinafter the "Applicant") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

On reading the Motion Record and the Affidavit of Sanford Pensler, sworn March 4, 2009 and on hearing the submissions of counsel for the moving party, the Monitor, Comerica Bank, UL Canada Inc. ("Unilever") and the Communications, Energy and Paperworkers Union of Canada Local 132-0, and on being advised that all of the parties, with the exception of Unilever, consent to this Order and that Unilever does not oppose it,

1. THIS COURT ORDERS that the Initial Order of Mr. Justice Cumming dated February 6, 2009, is hereby extended until March 31, 2009.

2. THIS COURT ORDERS that the Stay Period as described in paragraph 11 of the Initial Order of Mr. Justice Cumming dated February 6, 2009, is hereby extended until March 31, 2009.



Christina Irwin
Registrar, Superior Court of Justice

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

MAR 10 2009

PER / PAR:



IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT
R.S.C. 1985 c.C - 36, as amended

Court File No. 08-CL-7925

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KOREX DON VALLEY ULC

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

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Lawyers for the Applicant

Attached is Exhibit "D"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

Memo

To: Korex Monitoring File
From: Stanley Sugar
CC: Ira Smith
Date: March 12th, 2009
Re: **Korex Don Valley ULC – Forbearance Agreement dated February 6th 2009**

As instructed, I attended at Korex on March 10th and 11th as part of our monitoring engagement. I met with John Bojkovski, CFO and various members of his staff in order to perform various aspects of our mandate.

This report covers the week ending March 7th, 2009.

I obtained from Korex their borrowing base report executed March 10th 2009 for week four being the period March 1st to March 7th 2009. I reviewed on a random basis the documents backing up the information as contained therein to satisfy myself that the report was appropriate.

I also reviewed the Company's cash receipts and disbursements for that week. I prepared the attached financial statement summaries from information that I obtained from the Company. I compared the cash receipts and disbursements to the Company's cash flow statement that I referred to in last week's memo.

On Monday March 9th 2009 Korex's Court application before Madam Justice Hoy, seeking an extension of the Initial Stay Order under the CCAA proceedings was heard. An extension was granted to March 31, 2009.

As part of that process, although not submitted to the Court, the Company prepared a revised set of thirteen week financial projections. Accordingly the attached financial information presents revised forecast information for week 4. For information purposes only, I have included the previous week four forecast.

All comparative information and net changes are reflected on the new week four forecast.

Sales for the week were \$652K which was within forecast with a resultant loss for the week of \$33K vs. a forecast loss of \$18K. On a cumulative basis the actual loss for the overall period was 416K vs a forecasted loss of 325K.

Trade accounts receivables increased by \$553K during wk4 net of A/R collections received during the week.

Inventory decreased as forecasted by \$390K during wk4.

Accounts payable and accruals increased by \$166K for the week.

The Company's indebtedness to Comerica Bank increased by borrowing an additional \$200K during the week for a total indebtedness of \$2,965.

The Company's cash in bank position increased during the week by \$60K (in addition to the borrowing) providing the Company with \$393K to meet its future obligations.

The Company continues to be within margin based on the applicable borrowing base report prepared by the Company and reviewed by myself. Attached is a summary of the borrowing base calculation.

Lastly, the CFO of Korex had a preliminary meeting with Unilever Canada today in order to commence resolving outstanding accounts receivable items and issues that have delayed the receipt of A/R payments from Unilever. As both Korex and Unilever have outstanding contra's and invoices that have not been either entered and or reconciled on their respective books, it is premature for the Monitor to comment as to a more finite resolution at this time.

However, based on initial feedback from Korex after the Unilever meeting, Korex's books indicated that after Korex sets off the amount it recognizes as owing to Unilever, Korex believes there is a net amount of approximately \$1.6 million owing by Unilever to Korex. Further, it appears from Korex's description of the Unilever meeting, Unilever is carefully reviewing all areas of the relationship, both as trading partners and as landlord, to attempt to find further justification for reserving as much as possible against this amount Korex believes is owed to it.

Both parties agree to communicate again early to mid next week after each has had an opportunity to further review certain issues discussed. I believe that both legal and monitor involvement will be required before Unilever will make any payment to Korex.

Stan

Attachments

Korex Don Valley ULC
Balance Sheet
(000s Canadian Dollars)

	*wk4			For the Week net change
	wk4 Actual 7-Mar-09	wk4 Forecast 7-Mar-09	Previous Forecast 7-Mar-09	
Current Assets				
Cash / Short Term Investments	393	27	-	132
Accounts Receivable	6,626	6,724	5,006	6,073
Inventory	2,942	3,018	3,680	3,332
Prepaid Expenses	620	620	630	625
				(5)
Total Current Assets	10,581	10,389	9,316	10,162
Fixed Assets (NBV)	5,172	5,172	5,177	5,192
				(20)
Total Assets	15,753	15,561	14,493	15,354
				399
LIABILITIES				
Current Liabilities				
Bank - Revolving Loan	2,965	2,965	1,877	2,765
Accounts Payable & Accrued Liabilities	10,113	9,905	9,923	9,947
Wages Payable	1,325	1,325	1,323	1,256
Unearned Revenue	10	10	8	11
Taxes Payable	(1,535)	(1,535)	(1,529)	(1,535)
				-
Total Current Liabilities	12,878	12,670	11,602	12,444
Long Term Debt	25	26	30	27
Deferred Income Taxes	810	810	810	810
Total Liabilities	13,713	13,506	12,442	13,281
				434
				(2)
				-
				432
SHAREHOLDER'S EQUITY				
Capital Stock	0	0	0	0
Retained Earnings	2,040	2,055	2,051	2,073
				(33)
Total Shareholder's Equity	2,040	2,055	2,051	2,073
				(33)
Total Liabilities and Equity	15,753	15,561	14,493	15,354
				399

*Note: The Company has revised it's forecast for wk4. The previous wk4 forecast is presented for information purposes only.

Korex Don Valley ULC
Income Statement
(000s Canadian Dollars)

	wk4		*wk4		Cumulative to date		
	Actual	Forecast	Actual	Forecast	Actual	Forecast	
	7-Mar-09	7-Mar-09	7-Mar-09	7-Mar-09	Forecast	net change	
Total Sales	652	676	449	(24)	2,097	2,129	(32)
Cost of Sales - Materials	(485)	(494)	(347)	9	(1,626)	(1,605)	(21)
Cost of Sales - Plant Spend (excludes Admin)	(99)	(99)	(124)	-	(434)	(504)	70
Total Cost of Goods Sold	(584)	(593)	(471)	9	(2,060)	(2,109)	49
Gross Profit	68	83	(22)	(15)	37	20	17
Total SG&A	(48)	(48)	(23)	-	(191)	(85)	(106)
Depreciation Expense	(19)	(19)	(19)	-	(82)	(76)	(6)
Operating Income	1	16	(64)	(15)	(236)	(141)	(95)
Other Income/(Expenses)							
Interest Income/(Expense)	(4)	(4)	(6)	-	(14)	(22)	8
Other Income/(Expenses)	1	1	1	-	3	4	(1)
Restructuring Costs	(31)	(31)	(30)	-	(169)	(166)	(3)
Total Other Income/(Expenses)	(34)	(34)	(35)	-	(180)	(184)	4
Net Income, (Loss) Before Tax	(33)	(18)	(99)	(15)	(416)	(325)	(91)
Income Tax	-	-	-	-	-	-	-
Net Loss	(33)	(18)	(99)	(15)	(416)	(325)	(91)

*Note: The Company has revised it's forecast for wk4. The previous wk4 forecast is presented for information purposes only.

Korex Don Valley ULC
Cash Flow
(000s Canadian Dollars)

	wk4		*wk4		Cumulative to date		
	Actual	Forecast	Forecast	Previous Forecast	Actual	Forecast	net change
	7-Mar-09	7-Mar-09	7-Mar-09	7-Mar-09			
Cash From Operations							
Net Income	(33)	(18)	(99)	(15)	(416)	(325)	(91)
Depreciation	19	19	19	-	82	76	6
Total Cash from Income	(14)	1	(80)	(15)	(334)	(249)	(85)
Receivables	(553)	(650)	91	97	(966)	(86)	(880)
Inventories	390	314	147	76	730	159	571
Accounts Payable/Accruals							
Accounts Payable	332	(6)	-	338	78	(6)	84
GRNI (Goods Received not Invoiced)	(163)	7	-	(170)	217	7	210
Unlever Payables	13	13	13	-	56	52	-
Intercompany Payables	-	-	-	-	(14)	-	(14)
Unearned Revenue	(1)	(1)	(1)	-	(2)	(4)	2
Bank Loan Payable	-	-	-	-	-	-	-
Wages Payable	70	70	50	-	(4)	16	(20)
Other Accruals	(23)	(21)	(21)	(2)	(270)	(133)	(137)
Other Taxes Payable	7	(35)	-	42	42	(35)	77
Other Working Capital	4	4	4	-	20	16	4
Total Cash from Working Capital	76	(305)	283	381	(113)	(14)	(99)
TOTAL CASH FROM OPERATIONS	62	(304)	203	366	(447)	(263)	(184)
Investments							
Fixed Asset Additions	-	-	-	-	(1)	-	(1)
TOTAL CASH USED FOR INVESTMENT	-	-	-	-	(1)	-	(1)
Cash from Financing							
Payments on Long - Term Loans	(1)	(1)	(1)	-	(7)	(4)	(3)
Other Loans / Interest (Revolver)	200	200	(202)	-	751	65	686
TOTAL CASH FROM FINANCING	199	199	(203)	-	744	61	683
NET CASH FLOW	261	(105)	-	366	296	(202)	498
Cash - Beginning of Period	132	132	132	-	97	97	-
Cash - End of Period	393	27	132	366	393	(105)	498

*Note: The Company has revised it's forecast for wk4. The previous wk4 forecast is presented for information purposes only.

