

Court File No. 06-CL-6233

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)
COMMERCIAL LIST**

**IN THE MATTER OF AN APPLICATION UNDER
SECTION 47 (1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*
R.S.C. 1985, C.B-3**

**AND IN THE MATTER of SECTION 101 of *THE
COURTS of JUSTICE ACT*, R.S.O. 1990, C.C-43**

BETWEEN:

PEOPLES TRUST COMPANY

Applicant

- and -

PARAGON HEALTH CARE INC. and 1508669 ONTARIO LIMITED

Respondents

MOTION RECORD

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Solicitors for Mintz & Partners Limited in
its capacity as Interim Receiver and
Receiver and Manager of the current and
future assets, undertakings and properties of
Paragon Health Care Inc., Paragon Health
Care (Ontario) Inc. and 1508669 Ontario
Limited

TO: GERALD HARQUAIL
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Attention: Martin Sear
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Ontario Limited

AND TO: SACK GOLDBLATT MITCHELL
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**Solicitors for Service Employees Union International, CUPE and the Nurses and
Related Industries Pension Plan**

MINISTRY OF FINANCE, Insolvency Unit
33 King Street West, 6th Floor
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AND TO: DEPARTMENT OF JUSTICE (CANADA)
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AND TO: MINISTRY OF HEALTH AND LONG-TERM CARE
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Tim Burns, Director, Long Term Care Homes Branch

Court File No. 06-CL-6233

**ONTARIO
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B E T W E E N:

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Respondents

I N D E X

DOCUMENT

TAB NO.

Notice of Motion Returnable August 21, 2007

1

Second Report to the Court of Mintz & Partners Limited dated July 27, 2007

2

TAB 1

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)
COMMERCIAL LIST**

**IN THE MATTER OF AN APPLICATION UNDER
SECTION 47 (1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*
R.S.C. 1985, C.B-3**

**AND IN THE MATTER of SECTION 101 of *THE
COURTS of JUSTICE ACT*, R.S.O. 1990, C.C-43**

B E T W E E N:

PEOPLES TRUST COMPANY

Applicant

- and -

PARAGON HEALTH CARE INC. and 1508669 ONTARIO LIMITED

Respondents

NOTICE OF MOTION

MINTZ & PARTNERS LIMITED in its capacity as Interim Receiver and Receiver and Manager (the "Receiver") of the current and future assets, undertakings and properties (the "Assets") of each of Paragon Health Care Inc. ("Paragon"), Paragon Health Care (Ontario) Inc. ("Paragon Ontario") and 1508669 Ontario Limited ("1508669") (collectively, the "Debtor"), will make a motion to the court on August 21st, 2007 at 10:00 a.m. or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto.

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

THE MOTION IS FOR:

1. an order approving a process for the marketing and sale of the Assets, substantially in the form attached hereto as Schedule "A";
2. an order sealing the Confidential Information Memorandum attached as Appendix "C" to the Second Report of the Receiver dated July 27, 2007;
3. such further and other relief as counsel may request and this Honourable Court may permit.

THE GROUNDS FOR THE MOTION ARE:

1. Pursuant to an order of this court made on January 23, 2006 and effective 9:00 a.m. on January 24, 2006 (the "Appointment Order"), Mintz & Partners Limited was appointed as Interim Receiver and Receiver and Manager of the assets, undertakings and properties of Paragon, Paragon Ontario and 1508669 pursuant to subsection 47(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.1985, C. B-3 (the "BIA") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C. 43 (the "CJA").
2. On April 4, 2007, the Honourable Mr. Justice Cumming granted an Order (the "April 4, 2007 Order") approving, among other things, the Receiver's activities from the Appointment Date to March 26, 2007; a distribution of \$200,000 from 1508669 to Peoples Trust Company ("Peoples"), the first secured creditor; and the fees and disbursements of the Receiver and those of its counsel.
3. In his endorsement of the April 4, 2007 Order, Mr. Justice Cummings directed the Receiver to obtain approval from the Canada Mortgage and Housing Corporation ("CMHC") to proceed with a marketing program for the Assets (as defined in the Sale Agreement) in the absence of two formal appraisals or otherwise return to this Honourable Court for further directions on notice to CMHC. CMHC informed the Receiver that it would not object to the Receiver proceeding with the marketing program in the absence of two formal appraisals.
4. Under the Appointment Order, the Receiver is empowered to market and sell the Assets.

5. The Receiver has determined that it is appropriate to market the Assets for sale at this time.
6. The proposed marketing process is fair and commercially reasonable and should help maximize the value of the Assets.
7. Section 47 of the *BIA*.
8. Section 101 of the *Courts of Justice Act* (Ontario).
9. Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE WILL BE USED AT THE HEARING OF THE MOTION:

1. the Second Report of the Receiver dated July 27th, 2007; and
2. such further and other evidence as counsel may advise and this Honourable Court may permit.

Date: July 27, 2007

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**Solicitors for Mintz & Partners Limited in its capacity
as Interim Receiver and Receiver and Manager of the
current and future assets, undertakings and properties
of Paragon Health Care Inc., Paragon Health Care
(Ontario) Inc. and 1508669 Ontario Limited**

TO: THE ATTACHED SERVICE LIST

SERVICE LIST

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AND TO: DEPARTMENT OF JUSTICE (CANADA)
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Independent Counsel to Mintz & Partners Limited

AND TO: MINISTRY OF HEALTH AND LONG-TERM CARE
55 St.Clair Avenue West, 8th Floor
Toronto, Ontario M4V 2Y7

Attention: Tim Burns, Director, Long Term Care Homes Branch

TAB A

SCHEDULE "A"

Court File No. 06-CL-6233

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE
JUSTICE

) _____, THE ____ DAY
)
) OF AUGUST, 2007
)

**IN THE MATTER OF AN APPLICATION UNDER
SECTION 47 (1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*
R.S.C. 1985, C.B-3**

**AND IN THE MATTER of SECTION 101 of *THE
COURTS of JUSTICE ACT*, R.S.O. 1990, C.C-43**

B E T W E E N:

PEOPLES TRUST COMPANY

Applicant

- and -

PARAGON HEALTH CARE INC. and 1508669 ONTARIO LIMITED

Respondents

O R D E R

THIS MOTION made by Mintz & Partners Limited, appointed as interim receiver and receiver and manager (the "**Receiver**") pursuant to section 101 of the *Courts of Justice Act*, without security, of the current and future property, assets and undertaking (the "**Assets**") of Paragon Health Care Inc. ("**Paragon**"), Paragon Health Care (Ontario) Inc. ("**Paragon Ontario**") and 1508669 Ontario Limited ("**1508669**") pursuant to the terms of the Order of the Honourable Mr. Justice Cumming dated January 23, 2006 and effective 9:00 a.m. on January 24, 2006, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion and the Second Report of the Receiver, filed, and upon hearing the submissions of counsel for the Receiver, no other parties attending.

1. **THIS COURT ORDERS** that service of the Notice of Motion and the Motion Record herein is hereby abridged, if necessary, and that this Motion is properly returnable today and that service, including the form, manner and time that such service was actually effected on all parties, is hereby validated, and where such service was not effected such service is hereby dispensed with.
2. **THIS COURT ORDERS** that the Second Report be and the same is hereby accepted and approved.
3. **THIS COURT ORDERS** that the conduct of the Receiver, its related entities and agents to date, as detailed in the Second Report, be and the same is hereby approved.
4. **THIS COURT ORDERS** that the marketing and sale process outlined in paragraphs 10 through 13 of the Second Report (the "Marketing and Sale Process") be and the same is hereby approved and the Receiver is authorized and directed to carry out all steps necessary to implement the Marketing and Sale Process.
5. **THIS COURT ORDERS** that the Confidential Information Memorandum and the Form of Offer attached to the Second Report as appendices "C" and "D" are hereby approved for use by the Receiver in the Marketing and Sale Process.
6. **THIS COURT ORDERS** that the Confidential Information Memorandum attached as Appendix "C" to the Second Report of the Receiver dated July 27, 2007 is hereby sealed, pending the completion of the sale of all of the Assets or further order of this Honourable Court.

7. **THIS COURT ORDERS** that the Marketing and Sale Process, as described in the Second Report is fair and commercially reasonable in all circumstances.
-

PEOPLES TRUST COMPANY

- and -

PARAGON HEALTH CARE INC. et al

ONTARIO

SUPERIOR COURT OF JUSTICE

PROCEEDINGS COMMENCED AT
TORONTO

NOTICE OF MOTION

GOWLING LAFLEUR HENDERSON LLP

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Clifton P. Prophet (LSUC No. 34845K)
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Solicitors for Mintz & Partners Limited in its capacity as
Interim Receiver and Receiver and Manager of the current
and future assets, undertakings and properties of Paragon
Health Care Inc., Paragon Health Care (Ontario) Inc. and
1508669 Ontario Limited

TAB 2

Court File No. 06-CL-6233

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)
COMMERCIAL LIST**

BETWEEN:

PEOPLES TRUST COMPANY

Applicant

- and -

PARAGON HEALTH CARE INC. AND 1508669 ONTARIO LIMITED

Respondents

**Second Report to the Court of Mintz & Partners Limited,
as Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited**

INTRODUCTION

1. Pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated January 23, 2006 (the "**Appointment Order**"), Mintz & Partners Limited ("**MPL**") was appointed as Interim Receiver and Receiver and Manager (the "**Receiver**") of all the current and future assets, undertakings and property (the "**Assets**") of Paragon Health Care Inc. ("**Paragon**"), Paragon Health Care (Ontario) Inc. ("**Paragon Ontario**") and 1508669 Ontario Limited ("**1508669**") (collectively, the "**Companies**") effective 9:00 am on January 24, 2006 (the "**Appointment Date**"). A copy of the Appointment Order is attached hereto as **Appendix "A"**.
2. The Assets comprise the Casa Verde Health Centre, a 252-bed nursing home ("**Casa Verde Nursing Home**") and a 94-bed retirement home ("**Casa Verde Retirement Home**") (collectively, with Casa Verde Nursing Home, "**Casa Verde**") located at 3595 Keele Street, Toronto, Ontario. 1508669's assets comprise the West Park Health Centre ("**West Park**"), a 93-bed nursing home

located at 103-111 Pelham Road, St. Catharines, Ontario (collectively, with Casa Verde, the "Homes" or "Facilities").

3. Paragon Ontario is a non-operating entity that employs certain nursing staff used by Casa Verde.
4. On April 4, 2007, the Honourable Mr. Justice Cumming granted an Order (the "**April 4, 2007 Order**") approving, among other things, the Receiver's activities from the Appointment Date to March 26, 2007; a distribution of \$200,000 from 1508669 to Peoples Trust Company ("**Peoples**"), the first secured creditor; and the fees and disbursements of the Receiver and those of its counsel. In support of the application, the Receiver submitted its First Report to the Court dated March 26, 2007 ("**First Report**"). A copy of the First Report (without appendices) is attached hereto as **Appendix "B"**.
5. In his endorsement of the April 4, 2007 Order, Mr. Justice Cummings directed the Receiver to obtain approval from CMHC to proceed with the marketing program for the Homes in the absence of two formal appraisals or otherwise return to this Honourable Court for further directions on notice to CMHC. CMHC informed the Receiver that it does not object to the Receiver proceeding with the marketing program in the absence of two formal appraisals.
6. This Second Report to the Court ("**Second Report**") is submitted for the purpose of obtaining the Court's approval for the Receiver's marketing program for the sale of the Homes, including the timing for the request and receipt of offers.
7. Capitalized terms not defined in this Report are as defined in the Appointment Order. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

8. In preparing this Report, the Receiver has relied upon records of the Companies and unaudited financial information prepared by the Companies and/or Diversicare Canada Management Services Co., Inc. ("**Diversicare**"). The Receiver has not performed an audit or other verification of such information. As set out in the First Report, Diversicare has been engaged as day-to-day manager of Casa Verde and West Park on behalf of the Receiver.

9. The Receiver has sought the advice of Gowling Lafleur Henderson LLP ("**Gowlings**"), counsel to Peoples, for general legal matters that have arisen in respect of the receiverships. Where the Receiver has required independent legal advice, the Receiver has sought the counsel of Lang Michener LLP ("**Lang Michener**").

MARKETING PROGRAM AND SALES PROCESS

10. The Receiver's proposed marketing program involves a marketing of the purchase opportunity through both newspaper advertisement, web-site advertisement and a direct e-mail campaign to selected parties. Following the commencement of the request for offers, there will be a 45-day due diligence period prior to the deadline for the submission of offers.
11. The Receiver has proposed the following program for the marketing of the Homes:
- i) A "teaser" e-mail will be distributed during the week of August 27, 2007 (the "**Commencement Date**") to the following parties:
 - those parties who have previously contacted the Receiver and have expressed interest in the Homes;
 - current nursing home operators and management companies operating in Ontario; and
 - approximately 500 parties included in a database maintained by CMHC of potential interested parties;
 - ii) A "Request for Offers" advertisement will be placed in the national edition of the Globe & Mail on or about the Commencement Date and on the 7th day following the Commencement Date; and
 - iii) Interested parties who wish to obtain further information, will be provided with a confidentiality agreement ("**CA**") to be executed. Upon the Receiver's receipt of the executed CA, the Receiver will provide those parties with a user name and password together with a link to a secure website maintained by the Receiver where those parties will have access to a Confidential Information Memorandum ("**CIM**"), substantially in the

form attached as **Appendix "C"** and to the form of Offer to Purchase Assets attached hereto as **Appendix "D"**. The CIM provides further details on the Homes and provides basic financial and operational information. In addition to the CIM, the Receiver will post other due diligence data on the secure website. The Receiver will also have hard copy versions of the CIM and other due diligence data for those interested parties who do not have internet access.

12. The following outlines the Receiver's proposed timing for its "Request for Offers" process:
- (i) Prospective purchasers who have executed a CA will be permitted until the 45th day following the Commencement Date to conduct due diligence, including touring the Facilities;
 - (ii) Offers to Purchase Assets, the form of which will be provided to prospective purchasers by the Receiver and which is attached hereto as **Appendix "D"**, are to be submitted by 5:00 pm on the 45th day following the Commencement Date ("**Offer Due Date**"). Offers to Purchase Assets are to be accompanied by a certified cheque made payable to the Receiver representing 10% of the proposed purchase price (the "**Deposit**");
 - (iii) Acceptance or rejection of Offers to Purchase Assets will occur within 14 days of the Offer Due Date or such longer period as the Receiver may choose on notice to offerors (the "**Acceptance Date**"). The purchaser(s) whose offer is accepted (the "**Accepted Purchaser(s)**") will be notified in writing of the acceptance of its Offer to Purchase Assets;
 - (iv) Accepted Offers to Purchase Assets will convert to and be treated as executed Agreement(s) of Purchase and Sale which may be subject to modifications as mutually agreed to in writing between the Receiver and the Accepted Purchaser(s);
 - (v) The License Transfer Process by the Ministry of Health and Long-Term Care ("**MOH**") is to begin upon execution of the Agreement of Purchase and Sale;
 - (vi) If License Transfer approval is not obtained from the MOH, the Receiver will return the Deposit and review other Offers to Purchase Assets previously received;

- (vii) The Receiver is to obtain Court approval of the Agreement(s) of Purchase and Sale within 15 days of Licence Transfer approval being obtained in writing from the MOH; and
 - (viii) Closing to occur by no later than 15 days after Court approval is obtained unless otherwise mutually agreed to in writing between the Receiver and the Accepted Purchaser(s).
13. The Receiver proposes to commence the marketing program immediately after receiving the Court's approval, should such approval be provided.

