

**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

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

Ira Smith MBA CA-CIRP

P: 905.738.4167

F: 905.738.9848

E: ira@irasmithinc.com

FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.

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

DATED MARCH 6, 2009

INDEX

REPORT	<u>Page</u>
1.0 Introduction	1
2.0 Disclaimer	3
3.0 Monitoring	4
4.0 Other matters	5
5.0 Conclusion	5

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

INDEX

EXHIBITS

Proposed monitor's First Report to Court dated January 9, 2009	"A"
Proposed monitor's First Supplementary Report to Court dated January 22, 2009	"B"
Proposed monitor's Second Supplementary Report to Court dated February 2, 2009	"C"
Order of the Honourable Mr. Justice Cumming dated February 6, 2009	"D"
Monitor's report for the week ending February 7, 2009	"E"
Monitor's report for the week ending February 14, 2009	"F"
Monitor's report for the week ending February 21, 2009	"G"
Monitor's report for the week ending February 28, 2009	"H"

**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.

**

**

**

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**

INDEX

REPORT	<u>Page</u>
1.0 Introduction	1
2.0 Disclaimer	3
3.0 Affidavit Paragraph 34	4
<i>Retained earnings</i>	4
<i>Accounts receivable</i>	5
<i>Inventory</i>	8
4.0 Affidavit Paragraph 35	9
5.0 Affidavit Paragraph 38	11
6.0 Balance Sheet – Affidavit Exhibit “G”	11
7.0 Cash Flow – Affidavit Exhibit “J”	11
8.0 Other	13
9.0 Summary	13

**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**

INDEX

EXHIBITS

Endorsement of The Honourable Mr. Justice Campbell dated January 2, 2009	“A”
Korex aged trade accounts receivable listing as at November 30, 2008	“B”
Korex internal unaudited Balance Sheet as at July 31, 2008	“C”
Korex cash flow projection including the period from January 1 to the week ending April 4, 2009	“D”

**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

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.

BALANCE OF PAGE INTENTIONALLY LEFT BLANK

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
						<u>828,834</u>	<u>785,531</u>	<u>755,026</u>
US CHEQUING ACCOUNT ENDING IN 052						<u>174,435</u>	<u>650,599</u>	<u>596,693</u>

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.

**

**

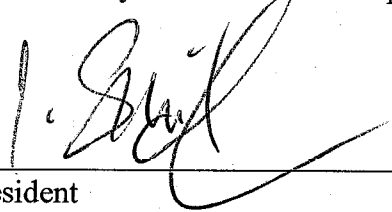
**

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

Court File No. P 1042
08-CL-7925

Ontario
Superior Court of Justice
(Commercial List)

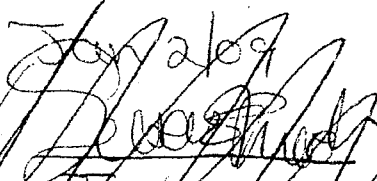
In the matter of the CCAA
and

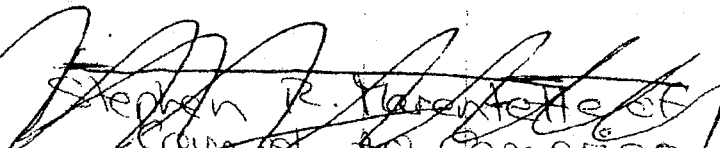
In the matter of a plan of compromise or arrangement of
Korex Don Valley ULC Applicant

Consent

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

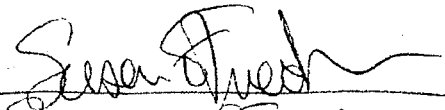
- 1/ This Application is to be adjourned to January 12, 2009;
- 2/ Until this Application is returned, Comerica agrees to ~~abstain~~ in realizing on or enforcing its security and will not seek to appoint a receiver;
- 3/ Paragraph 2 is subject to there not being a material adverse change in the operations 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 ~~Don Valley ULC~~ agrees that until the return of the Application it will not use the funds referred to in paragraph 35 of the 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