Korex Don Valley ULC
Bank Accounts - (in CDN\$)
Week 4 ending March 7th 2009

	\$	Previous to date	Total Cumulative
Cash in Bank - February 28th 2009	<u>132,338</u>	94,568	<u>94,568</u>
Receivable collections	<u>160,975</u>	772,223	<u>933,198</u>
<u>Disbursements</u>			
Supplier payments	100,545	939,621	1,040,166
Payroll	<u>-</u>	<u>244,832</u>	<u>244,832</u>
	<u>100,545</u>	<u>1,184,453</u>	<u>1,284,998</u>
Net cash increase/(decrease)	60,429	(412,230)	(351,801)
Increase in Bank Loan	200,000	450,000	650,000
Cash in Bank - March 7th, 2009	<u>392,767</u>	<u>132,338</u>	<u>392,767</u>
<u>Cash in Bank CDN</u>			
TD - CDN	1,703		
TD - US	212		
Comerica - CDN	241,998		
Comerica - US	20,805		
Travelx Canada Limited wire transfer to Comerica US (in transit)	152,484		
Due to Travelx - funds rec'd in error	<u>(24,435)</u>		
	<u>392,767</u>		
<u>Cheque Disbursements</u>			
			69,561
			28,934
			17,102
			15,197
			6,525
			4,100
			4,001
			2,744
			6,288
			(22,523)
			<u>(31,383)</u>
			<u>100,545</u>
<u>Receivable Collections</u>			
Phoenix Brands LLC	91,672		
Johnson Diversey	69,303		
	<u>160,975</u>		
Comerica Bank Loan Position			
Loan Balance as at March 7th 2009	<u>2,965,461</u>		

Korex Don Valley ULC
Bank Borrowing Base Report
(000s Canadian Dollars)
Inventory Collateral

	wk4		*wk4		wk3		
	Actual	Revised	Previous	Forecast	Actual	Forecast	
	7-Mar-09	7-Mar-09	7-Mar-09	7-Mar-09	28-Feb-09	28-Feb-09	
						net change	
Gross A/R	7,137	7,270	5,157		6,586	5,207	1,379
Ineligibles	(3,934)	(3,873)	(3,703)		(3,860)	(3,703)	(157)
Eligible A/R	3,203	3,397	1,454		2,726	1,504	1,222
Collateral @ 85%							
A/R Collateral	2,722	2,888	1,236		2,317	1,278	1,039
Gross Inventory	4,062	3,933	4,657		4,422	4,805	(383)
Ineligibles	(2,265)	(2,125)	(1,951)		(2,125)	(1,951)	(174)
Eligible A/R	1,797	1,808	2,706		2,297	2,854	(557)
Collateral @ 55%							
Inventory Collateral	988	994	1,488		1,263	1,570	(307)
Total Collateral (Per Formula)	3,710	3,882	2,724		3,580	2,848	732
Borrowing (maximum Borrowing Line \$3,750)	2,965	2,965	1,877		2,765	2,079	686
Excess Availability	745	785	847		815	769	46

*Note: The Company has revised it's forecast for wk4. The previous wk4 forecast is presented for information purposes only.

Attached is Exhibit "E"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

Memo

To: Korex Monitoring File
From: Stanley Sugar
CC: Ira Smith
Date: March 19th, 2009
Re: **Korex Don Valley ULC – Forbearance Agreement dated February 6th 2009**

As instructed, I attended at Korex on March 17th and 18th as part of our monitoring engagement. I met with John Bojkovski, CFO and various members of his staff in order to perform various aspects of our mandate.

This report covers the week ending March 14th, 2009.

I obtained from Korex their borrowing base report emailed to Comerica Bank on March 18, 2009 for revised week one being the period March 8 to March 14, 2009. I reviewed on a random basis the documents backing up the information as contained therein to satisfy myself that the report was appropriate.

I also reviewed the Company's cash receipts and disbursements for that week. I prepared the attached financial statement summaries from information that I obtained from the Company. I compared the cash receipts and disbursements to the Company's cash flow statement that I referred to in last week's memo.

As previously stated the information presented herein is based on Company revised financial forecasts wherein this represents what is now week one.

Sales for the week were \$347K which was a decrease in forecast of \$122K with a resultant loss for the week of \$87K vs a forecasted loss of \$86K.

Trade accounts receivable increased by \$296K during the week net of A/R collections received during the week.

Inventory decreased by \$119K during the week.

Accounts payable and accruals increased by \$56K for the week.

The Company's indebtedness to Comerica Bank remained unchanged during the week at a total indebtedness of \$2,965,000.

The Company's cash in bank position decreased during the week by \$239K leaving the Company with \$153K of funds in its accounts as at March 14, 2009.

The Company continues to be within margin based on the applicable borrowing base report prepared by the Company and reviewed by myself. Attached is a summary of the borrowing base calculation.

Concerning Unilever Canada, attached to this memo is an analysis of the Unilever Canada account per this week's Korex's BBR report to Comerica Bank. All amounts that are in US dollars have been translated into CDN dollars as per Korex.

Unilever's last payment to Korex was on February 4, 2009. Unilever's indebtedness to Korex has increased by \$918,814 since that date. The Unilever A/R that is acceptable collateral for borrowing purposes is \$3,422,746 which is the total of A/R under 90 days.

The ageing of the Unilever accounts receivable, as per Korex's records, is:

<u>1-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	<u>Total</u>
\$918,814.33	\$1,633,349.04	\$870,582.86	\$1,044,490.93	\$4,467,237.16
<u>20.57%</u>	<u>36.56%</u>	<u>19.49%</u>	<u>23.38%</u>	<u>100.00%</u>

Total Korex accounts receivable, as disclosed in the attached schedule are the amount of \$ 7,429,330.27. Unilever represents 60% of the total outstanding accounts receivable dollars of Korex before ineligible, contras, and affiliate offsets.

Korex's records indicate accounts payable for the supply of materials due to Unilever by Korex are indicated at \$1,302,470 plus an amount of \$393,680 accrued for other items as a result of their landlord and tenant relationship, including realty taxes payable back to Unilever. This leaves an amount of \$1,726,596 still receivable by Korex (the sum of \$1,467,606 from a borrowing formula basis).

We are aware of various pending items that have not been resolved between Korex and Unilever that is the subject of further detailed reconciliations and determination before a more finite response can be stated by the Monitor impacting on the amount of \$1,726,596.

Stan

Attachments

Korex Don Valley ULC
Balance Sheet
(000s Canadian Dollars)

	wk1 Actual 14-Mar-09	wk1 Forecast 14-Mar-09	net change	wk4 Actual 7-Mar-09	For the Week net change
Current Assets					
Cash / Short Term Investments	155	2	153	393	(238)
Accounts Receivable	6,922	6,798	124	6,626	296
Inventory	2,812	2,931	(119)	2,942	(130)
Prepaid Expenses	620	616	4	620	-
Total Current Assets	10,509	10,347	162	10,581	(72)
Fixed Assets (NBV)	5,153	5,153	-	5,172	(19)
Total Assets	15,662	15,500	162	15,753	(91)
LIABILITIES					
Current Liabilities					
Bank - Revolving Loan	2,965	2,997	(32)	2,965	-
Accounts Payable & Accrued Liabilities	10,169	9,959	210	10,113	56
Wages Payable	1,265	1,265	-	1,325	(60)
Unearned Revenue	9	9	-	10	(1)
Taxes Payable	(1,535)	(1,535)	-	(1,535)	-
Total Current Liabilities	12,873	12,695	178	12,878	(5)
Long Term Debt	26	26	-	25	1
Deferred Income Taxes	810	810	-	810	-
Total Liabilities	13,709	13,531	178	13,713	(4)
SHAREHOLDER'S EQUITY					
Capital Stock	0	0	-	0	-
Retained Earnings	1,953	1,969	(16)	2,040	(87)
Total Shareholder's Equity	1,953	1,969	(16)	2,040	(87)
Total Liabilities and Equity	15,662	15,500	162	15,753	(91)

*Note: The Company has revised it's forecast for what is now wk1

Korex Don Valley ULC
Income Statement
(000s Canadian Dollars)

	wk1		wk1		Cumulative to date	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	14-Mar-09	14-Mar-09	14-Mar-09	14-Mar-09	net change	net change
Total Sales	347	469	(122)	347	469	(122)
Cost of Sales - Materials	(238)	(359)	121	(238)	(359)	121
Cost of Sales - Plant Spend (excludes Admin)	(97)	(97)	-	(97)	(97)	-
Total Cost of Goods Sold	(335)	(456)	121	(335)	(456)	121
Gross Profit	12	13	(1)	12	13	(1)
Total SG&A	(47)	(47)	-	(47)	(47)	-
Depreciation Expense	(19)	(19)	-	(19)	(19)	-
Operating Income	(54)	(53)	(1)	(54)	(53)	(1)
Other Income/ (Expenses)						
Interest Income/ (Expense)	(4)	(4)	-	(4)	(4)	-
Other Income/ (Expenses)	1	1	-	1	1	-
Restructuring Costs	(30)	(30)	-	(30)	(30)	-
Total Other Income/(Expenses)	(33)	(33)	-	(33)	(33)	-
Net Income, (Loss) Before Tax	(87)	(86)	(1)	(87)	(86)	(1)
Income Tax	-	-	-	-	-	-
Net Loss	(87)	(86)	(1)	(87)	(86)	(1)

