



Court File No. 04-CL-5491

**ONTARIO
SUPERIOR COURT OF JUSTICE**

COMMERCIAL LIST

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

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

(the Applicants)

**SIXTH REPORT OF THE MONITOR – DOYLE SALEWSKI INC.
February 18, 2005**

I. Introduction

1. On July 16, 2004, Afton Food Group Ltd. and certain of its subsidiaries (collectively, the "Applicants") filed for, and obtained, protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36 (the "CCAA"). The terms of this proceeding are governed by an order of this court dated July 16, 2004 (the "Initial Order"). Pursuant to the Initial Order, Doyle Salewski Inc. ("DSI") was appointed as monitor (the "Monitor") of the Applicants.
2. By order dated July 27, 2004 of the Honourable Mr. Justice Nordheimer, the Initial Order was amended *nunc pro tunc* to include the companies listed in Schedule "A" of the order.
3. The terms of the Initial Order has since been extended from time to time and most recently by order of the Honourable Mr. Justice Farley, dated February 14, 2005 (the "February

2005 Order”) to February 23, 2005. Mr. Justice Farley provided the Applicants with a brief extension to facilitate the execution of an asset purchase agreement with Loretta QSR Corp. (“Loretta”). A copy of the February 2005 Order and Endorsement are enclosed as **Appendix “A”**.

4. Further background information is outlined in the Monitor’s previous reports which are available on the Monitor’s web-site www.doylegroup.ca.

II. Purpose

5. The purpose of this sixth report of the Monitor dated February 18, 2005 (the “Sixth Report”) is to provide information to the court in connection with the following:

- i. the status of the Applicants’ current financial position, operations, and restructuring efforts since the Monitor’s Fifth Report dated February 10, 2005 (the “Fifth Report”); and
- ii. the Applicants’ motion to extend the terms of the Initial Order to February 28, 2005.

III. Qualifications

6. The information contained in this report has been obtained from the records of the Applicants and is based on discussions with, and representations made by management of the Applicants and other professional advisors retained in this matter.

7. The financial information of the Applicants has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles. The reader is cautioned that this report may not disclose all significant matters about the Applicants. Accordingly, the Monitor does not express an opinion or any other form of assurance on the financial or other information presented herein. The Monitor may refine or alter its observations as further information is obtained or is brought to its attention after the date of this report.

8. The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this report. Any use that any party makes of this report or any reliance on or decisions that are made based on this report are the sole responsibility of such party. All dollar amounts identified in this report are expressed in Canadian dollars, unless otherwise specified.

IV. The Applicants’ Current and Projected Financial Position and Status of Operations

9. The Applicants have been proceeding in good faith and with due diligence in continuing to restructure their operations. As there has only been eight days elapsed since the Monitor’s last report, the Monitor advises that there is no material adverse event to its knowledge which has occurred respecting the affairs of the Applicants during this period.

10. (i) **Current and Projected Financial Position**

11. Enclosed as **Appendix "B"** is a Statement of Receipts and Disbursements of the Applicants for the period February 7, 2005 to February 12, 2005.

12. As at February 12, 2005, the Applicants' cash position was \$480,720.19. Based on the cash projection submitted in the Fifth Report projecting a bank balance of \$401,831.48, this is an increase of \$78,888.71 from the submitted budget.

13. Since minimal time has transpired since the filing of the Fifth Report of the Monitor, the Monitor and the Applicants believe that the cash forecast previously prepared by the Applicants for the period February 7, 2005 to March 31, 2005 is reasonable. The forecast projects a positive cash balance for the Applicants for the time period.

14. The Applicants are current with their post filing obligations and are in position to maintain same during the proposed extension period.

(ii) **Status of Operations**

15. At this stage of the CCAA proceedings, the Applicants have continued their operations and have maintained the integrity and functionality of their businesses. As noted above, the cash flow for operations is overall positive and is projected to be satisfactory for the proposed extension period.

(iii) **Issues re Directors and Officers**

16. In the Fifth Report, at paragraphs 20 to 23, the Monitor advised the court of the pending claim of a director and former chief executive officer, Mr. Robert Macdonald. Since the appearance of Mr. Macdonald's solicitor on February 14, 2005, the Monitor has communicated with Mr. Macdonald's solicitor, the Applicants and their counsel, culminating in a teleconference meeting on Thursday, February 17, 2005 at 4:00 p.m (the "Teleconference Meeting"). During the Teleconference Meeting, John Varley of Palett Valo LLP elaborated on his clients' claims, which included Jill Vaudry, Mr. Macdonald's spouse.

17. The Monitor is also now aware that Mr. Patrick Westfall, a former officer of the Applicants, may have a similar claim.

18. During the course of the Teleconference Meeting, it became clear that an agreement between the parties, particularly as to the status of the claimants, as employees post CCAA-filing, was in dispute.

19. The Monitor notes that the Affidavit of P. Bruce Smith sworn February 18, 2005 contains more information for the court in respect of this matter. (Note that Mr. Smith's affidavit refers to the Fifth Report of the Monitor which is this report, the Sixth Report).

20. At this time, the Monitor can advise the court that it has attempted to mediate and resolve the matter, albeit unsuccessfully at this time.

21. The Monitor is awaiting a written communication from Mr. Varley establishing and determining the particulars of his clients' positions.

V. Restructuring Efforts

i. New Distribution Agreements

22. The Applicants are currently operating under various supply and distributions Agreement. It is the Applicants' position that the pricing of these agreements are unfavourable to the Applicants and the franchisees.

23. The Applicants are negotiating improved terms with existing and/or competing suppliers. Management is confident that the proposed agreements will improve supply of products to the franchisees and will result in substantial cost savings to the Applicants and the franchisees.

24. The Applicants are seeking the court's authorization to terminate the existing agreements and enter into new agreements for the supply and distribution. As set out in the Affidavit of P. Bruce Smith filed in support of this request for a further extension, the Monitor supports the Applicants' request.

ii. The Loretta Transaction

25. The Loretta QSR Corp. ("Loretta") transaction is proceeding. The Applicants and Loretta have successfully negotiated the major business terms of an unconditional asset purchase agreement, which are on commercially reasonable terms and are in the best interests of all stakeholders, including Senior Lenders and the franchisees.

26. Although at the date of this report there are a handful of points to be resolved, the Monitor, the board of directors and the Applicants' senior lenders are agreeable to the major business terms of the agreement, including the purchase price. The Applicants anticipate that an asset purchase agreement will be executed prior to the return of the February 23, 2005 motion.

27. The Applicants are requesting a further extension to February 28, 2005 to obtain the necessary orders to complete the Loretta transaction and provide proper notice to all interested stakeholders, including certain landlords whose leases will be assigned pursuant to the Loretta Transaction.

28. As set out in the Affidavit of P. Bruce Smith sworn February 18, 2005, the agreed upon purchase price will be insufficient to satisfy the Applicants' obligations to the Senior Lenders. Accordingly, the Applicants will not be in a position to present a plan of arrangement or compromise to their unsecured creditors.

VI. Extension of the Stay

29. Pursuant to the Order of the Honourable Mr. Justice Farley dated February 14, 2005, the stay period expires on February 23, 2005.

30. An extension of the stay to February 28, 2005 is necessary to enable the Applicants to proceed with an asset purchase agreement with Loretta Foods.

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

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

DOYLE SALEWSKI INC.

In its capacity as Monitor of the Applicants



Brian P. Doyle, CA • CIRP
President