

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

**IN THE MATTER OF
TWIN RINKS LIMITED PARTNERSHIP
of the Town of Oakville
in the Province of Ontario**

**FIRST REPORT TO THE COURT
SUBMITTED BY KPMG INC.
INTERIM RECEIVER AND RECEIVER AND MANAGER**

March 26, 2007

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1.0 Introduction and Purpose of Report

1.1 Introduction

- 1.1.1** Twin Rinks Limited Partnership (“Twin Rinks” or the “Company”) is a limited partnership pursuant to the laws of the Province of Ontario. Twin Rinks was registered on July 15, 2002 as a limited partnership for the purpose of constructing and operating a twin rink ice complex in Oakville, Ontario. Twin Rinks operates the twin pad ice rink facility at 1663 North Service Road, Oakville, Ontario.
- 1.1.2** On or around October 1, 2004 the construction process was substantially complete and the facility began its operation of the ice rinks. The facility includes 2 ice rinks, 2 shooting pads, concession stand, retail pro shop and restaurant. 2035829 Ontario Inc. operates the restaurant under the name of the Gondola Bar and Grill (the “Gondola”) and is a wholly owned subsidiary of the Twin Rinks.
- 1.1.3** MIB Holdings Inc. was the former general partner until being replaced on October 23, 2006 by 2115579 Ontario Inc. (“the Interim General Partner”) as a result of a shareholder dispute among the limited partners.
- 1.1.4** The Company’s secured creditors include Credit Union Central of Ontario Limited (“CUCO”) which represents a syndicate of 7 other credit unions; and, Giffels Build Design Inc. (“Giffels”). The secured creditors are owed approximately \$7.8 million collectively.
- 1.1.5** As a result of various defaults in its loan agreements, its continuing losses and cashflow difficulties, and the litigation in process within the partnership group, the first secured creditor brought forward a motion to enforce its rights upon its security.
- 1.1.6** The Honourable Madam Justice Papell of the Ontario Superior Court of Justice appointed KPMG Inc. as Interim Receiver and Receiver and Manager of Twin Rinks (the “Receiver”) on March 7, 2007. A copy of the order of the Honourable Madam Justice Papell appointing the Receiver is attached as **Appendix A** (the “Initial Order”).
- 1.1.7** The Initial Order authorized the Receiver, among other things, to do the following:
- take possession and control of the property of Twin Rinks and any and all proceeds and receipts arising out of its property;
 - to manage, operate and carry on the business of Twin Rinks;
 - to market any or all of the property of Twin Rinks on such terms and conditions of sale as the Receiver deems appropriate; and,
 - to sell, convey, transfer, lease or assign the property of Twin Rinks.
- 1.1.8** In addition to the standard terms and conditions typically found in the “Model Order”, specific amendments were requested by counsel for the Interim General Partner and certain of the shareholders with respect to the ongoing management of the Twin Rinks operations. Specifically, Paragraph 30 of the Initial Order, which was added at the request of counsel for Twin Rinks ‘Orders that 2115579 Ontario Inc. may remain in place as the operator and manager of the property until the completion of this receivership or further order of the Court’.

1.2 Purpose of Receiver's First Report

1.2.1 This constitutes the Receiver's **First Report** to the Court in this matter and it is filed to:

- report on the Receiver's activities since the appointment and seek the Court's approval for the Receiver's activities to date;
- obtain an Order placing 2035829 Ontario Inc. O/A the Gondola Bar and Grill (the "Gondola") in receivership and consolidating it into the administration of the receivership of Twin Rinks;
- report to the Court the realization strategy and process being undertaken by the Receiver; and
- obtain approval of the Receiver's Statement of Receipts and Disbursements for the period March 7, 2007 to March 22, 2007.

2.0 Initial Receiver Activities

2.1 Background

- 2.1.1 Upon being appointed as Receiver, KPMG Inc. attended at Twin Rinks' premises and arranged to secure all the Company's assets, books and records and cash in the corporate bank accounts. The Receiver met with management and employees to advise them of the Initial Order, the Receiver's powers and duties therein, and the Receiver's intention to carry on the Twin Rinks operations during a marketing/sale process to complete a sale of the Twin Rinks on a going concern basis. The Receiver posted notice of the Initial Order on its website address (www.kpmg.ca/twinrinks).