*Note: The Company has revised it's forecast for what is now wk1

Korex Don Valley ULC
Cash Flow
(000s Canadian Dollars)

	wk1		wk1		Cumulative to date	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	14-Mar-09	14-Mar-09	14-Mar-09	14-Mar-09	Forecast	net change
Cash From Operations						
Net Income	(87)	(86)	(87)	(86)	(87)	(86)
Depreciation	19	19	19	19	19	19
Total Cash from Income	(68)	(67)	(68)	(67)	(68)	(67)
Receivables	(296)	(74)	(296)	(74)	(296)	(74)
Inventories	130	87	130	87	130	87
Accounts Payable/Accruals						
Accounts Payable	828	(1)	828	(1)	828	(1)
GRNI (Goods Received not Invoiced)	(870)	-	(870)	-	(870)	(870)
Unlever Payables	13	13	13	13	13	13
Intercompany Payables	-	-	-	-	-	-
Unearned Revenue	(1)	(1)	(1)	(1)	(1)	(1)
Bank Loan Payable	-	-	-	-	-	-
Wages Payable	(60)	(60)	(60)	(60)	(60)	(60)
Other Accruals	102	42	102	42	102	42
Other Taxes Payable	(18)	-	(18)	-	(18)	(18)
Other Working Capital	-	5	-	5	-	5
Total Cash from Working Capital	(172)	11	(172)	11	(172)	11
TOTAL CASH FROM OPERATIONS	(240)	(56)	(240)	(56)	(240)	(56)
Cash from Financing						
Payments on Long - Term Loans	-	-	-	-	-	-
Other Loans / Interest (Revolver)	-	31	-	31	-	31
TOTAL CASH FROM FINANCING	-	31	-	31	-	31
NET CASH FLOW	(240)	(25)	(240)	(25)	(240)	(25)
Cash - Beginning of Period	395	27	395	27	395	27
Cash - End of Period	155	2	155	2	155	2

*Note: The Company has revised it's forecast for what is now wk1

Korex Don Valley ULC
Bank Accounts - (in CDN\$)
Week 1 ending March 14th 2009

	Previous to date	Total Cumulative
Cash in Bank - March 7th 2009	94,568	94,568
Receivable collections	933,198	1,005,907
<u>Disbursements</u>		
Supplier payments	1,040,166	1,232,545
Payroll	244,832	364,407
	<u>1,284,998</u>	<u>1,596,952</u>
Net cash increase/(decrease)	(351,801)	(591,046)
Increase in Bank Loan	650,000	650,000
Cash in Bank - March 14th, 2009	<u>392,767</u>	<u>153,522</u>

Cash in Bank CDN

TD - CDN	1,703	
TD - US	212	
Comerica - CDN	88,830	
Comerica - US	87,212	
Due to Travelex - funds rec'd in error	<u>(24,435)</u>	
	<u>153,522</u>	
<u>Receivable Collections</u>		
Pride Solvents	44,932	
Johnson Diversey	27,777	
	<u>72,709</u>	
<u>Comerica Bank Loan Position</u>		
Loan Balance as at March 14th 2009	<u>2,965,461</u>	

Cheque Disbursements

Petresa Canada Inc.	133,850
Shorewood Corp. of Canada	32,394
Quality Carrier	28,895
Toronto Hydro	14,327
Sanford Pensler	10,801
Filion Wakely Thorup Angeletti LLP	7,655
Standard Life	6,234
Intelligarde International Inc.	4,208
Specialized Boiler Services Inc.	3,007
Sundry	2,474
Honeywell Limited	1,998
Great West Life Ins.	1,486
Huntsman Corp. - refund	<u>(54,950)</u>
	<u>192,379</u>

Korex Don Valley ULC
Bank Borrowing Base Report
(000s Canadian Dollars)
Inventory Collateral

	wk1		wk4		wk4 Revised	
	Actual 14-Mar-09	Forecast 14-Mar-09	Actual 7-Mar-09	Forecast 28-Feb-09	Forecast 28-Feb-09	net change
Gross A/R	7,429	7,339	7,137	7,270		(133)
Ineligibles	(4,145)	(3,886)	(3,934)	(3,873)		(61)
Eligible A/R	3,284	3,453	3,203	3,397		(194)
Collateral @ 85% A/R Collateral	2,791	2,935	2,722	2,888		(166)
Gross Inventory	4,029	4,021	4,062	3,933		129
Ineligibles	(2,282)	(2,125)	(2,265)	(2,125)		(140)
Eligible A/R	1,747	1,896	1,797	1,808		(11)
Collateral @ 55% Inventory Collateral	961	1,043	988	994		(6)
Total Collateral (Per Formula)	3,752	3,978	3,710	3,882		(172)
Borrowing <i>(maximum Borrowing Line \$3,750)</i>	2,965	2,997	2,965	2,965		-
Excess Availability	785	753	745	785		(40)

*Note: The Company has revised it's forecast for what is now wk1

Korex Don Valley
Accounts Receivable
As at March 14th, 2009

	<u>1-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>	<u>Total</u>
CDN\$	1,562,621.21	2,060,381.40	1,021,587.68	1,202,237.99	5,846,828.28
* USD (CDN equivalent)	487,283.42	184,615.63	382,658.99	527,943.94	1,582,501.99
Total	<u>2,049,904.63</u>	<u>2,244,997.03</u>	<u>1,404,246.67</u>	<u>1,730,181.93</u>	<u>7,429,330.27</u>
	<u>27.59%</u>	<u>30.22%</u>	<u>18.90%</u>	<u>23.29%</u>	<u>100.00%</u>

* USD fx @ 1.2707

<u>Unilever Canada</u>	<u>918,814.33</u>	<u>1,633,349.04</u>	<u>870,582.86</u>	<u>1,044,490.93</u>	<u>4,467,237.16</u>
	<u>20.57%</u>	<u>36.56%</u>	<u>19.49%</u>	<u>23.38%</u>	<u>100.00%</u>

Unilever Canada Accts Rec. under 90 days	3,422,746.23
Korex accounts payable due to Unilever (contra)	(1,302,470.87)
Korex accruals set up as due to Unilever	(393,679.73)
Total contra offset	<u>(1,696,150.60)</u>
Net Unilever Accts Rec. position	<u>1,726,595.63</u>
BBR Loan Value @ 85% (net of contra's)	<u>1,467,606.29</u>

Attached is Exhibit "F"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

Ira Smith

TRUSTEE & RECEIVER INC.

Stanley Sugar CA
Tel. (905) 738-4167
Fax (905) 738-9848
Email: stan@irasmithinc.com
Website: www.irasmithinc.com

Memo

To: Korex Monitoring File
From: Stanley Sugar
CC: Ira Smith
Date: March 23rd, 2009
Re: **Korex Don Valley ULC & Unilever Canada Inc.**

The Monitor was requested to attend a meeting today held at the offices of Unilever Canada Inc. Korex was represented by its President, Sanford Pensler and by its Chief Financial Officer, John Bojkovski. John D. Coyne, Vice-President, General Counsel and Corporate Secretary along with Carolyn Tate, Assistant General Counsel, Intellectual Property were in attendance on behalf of Unilever. Ira Smith and I were in attendance on behalf of the Monitor.

The purpose of the meeting was for Korex to review with Unilever the issue of nonpayment of accounts due to Korex by Unilever. Attached to this memo is a schedule presented by Unilever outlining Unilever's reconciliation of Korex's account. The Monitor has not had an opportunity to perform an in depth analysis of this schedule. The meeting which lasted forty minutes addressed four main areas of setoff that Unilever believed that it was entitled to as follows:

2008 (\$334,169) and 2009 (\$220,638) property taxes in arrears and property taxes for the balance of 2009 (\$441,270)	\$ 996,077
Holdback for guarantees given by Unilever to certain trade suppliers	668,284
Phoenix Brands inventory shipped by Korex and not recognized as received by Phoenix Brands	468,287
Korex invoicing not yet recognized for approval by Unilever	<u>750,846</u>
Other invoicing per Korex books and as per attached schedule	<u>2,883,494</u>
	<u>790,426</u>
Total	<u>\$3,673,920</u>

Unilever supplied the attached schedule indicating their books show a balance of \$3.34 million owing to Korex. Through the discussion today, Unilever and Korex agreed to work together as expeditiously as possible, to attempt to reconcile the differences so that payment can flow to Korex.

Korex raised with Unilever the unfairness of setting off property tax payments not due for some time in 2009 as against trade receivables owing to Korex. Mr. Coyne stated that he had to protect Unilever's position, but that Unilever would pay the reconciled and approved amounts as soon as Korex could supply sufficient proof of its position and the Unilever Finance Group processed the information and could agree with Korex's backup.

With respect to guarantees given by Unilever to certain suppliers to Korex, Korex advised it had no knowledge of this. Mr. Coyne's position was that notwithstanding Korex's lack of knowledge, Unilever responded to the suppliers' request for a guarantee otherwise the suppliers would not ship to Korex and Unilever would then not be able to get supply from Korex. Ira asked if the guarantees were given before or after the CCAA filing date and John Coyne advised well before. Ira asked for Unilever to provide a copy of the guarantee documentation to the Monitor and John Coyne said that he would. As of the end of business today, we received an email from Carolyn Tate advising that she is pulling together the documentation and will provide it to us tomorrow.

Upon questioning by the Monitor, John Coyne acknowledged that there is probably the sum \$329,095 due and payable after giving effect for all of Unilever's setoffs on a dollar for dollar basis. Ira asked him that given the CCAA Order, which is a subsisting Order of the Court that has not been appealed and clearly states how setoffs are to be dealt with, what is Unilever's basis for not paying the net amount of \$329K this week. Mr. Coyne advised that he wishes to consider that point overnight and will advise the Monitor of Unilever's position on those net funds tomorrow.