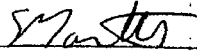

Stephen R. Marcotte of
counsel to Comerica

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 Bojkowski sworn
December 31, 2008

Jan 2/09



Susan Friedman
of counsel to Korex



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

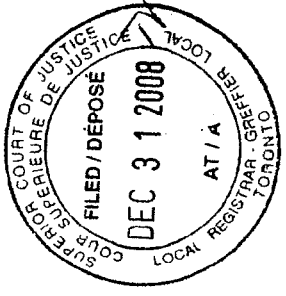
*Jan. 2/09.
Ken Carver - adj. inmt granted
to Jan. 12/09 for 1 hr. in terms
esp set out in Carver's report
by parties & attached hereto.
RACampbell*

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 A/R 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 Bookkeeping	\$ -	\$ 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-Kay 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	\$ -	\$ 36,675.70	\$ -	\$ -	\$ 4,518.18	\$ 41,193.88
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 Bookkeeping	\$ -	\$ 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
<i>Total Current Assets</i>	<i>15,056</i>
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
<i>Total Current Liabilities</i>	<i>15,138</i>
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"

Korea Don Valley LLC
Net Cash Flow
13 Week Projection
(000s Canadian Dollars)

Cash From Operations

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Forecast 3-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 Total
Net Income	26	(425)	(443)	(264)	(320)	(89)	(33)	(47)	(51)	(61)	(17)	(3)	(29)	(41)	(29)	(8)	(15)	(20)	(34)	(1,859)
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	(206)	(214)	(128)	(159)	(17)	(16)	(23)	(25)	(29)	(8)	(1)	(14)	(20)	(14)	(4)	(7)	(10)	(17)	(839)
Total Cash from Income	122	(548)	(574)	(309)	(409)	(34)	(30)	(61)	(58)	(71)	(8)	15	(22)	(41)	(24)	8	(9)	(11)	(32)	(2,073)

Accounts Payable/Accounts Receivables

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Forecast 3-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 Total
Accounts Payable	(367)	(2,889)	3,751	(596)	(551)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(641)
GRN (Goods Received not Invoiced)	(244)	862	(940)	878	721	13	13	13	13	13	13	13	13	13	13	13	13	13	13	1,578
Uninvoiced Payables	56	56	56	56	56	13	13	13	13	13	13	13	13	13	13	13	13	13	13	462
Uninvoiced Revenue	26	9	9	32	(142)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(29)
Bank Loan 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)	66	(70)	68	(70)	68	(70)	68	68	(135)	68	(70)	(10)
Other Accruals	(439)	(389)	196	(101)	181	(187)	8	8	8	8	8	8	8	8	8	8	8	8	8	(591)
Other Taxes Payable	370	(207)	(92)	(2)	29	4	4	4	4	4	4	4	4	4	4	4	4	4	4	108
Other Working Capital	20	12	(93)	22	20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37
Total Cash from Working Capital	(957)	2,686	816	695	232	16	(4)	(196)	(32)	(133)	42	(96)	42	(96)	42	42	(166)	42	(96)	3,240

TOTAL CASH FROM OPERATIONS

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Forecast 3-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 Total
Total Cash from Working Capital	(957)	2,686	816	695	232	16	(4)	(196)	(32)	(133)	42	(96)	42	(96)	42	42	(166)	42	(96)	3,240
TOTAL CASH FROM OPERATIONS	(435)	2,148	241	386	(173)	(19)	(34)	(247)	(88)	(254)	36	(80)	20	(137)	18	50	(168)	31	(127)	1,187