2.2 Management

- 2.2.1 Representatives of the Receiver, met with the Interim General Partner, a current member of the Limited Partnership and the Interim General Manager (collectively "Management") upon the Receiver's appointment. The Receiver advised Management of its appointment, and its powers and duties pursuant to the Initial Order.
- 2.2.2 Consistent with the intent of paragraph 30 of the Initial Order, the Receiver had discussions with the Interim General Partner ("IGP") and Management, to clarify the normal duties and responsibilities of the IGP prior to the Receiver's appointment. Based on these discussions it was agreed that the role of the IGP would not be required during the receivership period as the duties described by the IGP would be duplicated by the Receiver.
- 2.2.3 In respect of the Interim General Manager (the "GM"), the Receiver wanted to assess the cost/benefit of retaining his services on a continuing basis prior to entering into a services contract. Based on discussions with the GM and the Receiver's role in a receivership, it was not clearly apparent to the Receiver that his services would be required, at least on a full time basis. The Receiver determined that it was prepared to enter into a services contract with the GM, however, on Monday March 12, 2007 the GM advised the Receiver that as he was providing services to a prospective purchaser, he felt that he should resign his position. The Receiver accepted the resignation. The Receiver is satisfied that the remaining department heads retained by the Receiver are sufficiently qualified to continue the Twin Rinks operations, reporting directly to the Receiver.

2.3 Employees

- 2.3.1 On March 8, 2007, the Receiver prepared and issued term and task letters to the employees of the Twin Rinks informing them of the terms of their employment on a day-to-day basis with the Receiver during the receivership proceedings. A sample copy of the letter issued to employees is attached as **Appendix B**.
- 2.3.2 The Receiver offered and entered into letters of employment with 31 full time and part time Twin Rinks employees.

2.4 Contractors

- 2.4.1 The Receiver prepared and issued contract service agreements for the Twin Rinks contract employees including on-ice instructors, a program manager and the bookkeeper. A sample copy of the letter issued to the contractors is attached as **Appendix C**.

2.5 Insurance

2.5.1 The Receiver obtained copies of the Company's insurance policies and made arrangements for the coverage to continue and for the Receiver to be added as an additional name insured on the policies.

2.6 Cash and Banking

2.6.1 After its appointment on March 7, 2007, the Receiver notified the Company's bank of its appointment and requested that all accounts be frozen except to remain open for deposit only.

2.6.2 The Receiver immediately made arrangements for a separate Court-appointed Receiver's trust account to facilitate all future receipts and disbursements with respect to the Receivership administration. The funds on hand in the Company's accounts were transferred to the Receiver's trust account. Any deposits in transit to the old account will be deposited to the Receiver's trust account.

2.7 Notice

2.7.1 The Receiver notified all utility and service providers of its appointment and how to access the Initial Order on the Receiver's website and requested that accounts be opened in the name of the Receiver. The Receiver also issued the notice pursuant to Section 245 of the *Bankruptcy and Insolvency Act* to all known secured and unsecured creditors of the Company.

2.7.2 The Receiver discovered that the Company had been operating without a WSIB account. The Receiver has contacted WSIB to apply for an account while the Receiver continues to operate.

2.8 Equipment Lessors

2.8.1 In respect of the Company's various leased assets, the Receiver has sent notice to the leasing company's requesting their lease and security documentation in order for counsel to provide an opinion as to whether or not their security is valid and enforceable.

2.9 2035829 Ontario Inc. O/A The Gondola Bar & Grill (the "Gondola")

2.9.1 The Gondola is the restaurant facility at the Twin Rinks. It presents very well and is an attractive and valuable part of the Twin Rinks operations. It is a wholly owned subsidiary of the Twin Rinks and is not currently in receivership. It has not always generated sufficient cash flow to pay a reasonable rent to Twin Rinks. Accordingly, as the shareholder, the Receiver has made arrangements to co-sign all post March 7, 2007 cheques of the Gondola and to monitor the daily sales and collection reports and operating expenses. The Receiver intended to offer the Gondola shares for sale together with the arena assets. Purchasers would be asked to allocate a portion of the purchase price to the Gondola shares.