Stan

Attachment

Unilever Canada
Schedule of Amounts Due From / Payable To Korex Don Valley and related suppliers
Mar 18, 2009

Invoice #	Due Date	Description	CAD	Response	Action
AMOUNTS DUE FROM KOREX DON VALLEY					
91460188	05/22/2008	Solids NTA	112,543.18	Agree	
91460194	07/22/2008	Solids NTA	25,440.73	Agree	
91460597	07/25/2008	Solids NTA	36,840.89	Agree	
91538974	08/21/2008	Solids NTA	36,024.28	Agree	
91538975	08/21/2008	Solids NTA	37,840.94	Agree	
91538977	08/21/2008	Solids NTA	41,736.12	Agree	
91538978	08/21/2008	Solids NTA	8,740.49	Agree	
91535116	08/21/2008	Solids NTA	47,856.46	Agree	
91535117	08/21/2008	Solids NTA	41,225.48	Agree	
91582532	08/17/2008	Solids NTA	37,448.76	Agree	
91582534	10/02/2008	Solids NTA	40,187.19	Agree	
91582535	10/02/2008	Solids NTA	40,510.59	Agree	
91732933	03/05/2008	Property Taxes - 2008	48,075.72	Agree	
91732934	03/05/2008	Property Taxes - 2008	50,000.74	Agree	
91732935	03/05/2008	Property Taxes - 2008	334,168.89	Agree	
91732936	03/05/2008	Property Taxes - 2008	110,320.94	Agree	
91732937	03/05/2008	Property Taxes - 2008	110,316.90	Agree	
91732938	03/05/2008	Property Taxes - 2008	48,075.72	Agree	
91732939	03/05/2008	Property Taxes - 2008	429,425.92	Agree	
91732940	03/12/2008	Unilever paid Korex for FG inventory production based on Korex's production reports. Korex is not providing production reports and Hand Dist. - Unilever back amount previously paid.	424,841.63	Agree	John B. to advise Lynn to provide copy - DONE Mar 12/09
91688877		Unilever supplied raw materials at a lower cost than was charged back to Hand Dist. - Unilever back amount previously paid.		Agree	John B. to investigate and advise findings
91732935	27/02/2009	Hand Dist. - chempack w/ Phoenix product. Delivery disputed by Phoenix.	43,245.00	DISPUTED	
AMOUNTS PAYABLE TO KOREX DON VALLEY					
91732935		Korex Debt related to Unilever Canada production. To be settled by Unilever Canada & Recharged to Korex.	2,864,841.42	DISPUTED	
91732935		Korex Debt related to Unilever Canada production. To be settled by Unilever Canada & Recharged to Korex.	36,717.79	DISPUTED	
91732935		Korex Debt related to Unilever Canada production. To be settled by Unilever Canada & Recharged to Korex.	111,568.00	DISPUTED	
91732935		Korex Debt related to Unilever Canada production. To be settled by Unilever Canada & Recharged to Korex.	300,000.00	DISPUTED	
91732935		Korex Debt related to Unilever Canada production. To be settled by Unilever Canada & Recharged to Korex.	240,000.00	DISPUTED	
91732935		Korex Debt related to Unilever Canada production. To be settled by Unilever Canada & Recharged to Korex.	688,283.79	DISPUTED	
Total Due From Korex Don Valley			3,344,826.21		

Invoice #	Due Date	Description	CAD	Response	Action
AMOUNTS PAYABLE TO KOREX DON VALLEY					
91732935	03/18/2009	Invoices Received and Recorded - Due for Payment	-1,046,073.85		Approval in progress on Mar 18, 2009
91732935	03/18/2009	Powders Pending - Balance Due for Payment	-1,046,213.53		
91732935	03/18/2009	Invoices Received and Recorded - Not Yet Due	-774,541.73		
Approved Invoices from Korex Don Valley			-2,866,829.11		
91732935	03/18/2009	Invoices Received, Not Yet Recorded	-116,206.91		Approvals obtained, processing in progress
91732935	03/18/2009	Invoices Received, Disputed	1,116,206.91	DISPUTED	13757, 13759, & 13764 disputed in whole or in part
Total Invoices from Korex Don Valley			-3,873,519.57		

Attached is Exhibit "G"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

**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**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KOREX DON VALLEY ULC**

APPLICANT

**AFFIDAVIT OF IRA SMITH
(Sworn March 24, 2009)**

I, **Ira Smith**, of the City of **Vaughan**, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the President of Ira Smith Trustee & Receiver Inc. ("**ISI**"). By an Order of the Court dated February 6, 2009 (the "**Initial Stay Order**"), ISI was named, pursuant to the provisions of the *Companies' Creditors Arrangement Act*, as the Court-appointed monitor (the "**Monitor**") of Korex Don Valley ULC. As such, I have knowledge of the matters hereinafter deposed to, except where stated to be on information and belief and whereso stated I verily believe it to be true.
2. Pursuant to paragraph 26 of the Initial Stay Order, the Monitor and its legal counsel are required to pass their accounts from time to time.
3. Attached hereto and marked as Exhibit "A" to this my Affidavit is a summary of the fees charged and accounts rendered by the Monitor in respect of the proceedings (the "**Accounts Summary**") for the period from February 6 to March 20, 2009 (the "**Monitor Application Period**"). Copies of the invoices rendered by the Monitor and referenced in the Accounts Summary are attached to this my Affidavit as Exhibit "B".

4. The Monitor has filed its Second Report with this Honourable Court, which outlines, among other things, the Monitor's overall actions and activities since February 6, 2009.

5. A total of 362.5 hours were expended by the Monitor in connection with this matter during the Monitor Application Period, giving rise to fees totalling \$123,250.00 (excluding GST) for an average hourly rate of \$340.00 and allocated approximately as outlined in the Accounts Summary.

6. To the best of my knowledge, the rates charged by the Monitor throughout the course of these proceedings are comparable to the rates charged by other accounting firms in the Greater Toronto Area for the provision of similar services.

7. The average hourly billing rates outlined on the Accounts Summary are the normal average hourly rates charged by the Receiver for services rendered in relation to similar proceedings.



8. I verily believe that the Receiver's accounts are fair and reasonable in the circumstances.

9. Attached as Exhibit "A" to the Affidavit of Richard Epstein sworn March 24, 2009, and filed in support of the within motion are copies of the accounts rendered by Aird & Berlis LLP ("**Aird & Berlis**"), counsel to the Monitor, for the period from January 8 to March 18, 2009.

10. Aird & Berlis has rendered services throughout these proceedings consistent with instructions from the Monitor, the Monitor has approved all such accounts and I verily believe that the fees and disbursements of Aird & Berlis are fair and reasonable in the circumstances.

11. The said Affidavit is sworn in connection with the Monitor's motion to have, among other things, its fees and disbursements approved by this Honourable Court and for no improper purpose.

SWORN BEFORE ME at the City of
Vaughan, in the Province of Ontario,
on March 24, 2009.


A Commissioner for taking affidavits
Ira Smith

Brandon Smith, a Commissioner, etc.,
Province of Ontario, for Ira Smith Trustee
& Receiver Inc. Trustee in Bankruptcy.
Expires May 2, 2011.

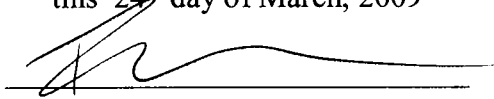
Attached is Exhibit "A"

Referred to in the

AFFIDAVIT OF IRA SMITH

Sworn before me

this 24th day of March, 2009

A handwritten signature in black ink, appearing to be 'Brandon Smith', is written over a horizontal line.

Commissioner for taking Affidavits, etc

Brandon Smith, a Commissioner, etc.,
Province of Ontario, for Ira Smith Trustee
& Receiver Inc. Trustee in Bankruptcy.
Expires May 2, 2011.

**IRA SMITH TRUSTEE & RECEIVER INC.
MONITOR OF
KOREX DON VALLEY ULC**

FEBRUARY 6 TO MARCH 20, 2009

		HOURS	RATE (C/DN)	AMOUNT PAID
Ira Smith MBA, CA•CIRP, Trustee	President	82.9	400.00	33,160.00
Stanley Sugar CA	Senior Manager	270.4	325.00	87,880.00
Brandon Smith BA	Estate Manager	8.3	250.00	2,075.00
Cheryl Meads	Technician	<u>0.9</u>	150.00	<u>135.00</u>
Total		<u>362.5</u>	Average hourly rate of \$340.00	123,250.00
Disbursements (as at March 15, 2009)				<u>2,914.77</u>
Net Fees and Disbursements (excluding GST)				<u>126,164.77</u>

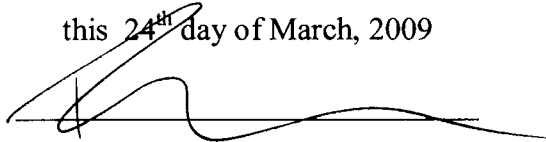
Attached is Exhibit "B"

Referred to in the

AFFIDAVIT OF IRA SMITH

Sworn before me

this 24th day of March, 2009



Brandon Smith, a Commissioner, etc.,
Province of Ontario, for Ira Smith
Commissioner for Taking Affidavits, etc
Expires May 2, 2011.