TOTAL CASH USED FOR INVESTMENT

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Forecast 3-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 Total	
Investments	-	(13)	(0)	10	(0)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(1)
Fixed Asset Additions	-	(1,000)	-	-	(14)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(22)
Fixed Asset Retirements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)
Changes in Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CASH USED FOR INVESTMENT	-	(1,013)	(0)	10	(14)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(22)
Cash from Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(22)
Payments on Long-Term Loans	-	(1,000)	-	-	(14)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1,000)
Other Loans/Interest (Received)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)
TOTAL CASH FROM FINANCING	-	(1,000)	-	-	(14)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1,000)
NET CASH FLOW	(435)	1,135	240	386	(187)	(19)	(35)	(247)	(89)	(255)	36	(81)	19	(137)	18	50	(168)	31	(128)	144	
Cash - Beginning of Period	416	(16)	1,122	1,363	1,799	1,572	1,553	1,518	1,271	1,182	927	953	882	902	784	782	832	653	694	416	
Cash - End of Period	(16)	1,122	1,363	1,799	1,572	1,553	1,518	1,271	1,182	927	953	882	902	784	782	832	653	694	594	782	
	3	3	1	1	1																
NET CASH FLOW	(16)	1,122	1,363	1,799	1,572	1,553	1,518	1,271	1,182	927	953	882	902	784	782	832	653	694	594	782	
	3	3	1	1	1																

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.
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 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, ON L4K 4K7

Ira Smith MBA CA-CIRP

P: 905.738.4167
F: 905.738.9848
E: ira@irasmithinc.com

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

INDEX

REPORT	<u>Page</u>
1.0 Introduction	1
2.0 Disclaimer	2
3.0 Financial update	3
4.0 Cash flow	5
5.0 Other matters	6
6.0 Material adverse change	7
7.0 Monitor's initial assessment of Korex reaction	9

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

INDEX

EXHIBITS

Endorsement of The Honourable Madam Justice Pepall dated January 12, 2009 “A”

Endorsement of The Honourable Mr. Justice Morawetz dated January 19, 2009 “B”

Monitor’s email to Korex and Comerica Bank representatives
dated January 19, 2009 “C”

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

2 Jan 2009

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 LLC

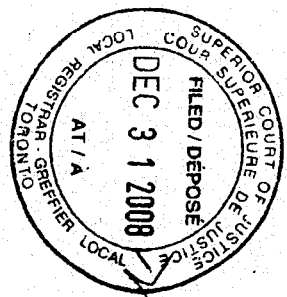
Court File No. 08-CL-7925

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. Ken Bennett - ed Bennett (present) re Jan 2/09 per Mr. Bennett's advice and in (original message) by letters of effacee below.

Jan 12/09

RECC company

- 1. Counsel for Mr Smith has advised that the work described in para 5 of the consent order of Campbell's has been done. A report will be filed for the purpose of the next court hearing.
2. In consent, the application is adjourned to Jan 19/09 for a hearing on the above terms as set forth in Campbell's order with the exception of paras 1-4. Consent requires time to file materials in response.

EBROLL, S

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

This email may contain confidential and/or privileged information for the sole use of the intended recipient. Any review or distribution by others is strictly prohibited. If you have received this email in error, please contact the sender and delete all copies. Opinions, conclusions or other information expressed or contained in this email are not given or endorsed by the sender unless otherwise affirmed independently by the sender.

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

January 19/09

The parties are not in a position to proceed.

Indicated negotiating in good faith to conclude by January 23/09 at 9:30 a.m.
Proposed Amicable to file on Report ~~at~~
for next attendance which provides up to date summary of key assets.

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

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@airdberlis.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.

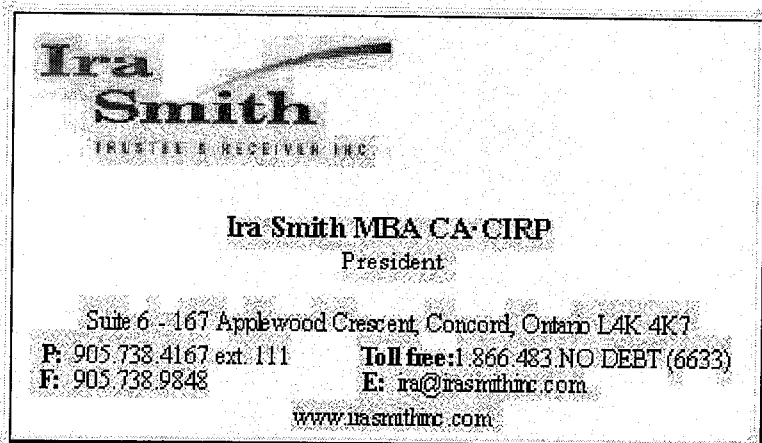
Therefore, Stan Sugar of my office will be contacting John Bojkovski tomorrow morning by telephone, in order to obtain updated financial information for the key areas discussed in our First Report to Court, with appropriate backup. John, my current thinking is that Stan can do this by telephone, email 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



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.