RECEIVER'S REQUEST TO THE COURT

14. The Receiver is respectfully seeking an order approving the Receiver's proposed marketing program for the Homes as outlined in paragraphs 10 through 13 above; approving the form of CIM attached as **Appendix "C"**; and approving the form of Offer to Purchase Assets attached as **Appendix "D"**.

Second Report to the Court of Mintz & Partners Limited as
Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited

July 27, 2007
Court File No. 06-CL-6233

Page 6

All of which is respectfully submitted to this Honourable Court.

DATED this 27th day of July, 2007.

Mintz + Partners Limited

MINTZ & PARTNERS LIMITED
Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited

Daniel R. Weisz, CA•CIRP, CIRP
Senior Vice President

Hartley Bricks, MBA, CA•CIRP, CIRP
Vice President

::ODMA\PCDOCS\MINTZ\329883\1

TAB A

APPENDIX "A"

**TO THE SECOND REPORT TO THE COURT OF MINTZ & PARTNERS LIMITED,
AS INTERIM RECEIVER AND RECEIVER AND MANAGER OF PARAGON
HEALTH CARE INC., PARAGON HEALTH CARE (ONTARIO) INC. AND 1508669
ONTARIO LIMITED**

Court File No. 06-CL-6233

ONTARIO**SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)****COMMERCIAL LIST**

THE HONOURABLE

)

MONDAY, THE 23rd DAY

)

JUSTICE CUMMING

)

OF JANUARY, 2006

**PEOPLES TRUST COMPANY**

Applicant

- and -

PARAGON HEALTH CARE INC. and 1508669 ONTARIO LIMITED

Respondents

**APPLICATION UNDER section 47 of Bankruptcy and
Insolvency Act, R.S.C. 1985, c. B-3, and under section
101 of the Courts of Justice Act, R.S.O. 1990, c. C.43**

ORDER

THIS MOTION, made by the Applicant for an Order pursuant to section 47(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA") and section 101 of the *Courts of Justice Act*, R.S.O. 1990 c. C-43, as amended (the "CJA") appointing Mintz & Partners Limited ("Mintz") as interim receiver and receiver and

manager (in such capacities, the "Receiver") without security, of all of the assets, undertakings and properties of Paragon Health Care Inc. ("Paragon") and 1508669 Ontario Limited ("150 Ontario") was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the affidavit of James Dysart sworn January 13, 2006 and the Exhibits thereto and on hearing the submissions of counsel for the Applicant and the Respondents, no one appearing for the persons referenced in the Service List appended hereto as **Appendix "A"**, although duly served as appears from the affidavit of service of Carla Clarizia sworn January 17, 2006 (the "Affidavit of Service") and on reading the consent of Mintz to act as the Receiver,

SERVICE AND AMENDMENT

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record is hereby abridged so that this motion is properly returnable today, service upon those parties described in the Affidavit of Service is hereby validated and any further service of the Notice of Application and Application Record is hereby dispensed with.

2. **THIS COURT ORDERS** that Paragon Health Care (Ontario) Inc. ("Paragon Ontario") be added as a respondent to these proceedings.

APPOINTMENT

3. **THIS COURT ORDERS** that pursuant to section 47(1) of BIA and section 101 of the CJA, effective 9:00 a.m. Eastern Standard Time January 24, 2006, Mintz is hereby appointed Receiver, without security, of all of the current and future assets, undertakings and properties of Paragon, 150 Ontario and Paragon Ontario (collectively, the "Debtors"), of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (the "Property"), including, without limitation, the real property described in **Appendix "B"** hereto.

RECEIVER'S POWERS

4. **THIS COURT ORDERS** that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

- (a) to take possession and control of the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
- (b) to receive, preserve, protect and maintain control of the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;
- (c) to manage, operate and carry on the business of the Debtors, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business or cease to perform any contracts of the Debtors;
- (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the powers and duties conferred by this Order, including, without limitation, Diversicare Canada Management Services Co., Inc., or such other third party operator as the Receiver may in its discretion designate (the "Manager");
- (e) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Debtors or any part or parts thereof;

- (f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtors and to exercise all remedies of the Debtors in collecting such monies, including, without limitation, to enforce any security held by the Debtors and to collect any payments or subsidies from the Ontario Ministry of Health and Long Term Care (the "MOH") and any municipalities, provided, however, that notwithstanding anything herein contained, any monies received by the Receiver from the MOH pursuant to this Order shall be used or applied by the Receiver only in accordance with the operation of the Debtors' nursing homes which are currently licensed pursuant to the *Nursing Homes Act*, R.S.O. 1990, c. N-7, as amended and the regulations thereunder (the "NHA") and related policy (and which amounts will be subject to MOH review and reconciliation as provided for by applicable law);
- (g) to settle, extend or compromise any indebtedness owing to the Debtors;
- (h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtors, for any purpose pursuant to this Order;
- (i) to undertake environmental or workers' health and safety assessments of the Property and operations of the Debtors;
- (j) to undertake such repairs and improvements to the Property as the Receiver may, in its discretion, deem appropriate or the MOH may require;
- (k) to apply for such permits, licenses, approvals or permissions as may be required by any governmental authority with respect to the Property, including, without limitation, licenses under the NHA;
- (l) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtors, the Property or the Receiver, and to

settle or compromise any such proceedings, including, without limitation, any grievances or other labour disputes. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;

- (m) to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;
- (n) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business,
 - (i) without the approval of this Court in respect of any transaction not exceeding \$50,000, provided that the aggregate consideration for all such transactions does not exceed \$200,000; and
 - (ii) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause,and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act* or section 31 of the Ontario *Mortgages Act*, as the case may be, shall not be required, and in each case the Ontario *Bulk Sales Act* shall not apply.
- (o) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;
- (p) to report to, meet with and discuss with such secured and unsecured creditors of the Debtors and their advisors as the Receiver deems appropriate on all matters relating to the Property and the receivership,

and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

- (q) to register a copy of this Order and any other Orders in respect of the Property against title to any or all of the Property;
- (r) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtors;
- (s) to enter into arrangements with any trustee in bankruptcy appointed in respect of the Debtors, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtors and the power to lend money to or indemnify any such trustee, such trustee borrowings or indemnity not to exceed \$25,000 unless otherwise increased by this Court;
- (t) to vote any shares and exercise any rights which the Debtors may have as shareholder and to otherwise deal with all securities, warrants or other interests held by the Debtors, for its benefit; and,
- (u) to take any steps reasonably incidental to the exercise of these powers,

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons, including the Debtors, and without interference from any other Person.

DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER

5. **THIS COURT ORDERS** that (i) the Debtors, (ii) all of their current and former directors, officers, employees, agents and shareholders, any other persons acting on their instructions or behalf including, without limitation, any accountants

or legal counsel, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a "Person") shall forthwith advise the Receiver of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request, other than documents or information which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

6. **THIS COURT ORDERS** that all Persons shall deliver to the Receiver all of the Debtors' books, documents, securities, contracts, orders, corporate and accounting records and all computer records, computer programs, computer tapes, computer disks, data storage media and programs containing any such information, and any other papers, records and information of any kind of the Debtors relating thereto in their possession or control (the foregoing, collectively, the "Records"), and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver access to and use of accounting, computer, software and physical facilities relating thereto.
7. **THIS COURT ORDERS** that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to obtain access to, recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including,

without limiting the generality of the foregoing, providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

NO PROCEEDINGS AGAINST THE RECEIVER

8. **THIS COURT ORDERS** that no proceeding, enforcement process, or extra-judicial proceeding in any court or other tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver or any person engaged by the Receiver, including the Manager, except with the written consent of the Receiver or with leave of this Court.

NO PROCEEDINGS AGAINST THE DEBTORS OR THE PROPERTY

9. **THIS COURT ORDERS** that no Proceeding against or in respect of the Debtors or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtors or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

10. **THIS COURT ORDERS** that all rights and remedies against the Debtors or affecting the Property are hereby stayed and suspended pending written consent of the Receiver or leave of this Court, provided, however, that nothing in this paragraph or this Order shall:
- (a) empower the Receiver or the Debtors to carry on any business which the Debtors are not lawfully entitled to carry on;
 - (b) exempt the Receiver or the Debtors from compliance with statutory or regulatory provisions relating to health, safety or the environment, or other mandatory statutory or regulatory provisions of applicable law, and, for greater certainty, this Order shall not be construed so as to prohibit,

restrain, impede or in any way interfere with the MOH, the Director under the NHA, or employees or agents of the MOH (collectively, the "Minister") in exercising any jurisdiction, duty, power, or authority granted under the NHA or the *Health Facilities Special Orders Act*, R.S.O. 1990, c. H.5, as amended, without further order of this Court or the written consent of the Receiver (including, without limitation, the right to suspend a licence, to take control of a home, or to terminate a service agreement), where it has been determined by the Minister to be necessary to protect the health, safety and welfare of residents, and any such exercise by the Minister shall not in any way diminish or derogate from the protections against liabilities afforded to the Receiver under this Order, or under the provision of the BIA, or at law or equity; or,

- (c) prevent the filing of any registration to preserve a security interest or a claim for lien.

NO INTERFERENCE WITH THE RECEIVER

11. **THIS COURT ORDERS** that no Person shall discontinue, fail to honour renewal rights, alter, interfere with, repudiate, terminate or cease to perform any right, contract, arrangement, agreement, licence or permit in favour of or held by the Debtors, without written consent of the Receiver or leave of this Court, and, without limiting the generality of the foregoing, the MOH is hereby directed to make all payments of funds to which the Debtors are entitled directly to the Receiver and the MOH shall not suspend, cancel or set-off such payments without further order of this Court, provided, however, that nothing in this paragraph shall exempt the Receiver or the Debtors from compliance with statutory or regulatory provisions relating to health, safety or the environment, or other mandatory statutory or regulatory provisions of applicable law from and after the date of this order.

CONTINUATION OF SERVICES

12. **THIS COURT ORDERS** that all Persons having oral or written agreements with the Debtors 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 Debtors are hereby restrained until further Order of this Court from discontinuing, failing to honour renewal rights on reasonable terms, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtors' current 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 Receiver in accordance with normal payment practices of the Debtors or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

RECEIVER TO HOLD FUNDS

13. **THIS COURT ORDERS** that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver ("Receipts") from and after the making of this Order from any source whatsoever, including, without limitation, the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "Post Receivership Accounts") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

EMPLOYEES

14. **THIS COURT ORDERS** that the Receiver shall not be liable for any non-unionized employee-related liabilities, including, without limitation, wages, severance pay, termination pay, vacation pay, and pension or benefit amounts, other than such amounts as the Receiver may specifically agree in writing to pay, or such amounts as may be determined in a Proceeding before a court or tribunal of competent jurisdiction.
15. **THIS COURT ORDERS** that the Receiver shall not be liable for any unionized employee-related liabilities, including, without limitation, wages, severance pay, termination pay, vacation pay, and pension or benefit amounts, other than in accordance with the terms of the agreements appended as to the Supplementary Affidavit of James Dysart (the "Labour Agreements"), which Mintz is hereby authorized to execute in its capacity as Receiver and, if applicable, Trustee in Bankruptcy, and, for greater certainty, leave shall not be granted to any person, pursuant to s. 215 of the BIA, to commence proceedings against the Receiver or, if applicable, the Trustee in Bankruptcy, in respect of matters forming the subject matter of the Labour Agreements, other than in accordance with the terms thereof.
16. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canadian *Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "Sale"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to

it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtors, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

LIMITATION ON ENVIRONMENTAL LIABILITIES

17. **THIS COURT ORDERS** that nothing herein contained shall require or obligate the Receiver to occupy or to take control, care, charge, occupation, possession or management of any of the Property which may be environmentally contaminated, or a pollutant or a contaminant, or cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other legislation, statute, regulation or rule of law or equity 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 the Receiver shall promptly advise the Ontario Ministry of the Environment of any obvious or known environmental condition existing on or in any of the Property in accordance with applicable Environmental Legislation.

RECEIVER'S ACCOUNTS

18. **THIS COURT ORDERS** that any expenditure or liability which shall properly be made or incurred by the Receiver, including (subject to the approval of the Court) the fees of the Receiver and the fees and disbursements of its legal counsel, incurred at the normal rates and charges of the Receiver and its counsel (the "Receiver's Operating Costs"), shall be allowed to it in passing its accounts and shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any

Person, including, without limitation, the security interest of Peoples Trust Company (the "Receiver's Charge").

19. **THIS COURT ORDERS** the Receiver and its legal counsel shall pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel are referred to a judge of the Commercial List of the Ontario Superior Court of Justice.
20. **THIS COURT ORDERS** that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the normal rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

FUNDING OF THE RECEIVERSHIP

21. **THIS COURT ORDERS** that the Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$750,000 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge.

22. **THIS COURT ORDERS** that neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.
23. **THIS COURT ORDERS** that the Receiver is at liberty and authorized to issue certificates substantially in the form annexed as **Appendix "C"** hereto (the "Receiver's Certificates") for any amount borrowed by it pursuant to this Order.
24. **THIS COURT ORDERS** that the monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates evidencing the same or any part thereof shall rank on a *pari passu* basis.

LIMITATION ON THE RECEIVER'S LIABILITY

25. **THIS COURT ORDERS** that the liability that the Receiver may incur as a result of its appointment or as a result of the performance of its duties hereunder other than the Receiver's Operating Costs or any liability arising as a result of its gross negligence or wilful misconduct (the "Receiver's Liabilities"), shall be limited in the aggregate to the Net Realizable Value of the Property. The Net Realizable Value of the Property shall be the proceeds realized in cash from the disposition of the Property after the Receiver's Operating Costs, including monies borrowed hereunder, have been paid.
26. **THIS COURT ORDERS** that the Receiver's Liabilities shall form a charge on the Net Realizable Value of the Property (the "Receiver's Liability Charge") subordinate to the Receiver's Charge and the Receiver's Borrowings Charge.

GENERAL

27. **THIS COURT ORDERS** that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

28. **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 or elsewhere to give effect to this Order and to assist the Receiver and its 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 Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.
29. **THIS COURT ORDERS** that the Receiver 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.
30. **THIS COURT ORDERS** that the Applicant shall have its costs of this motion, up to and including entry and service of this Order, as provided for by the terms of the Plaintiff's security or, if not so provided by the Plaintiff's security, then on a substantial indemnity basis.
31. **THIS COURT ORDERS** that any interested party may apply to this Court, within 30 days of mailing to them of a copy of this Order, to vary or amend this Order on seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.