Ira Smith

TRUSTEE & RECEIVER INC.
167 Applewood Cres., Suite 6, Concord, ON L4K 4K7

Tel. (905) 738-4167
Fax (905) 738-9848
Email: ira@irasmithinc.com
Website: www.irasmithinc.com

CCAA-KOREX

GST # 86236 5699

February 20, 2009

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

For professional services rendered for the period from January 1 to February 19, 2009 inclusive, in acting as Court-appointed Monitor of Korex Don Valley ULC in accordance with the Order of the Ontario Superior Court of Justice (Commercial List) dated February 6, 2009 as follows (detail attached):

<u>Staff</u>	<u>Hourly rate</u>	<u>Hours</u>	
I. Smith, MBA, CA-CIRP, President and Trustee	\$400	62.5	
S. Sugar, CA, Estate Manager	\$325	137.2	
B. Smith, BA, Estate Manager	\$250	7.3	
C. Meads, Technician	\$150	<u>0.3</u>	
		<u>207.3</u>	
			\$71,460.00

Disbursements (January 1 to 31, 2009):

Web and tech	\$ 884.77	
Printing	205.18	
Travel and courier	107.46	
Long distance, cell phone, fax	<u>200.00</u>	
		<u>1,397.41</u>
		\$72,857.41
	GST	<u>3,642.87</u>
		<u>\$76,500.28</u>

IraSmith Trustee & Receiver Inc.
Detail Time Sheet
Period from: 2009-01-01 to 2009-02-19

Keyname	Full Estate Name											
CCAA-Korex	Korex Don Valley ULC											
Korex	Stanley Sugar	02/01/2009	To receive instrs, intro to file	0.6	\$	325					195.00	
Korex	Stanley Sugar	04/01/2009	Rcpt and r/w of emails from Ira of important docs	1.4	\$	325					455.00	
Korex	Stanley Sugar	05/01/2009	Prepare complete file of all docs for working paper file and organization of same	2.5	\$	325					812.50	
Korex	Stanley Sugar	05/01/2009	Review of all docs, telcon w. Ira re file overview and obtain instructions	5.0	\$	325					1,625.00	
Korex	Brandon Smith	06/01/2009	set up computer for stan sugar, post retainer receipt	2.0	\$	250					500.00	
Korex	Stanley Sugar	06/01/2009	Attendance at Korex, meeting w. S. Pensler & J. Bojtkowski, prep of materials and discussions on requirements including field work	8.3	\$	325					2,697.50	
Korex	Brandon Smith	07/01/2009	ASSIST S. SUGAR AS REQUIRED	1.0	\$	250					250.00	
Korex	Ira Smith	07/01/2009	Meeting w. Stan Sugar to get briefing from field work yesterday, r/w of documentation obtained by Stan Sugar, telcon w. L. Jones of Comerica re current status, email to Jones et al, memo to Korex re current status and needs to complete work	4.8	\$				400		1,920.00	
Korex	Stanley Sugar	07/01/2009	Assembly and analysis of information and schedules obtained from Korex, meeting with IS to further analyze and discuss information for Court report, begin memo to file and plan further work required to be completed	8.2	\$	325					2,665.00	
Korex	Ira Smith	08/01/2009	Preparation of draft First Report including telephone conversations and emails w. Bruce Darlington, J. Bodjovski and Stan Sugar regarding the report and adjournment of Monday's motion for one week	9.2	\$				400		3,680.00	
Korex	Stanley Sugar	08/01/2009	Attendance at Korex all day, meeting w. John B., further discussions & prep of info re JB's affidavit, answers to IS's questions to date, telcon w. IS re issues, additional field work arising from phone conversation	9.3	\$	325					3,022.50	
Korex	Ira Smith	09/01/2009	R/w of issues for draft report w. Stan Sugar for completing the report	0.7	\$	400					280.00	
Korex	Ira Smith	09/01/2009	Conf call w. Ritch and Sanj; conf call w. Ritch, Sanj and Bruce Darlington	0.6	\$	400					240.00	
Korex	Ira Smith	09/01/2009	Finalize and issue draft report, telephone conversation w. John and Sandy, emails from John and Sandy, discs. W. Stan Sugar in finalizing numbers	7.2	\$	400					2,880.00	

Ira Smith Trustee & Receiver Inc.
Detail Time Sheet

Period from: 2009-01-01 to 2009-02-19

Keyname	Full Estate Name								
CCAA-Korex	Korex Don Valley ULC								
Korex	Stanley Sugar	09/01/2009	Telcon w. JB to clarify dollar issues, assisting IS in prep and completion of First Report to Court, revising and proofing all calculations and amounts for Report to Court, r/w of final results w. IS	8.5	\$	325	2,762.50		
Korex	Ira Smith	10/01/2009	Finalization and email issuance of final first report to court, issuance of final report for court	3.7	\$	400	1,480.00		
Korex	Ira Smith	12/01/2009	TELEPHONE CALL WITH LEE JONES AND JACOB VILLENEUVE OF COMERICA	0.6	\$	400	240.00		
Korex	Stanley Sugar	12/01/2009	Update and r/w of emails between Korek and ISI and related parties, telcon w. IS re court attendance today and further requirements	0.6	\$	325	195.00		
Korex	Brandon Smith	14/01/2009	commission affidavits; courier to Aird & Berlis	0.3	\$	250	75.00		
Korex	Ira Smith	14/01/2009	Affidavit of Service, transmittal letter to Aird & Berlis	0.6	\$	400	240.00		
Korex	Ira Smith	14/01/2009	Telcon w. Bruce Darlington re potential for forbearance agreement and further adjournment Monday	0.3	\$	400	120.00		
Korex	Brandon Smith	19/01/2009	Asstt S. Sugar as required	1.0	\$	250	250.00		
Korex	Ira Smith	19/01/2009	Telcons w. Rich Epstein, Sanj Mitra, Bruce Darlington re endorsement of Morawetz J. and further steps to Friday	0.7	\$	400	280.00		
Korex	Stanley Sugar	19/01/2009	Telcon IRAS & SS - new instructions related to Korek	0.3	\$	325	97.50		
Korex	Ira Smith	20/01/2009	Review of email & endorsement of Justice Morawetz direction Email to S. Sugar re instr's	0.2	\$	400	80.00		
Korex	Stanley Sugar	20/01/2009	Re review of file re work needed based on the request of Justice Morawetz Jan. 19/09 email & telcons w JB of Korek preparation re schedules & information requested as needed for tomorrow	3.4	\$	325	1,105.00		
Korex	Ira Smith	21/01/2009	Emails w. S. Sugar and S. Pensler, telcon w. S. Pensler and J. Bojkovski	0.8	\$	400	320.00		
Korex	Stanley Sugar	21/01/2009	emails, & conference call w JB & SP of Korek re events & information re memo for Ira to complete report to Justice Morawetz	3.8	\$	325	1,235.00		
Korex	Brandon Smith	22/01/2009	Asstt S. Sugar as required	1.0	\$	250	250.00		
Korex	Ira Smith	22/01/2009	Conf call w. S. Sugar, S. Mitra, B. Darlington, T. Buchanan, S. Pensler and J. Bojkovski re material adverse change, Supplementary First Report to Court writing and emails related thereto	6.7	\$	400	2,680.00		

Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 2009-01-01 to 2009-02-19

Keyname Full Estate Name
 CCAA-Korex Korex Don Valley ULC

Keyname	Full Estate Name	Date	Description	Code	Rate	Amount
			Continuation of field work required re 2nd court report			
Korex	Stanley Sugar	22/01/2009	several telcon conference calls w Korex JB & SP	3.2	\$ 325	1,040.00
Korex	Stanley Sugar	22/01/2009	telcon conference w IRAS, JB, SP, & solicitors	0.8	\$ 325	260.00
Korex	Stanley Sugar	22/01/2009	draft and redraft of schedules due to new information & issues that arose during this day	0.4	\$ 325	130.00
Korex	Stanley Sugar	22/01/2009	several telcon conference calls w Korex JB & SP	3.2	\$ 325	1,040.00
Korex	Stanley Sugar	22/01/2009	telcon conference w IRAS, JB, SP, & solicitors			
Korex	Stanley Sugar	22/01/2009	draft and redraft of schedules due to new information & issues that arose during this day			
Korex	Ira Smith	23/01/2009	Issuance of Supp First Report to Court, travel to and from and attend in Court re adjournment and further Supp Report by Cummings J.	3.1	\$ 400	1,240.00
Korex	Ira Smith	23/01/2009	Reissuance of engagement letter to S. Pensler Via email	0.1	\$ 400	40.00
Korex	Stanley Sugar	27/01/2009	review contents of court completed supplementary first report dated Jan. 22nd 2009, review & note IRAS email of Fri. Jan. 23rd/09 to respective recipients, Telcons w JB @ Korex, email to JB re necessary information required to file next required report	3.6	\$ 325	1,170.00
Korex	Ira Smith	28/01/2009	Rvw AND COMMENTS ON DRAFT COURT INITIAL STAY CCAA ORDER	0.7	\$ 400	280.00
Korex	Stanley Sugar	28/01/2009	Update to file, email & conversation w JB of Korex re preparation & field work information necessary for next report	4.1	\$ 325	1,332.50
Korex	Stan Sugar	29/01/2009	telcons w JB of Korex re information provided to date & discussions relative to schedules provided & interpretation of the data	8.2	\$ 325	2,665.00
Korex	Ira Smith	30/01/2009	Conference call with S. Mitra, B. Darlington and debtor re status and 2nd supp report issues	1.1	\$ 400	440.00
Korex	Ira Smith	30/01/2009	Rvw of draft Order and comments	0.6	\$ 400	240.00
Korex	Ira Smith	30/01/2009	Various emails to prep writing of report	0.7	\$ 400	280.00
Korex	Stanley Sugar	30/01/2009	drafting of memo to IRAS re report & schedules, various telcons with JB of Korex, reconciliations & revisions to information provided to date	7.8	\$ 325	2,535.00
Korex	Ira Smith	31/01/2009	Rvw of S. Sugar memo re field work and financial matters, emails and telcons w S. Sugar, drafting of v.1 of supp report, emails w. company re cash flow	4.7	\$ 400	1,880.00

Ira Smith Trustee & Receiver Inc.
 Detail Time Sheet
 Period from: 2009-01-01 to 2009-02-19