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 you 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.
- c- para 11: this was previously accepted by your client, not sure why it comes out
- c- 26(b): we think 15% is a compromise.
- d- 27 and 28: Any payment the bank receives should not be a preference given its security position. However, the bank wants this safety net.
- e- Last paragraph: We kept everything here (your addition and the eliminated portion). It was previously sent to Comerica on December 22 in this fashion. We did change "insolvency proceeding" to CCAA.

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)

DISCLOSURE UNDER TREASURY CIRCULAR 230: The United States Federal tax advice, if any, contained in this document and its attachments may not be used or referred to in the promoting, marketing or recommending of any entity, investment plan or arrangement, nor is such advice intended or written to be used, and may not be used, by a taxpayer for the purpose of avoiding Federal tax penalties.

This e-mail and any attachment(s) are confidential and may be privileged.
If you are not the intended recipient please notify me immediately by

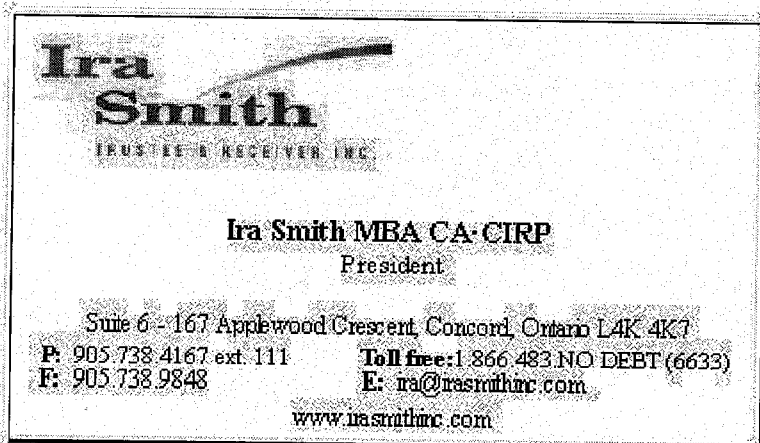
return e-mail, delete this e-mail and do not copy, use or disclose it.
Please advise us if you do not want to receive unencrypted e-mails.

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.

From: Darlington, Bruce [mailto: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.
- c- para 11: this was previously accepted by your client, not sure why it comes out
- c- 26(b): we think 15% is a compromise.
- d- 27 and 28: Any payment the bank receives should not be a preference given its security position. However, the bank wants this safety net.

e- Last paragraph: We kept everything here (your addition and the eliminated portion). It was previously sent to Comerio on December 22 in this fashion. We did change "insolvency proceeding" to CCAA.

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)

DISCLOSURE UNDER TREASURY CIRCULAR 230: The United States Federal tax advice, if any, contained in this document and its attachments may not be used or referred to in the promoting, marketing or recommending of any entity, investment plan or arrangement, nor is such advice intended or written to be used, and may not be used, by a taxpayer for the purpose of avoiding Federal tax penalties.

This e-mail and any attachment(s) are confidential and may be privileged.

If you are not the intended recipient please notify me immediately by 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.