JOSEPH P. VAN TASSEL
REGISTRAR

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

JAN 24 2006

PER/PAR: 

APPENDIX "A"**SERVICE LIST**

TO: PARAGON HEALTH CARE INC.
3595 Keele Street
Toronto, Ontario
M3J 1M7

Attention: Gerald Harquail, President

AND TO: 1508669 ONTARIO LIMITED
103-111 Pelham Road
St. Catharines, Ontario
L2S 1S9

Attention: Gerald Harquail, President

AND TO: SACK GOLDBLATT MITCHELL
Suite 1130, Box 180
20 Dundas St. W.
Toronto, Ontario
M5G 2G8

Attention: Michael Kainer
Tel: (416) 977-6070
Fax: (416) 591-7333

**Solicitors for Service Employees International Union, Local 1.on,
Canadian Union of Public Employees and its Local 1263 and the Nursing
Homes and Related Industries Pension Plan**

AND TO: MINISTRY OF FINANCE, Insolvency Unit
33 King Street West, 6th Floor
Oshawa, Ontario
L1H 8H5

AND TO: DEPARTMENT OF JUSTICE (CANADA)
Ontario Regional Office
The Exchange Tower, Box 38
130 King Street West, Suite 3400
Toronto, Ontario
M5X 1K6

Attention: Diane Winters
Tel: (416) 973-3172
Fax: (416) 973-0810

AND TO: LANG MICHENER LLP
BCE Place, P.O. Box 747
Suite 2500, 181 Bay Street
Toronto, Ontario
M5J 2T7

Attention: Les Wittlin
Tel: (416) 360-8600
Fax: (416) 365-1719

Solicitors for Mintz & Partners Limited

AND TO: Ginette Harquail
c/o Paragon Health Care Inc.
3595 Keele Street
Toronto, Ontario
M3J 1M7

AND TO: MINISTRY OF HEALTH AND LONG TERM CARE
56 Wellsley Street West, 9th Floor
Toronto, Ontario
M7A 2J9

Attention: Tim Burns, Director, Long Term Care Homes Branch

AND TO: CAPPELLACCI DAROZA LLP
462 Wellington Street West, Suite 500
Toronto, Ontario
M5V 1E3

Attention: Ernest J. Cappellacci
Tel: 416-955-9500
Fax: 416-955-9503

Solicitors for Diversicare

APPENDIX "B"**LEGAL DESCRIPTIONS OF PROPERTY**

Part Lot 17, Concession 3, W.Y.S., Township of York, designated as Part 1, Plan 64R-9597, City of Toronto, Property Identifier Number 10181-0039(LT), municipally known as 3595 Keele Street, Toronto, Ontario.

Lots 814-819 and 857-861, TP Plan 94 Grantham, City of St. Catharines, Property Identifier Number 46172-0268(LT) municipally known as 103-111 Pelham Road, St. Catharines, Ontario and Lots 738-739, TP Plan 94, Grantham, City of St. Catharines, Property Identifier Number 46172-0309(LT), municipally known as 34-36 Whitworth Street, St. Catharines, Ontario.

APPENDIX "C"

RECEIVER CERTIFICATE

CERTIFICATE NO. _____

AMOUNT \$ _____

1. THIS IS TO CERTIFY that [RECEIVER'S NAME], the interim receiver and receiver and manager (the "Receiver") of all of the assets, undertakings and properties of [DEBTOR'S NAME] appointed by Order of the Ontario Superior Court of Justice (the "Court") dated the ____ day of _____, 2006 (the "Order") made in an action (the "Action") having Court file number 06-CL-_____, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$_____, being part of the total principal sum of \$_____ which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily][monthly not in advance on the _____ day of each month] after the date hereof at a notional rate per annum equal to the rate of _____ per cent above the prime commercial lending rate of Bank of _____ from time to time.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property (as defined in the Order), in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration, expenses and liabilities.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Toronto, Ontario.

5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.
6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property (as defined in the Order) as authorized by the Order and as authorized by any further or other order of the Court.
7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the ____ day of _____, 2006.

[RECEIVER'S NAME], solely in its capacity as
Receiver of the Property (as defined in the
Order), and not in its personal capacity

Per: _____

Name:

Title:

TOR_LAW\6220395\1

<p>BETWEEN:</p> <p>PEOPLES TRUST COMPANY Applicant</p> <p>- AND -</p> <p>PARAGON HEALTH CARE INC. and 1508669 ONTARIO LIMITED Respondents</p> <p>Court File No.: 06-CL-6233</p>	
<p>APPLICATION UNDER section 47 of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, and under section 101 of the Courts of Justice Act, R.S.O. 1990, c. C.43</p>	
<p>ONTARIO</p> <p>SUPERIOR COURT OF JUSTICE (Commercial List)</p> <p>PROCEEDING COMMENCED AT TORONTO</p>	
<p>ORDER</p>	
<p>GOWLING LAFLEUR HENDERSON LLP Barristers and Solicitors Suite 1600, 1 First Canadian Place 100 King Street West TORONTO, Ontario M5X 1G5</p> <p>Massimo C. Starnino (LSUC # 41048G) Tel: (416) 862-3630 Fax: (416) 863-3630</p> <p>Solicitors for Peoples Trust Company</p>	

TOR LAW 6210771

TAB B

APPENDIX "B"

**TO THE SECOND REPORT TO THE COURT OF MINTZ & PARTNERS LIMITED,
AS INTERIM RECEIVER AND RECEIVER AND MANAGER OF PARAGON
HEALTH CARE INC., PARAGON HEALTH CARE (ONTARIO) INC. AND 1508669
ONTARIO LIMITED**

Court File No. 06-CL-6233

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)
COMMERCIAL LIST**

BETWEEN:

PEOPLES TRUST COMPANY

Applicant

- and -

PARAGON HEALTH CARE INC. AND 1508669 ONTARIO LIMITED

Respondents

**First Report to the Court of Mintz & Partners Limited,
as Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited**

INTRODUCTION

1. Pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated January 23, 2006 (the "Appointment Order"), Mintz & Partners Limited ("MPL") was appointed as Interim Receiver and Receiver and Manager (the "Receiver") of all the assets, undertakings and property of Paragon Health Care Inc. ("Paragon"), Paragon Health Care (Ontario) Inc. ("Paragon Ontario") and 1508669 Ontario Limited ("1508669") (collectively, the "Companies") effective 9:00 am on January 24, 2006 (the "Appointment Date"). A copy of the Appointment Order is attached hereto as Appendix "A".
2. Paragon's assets comprise the Casa Verde Health Centre, a 252-bed nursing home ("Casa Verde Nursing Home") and a 94-bed retirement home ("Casa Verde Retirement Home") (collectively, with Casa Verde Nursing Home, "Casa Verde") located at 3595 Keele Street, Toronto, Ontario. 1508669's assets comprise the West Park Health Centre ("West Park"), a 93-bed nursing home

First Report to the Court of Mintz & Partners Limited as
Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited

March 26, 2007
Court File No. 06-CL-6233

Page 2

located at 103-111 Pelham Road, St. Catharines, Ontario (collectively, with Casa Verde, the "Homes" or "Facilities").

3. Paragon Ontario is a non-operating entity which employs certain nursing staff used by Casa Verde.
4. This First Report of the Receiver (the "Report") provides the Court with a summary of the Receiver's activities since the Appointment Date. Additionally, the purpose of this Report is to inform the Court and/or obtain approval of the following:
 - the Receiver's activities in taking possession of the assets of the Companies;
 - the Receiver's activities in operating the Homes since the Appointment Date to the date of this Report;
 - operating results for the Homes;
 - a proposed distribution of \$200,000 to Peoples Trust Company ("Peoples"), the first secured creditor; and
 - the fees and disbursements of the Receiver and those of its counsel.
5. Capitalized terms not defined in this Report are as defined in the Appointment Order. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

6. In preparing this Report, the Receiver has relied upon records of the Companies and unaudited financial information prepared by the Companies or Diversicare Canada Management Services Co., Inc. ("Diversicare"). The Receiver has not performed an audit or other verification of such information.
7. The Receiver has sought the advice of Gowling Lafleur Henderson LLP ("Gowlings"), counsel to Peoples, for general legal matters that have arisen in respect of the receiverships. Where the Receiver has required independent legal advice, the Receiver has sought the counsel of Lang Michener LLP ("Lang Michener").

POSSESSION AND SECURITY

8. On January 24, 2006, the Receiver attended at both the Casa Verde and West Park locations. The Receiver was accompanied by representatives of the Ministry of Health and Long-Term Care (the "MOH") and Diversicare, who the Receiver retained to manage the day-to-day operations of the Homes. The Receiver initially met with each facility's Administrator to advise them of the Appointment Order. The Receiver then held rotating meetings with the Facilities' staff at each of the Homes to advise them of the Appointment Order and the Receiver's mandate. At those meetings, representatives of the MOH indicated that resident care standards were being maintained and confirmed that the MOH would continue to monitor the Homes to ensure that the Homes continued to meet the standard of care required by the MOH.
9. On January 24, 2006, the Receiver arranged for locks to be changed on key exterior and interior doors at each of the Facilities. Due to the nature of the Facilities' operations, the Receiver did not change the locks on all doors. Copies of the keys were provided to Diversicare who then distributed those keys to the appropriate staff who required access. The Receiver also arranged for the changing of the code to the keypad on the external doors.
10. On January 24, 2006, the Receiver made arrangements for Can-Am Apprais Inc. to conduct an inventory of the fixed assets at each facility and provide an appraisal of same.
11. On January 24, 2006, the Receiver contacted the financial institutions at which the Companies' bank accounts were maintained and informed them of the receivership proceedings, provided them with a copy of the Appointment Order and requested that the Companies' accounts be frozen and that all funds in the accounts be forwarded to the Receiver. On February 2, 2006, the Receiver received \$55,181.19 from Royal Bank of Canada in respect of Paragon bank accounts, \$3,479.39 in respect of Paragon Ontario bank accounts and \$32,194.32 in respect of 1508669 bank accounts. On March 3, 2006, the Receiver received a further \$16,715.22 from TD Canada Trust in respect of Paragon bank accounts. The Receiver also took possession of blank cheques for the frozen accounts that were at the Facilities.
12. On January 24, 2006, the Receiver wrote to the Companies' insurance broker, Canada Brokerlink (Ontario) Inc. (the "Insurer"), informing it of the receiverships of the Companies and requesting that the Receiver be added as named insured and loss payee on the Companies' policies. The

Insurer subsequently confirmed the addition of the Receiver to the Companies' policies. The Receiver later confirmed through Firstbrook Cassie Anderson, an insurance broker that specializes in insurance coverage for insolvent situations, that the Receiver's coverage through the insurer was adequate.

13. On January 24, 2006, the Receiver wrote to ADP Canada ("ADP"), the Companies' payroll service provider, informing it of the receiverships of the Companies and requested that ADP set up new payroll accounts in order to provide for a seamless continuance of payroll to the Companies' employees.
14. On February 3, 2006, the Receiver issued for each of the Companies the Notice of Receiver pursuant to section 245(1) (the "Notice") of the *Bankruptcy and Insolvency Act* to all unsecured creditors and forwarded the Report of Receiver pursuant to section 246(1) of the *Bankruptcy and Insolvency Act* ("BIA") ("Section 246(1) Report") to the Official Receiver. On November 28, 2006, the Receiver forwarded the Report of the Receiver pursuant to section 246(2) of the BIA ("Section 246(2) Report") for each of the Companies to the Official Receiver. Copies of the Notice, the Section 246(1) Report and the Section 246(2) Report for the Companies are attached hereto as Appendix "B".

MANAGEMENT OF THE HOMES

15. By agreement dated January 24, 2006 (the "Management Agreement"), the Receiver engaged Diversicare to act as day-to-day manager of Casa Verde and West Park on behalf of the Receiver. The Management Agreement was entered into with the concurrence of Peoples and Canada Mortgage and Housing Corporation ("CMHC") after receiving two proposals from companies to act as managers of the Homes. Diversicare has significant nursing home and retirement home experience as a manager and owner of nursing and retirement homes across Canada.
16. Diversicare has assigned a regional manager to each home and engaged their internal specialists in nursing, dietary, administration, environmental, marketing and accounting to review and advise the Receiver on the operations of the Homes. Pursuant to the Management Agreement, Diversicare has prepared operational review reports on both Facilities and has prepared budgets for both facilities based on past operations at the Homes and their experience in the long-term care industry.

17. Diversicare maintains the accounting records for the Homes and provides the Receiver with monthly Operating Statements with comparisons to budget including a variance analysis. At the Receiver's request, Diversicare has also prepared cash flow forecasts for the Homes which are updated from time-to-time.
18. Diversicare maintains the bank accounts for the Homes and reconciles the monthly bank statements. The Receiver reviews and co-signs all disbursements.

EMPLOYEES AND UNIONS

19. Prior to the date of the Appointment Order, the Receiver, through and in conjunction with Gowlings, contacted Sack Goldblatt Mitchell LLP ("Sack"), counsel for the following unions:
 - i) Service Employees International Union ("SEIU") Local 1.0n, which represented the full- and part-time service employees employed by Casa Verde;
 - ii) SEIU Local 204, which represented the full and part time registered nurses employed by Paragon Ontario; and
 - iii) Canadian Union of Public Employees Local 1263 ("CUPE"), which represented all services employees at West Park. Local 1263 represents registered practical nurses, support services staff and health care aides at West Park.
20. The Receiver contacted SEIU and CUPE (collectively, the "Unions") to inform them of the impending receivership proceedings and to make arrangements satisfactory to Peoples and the Receiver that would limit the liability of the Receiver if the operations of the Facilities were to be continued by the Receiver. The Unions indicated that they would cooperate with the Receiver if the Receiver entered into an agreement essentially confirming that the Receiver recognized and would abide by substantially all of the terms of the collective agreements that were currently in place at both Casa Verde and West Park. In return, the Unions would agree that the Receiver would not be deemed to be a successor employer or related employer under any employment legislation and that the Unions would not assert claims for pre-filing defaults by the Companies except as specifically disclosed. Following extensive negotiations between the Receiver, Gowlings, Lang Michener and Sack, the Receiver entered into separate agreements with both Unions dated January 24, 2006 (the "Union Agreements").

21. A condition of the Union Agreements was that the Receiver agreed to fund union dues arrears of \$13,150 and estimated pension fund contribution arrears of \$142,800 with respect to union employees at Casa Verde and estimated pension fund contribution arrears of \$46,400 with respect to union employees at West Park that were outstanding and unpaid as of the date of the Appointment Order, subject to a final reconciliation when a final accounting of outstanding amounts was available.
22. With respect to union dues arrears for West Park, the amount outstanding, if any, was unknown at the date of the Union Agreement but was to be subsequently calculated after a reconciliation was performed by CUPE and Diversicare. It was subsequently determined that no further amount was owing with respect to union dues arrears for West Park.
23. With respect to union dues arrears for Casa Verde, the actual amount of union dues arrears, after completion of the final reconciliation, was \$14,357, which amount was paid in March 2006 once the members ratified the Union Agreements. All pre-receivership union dues have now been paid.
24. The pension contribution arrears were funded in 8 equal monthly instalments for each Home commencing in February 2006 with the final payment made on September 1, 2006.
25. On October 11, 2006, counsel for the Unions wrote to counsel for the Receiver alleging that pension contributions arrears remained outstanding in the amount of \$46,207 for Casa Verde and \$11,797 for West Park. After further review, the Receiver determined that the claimed arrears were for penalties and interest in respect of unpaid pension contributions for the pre-Appointment period. The Receiver has questioned the validity of these charges and the matter remains unresolved with the Unions.
26. A further condition of the Union Agreements was that the Receiver agreed to recognize wage rate increases that were included in Memoranda of Settlement as previously agreed to between the Unions and the Companies to the extent that those wage rate increases had not already been provided to the applicable union employees. In addition, the Receiver agreed that the wage rate increases would take effect as of the date of the Memoranda of Settlement such that the Receiver agreed, upon ratification of the Union Agreements by the Unions, to make lump sum payments to applicable employees. In April 2006, lump sum payments totalling \$38,709 were made in respect

of retro pay for union employees of Casa Verde, of which \$31,492 related to the pre-receivership period. No retro pay amounts were required for union employees of West Park.