2.9.2 BMO Bank of Montreal ("BMO") is a secured creditor of the Gondola and is owed approximately \$200,000. The Receiver has contacted BMO to advise of its appointment and the strategy to sell the Twin Rinks facility together with the Gondola shares. BMO was satisfied with the strategy and the Receiver agreed to keep BMO advised of the sale process as it related to the Gondola.

2.9.3 The Gondola's unaudited financial statements as at March 6, 2007 reflect negative equity of approximately \$21,000 and negative retained earnings of approximately \$86,000. A copy of the March 6, 2007 financial statement is attached as **Appendix D**. The Gondola has not been able to

pay rent to the Twin Rinks on a consistent basis and in fact did not pay the first \$253,000 in rent during the period October 2004 to December 31, 2005 as it was forgiven by Twin Rinks. Additionally, we understand that there is potential litigation against Twin Rinks and the Gondola by its former accountant for unpaid services totalling approximately \$165,000.

- 2.9.4 In our discussion with certain purchasers, some have expressed a concern regarding acquiring the Gondola shares as all known and unknown liabilities would also be assumed. The Receiver is already aware of the threat of potential litigation from the former accountant.
- 2.9.5 The Gondola's shares are owned 100% by MIB Holdings Inc., ("MIB") the former general partner of the Twin Rinks, which we understand is involved in litigation with certain of the limited partners. Since the Gondola is an integral part of the Twin Rinks operations and is important to the sale process of the Twin Rinks, the Receiver believes that the assets of the Gondola should be included in the administration of this receivership to facilitate the Receiver's sale process and to protect them from any claims arising from current or pending litigation.
- 2.9.6 Accordingly, the Receiver respectfully requests that this Honourable Court make an order placing the Gondola in receivership and consolidating the Gondola assets into the receivership of the Twin Rinks.
- 2.9.7 The Receiver has advised BMO and its counsel of its intention. They will receive service of this motion.

2.10 Sponsorship Agreement

- 2.10.1 Prior to the resignation of the interim general manager, he had been negotiating a sponsorship agreement for the upcoming summer 3 on 3 youth hockey league at the Twin Rinks. As it is important to preserve the ongoing operations for any prospective purchaser and maintain the goodwill of the Twin Rinks, the Receiver has agreed to enter into a sponsorship contract with Oakville Entertainment Holdings Inc. operating as the Oakville Centrum. The Oakville Centrum will sponsor the 3 on 3 Youth Hockey League that operates at the Twin Rinks beginning April 27, 2007. In exchange for the sponsorship payment, the Oakville Centrum will have its name added to the back of the jerseys of the approximate 1,400 youth players, have access to the facility during certain key weekends of the league to handout gift certificates, etc. and sponsor the player of the game award for each game through the 12 week season. The Receiver and Oakville Centrum will also enter into a letter agreement to provide for a refund of the sponsorship payment if the party who acquires the Twin Rinks from the Receiver does not honour the contract.

2.11 Independent Counsel

- 2.11.1 The Receiver has retained Scarfone Hawkins LLP as independent counsel to provide an opinion to the Receiver on the validity and enforceability of CUCO's security and to advise the Receiver on other receivership matters.