**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.

**

**

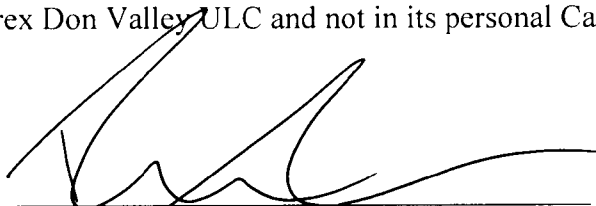
**

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 "CCAA") 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 "Chargees") 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
IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF KOREX DON VALLEY ULC**

Court File No. 08-CL-7925

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

INITIAL ORDER

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



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

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 7-Feb-09	original per report Forecast 7-Feb-09	net change
Current Assets			
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
Total Current Assets	10,075	11,783	(1,708)
Fixed Assets (NBV)	5,255	5,255	(0)
Total Assets	15,330	17,038	(1,708)
LIABILITIES			
Current Liabilities			
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)
Total Current Liabilities	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	(238)	(588)	350
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)	(15)	(15)	(0)
Net Income Before Tax	(181)	(27)	(154)
Total Income Tax	-	9	(9)
Net Income After Taxes	(181)	(18)	(163)

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
<hr/>				
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	-
<hr/>				
Total Cash from Working Capital		765	201	564
TOTAL CASH FROM OPERATIONS		603	193	410
<hr/> <hr/>				
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)
<hr/> <hr/>				
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)
<hr/> <hr/>				

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

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: 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>
Current Assets			
Cash / Short Term Investments	511	-	511
Accounts Receivable	6,107	5,436	671
Inventory	3,354	3,643	(289)
Prepaid Expenses	641	642	(1)
Total Current Assets	10,613	9,721	892
Fixed Assets (NBV)	5,235	5,235	-
Total Assets	15,848	14,956	892
LIABILITIES			
Current Liabilities			
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)	-
Total Current Liabilities	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)	(106)	(156)	50
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	(19)	(19)	-
Operating Income	(20)	(61)	41
<u>Other Income/ (Expenses)</u>			
Interest Income/ (Expense)	(6)	(6)	-
Other Income/ (Expenses)	1	1	-
Restructuring Costs	(66)	(75)	9
Total Other Income/(Expenses)	<u>(71)</u>	<u>(80)</u>	<u>9</u>
Net Income, (Loss) Before Tax	(91)	(141)	50
Income Tax	-	-	-
Net Loss	<u>(91)</u>	<u>(141)</u>	<u>50</u>

Korex Don Valley ULC**Cash Flow**

(000s Canadian Dollars)

		wk1 Actual <u>14-Feb-09</u>	wk1 Forecast <u>14-Feb-09</u>	<u>net change</u>
Cash From Operations				
Net Income		(91)	(141)	50
Depreciation		19	19	-
Deferred Taxes		-	-	-
		<hr/>		
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	-
		<hr/>		
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
		<hr/>		
TOTAL CASH FROM FINANCING		550	(123)	673
NET CASH FLOW		414	(97)	511
<hr/>				
Cash - Beginning of Period		97	97	-
Cash - End of Period		511	-	511
		<hr/>		

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	2,765	2,092	673
Excess (under) Availability	688	956	(269)

	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)	(51)	(81)	(97)	(59)
Depreciation	19	19	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)	(32)	(62)	(78)	(39)
Receivables	225	202	137	91	25	(184)	88	182	205	(26)	137	52	(74)
Inventories	29	(223)	39	147	208	111	120	70	72	156	89	65	178
Accounts Payable/Accounts													
Accounts Payable	(0)	-	-	-	-	-	-	-	-	-	-	-	-
GFNI (Goods Received not Invoiced)	13	13	13	13	13	13	13	13	13	13	13	13	13
Unlever Payables	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Intercompany Payables	(52)	50	(52)	50	32	(85)	32	(34)	32	(34)	32	(34)	32
Bank Loan Payable	(71)	(21)	(21)	(21)	4	4	4	4	4	4	4	4	4
Wages Payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Accruals	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Taxes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Working Capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash from Working Capital	146	23	118	282	284	(138)	260	218	329	156	278	118	156
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 (Revolver)	(122)	53	(66)	(202)	(240)	211	(204)	(145)	(257)	(123)	(215)	(39)	(116)
TOTAL CASH FROM FINANCING	(122)	52	(67)	(202)	(240)	211	(205)	(146)	(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	5,352	5,207	5,157	5,132	5,316	5,228	5,066	4,861	4,887	4,750	4,698	4,771
Ineligibles	(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)
Eligible A/R	1,859	1,649	1,504	1,454	1,429	1,613	1,525	1,363	1,158	1,184	1,047	995	1,068
Collateral %	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
A/R Collateral	1,580	1,402	1,279	1,236	1,215	1,371	1,296	1,159	984	1,006	890	845	908
Gross Inventory	4,520	4,843	4,805	4,657	4,450	4,338	4,219	4,148	4,076	3,880	3,791	3,726	3,549
Ineligibles	(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)
Eligible Inventory	2,569	2,892	2,854	2,706	2,499	2,387	2,268	2,197	2,125	1,929	1,840	1,775	1,598
Collateral %	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
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	879
Total Collateral (Per Formula)	3,048	2,993	2,848	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	2,078	1,877	1,637	1,849	1,644	1,489	1,242	1,119	904	865	749
Excess(Under) Availability	956	847	769	847	952	836	899	869	911	948	993	957	1,038