27. As previously mentioned, the Receiver met with all of the employees of Casa Verde and West Park on January 24, 2006 to inform them of the receivership proceedings. These meetings with employees took place in the morning, afternoon and evening at each facility in order to accommodate all shifts at the Homes. At those meetings, the Receiver informed the employees that the Appointment Order and Ontario Law had the effect of terminating their employment with the Companies, however the Receiver indicated that it would engage all of the employees on a temporary basis to continue to work in the Homes. The Receiver informed those employees that were members of the Unions that it had entered into the Union Agreements and that their salaries and benefits would remain as they were prior to the receivership. For those non-union employees, the Receiver indicated that it would be entering into employment agreements with those employees on essentially the same terms (wages and benefits) as were in place prior to the receivership except that the employment agreements would be on a temporary basis. A sample copy of the letter provided to employees of Paragon and Paragon Ontario is attached herein as Appendix "C".
28. On or about February 9, 2006, the Receiver was informed that coverage for employee medical and dental expenses had been suspended by the Companies' insurance carrier, Desjardins Financial Security Life Assurance Company ("Desjardins") even though the Receiver had previously forwarded the February 2006 premiums to the broker, Automated Administration Services ("AAS"). Notwithstanding the Receiver putting Desjardins on notice that it was potentially violating paragraph 12 of the Appointment Order that required suppliers such as Desjardins to continue to supply insurance coverage, Desjardins was taking the position that coverage had terminated after two successive monthly premiums due November 1, 2005 and December 1, 2005 were unpaid. The total amount of unpaid premiums was \$131,730.75. After lengthy negotiations, the Receiver eventually reached a settlement with Desjardins whereby full coverage would be reinstated from the date of the Appointment Order forward and unpaid benefit claims from prior to the date of the Appointment Order ("Pre-Appointment Claims") would be processed by Desjardins but paid by the Receiver together with a 15% administrative processing fee to Desjardins, however outstanding pre-receivership premiums would not be paid. On or about March 9, 2006, employee benefit coverage was reinstated by Desjardins. As a result of the

settlement, the Receiver paid \$96,687 to Desjardins on account of the Pre-Appointment Claims (including the administrative processing fee) which was approximately \$35,000 less than the unpaid pre-receivership premiums.

29. With respect to Casa Verde, upon the commencement of the receivership, the Receiver retained all 234 employees, 210 of which belonged to SEIU and 24 of whom were salaried employees. At that time, the occupancy for the Nursing Home was 67% and for the Retirement Home was 50%. Diversicare, after having evaluated staffing levels relative to occupancy and workloads at Casa Verde, advised the Receiver that it would be appropriate to terminate 9 unionized positions and 2 salaried positions. The Receiver issued notices of layoff and bumping letters to both the affected employees and the Unions pursuant to the respective collective agreement. Subsequently, due to increased occupancy throughout the balance of 2006 and early 2007 due to renovations carried out by the Receiver to bring 38 unused beds in the 2 East Wing of Casa Verde back into service and improve the accommodations for 55 beds in the 1 East Wing of Casa Verde, the Receiver has increased occupancy to 82% as of February 28, 2007 resulting in the need to increase staffing levels to 231 union and 21 salaried employees.

RESIDENTS

30. Upon its appointment, the Receiver arranged meetings with the residents of both Homes and their families to inform them of the receivership and answer questions they may have regarding the receivership process and the Receiver's mandate. The Receiver arranged for Facilities' staff to telephone family members of each resident to inform them of the date and time of the meeting. The meeting for Casa Verde residents and their families was held during the evening of January 25, 2006 while the meeting for West Park residents and their families was held the evening of January 26, 2006. Representatives of the MOH and Diversicare also attended the meetings and addressed any questions and concerns raised. Also at these meetings, the Receiver distributed a letter to residents and their families providing further details on the receivership, a sample copy of the Paragon letter is attached hereto as Appendix "D".
31. Since the date of the Appointment Order, the Receiver has not been contacted by any residents of the Homes or any family members expressing concerns.

MINISTRY OF HEALTH AND LONG-TERM CARE

32. Prior to the commencement of the receiverships, representatives of the Receiver, Gowlings, Lang Michener and Diversicare attended meetings, including conference calls with the MOH to discuss the proposed receiverships and any MOH issues or concerns therewith. At these meetings, the MOH wished to ensure that the appropriate standard of care was maintained during the transition phase of the receiverships and therefore indicated that they would have MOH staff present during the taking possession period and also at any meetings to be held with residents and staff.
33. At those meetings with residents and staff, MOH representatives indicated to residents and employees that from the MOH's perspective, there were no issues with the standard of care that was being provided to residents.
34. In late February 2006, the MOH commenced their annual inspections of both Casa Verde and West Park. Each inspection was completed in approximately one week for each facility.
35. For Casa Verde, from a compliance perspective, the Report of Unmet Standards or Criteria indicated that there were no unmet standards. From an environmental standpoint, the MOH identified four unmet "criteria" or "standards", all of which were subsequently rectified, and two areas of non-compliance, which the home addressed in a Compliance Plan which was accepted by the MOH. The dietary review identified five unmet criteria, all of which were subsequently addressed and corrected.
36. For West Park, the MOH identified "unmet standards" that involved insufficient lighting, a cold elevator, minor kitchen upgrades and exhaust fans, and insufficient resident room chairs. Diversicare has informed the Receiver that all of the MOH "unmet standards" have been addressed to the MOH's satisfaction.
37. In January 2007, the MOH completed their annual inspections for both Homes. For West Park, there were a few minor operation items cited which have been addressed. For Casa Verde, however, the MOH identified certain unmet standards and areas of non-compliance. At a meeting on February 6, 2007 with the Receiver and Diversicare, the MOH informed that it was placing the home under enforcement inspection for a period up to 90 days. The Receiver and Diversicare met again with the MOH on March 9, 2007 to discuss the results of the MOH's preliminary enforcement

inspection review. Diversicare, in conjunction with Casa Verde's Administrator, have submitted a Compliance Plan to the MOH to address the areas of non-compliance, which the Receiver is closely monitoring. The Receiver has also confirmed that Diversicare will be supplying increased management resources to Casa Verde to address and rectify the areas of non-compliance.

38. Prior to the issuance of the Appointment Order, the MOH had been setting off certain amounts against the monthly funding otherwise due to the Homes to recover previous overfunding. While this occurred to a limited extent at West Park, the set off against the monthly payment for Casa Verde was significant per month and was contributing to Casa Verde's cash flow shortfall. Prior to the Appointment Date, the Receiver confirmed with the MOH that funding for the period up to the Appointment Date would still be subject to set-off, however, ongoing funding to the Receiver from the Appointment Date onward would not be subject to overfunding set-off. However, the Receiver determined that the initial post-receivership payments for the period January 24 to 31, 2006 were calculated incorrectly, resulting in a funding shortfall to the Receiver of approximately \$97,500 for Paragon and \$92,000 for 1508669. The MOH subsequently agreed with the Receiver's calculations and provided the Receiver with the funding shortfall in March 2006.

ASSETS OF THE COMPANIES

39. According to Paragon's unaudited trial balance for the year ended December 31, 2005, the assets of Paragon consist of cash in the bank, accounts receivable from certain residents of Casa Verde, food and supply inventory and the land and building including the equipment, furniture and fixtures located therein. In addition, Paragon is the beneficial owner of 252 nursing home bed licences.
40. According to Paragon Ontario's unaudited trial balance at December 31, 2005, the assets of Paragon Ontario consist of cash in the bank. According to 1508669's unaudited trial balance for the year ended December 31, 2005, the assets of 1508669 consist of cash in the bank, accounts receivable from certain tenants of West Park, food and supply inventory and the land and building, including the equipment, furniture and fixtures therein and 101 nursing home bed licences, of which eight of the licences are currently being held in abeyance as that facility does not have sufficient rooms to utilize these licences.
41. In order to assist the Receiver in assessing any offers for the assets of the Companies, the Receiver engaged Healthtrust Canada ("Healthtrust") and McKenzie, Ray, Heron, & Edwardh

("McKenzie"), two valuation firms which specialize in senior housing and healthcare real estate valuation, to prepare appraisals for both properties. McKenzie is expected to submit its appraisal in March 2007. HealthTrust, on the otherhand, informed the Receiver that while it has completed its field work and assessment of the property, it cannot complete its appraisal of the property until the Long-Term Care Act, proposed legislation which apparently will provide for revised licensing standards for nursing homes including a possible time limit on nursing home licenses, is clarified and/or enacted. At the request of Peoples and CMHC, the Receiver has delayed its marketing program for the Homes until it receives the aforementioned appraisals, at which point the Receiver intends to apply to the Court to seek approval of the Receiver's marketing program.

CAPITAL IMPROVEMENTS TO THE FACILITIES

42. Upon taking possession of the assets of the Companies, at the Receiver's request, Diversicare undertook an operational review of the Facilities which included an analysis of the physical plant. Diversicare's initial assessment indicated that the roofs at both Facilities required repair. With the Receiver's authorization, Diversicare engaged Garland Canada Inc. ("Garland") to inspect the roofs and advise as to the condition and the estimated cost of any necessary repairs. Garland provided Roof Inspection Reports which indicated that significant repairs were required at both Facilities. Garland estimated the cost of the roof repairs for Casa Verde to be \$631,000 which would occur in three phases over a three year period. The estimated cost for 2006 was \$280,200. For West Park, Garland estimated the cost of the roof repairs to be \$191,000 which would occur in two phases over a two year period.
43. The Receiver authorized Diversicare to solicit 5 quotes for the first phase of the repairs to the roof at Casa Verde based on the specifications provided by Garland. With the agreement of Peoples and CMHC, the Receiver authorized Diversicare to proceed to have Specified Roofing Contractors Inc. carry out the first phase of the roof repair. This work was completed in the summer and fall of 2006 at a cost of approximately \$270,000. The second phase of the roof repair was tendered in January 2007 and the tender of Crawford Roofing Corporation at \$222,600 was accepted by the Receiver. The repair work commenced in February 2007 and should be completed in late spring 2007.
44. The Receiver also authorized Diversicare to solicit 5 quotes for the repairs to the roof at West Park based on the specifications provided by Garland. With the agreement of Peoples and CMHC, the

Receiver authorized Diversicare to proceed to have Aggressive Metals Inc. carry out the first phase of the roof repair. This work was completed in the summer of 2006 at a cost of approximately \$120,000. The second phase of roof repairs, estimated to cost approximately \$100,000, will be put out for tender in the spring of 2007.

45. In its operational review of Casa Verde, Diversicare indicated that the HVAC system was not functioning properly and required significant repairs. After completion of a quotation process and with the approval of Peoples and CMHC, the repairs were completed in the spring of 2006 at a cost of approximately \$56,000.
46. Diversicare further identified that there was a lack of sufficient furniture in certain areas of Casa Verde and that certain of the furniture was of poor quality and required replacement. The Receiver directed Diversicare to conduct a tender process for the required furniture which resulted in the purchase of approximately \$81,500 of beds, chairs, couches and other miscellaneous furniture pieces.
47. Also in its operational review of Casa Verde, Diversicare indicated that the deteriorated physical condition in the 1 East Wing and 2 East Wing of Casa Verde was inhibiting the Facility's ability to attract and retain residents in these areas. These areas were characterized by painted cinderblock walls and deteriorated tile floors. Diversicare suggested that certain physical improvements to these areas, such as installing drywall over the cinderblock and carpeting over the tile floors, would greatly improve the appearance of these areas and facilitate the Receiver's objective of increasing occupancy in the Home in advance of a marketing and sales process. After the completion of a tender process and with the approval of Peoples and CMHC, the 2 East Wing renovations were completed in September 2006 at a cost of approximately \$19,000 for new carpeting. The renovations of the 1 East Wing commenced in October 2006 and are scheduled to be completed in late March 2007 at an approximate cost of \$68,000.
48. The MOH, in its audit of West Park in February 2006, indicated that, in addition to the roof deficiency, there were deficiencies with certain windows in the Facility, in that the seals on these windows were no longer sufficient such that they were prone to causing drafts in certain of the rooms. After the completion of a tender process and with the approval of the Receiver, Peoples and CMHC, Boston Windows was engaged to complete the work at an approximate cost of

\$72,000. As of the date of this Report, substantially all the windows have been installed with the balance to be completed by the end of March 2007.

49. In total, since the Appointment Date, the Receiver has to date expended \$353,974 for capital additions in Casa Verde Nursing Home, \$74,607 in Casa Verde Retirement Home and \$205,249 for West Park.

OPERATIONAL RESULTS

50. At the Appointment Date, the occupancy at Casa Verde Nursing Home was 168 beds (67%) and 47 beds (50%) for Casa Verde Retirement Home. As of February 28, 2007, occupancy has increased to 208 beds (82%) in Casa Verde Nursing Home and 52 beds (56%) in Casa Verde Retirement Home. The increase in occupancy can be attributed to the following:
- a general decrease in available beds in competitor nursing and retirement homes in the North Toronto area;
 - a more concerted marketing campaign by Casa Verde, including marketing of the local Community Care Access Centre which places new applicants in homes;
 - the creation of model suites for a better presentation to potential residents; and
 - improved appearance of Casa Verde through repairs and maintenance authorized by the Receiver and effected through Diversicare.
51. Occupancy at West Park has remained relatively consistent at an average rate of approximately 97% since the Appointment Date.
52. Attached hereto as Appendix "E" is an operating statement summary for Casa Verde Nursing Home for the period January 24, 2006 to December 31, 2006 (the "Results Period"). Casa Verde Nursing Home has generated positive net operating income (before consideration of interest, depreciation and capital expenditures) of \$611,041 over the Results Period. Monthly results at Casa Verde Nursing Home are showing an upward trend due to the positive impact of increased occupancy commencing in July 2006. It is anticipated that results will continue on the same trend

for 2007 once the renovations to 1 East Wing are completed and all 252 rooms are available for occupancy.

53. Attached hereto as **Appendix "F"** is an operating statement summary for Casa Verde Retirement Home for the Results Period. Casa Verde Retirement Home experienced a net operating loss of \$227,450 (before consideration of interest, depreciation and capital expenditures) over the Results Period as a result of occupancy levels in the 50% range from the Appointment Date to May 31, 2006. Since June 1, 2006, occupancy has been on an upward trend, reaching almost 65% by the end of August 2006, resulting in lower monthly net operating losses. It is anticipated that lower monthly net operating losses will continue in 2007 as improved occupancy is expected, however significantly increased occupancy is required before Casa Verde Retirement Home can generate an operating profit.
54. Attached hereto as **Appendix "G"** is an operating statement summary for West Park for the Results Period. Consistently strong occupancy at West Park has generated positive net operating income of \$403,413 (before consideration of interest, depreciation and capital expenditures) over the Results Period which is anticipated to continue in 2007.