Keyname	Full Estate Name	Keyname	Full Estate Name	Rate	Hours	Amount
CCAA-Korex	Korex Don Valley ULC					
Korex	Stanley Sugar	31/01/2009	numerous telcons w JB of Korex & IRAS, emails from IRAS & JB, re cash flow report, review, draft & prepare new schedules re cash flow material for report insertion, review of IRAS supplementary second report to the court re Korex	7.5	\$ 325	2,437.50
Korex	Ira Smith	01/02/2009	Rvw of cash flow, emails re cash flow, finalize v.1 of draft report	4.9	\$ 400	1,960.00
Korex	Ira Smith	01/02/2009	Emails w. Sanj Mitra re v.1, rvw of Sanj's changes and signoff on v.2 of 2nd supp report	4.7	\$ 400	1,880.00
Korex	Brandon Smith	02/02/2009	Travel to from and attend at Aird and Berlits to sign report	2.0	\$ 250	500.00
Korex	Ira Smith	06/02/2009	Various emails w. S. Mitra and B. Darlington re court application and final rvw of final draft Order and signoff	1.3	\$ 400	520.00
Korex	Stanley Sugar	06/02/2009	conference call SCS, IRAS, J. Bojkovski, Bruce Darlington re various matters, preliminary review of court		\$ 325	
Korex	Ira Smith	09/02/2009	Review Order and forbearance agreement with S. Sugar and planning for execution of assignment	0.8	\$ 400	320.00
Korex	Ira Smith	09/02/2009	Meeting w. S. Sugar re issues, concerns and how best to address in field work	0.7	\$ 400	280.00
Korex	Stanley Sugar	09/02/2009	meeting with IRAS review & discussion of Justice Cumming order of Feb 6th/09 & Comerica Bank forbearance agreement dated Feb. 6th 09. Outline of our duties & responsibility as CCAA	8.5	\$ 325	2,762.50
Korex	Stanley Sugar	10/02/2009	attendance at Korex. Assist & work through with John B. preparation of new 13 week balance sheets, income statements and cash flows as required per the Feb. 6th Comerica Bank forbearance agreement	7.8	\$ 325	2,535.00
Korex	Ira Smith	11/02/2009	Email to Union legal counsel providing copy of Court Order	0.3	\$ 400	120.00
Korex	Ira Smith	11/02/2009	Mtg w. S. Sugar to discuss issues and analysis required	0.8	\$ 400	320.00
Korex	Ira Smith	11/02/2009	Letter to creditors, J. Gorbier re development of Korex webpage meeting with IRAS review of monitoring activities on Feb. 9th & Feb. 10th, review of further scope required of items to examine in order to report on, telcon's with JB re materials needed and requested for review & monitoring.	7.9	\$ 325	2,567.50
Korex	Ira Smith	12/02/2009	Meeting w. S. Sugar re requirements for Monitoring Report	0.4	\$ 400	160.00

Ira Smith Trustee & Receiver Inc.
 Detail Time Sheet
 Period from: 2009-01-01 to 2009-02-19

Keyname	Full Estate Name	Date	Description	Rate	Hours	Amount
CCAA-Korex	Korex Don Valley ULC					
Korex	Stanley Sugar	12/02/2009	meeting with IRAS, reconciliation of Korex F/S with previous information rec'd, preliminary preparation of financial stmts based on comparing the supplemental report to the report dated Feb. 2nd with Korex projection	8.4	325	2,730.00
Korex	Cheryl Meads	13/02/2009	Scanning order, email to have webpage updated and electronica filing same	0.3	150	45.00
Korex	Stanley Sugar	13/02/2009	travel to and attendance at Korex, supervision of completion of mailing materials as specified in the court order to unsecured creditors,	8.3	325	2,697.50
Korex	Stanley Sugar	16/02/2009	Completion of financial stmts and variances related to Feb. 7th original forecast report and revised Feb 7th forecast report including cash receipts & disbursements for the week of Feb 7,	5.6	325	1,820.00
Korex	Ira Smith	18/02/2009	Email to Comerica, Korex and legal counsel re timing of release of Korex financial information	0.3	400	120.00
Korex	Ira Smith	19/02/2009	Review and issuance of First Korex Monitoring Report	0.4	400	160.00
				207.3		71,460.00

Name	Duration	Hourly Rate	Total
IRA SMITH	62.5	400.00	25,000.00
STANLEY SUGAR	137.2	325.00	44,590.00
BRANDON SMITH	7.3	250.00	1,825.00
CHERYL MEADS	0.3	150.00	45.00
Total:	207.3		71,460.00

Average Hourly Rate: \$ 344.72

Ira Smith

TRUSTEE & RECEIVER INC.
167 Applewood Cres., Suite 6, Concord, ON L4K 4K7

Tel. (905) 738-4167
Fax (905) 738-9848
Email: ira@irasmithinc.com
Website: www.irasmithinc.com

CCAA-KOREX

GST # 86236 5699

March 23, 2009

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

For professional services rendered for the period from February 20 to March 20, 2009 inclusive, in acting as Court-appointed Monitor of Korex Don Valley ULC in accordance with the Order of the Ontario Superior Court of Justice (Commercial List) dated February 6, 2009 as follows (detail attached):

<u>Staff</u>	<u>Hourly rate</u>	<u>Hours</u>
I. Smith, MBA, CA-CIRP, President and Trustee	\$400	20.4
S. Sugar, CA, Estate Manager	\$325	133.2
B. Smith, BA, Estate Manager	\$250	1.0
C. Meads, Technician	\$150	<u>0.6</u>
		<u>155.2</u>
		\$51,790.00

Disbursements (February 1 to March 15, 2009):

Web and tech	\$ 500.00	
Phone and fax	187.25	
Travel and courier	<u>830.11</u>	
		1,517.36
		\$53,307.36
	GST	<u>2,665.37</u>
		<u>\$55,972.73</u>

Account Due When Rendered

Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 2009-02-20 to 2009-03-20*

Keyname	Full Estate Name						
CCAA-Korex	Korex Don Valley ULC						
Korex	Stan Sugar	17/02/2009	meeting with IRAS, review of memo and financials re Comerica Bank information re Korex and BBR of last week, T/T with John Bojkovski re supplier payments and issues related thereto	0.9	325	292.50	
Korex	Stan Sugar	18/02/2009	attendance at Korex for the day, Monitoring and preparation of wk1-Feb14	8.3	325	2,697.50	
Korex	Stan Sugar	19/02/2009	attendance at Korex for the day, Monitoring, verification, information testing, compare and analysis of information provided, - preparation of wk1 F/S information actual to budget wk1 - net change, discussions with John B. & F. Degulara Acting Mgr.	8.6	325	2,795.00	
Korex	Stan Sugar	20/02/2009	Preparation of report for wk1, meeting with IRAS, review of 1st draft of wk1 materials change, and complete	7.7	325	2,502.50	
Korex	Ira Smith	21/02/2009	Korex time review and billing	0.7	400	280.00	
Korex	Ira Smith	21/02/2009	R/W of Stan Sugar memo and attachments, telephone conversation with Stan Sugar, issuance of monitoring memo	1.2	400	480.00	
Korex	Stan Sugar	21/02/2009	T/T SCS and IRAS re review and completion of Korex report for wk1	0.3	325	97.50	
Korex	Ira Smith	23/02/2009	Review emails re information required by Comerica, discussion with Stan Sugar re his findings and email to all parties regarding Comerica's counsel's queries	0.8	400	320.00	
Korex	Stan Sugar		Re review of final version of memo dated Feb. 21st to Korex and Comerica Bank, meeting with IRAS, review of memo and financials re Comerica Bank information re Korex and BBR of last week, T/T with John Bojkovski re supplier payments and issues related thereto, T/T with Bruce Darrington re email rec'd Stephen Marentette lawyer for Comerica Bank, preparation of draft letter of response to Stephen Marentette, further meeting with IRAS re draft memo assist IRAS with his response to memo, T/T with John B. at Korex re attendance and work re Korex tomorrow, analysis of memo and chronology of memo attendance at Korex for the day, Monitoring, analysis and preparation of wk2 Feb21st financial stmt package information and comments thereto and report	7.8	325	1,495.00	
Korex	Stan Sugar	24/02/2009			325	2,535.00	

Ira Smith Trustee & Receiver Inc.
 Detail Time Sheet
 Period from: 2009-02-20 to 2009-03-20*

Keyname	Full Estate Name						
CCAA-Korex	Korex Don Valley LLC						
Korex	Stan Sugar	25/02/2009	attendance at Korex for the day, Monitoring, analysis and preparation of wk2 Feb21st financial stmt package information and comments thereto and report	8.2	325	2,665.00	
Korex	Stan Sugar	26/02/2009	completion of Korex wk2 Feb 21st reports, compilations, re review T/T with John B., file memo to IRAS re report	7.5	325	2,437.50	
Korex	Brandon Smith	27/02/2009	RwW Initial Order, draft affidavit for S. Sugar, Commission same meeting with IRAS re review of wk2 draft changes, report & finish update of file and administration thereto	0.7	250	1,75.00	
Korex	Stan Sugar	27/02/2009	meeting with IRAS, discussion re emails rec'd from Stephen Marentette with respect to financial variances & cash remaining in Korex TD accounts, review of same and assistance to preparation of appropriate response there to	2.2	325	715.00	
Korex	Stan Sugar	02 Mar 09		1.6	325	520.00	
Korex	Stan Sugar		attendance at Korex for the day, Monitoring, analysis for preparation of wk3 Feb28th financial stmt package meetings with John B. and F. Deguara Acting Mgr re queries, data & information required information and comments thereto to report	8.2	325	2,665.00	
Korex	Ira Smith	03 Mar 09	Call w. Davis LLP and company(1.0), emails w. Stan Sugar for info, Conf call w. Davis LLP, company, Leslie et al, Epstein	2.1	400	840.00	
Korex	Stan Sugar	04 Mar 09	attendance at Korex for the day, continuation of Monitoring, verification, information field work testing, compare & analysis of information provided, actual to budget wk3 - net change, discussions with John B. & F. Degtiara Acting Mgr.	8.4	325	2,730.00	
Korex	Ira Smith	05/03/2009	Prep of 1st Draft of First Report to Court and email to Darlington, Friedman and Epstein	1.9	400	760.00	
Korex	Stan Sugar	05 Mar 09	attendance at Korex for the day, continuation of Monitoring, verification, information field work testing, compare & analysis of information provided, preparation of wk3 F/S information Finalization and Issuance of Monitor's Report for the week ending Feb 28	8.1	325	2,632.50	
Korex	Ira Smith	06/03/2009	First Report to Court	0.8	400	320.00	
Korex	Ira Smith	06/03/2009	Conf call with Korex, Davis LLP, Epstein, Comerica/Miller Canfield	3.2	400	1,280.00	
Korex	Ira Smith	06/03/2009		0.8	400	320.00	