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: 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)	(59)	(236)	(9)	(9)
Depreciation	19	19	-	38	-	-
Total Cash from Income	(135)	(76)	(59)	(198)	(9)	(9)
Receivables	(216)	202	(418)	427	(1,089)	(1,089)
Inventories	(358)	(223)	(135)	(194)	154	154
<u>Accounts Payable/Accruals</u>						
Accounts Payable	151	-	151	-	337	337
GRNI (Goods Received not Invoiced)	260	-	260	-	127	127
Unilever Payables	13	13	-	26	-	-
Intercompany Payables	-	-	-	-	-	-
Unearned Revenue	(1)	(1)	-	(2)	(2)	(2)
Bank Loan Payable	-	-	-	-	-	-
Wages Payable	58	50	8	(2)	6	8
Other Accruals	(21)	(21)	-	(91)	(17)	74
Other Taxes Payable	(43)	-	(43)	-	-	-
Other Working Capital	5	4	1	8	9	1
Total Cash from Working Capital	(152)	24	(176)	172	(216)	(388)
TOTAL CASH FROM OPERATIONS	(287)	(52)	(235)	(26)	(423)	(397)
Cash from Financing						
Payments on Long - Term Loans	(1)	(1)	-	(2)	(2)	-
Other Loans / Interest (Revolver)	-	53	(53)	(69)	551	620
TOTAL CASH FROM FINANCING	(1)	52	(53)	(71)	549	620
NET CASH FLOW	(288)	-	(288)	(97)	126	223
Cash - Beginning of Period	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

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

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	wk2	wk1	wk1	net change
	Actual	Forecast	Actual	Forecast	net change
	21-Feb-09	21-Feb-09	14-Feb-09	14-Feb-09	net change
Gross A/R	6,441	5,352	6,231	5,562	669
Ineligibles	(3,737)	(3,703)	(3,645)	(3,703)	58
Eligible A/R	<u>2,704</u>	<u>1,649</u>	<u>2,586</u>	<u>1,859</u>	<u>727</u>
Collateral @ 85%					
A/R Collateral	2,298	1,402	2,198	1,580	618
Gross Inventory	4,689	4,843	4,331	4,620	(289)
Ineligibles	(2,334)	(1,951)	(2,051)	(1,951)	(100)
Eligible A/R	<u>2,355</u>	<u>2,892</u>	<u>2,280</u>	<u>2,669</u>	<u>(389)</u>
Collateral @ 55%					
Inventory Collateral	1,295	1,591	1,254	1,468	(214)
Total Collateral (Per Formula)	3,593	2,993	3,452	3,048	404
Borrowing	2,765	2,145	2,765	2,092	673
Excess (under) Availability	828	848	687	956	(269)