INTERIM STATEMENT OF RECEIPTS AND DISBURSEMENTS

55. Attached hereto as **Appendix "H", "I" and "J"** are the Receiver's Interim Statements of Receipts and Disbursements for the period January 24, 2006 to February 28, 2007 (the "R&D") for each of Paragon, Paragon Ontario and 1508669, respectively. These statements reflect transactions through the Receiver's accounts and do not reflect the receipts and disbursements of the operating accounts managed by Diversicare for the Receiver, which are maintained on an accrual basis and are reflected in the aforementioned operating statement summaries.
56. On the 22nd day of each month, MOH funding is deposited into the Receiver's trust account, the amount of which is based on the census at the Homes and is fairly consistent month to month. Each month, Diversicare provides the Receiver with a cash flow forecast for the Homes and a funding request to meet the Homes' cash flow requirements. The Receiver provides the requisite funding to Diversicare and holds the balance in its trust account.

57. As set out in the R&D's, the current cash balances as at February 28, 2007 in respect of each of the Companies is as follows:

Company	Cash Balance
Paragon	\$ 404,834
Paragon Ontario	3,603
1508669	307,524
Total	\$ 715,961

As discussed below, Peoples is seeking to distribute a portion of the cash being held in the Receiver's 1508669 trust account. Peoples is not seeking a distribution of any of the funds in the Receiver's Paragon trust account as these funds may be required to fund capital expenditures at Casa Verde in order fulfil the Compliance Plan for the Home.

58. Diversicare's operating accounts contain the following cash balances as at February 28, 2007:

Facility	Cash Balance
Casa Verde Health Centre	\$ 494,575
Casa Verde Retirement Home	222,729
West Park	434,643
Total	\$ 1,151,947

Diversicare maintains sufficient cash balances for working capital purposes. The balances in Diversicare's accounts are relatively higher at February 28, 2007 as funding was received by Diversicare from the Receiver on or about February 23, 2007, which funding is required to fund operations at the Homes until March 22, 2007 when the next month's funding from the MOH is available.

RECEIVER'S CERTIFICATES

59. In order to meet its payroll obligations during the first two weeks of the receiverships, the Receiver issued the following Receiver Certificates:

- i) Receiver Certificate #1 issued January 24, 2006 to Peoples in respect of 1508669 in the amount of \$102,273.42;
- ii) Receiver Certificate #2 issued January 30, 2006 to Peoples in respect of Paragon Ontario in the amount of \$72,000; and
- iii) Receiver Certificate #3 issued January 30, 2006 to Peoples in respect of Paragon in the amount of \$193,000.

In each of the cases above, the proceeds from the Receiver Certificates were paid directly by Peoples Trust to ADP payroll service in order to fund payroll. As of the date of this Report, Receiver Certificate #1 has been repaid while Receiver Certificates #2 and #3 remain outstanding and will be repaid as soon as practical from surplus cash flow.

PROPOSED DISTRIBUTION TO PEOPLES TRUST

- 60. As indicated above, the Receiver has approximately \$307,000 in cash in its 1508669 trust account.
- 61. With respect to the property, assets and undertaking of 1508669 and the business of West Park, Peoples holds the security described in Appendix "K", including the charge/mortgage of land, dated August 14, 1995 and registered August 17, 1995 as instrument number RO699419 in favour of Sun Life Assurance Company of Canada for the principal amount of \$3,941,505 and assigned to Peoples by assignment of charge/mortgage of land dated June 13, 2000 and registered June 15, 2000 as instrument number RO768790, and related personal property security (the "West Park First Mortgage").
- 62. The Receiver received an opinion from Lang Michener dated March 8, 2007 that under the laws of Ontario, the various securities held by Peoples, including the West Park First Mortgage, constitute legal, valid and binding obligations of 1508669, enforceable against 1508669 by Peoples in accordance with their terms, and create, in favour of Peoples, valid security interests, mortgages and charges in and over the property, assets and undertaking in which 1508669 has rights, securing payment and performance of the obligations secured thereby.

63. Appendix "L" lists the various financing statements filed under the *Personal Property Security Act* (Ontario) in respect of the security interest of Peoples.
64. The Receiver has received a similar security opinion in respect of the secured indebtedness owing to Peoples by Paragon.
65. As of February 5, 2007, the outstanding balance under the West Park First Mortgage is \$2,841,983, which includes interest and late payment interest of \$288,982. Peoples has informed the Receiver that it would like to receive payment against interest arrears should there be sufficient excess cash flow that is not required to operate West Park.
66. The Receiver has determined that \$200,000 would be an appropriate amount to distribute to Peoples as partial payment against interest arrears under the West Park First Mortgage and is seeking the Court's approval for same.

STATEMENTS OF ACCOUNT OF THE RECEIVER AND ITS COUNSEL

67. The Receiver's fees for services rendered for the period January 24, 2006 to January 31, 2007 are particularized in the Affidavit of Daniel R. Weisz, sworn March 26, 2007 and the invoices attached as exhibits thereto. The total amount of the invoices for this period is \$262,226.56 in respect of Paragon and \$99,630.41 in respect of 1508669.
68. The fees and disbursements of Lang Michener LLP ("Lang Michener"), the Receiver's independent counsel, for the period January 24, 2006 to March 21, 2007 are particularized in the Affidavit of Leslie Wittin, sworn March 27, 2007 and the invoices attached as exhibits thereto. The total amount of the invoices for this period is \$48,821.81 in respect of Paragon and \$15,041.96 in respect of 1508669.
69. The fees and disbursements of Gowling Lafleur Henderson LLP ("Gowlings"), counsel for Peoples Trust, in respect of work performed for the Receiver, for the period January 24, 2006 to December 31, 2006 are particularized in the Affidavit of Harry VanderLugt, sworn March 26, 2007 and the invoices attached as exhibits thereto. The total amount of the invoices for this period is \$39,758.47 in respect of Paragon and \$10,716.81 in respect of 1508669.

First Report to the Court of Mintz & Partners Limited as
Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited

March 26, 2007
Court File No. 06-CL-6233

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70. The Receiver has reviewed the invoices of Lang Michener and Gowlings and finds the work performed and charges to be appropriate and reasonable.
71. The Receiver has sought and received the approval of Peoples prior to taking interim draws against the fees of the Receiver, Gowlings and Lang Michener.
72. The Receiver is herein seeking the Court's approval of its activities up to the date of this report and its fees as set out above. The Receiver is also seeking the Court's approval for the fees of Gowlings and Lang Michener as discussed above.

RECEIVER'S REQUEST TO THE COURT

73. The Receiver is respectfully seeking an order approving the following:
 - i) the actions and activities of the Receiver from the Appointment Date to March 26, 2007;
 - ii) a distribution to Peoples in the amount of \$200,000 for payment against the arrears on the first mortgage on 1508669; and
 - iii) the fees for services rendered of the Receiver for the period to January 31, 2007, the fees and disbursements of Lang Michener for the period to March 21, 2007 and the fees and disbursements of Gowlings for the period to December 31, 2006.

First Report to the Court of Mintz & Partners Limited as
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and 1508669 Ontario Limited

March 26, 2007
Court File No. 06-CL-6233

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All of which is respectfully submitted to this Honourable Court.

DATED this 26th day of March, 2007.

Mintz & Partners Limited

MINTZ & PARTNERS LIMITED
Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited

Daniel R. Weisz, CA-CIRP, CIRP
Senior Vice President

Hartley Bricks, MBA, CA-CIRP, CIRP
Vice President

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TAB C

APPENDIX "C"

**TO THE SECOND REPORT TO THE COURT OF MINTZ & PARTNERS LIMITED,
AS INTERIM RECEIVER AND RECEIVER AND MANAGER OF PARAGON
HEALTH CARE INC., PARAGON HEALTH CARE (ONTARIO) INC. AND 1508669
ONTARIO LIMITED**

CONFIDENTIAL INFORMATION MEMORANDUM UNDER SEAL WITH COURT.

TAB D

APPENDIX "D"

**TO THE SECOND REPORT TO THE COURT OF MINTZ & PARTNERS LIMITED,
AS INTERIM RECEIVER AND RECEIVER AND MANAGER OF PARAGON
HEALTH CARE INC., PARAGON HEALTH CARE (ONTARIO) INC. AND 1508669
ONTARIO LIMITED**

**FORM OF OFFER TO PURCHASE ASSETS OF
PARAGON HEALTH CARE INC. and
1508669 ONTARIO LIMITED (collectively, the "Corporations")
PURSUANT TO AN AGREEMENT OF PURCHASE AND SALE**

**TO: MINTZ & PARTNERS LIMITED, in its capacity as Court-appointed
Interim Receiver and Receiver and Manager of Paragon Health Care Inc.,
Paragon Health Care (Ontario) Inc. and 1508669 Ontario Limited (the
"Receiver")**

1. ● (the "Purchaser")

(Name of prospective purchaser)

2. ●

(Address of prospective purchaser)

3. ●

(Telephone number)

4. ●

(Facsimile number)

5. The undersigned hereby irrevocably offers to purchase the respective Corporations' right, title and interest, if any, in and to *(Check as applicable)*:

- ☐ the Casa Verde Assets only as such term is defined in the Agreement of Purchase and Sale,
- ☐ the West Park Assets only as such term is defined in the Agreement of Purchase and Sale,
- ☐ the Casa Verde Assets and the West Park Assets,

for the total cash sum of ● dollars (\$ ●).

6. Enclosed is a certified cheque or bank draft payable to "Mintz & Partners Limited", in the amount of ● dollars (\$ ●) representing ten per cent (10%) of the total cash amount of this offer.

7. The undersigned hereby represents and warrants that it is a "Canadian" as defined in the *Investment Canada Act*.

8. The undersigned acknowledges receipt of a copy of the form of Agreement of Purchase and Sale (the "APS") attached hereto as Schedule "A" and agrees that the APS is

incorporated into and forms a part of this offer and that this offer is made on the terms of the APS, with necessary changes.

Dated at Toronto, this ____ day of _____, 2007:

●
Per:

Name:

Title:

I have the authority to bind the corporation.

AGREEMENT OF PURCHASE AND SALE**BETWEEN**

**MINTZ & PARTNERS LIMITED, solely in its capacity as
court-appointed interim receiver and
receiver and manager of Paragon Health Care Inc.,
Paragon Health Care (Ontario) Inc. and
1508669 Ontario Limited and not in its personal capacity,
as Vendor**

— and —

●
as Purchaser

●, 2007

GOWLINGS

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SCHEDULES

EXHIBITS

AGREEMENT OF PURCHASE AND SALE

THIS AGREEMENT is dated as of ●, 2007

BETWEEN:

MINTZ & PARTNERS LIMITED, solely in its capacity as court-appointed interim receiver and receiver and manager of Paragon Health Care Inc., Paragon Health Care (Ontario) Inc. and 1508669 Ontario Limited and not in its personal capacity

(the "Vendor")

- and -

●, a corporation existing under the laws of ●

(the "Purchaser")

CONTEXT:

A. Pursuant to an order of the Honourable Justice Cumming of the Ontario Superior Court of Justice (Commercial List) dated January 23, 2006, Mintz & Partners Limited was appointed interim receiver and receiver and manager (the "Receiver") of the Debtors (as defined below) effective 9:00 a.m. on January 24, 2006 pursuant to Section 47 of the *Bankruptcy and Insolvency Act* (Canada) and Section 101 of the *Courts of Justice Act* (Ontario).

B. The Vendor wishes to sell and the Purchaser wishes to purchase the Assets (as defined below) upon and subject to the terms and conditions of this Agreement.

FOR GOOD AND VALUABLE CONSIDERATION, the parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the following meanings:¹

"1508669" means 1508669 Ontario Limited.

¹ This Agreement has been drafted for the purchase and sale of both the Casa Verde Assets and the West Park Assets. If the Purchaser wishes to purchase either the Casa Verde Assets or the West Park Assets, the definitions and Schedules related to the assets not purchased will be removed from this Agreement and the remainder of the Agreement will be amended accordingly.

"Accrued Payroll" means the Casa Verde Accrued Payroll and the West Park Accrued Payroll.

"Agreement" means this agreement, including all Schedules and Exhibits, as it may be supplemented, amended, restated or replaced from time to time by written agreement between the parties.

"Applicable Law" means, at any time, with respect to any Person, property, transaction or event, all applicable laws, statutes, regulations, treaties, judgments and decrees and (whether or not having the force of law) all applicable official directives, rules, consents, approvals, by-laws, permits, authorizations, guidelines, orders and policies of any governmental or regulatory body or Persons having authority over that Person, property, transaction or event.

"Appointment Order" means the order of the Court dated January 23, 2006 appointing Mintz & Partners Limited as Receiver of the Debtors effective 9:00 a.m. on January 24, 2006.

"Approval and Vesting Order" is defined in Section 4.3(a).

"Assets" means the Casa Verde Assets and the West Park Assets.

"Assumed Employee Liabilities" means the Casa Verde Assumed Employee Liabilities and the West Park Assumed Employee Liabilities.

"Assumed Employees" means the Assumed Salaried Employees and the Assumed Unionized Employees.

"Assumed Salaried Employees" means the Casa Verde Assumed Salaried Employees and the West Park Assumed Salaried Employees.

"Assumed Unionized Employees" means the Casa Verde Assumed Unionized Employees and the West Park Assumed Unionized Employees.

"Assumed Obligations" the Casa Verde Assumed Obligations and the West Park Assumed Obligations.

"Benefit Plans" means the Casa Verde Benefit Plans and the West Park Benefit Plans.

"Buildings and Fixtures" means the Casa Verde Buildings and Fixtures and the West Park Buildings and Fixtures.

"Business" means the Casa Verde Business and the West Park Business.

"Business Day" means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario or any other day on which the principal chartered banks located in the City of Toronto are not open for business during normal banking hours.

"Casa Verde Accrued Payroll" means the portion of the current payroll which has been earned by the Casa Verde Employees as at the Closing Date but which has not been paid.

"Casa Verde Assets" means the right, title and interest of Paragon, if any, in and to the Casa Verde Owned Real Property, Casa Verde Buildings and Fixtures, Casa Verde Equipment, Casa Verde Intellectual Property, Casa Verde Inventory, Casa Verde Intangibles, Casa Verde Contracts and Casa Verde Licences.

"Casa Verde Assumed Employee Liabilities" means all wages, statutory deductions, remittances, assessments, bonuses, vacation pay, sick leave, severance pay, termination pay, amounts paid in lieu of notice, payments under the collective agreement for the Casa Verde Employees and any other remuneration, benefits and deductions for all the Casa Verde Employees, including without limitation pension plan contributions and any other amounts required to be paid in respect of pension plans in which Casa Verde Employees participate, that become due and payable after the Closing Date.

"Casa Verde Assumed Obligations" means all obligations and liabilities of the Debtor(s) under the Casa Verde Contracts that the Purchaser has agreed to assume as of the Closing Date by way of separate and specific written agreement with the Vendor or party or parties to whom the relevant obligations and liabilities are owed and the Casa Verde Assumed Employee Liabilities.

"Casa Verde Assumed Salaried Employees" means all persons who are employed in the Casa Verde Business, as at the Closing Date, including those on short term disability leave, maternity leave or other permitted leave, but excluding the Casa Verde Assumed Unionized Employees.

"Casa Verde Assumed Unionized Employees" means all persons who are employed in the Casa Verde Business as at the Closing Date, whose employment is governed by the Casa Verde Collective Agreements.