3.0 Marketing and Sale of Twin Rinks' Assets

- 3.1 Pursuant to the Initial Order, the Receiver is authorized to market any or all of the assets and operations of Twin Rinks, including advertising and soliciting offers and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate.
- 3.2 The Twin Rinks facility is clearly a special purpose facility with limited alternative utility. Accordingly, the Receiver concluded that it was necessary to continue to operate the facility in order to preserve its value and complete a going concern sale.
- 3.3 The Receiver also concluded that although the asset is primarily real estate, given its special purpose, there was no value in obtaining MLS listing proposals from the brokerage community. The Receiver concluded that it would commence a focused marketing program designed to identify and contact as many targeted buyers as possible, and to advertise publicly in the national edition of the Globe and Mail.
- 3.4 In that regard, the Receiver's Corporate Finance Group conducted internet and data base searches to identify direct targets. The Receiver contacted additional targeted parties that were identified from searches of private or municipally operated ice hockey arenas in the local area to advise them of the acquisition opportunity. In addition, the Receiver advertised an Invitation For Proposals for the sale of the Company's assets and operations in the financial section of the national edition of the Globe & Mail on Friday March 9, 2007 and Tuesday March 13, 2007. A copy of the Invitation For Proposals is attached as **Appendix E**.
- 3.5 The deadline date to submit offers has been established as 10:00 a.m. Wednesday March 28, 2007. The Receiver recognizes that this is a relatively short time frame. However, given that the Twin Rinks programs for March and April have been to a great extent prepaid there is little to no cash receipts expected for ongoing ice rentals. Operating expenses however, continue as the Receiver, the limited and general partners and CUCO agree that it is important to maintain a going-concern in order to preserve the value of the assets and operations.
- 3.6 To date, as a result of contacting the potential interested parties and the advertised Invitation for Proposals, approximately 40 parties have contacted the Receiver to request a copy of the information package (the "Information Package") that was prepared by the Receiver. The Information Package provides a brief overview of the operations, the facility and the Receiver's terms and conditions of sale. A copy of the Information Package is attached as **Appendix F**.
- 3.7 In addition to the Information Package, interested parties were provided with a confidentiality agreement that must be executed in order to obtain more detailed information. A sample copy of the confidentiality agreement is attached as **Appendix G**. Upon receipt of the executed confidentiality agreement and payment of a non-refundable data room access fee of \$500 the potential purchasers are provided with access to a data room that will provide further details relating to the Company's current and historical financial position and specifics about the building. **Appendix H**, attached provides a list of the contents included in the data room.
- 3.8 To date, 9 parties have signed the confidentiality agreement and accessed the data room. The Receiver is satisfied with the level of interest in the Twin Rinks assets.

4.0 Statement of Receipts and Disbursements

- 4.1 **Appendix I** attached, presents a summary of the Receiver's Statement of Receipts and Disbursements for the period March 7, 2007 to March 22, 2007. As is illustrated, the Receiver has generated cash receipts of approximately \$227,000, primarily related to the opening cash on deposit and deposits for ice rental programs.
- 4.2 The Receiver has made disbursements of approximately \$84,000 primarily for salary/wages and subcontractor related payments. Accordingly, the Receiver has generated a net excess of receipts and disbursements of approximately \$143,000.
- 4.3 It is important to note that although there have been significant cash receipts over a short period of time, this level of receipts is not expected to continue. The majority of the receipts represent pre-payments for summer hockey leagues and are unearned. The Receiver will advise prospective purchasers of the unearned revenues and if not honoured by the prospective purchasers, the Receiver may have to refund the pre-payments.
- 4.4 After considering the professional and operating costs of the receivership, it is expected that the operations will generate a cash deficiency during the receivership period.

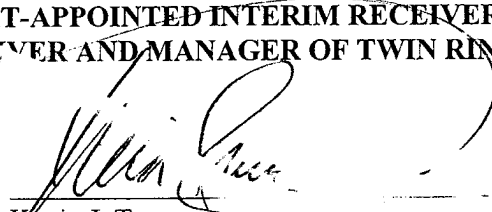
5.0 Order Sought

5.1 We submit this **First Report** to this Honourable Court in support of our Motion respectfully requesting this Honourable Court to:

- i. Approve the Receiver's activities as outlined in this First Report;
- ii. Make an Order placing 2035829 Ontario Inc. O/A the Gondola Bar and Grill (the "Gondola") in receivership and consolidating it into the administration of the receivership of Twin Rinks; and
- iii. Approve the Receiver's Statement of Receipts and Disbursements for the period March 7, 2007 to March 22, 2007.

All of which is respectfully submitted this 26th day of March, 2007.

KPMG INC.
COURT-APPOINTED INTERIM RECEIVER AND
RECEIVER AND MANAGER OF TWIN RINKS LIMITED PARTNERSHIP


Per: Kevin J. Treacy
Senior Vice President