Ira Smith Trustee & Receiver Inc.
Detail Time Sheet

Period from: 2009-02-20 to 2009-03-20*

Keyname Full Estate Name
CCAA-Korex Korex Don Valley,ULC

Keyname	Full Estate Name	Activity Description	Date	Hours	Rate	Total
Korex	Stan Sugar	meeting with IRAS, review & completion of draft report. Review of IRAS draft report for court on Monday March 9th 2009 preliminary review of Korex new 13 week cash flow statement & financial stmts, Conference call with Korex - S. Pensler, J. Bojkovski, and solicitors	06 Mar 09	325	1,170.00	
Korex	Ira Smith	Emails with files to Gorber re updating webpage	07/03/2009	400	80.00	
Korex	Ira Smith	Travel to and from Court and attend on extension motion, meeting with Sanj Mitra after Court	09/03/2009	400	1,240.00	
Korex	Stan Sugar	attendance at Korex for the day, Monitoring, analysis for preparation of wk4 March 7th financial stmt package, meetings with John B. and F. Deguara Acting Mgr re queries, data & information	10 Mar 09	325	2,697.50	
Korex	Ira Smith	Emails with Susan Friedman and Sanj Mitra re next court attendance, Email reply to John B. et al re Unilever meeting tomorrow to reconcile accounts	11/03/2009	400	160.00	
Korex	Stan Sugar	attendance at Korex for the day, continuation of Monitoring, Verification, information	11 Mar 09	325	2,762.50	
Korex	Cheryl Meads	Email fr. Ira re: updating creditor information	12/03/2009	150	15.00	
Korex	Stan Sugar	continuation of Monitoring report for wk4, additional verification, information T/T with John B. re his initial meeting Korex & Unilever, memo report preparation wk4 & finalize	12 Mar 09	325	2,340.00	
Korex	Stan Sugar	T/T with IRAS re review, finalize & complete report re wk4	13 Mar 09	325	292.50	
Korex	Brandon Smith	Review and amend C. Meads Ltr to creditor	17/03/2009	250	75.00	
Korex	Cheryl Meads	Letter to creditor re: claim rec'd per B. Smith, photocopying mail same	17/03/2009	150	45.00	
Korex	Ira Smith	Conf call w. Bruce Darlington, Sandy Pensler, John B., Stan Sugar re Unilever and Comerica issues	17/03/2009	400	200.00	
Korex	Ira Smith	Emails w. Comerica's counsel, Korex's counsel and Korex re banking issues	17/03/2009	400	160.00	
Korex	Stan Sugar	attendance at Korex for the day, Monitoring, analysis for preparation of wk1 March 14th financial stmt package information and comments thereto to report meetings with John B. and F. Deguara Acting Mgr re queries, data & information required	17 Mar 09	325	2,632.50	
Korex	Ira Smith	Unilever issues and emails	18/03/2009	400	240.00	

Ira Smith Trustee & Receiver Inc.
 Detail Time Sheet
 Period from: 2009-02-20 to 2009-03-20*

Keyname	Full Estate Name	18/03/2009	Rvw of Miller Canfield letter re Comerica position	0.2	400	80.00
CCAA-Korex	Korex Don Valley ULC		attendance at Korex for the day, continuation of Monitoring, verification, information field work testing, compare & analysis of information provided, actual to budget wk4 - net change, discussions with John B. & F. Deguara Acting Migr.	8.5	325	2,762.50
Korex	Stan Sugar	18 Mar 09	Creditor call frwd to S. Sugar same	0.2	150	30.00
Korex	Cheryl Meads	19/03/2009	Rvw and issuance of Monitor's Report for w/e March 14, 2009	2.1	400	840.00
Korex	Ira Smith	19/03/2009	Various emails re Unilever meeting with IRAS, review of Korex financials re wk1 Unilever information data and information to report preparation & completion of memo financial stmt package information and comments thereto and report	0.7	400	280.00
Korex	Ira Smith	19 Mar 09	Telcons W. Bruce Darlington, John Leslie and John B re various matters	0.7	400	280.00
				155.2		51,790.00
						\$
	IRA SMITH	20.4	400.00			8,160.00
	STANLEY SUGAR	133.2	325.00			43,290.00
	BRANDON SMITH	1.0	250.00			250.00
	CHERYL MEADS	0.6	150.00			90.00
Total:		155.2				51,790.00
Average Hourly Rate:		\$ 333.70				

* Includes 17.8 hours of time not booked into time reporting system from prior billing period

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

APPLICANT

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDINGS COMMENCED AT TORONTO

AFFIDAVIT

AIRD & BERLIS LLP
Barristers and Solicitors
Brookfield Place
Suite 1800, Box 754
181 Bay Street
Toronto, Ontario M5J 2T9
Tel: 416.863.1500
Fax: 416.863.1515

Sanjeev Mitra – LSUC # 37934 U
Tel: 416.863.1500
Fax: 416.863.1515

Solicitors for the Monitor

Attached is Exhibit "H"

as referred to in the

SECOND REPORT
of Ira Smith Trustee & Receiver Inc.

**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**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KOREX DON VALLEY ULC**

APPLICANT

**AFFIDAVIT OF RICHARD EPSTEIN
(Sworn March 24, 2009)**

I, Richard Epstein, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY AS FOLLOWS:

1. I am a Partner at Aird & Berlis LLP and, as such, I have knowledge of the matters to which I hereinafter depose.
2. Aird & Berlis LLP has acted as counsel for Ira Smith Trustee & Receiver Inc., in its capacity as Court-appointed monitor (the "**Monitor**") of Korex Don Valley ULC by Order of the Court dated February 6, 2009.
3. Aird & Berlis LLP has prepared Statements of Account in connection with its mandate as counsel to the Monitor, namely,
 - (a) An account dated February 9, 2009 in respect of the period from January 8, 2009 to February 6, 2009; and
 - (b) An account dated March 19, 2009 in respect of the period from February 13, 2009 to March 18, 2009.

Attached hereto and marked as **Exhibit "A"** to this my affidavit are copies of the Statements of Account. The average hourly rate of Aird & Berlis LLP is \$435.44.

4. This Affidavit is made in support of a motion to, *inter alia*, approve the attached accounts of Aird & Berlis LLP and the fees and disbursements detailed therein and for no improper purpose.

SWORN before me at the City of)
Toronto, in the Province of Ontario)
this 24th day of March, 2009)

A Commissioner, etc.

S. MITRA



RICHARD EPSTEIN

Attached is Exhibit "A"

Referred to in the

AFFIDAVIT OF RICHARD EPSTEIN

Sworn before me

this 24TH day of March, 2009



Commissioner for taking Affidavits, etc

**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**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KOREX DON VALLEY ULC**

APPLICANT

SUMMARY OF TIME INCURRED

Account #358901 (dated February 9, 2009)

Lawyer	Call to Bar	Working Rate	Hours	Credit\$
S. P. Mitra	1996	438.82	19.10	8,381.50
R. Epstein	1992	475.00	11.40	5,415.00
I. E. Aversa	2008	245.00	2.20	539.00

File Clerk		Working Rate	Hours	Credit\$
Patrick Williams		130.00	0.60	78.00

Account #361442 (dated March 19, 2009)

Lawyer	Call to Bar	Working Rate	Hours	Credit\$
S. P. Mitra	1996	440.00	3.70	1628.00
R. Epstein	1992	475.00	6.40	3040.00

File Clerk		Working Rate	Hours	Credit\$
Patrick Williams		130.00	0.60	78.00

IN ACCOUNT WITH:

AIRD & BERLIS LLP

Barristers and Solicitors

Brookfield Place, 181 Bay Street
Suite 1800, Box 754
Toronto, Ontario M5J 2T9
Canada

Ira Smith Trustee & Receiver Inc.
6-167 Applewood Crescent
Concord, Ontario
Canada L4K 4K7

Attention: Mr. Ira Smith

Account No.: 358901

PLEASE WRITE ACCOUNT NUMBERS
ON THE BACK OF ALL CHEQUES

File No.: 34489/101330

February 9, 2009

Re: Korex Don Valley ULC

FOR PROFESSIONAL SERVICES RENDERED on your behalf throughout the period ended February 6, 2009