"Casa Verde Benefits Plans" means any of the following (whether written, unwritten or terminated): (a) any employee welfare benefit plan, including but not limited to, any medical plan, life insurance plan, short term or long term disability plan and dental plans; and, (b) any employee pension plan, including, but not limited to any supplemental or excess pension plan, any deferred compensation plan, any registered pension plan or any other arrangement under which employees are provided with retirement income; in each case, provided, sponsored, administered or contributed to by the Debtor(s) in relation to the Casa Verde Assumed Salaried Employees and/or the Casa Verde Assumed Unionized Employees.

"Casa Verde Buildings and Fixtures" means all plant, buildings, structures, erections, improvements, appurtenances and fixtures situate on the Casa Verde Owned Real Property on the Closing Date.

"Casa Verde Business" means the business carried on on the Closing Date at the Casa Verde Owned Real Property in any way related to the operation of nursing homes and retirement homes at the said location.

"Casa Verde Collective Agreements" means, collectively, the collective agreement between Paragon and Service Employees International Union Local 204 (now known as Service Employees International Union Local 1.ON) ("**SEIU**") in respect of the Casa Verde Health Centre which expired on December 31, 2003 and the Memorandum of Agreement modifying and extending that collective agreement until April 30, 2007; the SEIU collective agreement with Paragon in respect of the Casa Verde Retirement Home/Casa Verde Independent Living Centre which expired on December 31, 2003 and the Memorandum of Agreement modifying and extending that collective agreement until April 30, 2007; and the collective agreement between Paragon Ontario and SEIU in respect of the Registered Nurses employed at the Casa Verde Health Centre which expired on June 30, 2004, as may be extended from time to time.

"Casa Verde Contracts" means the Casa Verde Collective Agreements and the agreements listed in Schedule 1A.

"Casa Verde Employees" means the Casa Verde Assumed Salaried Employees and the Casa Verde Assumed Unionized Employees.

"Casa Verde Equipment" means the equipment and tools of Paragon located at the Casa Verde Owned Real Property.

"Casa Verde Intangibles" means the choses in action, accounts receivable and other similar rights or claims directly related to the Casa Verde Business.

"Casa Verde Intellectual Property" means all applications and registrations for the copyrights, patents, patent applications, industrial designs, engineering drawings and tooling designs of Paragon listed in Schedule 2A.

"Casa Verde Inventory" means the inventory of Paragon located at the Casa Verde Owned Real Property.

"Casa Verde Licences" means the licences listed in Schedule 3A.

"Casa Verde Owned Real Property" means the lands and premises more particularly described in Schedule 4A.

"Closing" means the successful completion of the Transaction.

"Closing Date" means the second Business Day following the date on which the Approval and Vesting Order is granted, or such later date as agreed by the parties.

"Collective Agreements" means the Casa Verde Collective Agreements and the West Park Collective Agreements.

"Communication" means any notice, demand, request, consent, approval or other communication which is required or permitted by this Agreement to be given or made by a party.

"Confidential Information" has the meaning set out in the Confidentiality Agreement.

"Contracts" means the Casa Verde Contracts and the West Park Contracts.

"Court" means the Ontario Superior Court of Justice (Commercial List).

"Debtors" means Paragon, Paragon Ontario and 1508669 and **"Debtor"** means one of the Debtors, as applicable.

"Deposit" is defined in Section 2.7(a).

"Employees" means the Assumed Salaried Employees and the Assumed Unionized Employees.

"Equipment" means the Casa Verde Equipment and the West Park Equipment.

"ETA" means the *Excise Tax Act* (Canada).

"Governmental Authority" means:

- (a) any federal, provincial, state, local, municipal, regional, territorial, aboriginal, or other government, governmental or public department, branch, ministry, or court, domestic or foreign, including any district, agency, commission, board, arbitration panel or authority and any subdivision of the foregoing exercising or entitled to exercise any administrative, executive, judicial, ministerial, prerogative, legislative, regulatory or taxing authority or power of any nature; or
- (b) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing.

"GST" means all goods and service taxes payable under the ETA.

"Intellectual Property" means the Casa Verde Intellectual Property and the West Park Intellectual Property.

"Intellectual Property Assignment Agreement" means the assignment agreement to be entered into between the Vendor and the Purchaser with respect to the assignment of the copyrights, industrial designs, patents and patent applications described in Schedule 2, in the form attached as Exhibit A.

"Inventory" means the Casa Verde Inventory and the West Park Inventory.

"Licence(s)" means the Casa Verde Licences and the West Park Licences.

"MOH" means the Ministry of Health and Long-Term Care.

"Owned Real Property" means the Casa Verde Owned Real Property and the West Park Owned Real Property.

"Paragon" means Paragon Health Care Inc.

"Paragon Ontario" means Paragon Health Care (Ontario) Inc.

"Paragon's Premises" means the premises owned by Paragon and municipally known as 3595 Keele Street, North York, Ontario.

"Person" means an individual, body corporate, sole proprietorship, partnership or trust or unincorporated association, unincorporated syndicate, unincorporated organization, or another entity, and a natural person, acting in his or her individual capacity or in his or her capacity as executor, trustee, administrator or legal representative, and any Governmental Authority.

"Purchase Price" means \$ ●.

"Transaction" means the transaction of purchase and sale contemplated by this Agreement.

"West Park Accrued Payroll" means the portion of the current payroll which has been earned by the West Park Employees as at the Closing Date but which has not been paid.

"West Park Assets" means the right, title and interest of 1508669, if any, in and to the West Park Owned Real Property, West Park Buildings and Fixtures, West Park Equipment, West Park Intellectual Property, West Park Inventory, West Park Intangibles, West Park Contracts and West Park Licences.

"West Park Assumed Employee Liabilities" means all wages, statutory deductions, remittances, assessments, bonuses, vacation pay, sick leave, severance pay, termination pay, amounts paid in lieu of notice, payments under the collective agreement for the West Park Employees and any other remuneration, benefits and deductions for all the West Park Employees, including without limitation pension plan contributions and any other amounts required to be paid in respect of pension plans in which West Park Employees participate, that become due and payable after the Closing Date.

"West Park Assumed Obligations" means all obligations and liabilities of the Debtor(s) under the West Park Contracts that the Purchaser has agreed to assume as of the Closing Date by way of separate and specific written agreement with the Vendor or party or parties to whom the relevant obligations and liabilities are owed and the West Park Assumed Employee Liabilities.

"West Park Assumed Salaried Employees" means all West Park Salaried Employees who are employed in the West Park Business, as at the Closing Date, including those on short term disability leave, maternity leave or other permitted leave, but excluding the West Park Assumed Unionized Employees.

"West Park Assumed Unionized Employees" means all persons who are employed in the West Park Business as at the Closing Date, whose employment is governed by the West Park Collective Agreements.

“West Park Benefit Plans” means any of the following (whether written, unwritten or terminated): (a) any employee welfare benefit plan, including but not limited to, any medical plan, life insurance plan, short term or long term disability plan and dental plans; and, (b) any employee pension plan, including, but not limited to any supplemental or excess pension plan, any deferred compensation plan, any registered pension plan or any other arrangement under which employees are provided with retirement income; in each case, provided, sponsored, administered or contributed to by the Debtor(s) in relation to the West Park Assumed Salaried Employees and/or the West Park Assumed Unionized Employees.

“West Park Buildings and Fixtures” means all plant, buildings, structures, erections, improvements, appurtenances and fixtures situate on the West Park Owned Real Property on the Closing Date.

“West Park Business” means the business carried on on the Closing Date at the West Park Owned Real Property in any way related to the operation of nursing homes at the said location.

“West Park Collective Agreements” means the collective agreement between 1508669 and Canadian Union of Public Employees Local 1263 and the memorandum of settlement effective to December 31, 2006, as may be extended from time to time.

“West Park Contracts” means the West Park Collective Agreements and the agreements listed in Schedule 1B.

“West Park Employees” means the West Park Assumed Salaried Employees and the West Park Assumed Unionized Employees.

“West Park Equipment” means the equipment and tools of 1508669 located at the West Park Owned Real Property.

“West Park Intangibles” means the choses in action, accounts receivable and other similar rights or claims directly related to the West Park Business.

“West Park Intellectual Property” means all applications and registrations for the copyrights, patents, patent applications, industrial designs, engineering drawings and tooling designs of 1508669 listed in Schedule 2B.

“West Park Inventory” means the inventory of 1508669 located at the West Park Owned Real Property.

“West Park Licences” means the licences listed in Schedule 3B.

“West Park Owned Real Property” means the lands and premises more particularly described in Schedule 4B.

1.2 Entire Agreement

This Agreement, together with the agreements and other documents to be delivered pursuant to this Agreement, constitute the entire agreement between the parties pertaining to the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no representations, warranties or other agreements between the parties in connection with the subject matter of this Agreement except as specifically set out in this Agreement or the other agreements and documents delivered pursuant to this Agreement.

1.3 Time of Day

Unless otherwise specified, references to time of day or date mean the local time or date in the City of Toronto, Province of Ontario.

1.4 Business Day

Whenever any payment to be made or action to be taken under this Agreement is required to be made or taken on a day other than a Business Day, the payment is to be made or action taken on the next Business Day following.

1.5 Governing Law and Attornment

This Agreement is governed by, and is to be construed and interpreted in accordance with, the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario. Each of the parties hereby irrevocably and unconditionally attorns to the exclusive jurisdiction of the courts of the Province of Ontario.

1.6 Certain Rules of Interpretation

- (a) In this Agreement, words signifying the singular number include the plural and vice versa, and words signifying gender include all genders. Every use of the word "including" in this Agreement is to be construed as meaning "including, without limitation".
- (b) The division of this Agreement into Articles and Sections, the insertion of headings and the provision of a table of contents are for convenience of reference only and do not affect the construction or interpretation of this Agreement.
- (c) Wherever in this Agreement reference is made to a calculation to be made in accordance with GAAP, the reference is to the GAAP from time to time approved by the Canadian Institute of Chartered Accountants, or its successor, applicable as at the date on which the calculation is made or required to be made in accordance with GAAP.
- (d) References in this Agreement to an Article, Section, Schedule or Exhibit are to be construed as references to an Article, Section, Schedule or Exhibit of or to this Agreement unless the Context requires otherwise.

- (e) Unless otherwise specified in this Agreement, time periods within which or following which any payment is to be made or act is to be done will be calculated by excluding the day on which the period commences and including the day on which the period ends. If the last day of a time period is not a Business Day, the time period will end on the next Business Day.
- (f) Unless otherwise specified, any reference in this Agreement to any statute includes all regulations made thereunder or in connection therewith from time to time, and is to be construed as a reference to such statute as amended, supplemented or replaced from time to time.

1.7 Schedules and Exhibits

The following is a list of Schedules and Exhibits:

Schedule	Subject Matter	Section Reference
Schedule 1	Contracts	1.1
Schedule 2	Intellectual Property	1.1
Schedule 3	Licenses	1.1
Schedule 4	Owned Real Property	1.1
Schedule 5	Allocation of Purchase Price	2.8

Exhibit	Subject Matter	Section Reference
Exhibit A	Form of Intellectual Property Assignment Agreement	5.2
Exhibit B	Form of Approval and Vesting Order	4.3
Exhibit C	Form of Bill of Sale and Assignment	5.2

ARTICLE 2 SALE AND PURCHASE AND ASSIGNMENT

2.1 Sale and Purchase of Assets

Subject to the terms and conditions of this Agreement, the Vendor will sell to the Purchaser and the Purchaser will purchase the Assets on the Closing Date. The Purchaser acknowledges that it is not purchasing any other property or assets of the Debtor(s) other than the Assets.

2.2 Assignment and Assumption of Contracts

Subject to the conditions and terms of this Agreement, the Vendor will assign to the Purchaser all of the Debtor(s)' rights, benefits and interests in and to the Contracts, if any and the Purchaser will assume the Assumed Obligations.

This Agreement and any document delivered under this Agreement will not constitute an assignment or an attempted assignment of any Contract contemplated to be assigned to the Purchaser under this Agreement which is not assignable without the consent of a third party if such consent has not been obtained and such assignment or attempted assignment would constitute a breach of such Contract or, in the alternative, if an order of the Court authorizing and approving the assignment of the Contracts to the Purchaser has not been obtained. At the option of the Vendor, any such assignment may be made in the name of and on behalf of the Debtor(s).

2.3 "As is, Where is"

The Purchaser acknowledges that the Vendor is selling the Assets on an "as is, where is" basis as they exist on the Closing Date. The Purchaser further acknowledges that it has entered into this Agreement on the basis that the Vendor does not guarantee title to the Assets and that the Purchaser has conducted such inspections of the condition of and title to the Assets as it deemed appropriate and has satisfied itself with regard to these matters. No representation, warranty or condition is expressed or can be implied as to title, encumbrances, description, fitness for purpose, merchantability, condition, quantity or quality, assignability or in respect of any other matter or thing whatsoever concerning the Assets or the right of the Vendor to sell them save and except as expressly represented or warranted in this Agreement. Without limiting the generality of the foregoing, any and all conditions, warranties or representations expressed or implied pursuant to the *Sale of Goods Act* (Ontario) or similar legislation do not apply to this transaction of purchase and sale and have been waived by the Purchaser. The description of the Assets contained in the Schedules is for purposes of identification only. No representation, warranty or condition has or will be given by the Vendor concerning completeness or the accuracy of such descriptions.

2.4 Owned Real Property

The Purchaser acknowledges that it has, at its own expense, examined title to the Owned Real Property and satisfied itself as to the state thereof, and satisfied itself as to:

- (a) outstanding work orders affecting the Owned Real Property; and
- (b) the use of the Owned Real Property being in accordance with applicable zoning requirements and satisfied itself that the Buildings and Fixtures may be insured to the satisfaction of the Purchaser.

The Purchaser further acknowledges that, notwithstanding any statutory provisions to the contrary, the Purchaser has no right to submit requisitions on title or in regard to any outstanding work orders, deficiency notices or orders to comply issued by any Governmental Authority and the Purchaser will accept the title to the Owned Real Property subject to any Permitted Encumbrances, except as otherwise provided in this Agreement.

2.5 Assumed Obligations

In connection with its acquisition of the Assets, the Purchaser will assume the Assumed Obligations on Closing. On Closing, to the extent necessary, the Purchaser will enter into an assumption agreement in form and substance satisfactory to the Vendor. The Purchaser acknowledges that the Vendor will have no responsibility whatsoever for curing any defaults, paying any arrears, or performing any obligations under or with respect to the Contracts.

2.6 Excluded Obligations

Other than the Assumed Obligations, the Purchaser will not assume and will not be liable for any other liabilities or obligations of the Debtor(s).

2.7 Payment of the Purchase Price

On or prior to the Time of Closing, the Purchaser will pay the Purchase Price to the Vendor as follows:

- (a) the sum of \$ ●, the receipt of which the Vendor acknowledges, will be paid by the Purchaser upon execution of this Agreement as a deposit (the "**Deposit**") to be held by the Vendor in trust until the Closing and will be credited toward the Purchase Price upon Closing; and
- (b) the balance of the Purchase Price, after crediting the Deposit and adjusting for such usual and customary real property adjustments agreed upon between the Vendor and the Purchaser, will be paid upon Closing.