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

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

	wk3		wk3		Cumulative to date	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	28-Feb-09	28-Feb-09	28-Feb-09	28-Feb-09	Forecast	net change
Total Sales	524	517	7		1,445	1,453 (8)
Cost of Sales - Materials	(423)	(386)	(37)		(1,141)	(1,111) (30)
Cost of Sales - Plant Spend (excludes Admin)	(130)	(125)	(5)		(335)	(405) 70
Total Cost of Goods Sold	<u>(553)</u>	<u>(511)</u>	<u>(42)</u>		<u>(1,476)</u>	<u>(1,516)</u> 40
Gross Profit	(29)	6	(35)		(31)	(63) 32
Total SG&A	(45)	(23)	(22)		(143)	(37) (106)
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) 8
Other Income/ (Expenses)	1	1	-		2	3 (1)
Restructuring Costs	(42)	(30)	(12)		(138)	(135) (3)
Total Other Income/(Expenses)	<u>(39)</u>	<u>(35)</u>	<u>(4)</u>		<u>(146)</u>	<u>(150)</u> 4
Net Income, (Loss) Before Tax	(138)	(71)	(67)		(383)	(307) (76)
Income Tax	-	-	-		-	-
Net Loss	<u>(138)</u>	<u>(71)</u>	<u>(67)</u>		<u>(383)</u>	<u>(307)</u> (76)

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

	wk3		wk3		Cumulative to date	
	Actual	Forecast	Actual	Forecast	Actual	Forecast
	28-Feb-09	28-Feb-09	28-Feb-09	28-Feb-09	net change	net change
Cash From Operations						
Net Income	(138)	(71)	(67)	(307)	(76)	(76)
Depreciation	25	19	6	57	6	6
Total Cash from Income	(113)	(52)	(61)	(250)	(70)	(70)
Receivables	249	137	112	564	(977)	(977)
Inventories	380	39	341	(155)	495	495
<u>Accounts Payable/Accruals</u>						
Accounts Payable	(591)	-	(591)	-	(254)	(254)
GRNI (Goods Received not Invoiced)	253	-	253	-	380	380
Unlever Payables	17	13	-	39	43	-
Intercompany Payables	(14)	-	(14)	-	(14)	(14)
Unearned Revenue	1	(1)	2	(3)	(1)	2
Bank Loan Payable	-	-	-	-	-	-
Wages Payable	(80)	(52)	(28)	(54)	(74)	(20)
Other Accruals	(230)	(21)	(209)	(112)	(247)	(135)
Other Taxes Payable	35	-	35	-	35	35
Other Working Capital	7	4	3	12	16	4
Total Cash from Working Capital	27	119	(92)	291	(189)	(480)
TOTAL CASH FROM OPERATIONS	(86)	67	(153)	41	(509)	(550)
Investments						
Fixed Asset Additions	(1)	-	(1)	-	(1)	(1)
TOTAL CASH USED FOR INVESTMENT	(1)	-	(1)	-	(1)	(1)
Cash from Financing						
Payments on Long - Term Loans	(4)	(1)	(3)	(3)	(6)	(3)
Other Loans / Interest (Revolver)	-	(66)	66	(135)	551	686
TOTAL CASH FROM FINANCING	(4)	(67)	63	(138)	545	683
NET CASH FLOW	(91)	-	(91)	(97)	35	132
Cash - Beginning of Period	223	-	223	97	97	-
Cash - End of Period	132	-	132	-	132	132

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

	\$	Previous to date	Total Cumulative
Cash in Bank - February 21st 2009	<u>223,340</u>	<u>94,568</u>	<u>94,568</u>
Receivable collections	<u>436,797</u>	<u>335,426</u>	<u>772,223</u>
<u>Disbursements</u>			
Supplier payments	<u>412,255</u>	527,366	939,621
Payroll	<u>115,544</u>	<u>129,288</u>	<u>244,832</u>
	<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.	<u>42,713</u>
	<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)
Peitresa Canada Inc.	62,018
Essential Ingre	5,425
Akzo Nobel Chemicals Ltd	58,350
Sundry	<u>749</u>
	<u>412,255</u>

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

	wk3		wk2	
	Actual	Forecast	Actual	Forecast
	28-Feb-09	28-Feb-09	21-Feb-09	21-Feb-09
		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	2,726	1,504	2,704	1,649
Collateral @ 85%		1,222		1,055
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	2,297	2,854	2,355	2,892
Collateral @ 55%		(557)		(537)
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