LAWYER	DATE	TIME	DESCRIPTION
SPM	28/01/09	1.50	Review motion record of Comerica; Provide comments on draft Order to John Leslie and Bruce Darlington
RHE	08/01/09	2.70	Final review; Conference call with I. Smith and S. Mitra to provide comments; Conference call with clients, B. Darlington and S. Mitra
SPM	08/01/09	1.00	Review Application Record and draft First Report from client
RHE	09/01/09	1.10	Review and respond to emails from I. Smith; Review report and email I. Smith; Review and respond to email from S. Friedman
SPM	09/01/09	1.10	Telephone call I. Smith and R. Epstein regarding report; Telephone call B. Darlington and S. Friedman regarding attendance on January 12, 2009
RHE	10/01/09	0.30	Review and respond to emails from S. Friedman
SPM	11/01/09	0.20	Email exchange with counsel for debtor regarding position on January 12, 2009
SPM	12/01/09	1.50	Prepare and attend motion returnable on January 12, 2009; Report to client
RHE	14/01/09	0.30	Review and respond to emails re: further adjournment and provisions for proposed monitor
SPM	14/01/09	0.10	Email exchange with S. Freidman regarding adjournment

LAWYER	DATE	TIME	DESCRIPTION
RHE	15/01/09	0.40	Review and respond to emails re: term of adjournment and proposed monitor's requirements
IEA	16/01/09	0.50	Engaged with reviewing the report of the Proposed Monitor in preparation of the hearing on January 19, 2009
SPM	16/01/09	0.60	Telephone call S. Friedman regarding adjournment of January 19, 2009; Telephone call I. Smith and R. Epstein regarding attendance on January 19 and filing of report; Meet with I. Aversa to provide instructions on attendance on January 19, 2009
IEA	19/01/09	1.70	Attend court on behalf of the Proposed Monitor; Email to I. Smith, S. Mitra and R. Epstein re: the same; Telephone call with I. Smith and S. Mitra re the same
RHE	19/01/09	0.70	Review court order; Telephone call with I. Smith re: trustee's report; Telephone call with S. Mitra re: same
SPM	19/01/09	0.70	Review endorsement of Justice Morawetz and email exchange with client regarding second report of proposed monitor; Conference call with I. Aversa and I. Smith to discuss strategy; Email exchange with R. Epstein regarding proposed strategy
RHE	22/01/09	0.30	Review email from I. Smith; Respond
SPM	22/01/09	1.00	Telephone call I. Smith regarding status of proceedings and call with Debtor
RHE	23/01/09	0.30	Email from I. Smith; Respond
SPM	23/01/09	1.00	Prepare and attend scheduling hearing and attend to filing of first report and supplementary report
RHE	27/01/09	0.80	Review revised draft order; Emails to S. Mitra and I. Smith re: same
SPM	27/01/09	0.70	Review draft initial order and provide comments to client
RHE	28/01/09	1.00	Review draft order; Provide comments to S. Mitra and I. Smith; Email to B. Darlington; Emails to/from internal working group re: draft order
SPM	28/01/09	1.50	Review motion record of Comerica; Provide comments on draft Order to John Leslie and Bruce Darlington
RHE	29/01/09	0.30	Review and revise draft orders and related materials; Emails to/from I. Smith and S. Mitra
SPM	29/01/09	0.20	Email exchange to set up conference call to dismiss order

LAWYER	DATE	TIME	DESCRIPTION
SPM	29/01/09	0.40	Review and respond to email from I. Smith regarding position for conference call; Telephone call I. Smith
RHE	30/01/09	0.30	Review revised CCAA order
SPM	30/01/09	1.00	Conference Call
SPM	30/01/09	0.20	Arrange for delivery of responding materials of Debtor to client
RHE	01/02/09	0.80	Review trust's report; Emails to S. Mitra and I. Smith
SPM	01/02/09	1.80	Review revisions to draft order from company and email to client; Review supplementary motion record of company; Review and revise draft second supplementary report
RHE	02/02/09	0.80	Review application materials, emails and other court documents; Letter to C. Lewis; Discuss with S. Mitra
SPM	02/02/09	0.40	Email exchange with P. Pickering and J. Fisher regarding discharge hearing
PW	02/02/09	0.60	Filed Responding Motion Record for February 3, 2009
SPM	03/02/09	1.00	Prepare and attend hearing and request for adjournment
SPM	03/02/09	0.30	Attend to report to I. Smith regarding court attendance
RHE	04/02/09	0.60	Review and respond to emails; Review draft orders/blacklines and other matters
SPM	04/02/09	1.00	Review and provide comments on draft order to client; Telephone call B. Darlington and email S. Friedman
RHE	05/02/09	0.70	Review and respond to various emails; Telephone call with S. Mitra; Review email
SPM	05/02/09	0.50	Review revised order and emails to client and counsel regarding resolution
SPM	06/02/09	1.40	Prepare for and attend hearing for initial order; Email exchange regarding draft order with client and S. Friedman; Arrange for billing of file
TOTAL:		<u>33.30</u>	

OUR FEE
 GST at 5%

\$14,413.50
 \$720.68

DISBURSEMENTS

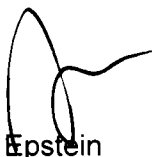
Subject to GST

Photocopies - Local	\$28.50	
Fax Charges	\$3.50	
Photocopies	\$6.75	
Postage	\$17.30	
Binding and Tabs	\$4.00	
Total Disbursements		\$60.05
GST at 5%		\$3.00

AMOUNT NOW DUE

\$15,197.23

THIS IS OUR ACCOUNT HEREIN
Aird & Berlis LLP



Richard Epstein

E.&O.E.

PAYMENT OF THIS ACCOUNT IS DUE ON RECEIPT

IN ACCORDANCE WITH THE SOLICITORS ACT, ONTARIO, INTEREST WILL BE CHARGED AT THE RATE OF 2.5% PER ANNUM ON UNPAID AMOUNTS CALCULATED FROM A DATE THAT IS ONE MONTH AFTER THIS ACCOUNT IS DELIVERED.

OUR GOODS AND SERVICES GST REGISTRATION NUMBER IS 12184 6539 RT0001

NOTE: This account may be paid by wire transfer in Canadian funds to our account at The Toronto-Dominion Bank, TD Centre, 55 King Street West, Toronto, Ontario, M5K 1A2. Account number 5221521, Transit number 10202, Swift Code TDOMCATTOR. Please include the invoice number as reference.

4841820.1

IN ACCOUNT WITH:

AIRD & BERLIS LLP

Barristers and Solicitors

Brookfield Place, 181 Bay Street
Suite 1800, Box 754
Toronto, Ontario M5J 2T9
Canada

Ira Smith Trustee & Receiver Inc.
6-167 Applewood Crescent
Concord, Ontario
Canada L4K 4K7

Attention: Mr. Ira Smith

Account No.: 361442

PLEASE WRITE ACCOUNT NUMBERS
ON THE BACK OF ALL CHEQUES

File No.: 34489/101330

March 19, 2009

Re: Korex Don Valley ULC

FOR PROFESSIONAL SERVICES RENDERED on your behalf throughout the period ended March 18, 2009

DATE	INITIALS	DESCRIPTION
13/02/09	RHE	Review and respond to email from Unilever's counsel
13/02/09	SPM	Telephone call I. Smith regarding position on wording of draft Order
17/02/09	RHE	Emails to counsel for Unilever
19/02/09	RHE	Review email from I. Smith to working group
04/03/09	RHE	Telephone call with I. Smith re: status and issues; Attend on conference call
05/03/09	RHE	Review and respond to various emails
06/03/09	RHE	Review and provide comments on draft report; Serve Trustee's report; Multiple telephone attendances with I. Smith; Participate in conference calls
06/03/09	PW	Filed Trustees Report for March 9, 2009 motion
09/03/09	RHE	Telephone call with S. Mitra to bring him up to date on recent developments and court attendance; Review emails
09/03/09	SPM	Prepare and attend Motion for extension and meeting with client
09/03/09	SPM	Email March 9, 2009 endorsement of Justice Hoy to client
11/03/09	RHE	Review and respond to various emails

DATE	INITIALS	DESCRIPTION	
11/03/09	SPM	Email exchange to arrange date for motion to approve first report of receiver	
13/03/09	RHE	Review monitoring report	
16/03/09	RHE	Emails to/from I. Smith re; Comerica's counsel; Email re: Unilever issue	
OUR FEE			\$4,746.00
GST at 5%			\$237.30

DISBURSEMENTS

Subject to GST

Photocopies - Local	\$11.75	
Taxi	\$63.81	
Fax Charges	\$52.50	
Photocopies	\$30.75	
Binding and Tabs	\$3.50	
Total Disbursements		\$162.31
GST at 5%		\$8.12

AMOUNT NOW DUE

\$5,153.73

THIS IS OUR ACCOUNT HEREIN
Aird & Berlis LLP


Richard Epstein

E.&O.E.

PAYMENT OF THIS ACCOUNT IS DUE ON RECEIPT

IN ACCORDANCE WITH THE SOLICITORS ACT, ONTARIO, INTEREST WILL BE CHARGED AT THE RATE OF 2.5% PER ANNUM ON UNPAID AMOUNTS CALCULATED FROM A DATE THAT IS ONE MONTH AFTER THIS ACCOUNT IS DELIVERED.

OUR GOODS AND SERVICES GST REGISTRATION NUMBER IS 12184 6539 RT0001

NOTE: This account may be paid by wire transfer in Canadian funds to our account at The Toronto-Dominion Bank, TD Centre, 55 King Street West, Toronto, Ontario, M5K 1A2. Account number 5221521, Transit number 10202, Swift Code TDOMCATTOR. Please include the invoice number as reference.

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

APPLICANT

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDINGS COMMENCED AT TORONTO

AFFIDAVIT OF FEES

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Barristers and Solicitors
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181 Bay Street
Toronto, Ontario M5J 2T9
Tel: 416.863.1500
Fax: 416.863.1515

Sanjeev Mitra – LSUC # 37934 U
Tel: 416.863.1500
Fax: 416.863.1515

Solicitors for the Monitor

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF KOREX DON VALLEY ULC

APPLICANT

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDINGS COMMENCED AT TORONTO

MOTION RECORD

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Solicitors for the Monitor