The Vendor agrees to cause the Deposit to be placed into an interest bearing account or certificate of deposit, with all interest earned or accrued to be paid or credited to the Purchaser at the Time of Closing, unless the Purchaser forfeits the Deposit as provided below in which event the interest will be paid to the Vendor. Unless otherwise agreed, all amounts payable to the Vendor either by way of Deposit or at the Time of Closing will be paid to the Vendor in cash, or by cheque certified by, or draft of, a major Canadian bank listed in Schedule I to the *Bank Act* (Canada). The Purchaser acknowledges and agrees that the Deposit is non-refundable save and except as provided under Section 5.9.

2.8 Allocation of Purchase Price

The Purchase Price will be allocated among the Assets in accordance with Schedule 5.

2.9 Accrued Payroll Payment

Upon delivery of proof of payment of the Accrued Payroll to the Employees by the Purchaser, the Vendor shall pay the Purchaser the amount of such Accrued Payroll.

2.10 Taxes

- (a) The Purchaser will pay upon Closing, in addition to the Purchase Price, all applicable federal, provincial and municipal or local taxes exigible in connection with the purchase and sale of the Assets including, without limitation, land transfer tax, goods and services tax and Ontario retail sales tax. Alternatively, where applicable, the Purchaser will have the option to furnish the Vendor with appropriate exemption certificates.
- (b) The Purchaser agrees to indemnify and save the Vendor harmless from and against all claims and demands for payment of all applicable taxes including penalties and interest and any liability or costs incurred as a result of any failure to pay such taxes when due.

2.11 Assumed Salaried Employees

- (a) On or before the Closing Date, subject to Closing, the Purchaser will offer employment to all the Assumed Salaried Employees at the same rate of wages and benefits then in effect, and upon other terms and conditions that are the same as those of his or her current employment, which employment will commence from the Closing Date. The Purchaser in making the offer of employment will recognize the seniority and years of service of such Assumed Salaried Employees.
- (b) The Purchaser acknowledges and agrees that:
 - (i) the Vendor makes no representation or warranty that any Assumed Salaried Employee will accept employment with the Purchaser, and
 - (ii) the acceptance by Assumed Salaried Employees of offers of employment with the Purchaser will not constitute a condition to the Purchaser's obligation to complete the Transaction.

2.12 Assumed Unionized Employees

- (a) In accordance with Applicable Law, the Purchaser shall become the successor employer under the Collective Agreement with respect to the Employees whose employment is governed by the Collective Agreements and shall be bound by and comply with the terms of the Collective Agreements.
- (b) Effective as of the Closing Date the Purchaser shall assume all of the Debtor(s)' liabilities and obligations (and the liabilities and obligations of the Vendor, if any) under the Collective Agreements, including all of the Debtor(s)' liabilities and obligations (and the liabilities and obligations of the Vendor, if any) under the Benefit Plans.

2.13 Assumed Employees General

- (a) Until the Closing Date, subject to the Purchaser's assumption of the Accrued Payroll and Assumed Employee Liabilities, the Debtor(s) will be responsible for payment of all wages, statutory deductions, remittances, assessments, bonuses, vacation pay, sick leave, severance pay, termination pay, amounts paid in lieu of notice, payments under the collective agreement for the Debtor(s)' Employees and any other remuneration, benefits and deductions for all the Employees, including without limitation pension plan contributions and any other amounts required to be paid in respect of pension plans in which Casa Verde Employees participate, that become due and payable prior to the Closing Date. On the Closing Date, the Purchaser will assume the Accrued Payroll and the Assumed Employee Liabilities.
- (b) Effective as of the Closing Date, the Purchaser will assume the obligations of the Debtor(s) and the Vendor, if any, under the Benefit Plans and all of the obligations, liabilities and responsibilities of the Debtor(s) and/or the Vendor as sponsor under the Benefit Plans relating to the Assumed Employees.
- (c) Except to the extent otherwise imposed by Applicable Law, the Debtor(s) will be responsible for all unpaid workers' compensation amounts, including payroll premiums, non-compliance charges, experience rating surcharges, work week surcharges, levies and penalties relating to the Employees arising out of events occurring on or prior to the Closing Date, and the Purchaser will be responsible for all such amounts arising out of events occurring on or after the Closing Date and relating to the Assumed Employees.
- (d) The Purchaser agrees to indemnify and save the Vendor harmless from and against all claims and demands for payment in connection with the Assumed Employee Liabilities.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES

3.1 Purchaser's Representations

The Purchaser represents and warrants to the Vendor that:

- (a) the Purchaser is a corporation duly incorporated, organized and subsisting under the laws of ●;
- (b) the Purchaser has all necessary corporate power, authority and capacity to enter into this Agreement and to perform its obligations and the execution and delivery of this Agreement and the consummation of the transactions contemplated have been duly authorized by all necessary corporate action on the part of the Purchaser;

- (c) the Purchaser is not a party to, bound or affected by or subject to any indenture, agreement, instrument, charter or by-law provision, order, judgment or decree which would be violated, contravened or breached by the execution and delivery by it of this Agreement or the performance by it of any of the terms contained in this Agreement;
- (d) to the best of the Purchaser's knowledge, no actions or proceedings are pending or have been threatened to restrain or prohibit the completion of the Transaction;
- (e) this Agreement and all other documents contemplated hereunder to which the Purchaser is or will be a party have been or will be, as at the Time of Closing, duly and validly executed and delivered by the Purchaser and constitutes or will, as at the Time of Closing, constitute legal, valid and binding obligations of the Purchaser, as the case may be, enforceable in accordance with the terms hereof or thereof;
- (f) the Purchaser is not a non-Canadian person as defined in the *Investment Canada Act*; and
- (g) the Purchaser will be registered under Part IX of the ETA on or before the Time of Closing.

3.2 Vendor's Representations

The Vendor represents and warrants to the Purchaser that:

- (a) upon the granting of the Approval and Vesting Order, the Vendor has the right to enter into this Agreement and to complete the Transaction;
- (b) the Vendor is not a non-resident of Canada within the meaning of that term as used in the *Income Tax Act* (Canada);
- (c) save and except for the charges created pursuant to the Appointment Order, the Vendor has not previously sold or done any act to encumber the Assets; and
- (d) to the best of the Vendor's knowledge, no actions or proceedings are pending and none have been threatened to restrain or prohibit the completion of the Transaction contemplated by this Agreement.

ARTICLE 4 CONDITIONS

4.1 Conditions of the Purchaser

The obligation of the Purchaser to complete the Transaction is subject to the following conditions being fulfilled or performed at or prior to the Time of Closing:

- (a) all representations and warranties of the Vendor contained in this Agreement will be true as of the Closing Date with the same effect as though made on and as of that date;
- (b) no action or proceedings will be pending or threatened to restrain or prohibit the completion of the Transaction contemplated by this Agreement;
- (c) the Vendor will have performed each of its obligations under this Agreement to the extent required to be performed on or before the Closing Date; and
- (d) no material loss or damage to the Assets will have occurred on or before the Closing Date.

The foregoing conditions are for the exclusive benefit of the Purchaser. Any condition may be waived by the Purchaser in whole or in part. Any such waiver will be binding on the Purchaser only if made in writing.

4.2 Conditions of the Vendor

The obligation of the Vendor to complete the Transaction is subject to the following conditions being fulfilled or performed at or prior to the Time of Closing:

- (a) all representations and warranties of the Purchaser contained in this Agreement will be true as of the Closing Date with the same effect as though made on and as of that date;
- (b) no action or proceedings will be pending or threatened to restrain or prohibit the completion of the Transaction contemplated by this Agreement;
- (c) the Purchaser will have performed each of its obligations under this Agreement to the extent required to be performed on or before the Closing Date; and
- (d) no material loss or damage to the Assets will have occurred on or before the Closing Date.

The foregoing conditions are for the exclusive benefit of the Vendor. Any condition may be waived by the Vendor in whole or in part. Any such waiver will be binding on the Vendor only if made in writing.

4.3 Mutual Conditions

The obligations of the Vendor and Purchaser to complete the Transaction are subject to the following conditions being fulfilled or performed at or prior to the Time of Closing:

- (a) an order will have been made by the Court on or before ● approving this Agreement and the Transaction and vesting in the Purchaser all the right, title and interest of the Debtor(s) in the Assets free and clear of all liens, security interests and other encumbrances, such order to be substantially in the form of the order attached hereto as Exhibit B (the “Approval and Vesting Order”);
- (b) the Approval and Vesting Order will not have been stayed, varied or vacated and no order will have been issued and no action or proceeding will be pending to restrain or prohibit the completion of the Transaction; and
- (c) on or before ●, the MOH shall have approved the purchase by the Purchaser contemplated under this Agreement and the MOH shall have issued the Licence(s) to the Purchaser.

The parties hereto acknowledge that the foregoing conditions are for the mutual benefit of the Vendor and the Purchaser.

4.4 Non-Satisfaction of Conditions

If any condition set out in this Article is not satisfied or performed prior to the time specified therefor, a party for whose benefit the condition is inserted may in writing:

- (a) waive compliance with the condition in whole or in part in its sole discretion by written notice to the other party and without prejudice to any of its rights of termination in the event of non-fulfilment of any other condition in whole or in part; or
- (b) elect on written notice to the other party to terminate this Agreement before Closing.

ARTICLE 5 CLOSING

5.1 Closing

The completion of the Transaction will take place at the offices of Gowling Lafleur Henderson LLP, on the Closing Date at the Time of Closing or as otherwise determined by mutual agreement of the parties in writing.

5.2 Purchaser's Deliveries on Closing

At or before the Time of Closing, the Purchaser will execute and deliver to the Vendor the following, each of which will be in form and substance satisfactory to the Vendor, acting reasonably:

- (a) payment of the balance of the Purchase Price;
- (b) the Intellectual Property Assignment Agreement;
- (c) a bill of sale and assignment substantially in the form of Exhibit C;
- (d) a certificate dated the Closing Date, confirming that all of the representations and warranties of the Purchaser contained in this Agreement are true as of the Closing Date, with the same effect as though made on and as of the Closing Date;
- (e) a certificate dated the Closing Date, confirming that each of the conditions precedent in Section 4.1 of this Agreement have been fulfilled, performed or waived as of the Closing Date;
- (f) an assumption agreement as contemplated by Section 2.5; and
- (g) such further and other documentation as is referred in this Agreement or as the Vendor may reasonably require to give effect to this Agreement.

5.3 Vendor's Deliveries on Closing

At or before the Time of Closing, the Vendor will execute and deliver to the Purchaser the following, each of which will be in form and substance satisfactory to the Purchaser, acting reasonably:

- (a) a bill of sale and assignment substantially in the form of Exhibit C;
- (b) the Intellectual Property Assignment Agreement;
- (c) a certificate dated the Closing Date confirming that all of the representations and warranties of the Vendor contained in this Agreement are true as of the Closing Date, with the same effect as though made on and as of the Closing Date;
- (d) a certificate dated the Closing Date confirming that each of the conditions precedent in Section 4.2 of this Agreement have been fulfilled, performed or waived as of the Closing Date;
- (e) the Approval and Vesting Order; and
- (f) such further and other documentation as is referred in this Agreement or as the Purchaser may reasonably require to give effect to this Agreement.

5.4 Purchaser's Acknowledgement

The Purchaser acknowledges that the Vendor is selling the right, title and interest of the Debtor(s) in and to the Assets pursuant to the Vendor's powers as authorized by the Appointment Order and the Approval and Vesting Order. The Purchaser agrees to purchase and accept the right, title and interest of the Debtor(s) in and to the Assets pursuant to and in accordance with the terms of this Agreement and the bill of sale and assignment and other assignment agreements delivered pursuant to the terms of this Agreement.

5.5 Possession of Assets

The Vendor will remain in possession of the Assets until the Time of Closing. On Closing, the Purchaser will take possession of the Assets where situate at the Time of Closing. The Purchaser acknowledges that the Vendor has no obligation to deliver physical possession of the Assets to the Purchaser. In no event will the Assets be sold, assigned, transferred or set over to the Purchaser until the Purchaser has satisfied all delivery requirements outlined in Section 5.2.

5.6 Access to Assets

- (a) The Purchaser may have reasonable access to the Assets located at the Debtor(s)' Premises during normal business hours prior to the Time of Closing for the purpose of enabling the Purchaser to conduct such inspections of the Assets as it deems appropriate. Such inspection will only be conducted in the presence of a representative of the Vendor if so required at the discretion of the Vendor.
- (b) The Purchaser agrees to indemnify and save the Vendor harmless from and against all claims, demands, losses, damages, actions and costs incurred or arising from or in any way directly related to the inspection of the Assets or the attendance of the Purchaser, its employees, contractors or agents at the Debtor(s)' Premises.

5.7 Risk

The Assets will be and remain at the risk of the Debtor(s) and/or Vendor until Closing and at the risk of the Purchaser from and after Closing. If, prior to Closing, the Assets are substantially damaged or destroyed by fire or other casualty, then, at its option, the Purchaser may decline to complete the transaction. Such option will be exercised within 15 days after notification to the Purchaser by the Vendor of the occurrence of damage or destruction (or prior to the Closing Date if such occurrence takes place within 15 days of the Closing Date) in which event this Agreement will be terminated automatically and the Purchaser will be entitled only to a return of the Deposit paid under Section 2.7(a) but without any other compensation. If the Purchaser does not exercise such option, it will complete the Transaction and will be entitled to an assignment of the proceeds of insurance referable to such damage or destruction. Where any damage or destruction is not substantial, the Purchaser will complete the Transaction and will be entitled to an assignment of the proceeds of insurance referable to such damage or destruction provided that such damage or destruction is insured or, otherwise, to an agreed abatement. If any dispute arises under this Section as to whether damage or destruction is substantial or with respect to the

amount of any abatement, such dispute will be determined in accordance with the arbitration provision referred to in Section 5.8.

5.8 Arbitration

If any dispute arises under Section 5.7 as to whether any damage or destruction is substantial or with respect to the amount of any abatement, such dispute will be determined by an arbitrator mutually acceptable to the parties. If the parties fail to agree on an arbitrator, either may, after such party has notified the other of such failure to agree, give notice to the other party that it wishes to submit the dispute to arbitration by a single arbitrator in accordance with the *Arbitration Act*, 1991 (Ontario). The decision of the arbitrator, which will be final and binding on the parties will be made as soon as possible following his appointment. The fees and expenses of the arbitration will be borne equally by the parties. If an arbitration proceeding is commenced pursuant to this Section prior to the Closing Date, the Closing Date will be automatically extended to the date, which is 4 Business Days from the date of the decision of the arbitrator.

5.9 Termination

If either the Vendor or the Purchaser validly terminates this Agreement pursuant to the provisions of Sections 4.4 or 5.7:

- (a) all the obligations of both the Vendor and Purchaser pursuant to this Agreement will be at an end; and
- (b) neither party will have any right to specific performance or other remedy against, or any right to recover damages or expenses from, the other.

For greater certainty, in the event that the Vendor or the Purchaser terminates this Agreement pursuant to Section 4.4, the Purchaser will not be entitled to have the Deposit returned and the Deposit and any interest thereon will be forfeited to the Vendor, unless such termination results from the failure to satisfy the conditions under Sections 4.3 or 4.1.

5.10 Breach by Purchaser

If the Purchaser fails to comply with the terms of this Agreement, the Vendor may by notice to the Purchaser elect to treat this Agreement as having been repudiated by the Purchaser. In that event, the Deposit and any other payments made by the Purchaser will be forfeited to the Vendor on account of its liquidated damages, and the Assets may be resold by the Vendor. In addition, the Purchaser will pay to the Vendor on demand the deficiency, if any, arising upon such resale (after deducting the expenses of resale) together with interest and all other damages or charges occasioned by or resulting from the default by the Purchaser.

ARTICLE 6 GENERAL

6.1 Paramountcy

In the event of any conflict or inconsistency between the provisions of this Agreement, and any other agreement, document or instrument executed or delivered by the Vendor in connection with this Transaction or this Agreement, the provisions of this Agreement will prevail to the extent of such conflict or inconsistency.

6.2 Vendor's Capacity

The Vendor acts solely in its capacity as Receiver of the Debtor(s) and will have no personal or corporate liability under this Agreement.

6.3 Commission

The Purchaser acknowledges that there are no agent or broker fees or other commissions payable by the Vendor on the Purchase Price or otherwise in connection with the Transaction, and the Purchaser agrees to indemnify the Vendor against any claim for compensation or commission by any third party or agent retained by the Purchaser in connection with, or in contemplation of, the Transaction.

6.4 Confidentiality

All information exchanged between the Vendor and the Purchaser in connection with the Transaction will be considered Confidential Information. For greater certainty, the Confidentiality Agreement will continue to be in effect until Closing. Any publicity relating to the Transaction and the manner of releasing any information regarding the Transaction will be mutually agreed upon by the Vendor and the Purchaser, both parties acting reasonably.

6.5 Costs and Expenses

Except as otherwise specified in this Agreement, all costs and expenses (including the fees and disbursements of accountants, legal counsel and other professional advisers) incurred in connection with this Agreement and the completion of the transactions contemplated by this Agreement are to be paid by the party incurring those costs and expenses. If this Agreement is terminated, the obligation of each party to pay its own costs and expenses is subject to each party's respective rights arising from a breach or termination.

6.6 Time of Essence

Time is of the essence in all respects of this Agreement.

6.7 Notices

Any Communication must be in writing and either:

- (a) personally delivered;
- (b) sent by prepaid registered mail; or
- (c) sent by facsimile or similar method of recorded communication, charges prepaid.

Any Communication must be sent to the intended recipient at its address as follows:

to the Purchaser at:

[Address]

Attention: President

Facsimile No.: ●

to the Vendor at:

Mintz & Partners Limited
1 Concorde Gate, Suite 200
Toronto, Ontario M3C 4G4

Attention: Daniel R. Weisz, CA • CIRP, CIRP
Hartley Bricks, MBA, CA • CIRP, CIRP
Facsimile No.: 416-644-4303

with a copy to

Gowling Lafleur Henderson LLP
1 First Canadian Place
Suite 1600
100 King Street West
Toronto, Ontario
Canada M5X 1G5

Attention: Clifton Prophet
Facsimile No.: 416-862-7661

or at such other address as any party may from time to time advise the other by Communication given in accordance with this Section 6.7. Any Communication delivered to the party to whom it is addressed will be deemed to have been given and received on the day it is so delivered at that party's address, provided that if that day is not a Business Day then the Communication will be deemed to have been given and received on the next Business Day. Any Communication transmitted by facsimile or other form of recorded communication will be deemed to have been given and received on the day on which it was transmitted (but if the Communication is

transmitted on a day which is not a Business Day or after 3:00 p.m. (local time of the recipient), the Communication will be deemed to have been received on the next Business Day). Any Communication given by registered mail will be deemed to have been received on the 5th Business Day after which it is so mailed. If a strike or lockout of postal employees is then in effect, or generally known to be impending, every Communication must be effected by personal delivery or by facsimile transmission.

6.8 Further Assurances

Each party shall, at the requesting party's cost, execute and deliver such further agreements and documents and provide such further assurances as may be reasonably required by the other party to give effect to this Agreement and, without limiting the generality of the foregoing, shall do or cause to be done all acts and things, execute and deliver or cause to be executed and delivered all agreements and documents and provide such assurances, undertakings and information as may be required from time to time by all regulatory or governmental bodies or stock exchanges having jurisdiction over the affairs of a party or as may be required from time to time under applicable securities legislation.

6.9 Amendment and Waiver

No supplement, modification, amendment, waiver, discharge or termination of this Agreement is binding unless it is executed in writing by the party to be bound. No waiver of, failure to exercise or delay in exercising, any provision of this Agreement constitutes a waiver of any other provision (whether or not similar) nor does such waiver constitute a continuing waiver unless otherwise expressly provided.

6.10 Submission to Jurisdiction

Without prejudice to the ability of any party to enforce this Agreement in any other proper jurisdiction, each of the parties irrevocably submits and attorns to the exclusive jurisdiction of the courts of the Province of Ontario to determine all issues, whether at law or in equity arising from this Agreement. To the extent permitted by applicable law, each of the parties irrevocably waives any objection (including any claim of inconvenient forum) that it may now or hereafter have to the venue of any legal proceeding arising out of or relating to this Agreement in the courts of the Province or that the subject matter of this Agreement may not be enforced in the courts and irrevocably agrees not to seek, and hereby waives any right to, judicial review by any court which may be called upon to enforce the judgment of the courts referred to herein, of the substantive merits of any such suit, action or proceeding. To the extent a party has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, that party hereby irrevocably waives such immunity in respect of its obligations under this Agreement.

6.11 Assignment and Enurement

Neither this Agreement nor any right or obligation hereunder may be assigned by either party without the prior consent of the other party. This Agreement enures to the benefit of and is binding upon the parties and their respective successors and permitted assigns.

6.12 Severability

Each provision of this Agreement is distinct and severable. If any provision of this Agreement, in whole or in part, is or becomes illegal, invalid or unenforceable in any jurisdiction by a court of competent jurisdiction, the illegality, invalidity or unenforceability of that provision will not affect:

- (a) the legality, validity or enforceability of the remaining provisions of this Agreement; or
- (b) the legality, validity or enforceability of that provision in any other jurisdiction.

6.13 Counterparts

This Agreement may be executed and delivered by the parties in one or more counterparts, each of which when so executed and delivered will be an original and such counterparts will together constitute one and the same instrument.

6.14 Facsimile Signatures

Delivery of this Agreement by facsimile transmission constitutes valid and effective delivery.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

Each of the parties has executed and delivered this Agreement, as of the date noted at the beginning of the Agreement.

MINTZ & PARTNERS LIMITED, solely in its capacity as court-appointed interim receiver and receiver and manager of Paragon Health Care Inc., Paragon Health Care (Ontario) Inc. and 1508669 Ontario Limited and not in its personal capacity

Per _____
Name:
Title:

[PURCHASER]

Per _____
Name:
Title:

SCHEDULE 1
CONTRACTS [SECTION 1.1]

A. CASA VERDE CONTRACTS

See attached.

B. WEST PARK CONTRACTS

See attached.

SCHEDULE 2
INTELLECTUAL PROPERTY [SECTION 1.1]

A. CASA VERDE INTELLECTUAL PROPERTY

See attached.

B. WEST PARK INTELLECTUAL PROPERTY

See attached.

SCHEDULE 3
LICENCES [SECTION 1.1]

A. CASA VERDE LICENSES

See attached.

B. WEST PARK LICENSES

See attached.

SCHEDULE 4
OWNED REAL PROPERTY [SECTION 1.1]

A. CASA VERDE OWNED REAL PROPERTY

3595 Keele Street, North York, Ontario

B. WEST PARK OWNED REAL PROPERTY

103-111 Pelham Road, St. Catherines, Ontario

SCHEDULE 5
ALLOCATION OF PURCHASE PRICE [SECTION 2.8]

EXHIBIT A**FORM OF INTELLECTUAL PROPERTY ASSIGNMENT AGREEMENT
[SECTION 5.2]****ASSIGNMENT OF INTELLECTUAL PROPERTY****TO: [PURCHASER]**

WHEREAS Paragon Health Care Inc. ("**Paragon**") is the registered owner of the intellectual property identified in Appendix A and 1508669 Ontario Limited ("**1508669**") (Paragon and 1508669 are hereinafter collectively referred to as the "**Debtors**"), is the registered owner of the intellectual property identified in Appendix B (hereinafter collectively referred to as the "**IP Rights**");

WHEREAS Mintz & Partners Limited, whose full post office address is 1 Concorde Gate, Suite 200, Toronto, Ontario M3C 4G4 (hereinafter referred to as the "**Assignor**") was appointed interim receiver and receiver and manager of Paragon, Paragon Health Care (Ontario) Inc. and 1508669 pursuant to an Order of the Honourable Justice Cumming of the Ontario Superior Court of Justice (Commercial List) dated January 23, 2006, effective 9:00 a.m. on January 24, 2006 pursuant to Section 47 of the *Bankruptcy and Insolvency Act* (Canada) and Section 101 of the *Courts of Justice Act* (Ontario);

WHEREAS purchaser, whose full post office address is ● (hereinafter referred to as the "**Assignee**") is desirous of acquiring the entire right, title and interest of the Debtor(s), if any, in and to the IP Rights;

NOW, THEREFORE, in consideration of the sum of \$1.00 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor declares as follows:

The Assignor, for and on behalf of the Debtor(s), hereby assigns and transfers to the Assignee, without warranty as to the registrability or validity thereof, the Debtor(s)' entire right, title and interest, if any, in and to the IP Rights, including without limitation, (i) the industrial design applications and registrations set out in Appendix A and Appendix B hereto and the industrial designs described, shown and claimed therein; and (ii) the patents and applications identified in Appendix A and Appendix B hereto and the inventions described or claimed therein, and any and all continuations, continuations-in-part, divisions, renewals, reissues and substitutes for said patents and applications, and in and to any and all Letters Patent which may be granted on or as a result of the said applications and any issue or reissues or extensions or re-examinations of said Letters Patent, the same to be held and enjoyed by the Assignee, as fully and entirely as the same could have been held and enjoyed by the Assignor if this assignment and transfer had not been made.

The Assignor authorizes and empowers the Assignee, its assigns and legal representatives or nominees, to invoke and claim for any application for patent or other form of protection for any invention set out in the attached schedule or for additions and modifications thereto, filed by it or them, the benefit of the right of priority provided by the International Convention for the

Protection of Industrial Property, as amended, or by any convention which may henceforth be substituted for it, and to invoke and claim such right of priority without further written or oral authorization from the Assignor.

The Commissioner of Patents & Trademarks is hereby authorized and requested to issue said Letters Patent to the Assignee, for its sole use and benefit; and for the use and benefit of its successors and assigns, to the full end of the term for which Letters Patent may be granted, as fully and entirely as the same would have been held by the Assignor had this assignment and transfer not been made.

The Assignor undertakes and agrees to execute, at the request and expense of the Assignee, such further assurances as may be reasonably required in order to permit the Assignee to obtain recording of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and signed by their duly authorized officers, this ● day of ●, 2007.

MINTZ & PARTNERS LIMITED,
solely in its capacity as court-appointed
interim receiver and receiver and manager
of Paragon Health Care Inc., Paragon
Health Care (Ontario) Inc. and 1508669
Ontario Limited and not in its personal
capacity
Per:

Name:

Title:

●

Per:

Name:

Title:

APPENDIX A**LIST OF CASA VERDE INTELLECTUAL PROPERTY ASSIGNED**

APPENDIX B**LIST OF WEST PARK INTELLECTUAL PROPERTY ASSIGNED**

EXHIBIT B**FORM OF APPROVAL AND VESTING ORDER
[SECTION 4.3]****Approval and Vesting Order on Standard Terms**

EXHIBIT C**FORM OF BILL OF SALE AND ASSIGNMENT
[SECTION 5.2]****BILL OF SALE AND ASSIGNMENT**

THIS AGREEMENT dated as of ●, 2007

B E T W E E N:

MINTZ & PARTNERS LIMITED, solely in its capacity as court-appointed interim receiver and receiver and manager of Paragon Health Care Inc., Paragon Health Care (Ontario) Inc. and 1508669 Ontario Limited and not in its personal capacity

(the "Receiver")

- and -

●

(the "Purchaser")

CONTEXT:

A. By an order of the Honourable Justice Cumming of the Ontario Superior Court of Justice (Commercial List) dated January 23, 2006 (the "**Appointment Order**"), Mintz & Partners Limited was appointed interim receiver and receiver and manager of Paragon Health Care Inc., Paragon Health Care (Ontario) Inc. and 1508669 Ontario Limited (collectively, the "**Debtors**") effective 9:00 a.m. on January 24, 2006 pursuant to Section 47 of the *Bankruptcy and Insolvency Act* (Canada) and Section 101 of the *Courts of Justice Act* (Ontario).

B. The Purchaser and the Receiver have entered into an Agreement of Purchase and Sale made as of ●, 2007 (the "**Agreement**"), pursuant to which the Receiver has agreed to sell the Assets and assign the Contracts to the Purchaser and the Purchaser has agreed to purchase the rights, benefits and interests of the Debtor(s), if any, in and to the Assets and the Contracts and to assume the Assumed Obligations.

C. Capitalized terms used herein not otherwise defined herein will have the meanings set out in the Agreement.

FOR VALUE RECEIVED, the parties agree as follows:

1. WARRANTY

(a) Warranty

The Purchaser and the Receiver warrant each to the other that recital B of this Indenture is true in substance and in fact.

2. SALE OF ASSETS

(a) Sale of Assets

The Receiver, exercising the powers granted pursuant to the Appointment Order, hereby sells, transfers, conveys, assigns and sets over to the Purchaser, pursuant to the terms of the Agreement, all of the rights, benefits and interests of the Debtor(s), if any, in and to the Assets and the Contracts, as described in the Agreement.

(b) Release

The Receiver hereby remises, releases and forever discharges to the Purchaser all of its interests, claims and demands whatsoever to and under the Assets and the Contracts.

3. MISCELLANEOUS

(a) Benefit of Agreement

This Indenture and all of its provisions will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.

(b) Governing Law

This Indenture will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

(c) Counterparts

This Indenture may be executed in any number of counterparts, each of which will be deemed to be an original and all of which will constitute one and the same agreement. Transmission by facsimile of an executed counterpart of this Agreement will be deemed to constitute due and sufficient delivery of such counterpart.

The parties have executed this Indenture.

MINTZ & PARTNERS LIMITED, solely
in its capacity as court-appointed interim
receiver and receiver and manager of
Paragon Health Care Inc., Paragon Health
Care (Ontario) Inc. and 1508669 Ontario
Limited and not in its personal capacity

Per _____
Name:
Title:

●

Per _____
Name:
Title:

TOR_LAW\6603960\5

PEOPLES TRUST COMPANY V. PARAGON HEALTH CARE INC. and 1508669 ONTARIO LIMITED

Court File No.: 06-CL-6233

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
(PROCEEDING COMMENCED AT TORONTO)**

MOTION RECORD

GOWLING LAFLEUR HENDERSON LLP
Barristers and Solicitors
Suite 1600, 1 First Canadian Place
100 King Street West
Toronto, Ontario M5X 1G5

Clifton P. Prophet (LSUC No.: 34845K)
Christine L. Bahrey (LSUC No. 52178T)

Telephone: (416) 862-3509
Facsimile: (416) 863-3509

Solicitors for Mintz & Partners Limited in its capacity as
Interim Receiver and Receiver and Manager of the current
and future assets, undertakings and properties of Paragon
Health Care Inc., Paragon Health Care (Ontario) Inc. and
1508669 Ontario Limited