

**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

**RESPONDING MOTION RECORD
OF MINTZ & PARTNERS LIMITED, INTERIM RECEIVER AND
RECEIVER AND MANAGER OF PARAGON HEALTH CARE INC. and
1508669 ONTARIO LIMITED TO THE
MOTION (Returnable August 29, 2007)**

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INDEX

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OF THE RESPONDENTS MINTZ & PARTNERS LIMITED, INTERIM
RECEIVER AND RECEIVER AND MANAGER OF PARAGON HEALTH
CARE INC. and 1508669 ONTARIO LIMITED**

INDEX

<u>Tab No.</u>	<u>Document</u>
1.	Third Report to the Court of Mintz & Partners Limited dated August
A.	Appendix "A" –
B.	Appendix "B" –
C.	Appendix "C" –
D.	Appendix "D" –

TAB 1

**ONTARIO
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Respondents

**Third 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**

OVERVIEW OF THE RECEIVER'S POSITION

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. On August 17, 2007, the Receiver, through its counsel, was served with notice of a motion brought by David Oravec ("**Mr. Oravec**"), a former employee of Paragon (the "**Oravec Motion**"), for an order granting leave pursuant to paragraph 8 of the Appointment Order and Section 215 of the

Bankruptcy and Insolvency Act. Mr. Oravec seeks, by his motion, leave to commence proceedings against the Receiver and to issue a Statement of Claim for, *inter alia*:

- damages for breach of contract and wrongful dismissal in the sum of \$70,000.00;
 - special damages in the sum of \$10,000.00; and
 - aggravated, exemplary and/or punitive damages in the sum of \$25,000.00.
3. The Receiver opposes the Oravec Motion as the Receiver has already provided Mr. Oravec with any entitlements he may have had pursuant to the employment contract he signed with the Receiver (the "**Employment Contract**") and the *Employment Standards Act, 2000*. The Employment Contract, including its attachments, is attached hereto as **Appendix "B"**.
 4. The Receiver has complied with its obligations under the Employment Contract and by statute, and as such, Mr. Oravec has no claim against the Receiver.
 5. This Third Report to the Court ("**Third Report**") is submitted in response to the Oravec Motion.

BACKGROUND

6. 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 located at 103-111 Pelham Road, St. Catharines, Ontario (collectively, with Casa Verde, the "**Homes**" or "**Facilities**").
7. Paragon Ontario is a non-operating entity that employs certain nursing staff used by Casa Verde.
8. Capitalized terms not defined in this Report are as defined in the Appointment Order.

TERMS OF REFERENCE

9. In preparing this Report, the Receiver has relied upon records of the Companies and/or Diversicare Canada Management Services Co., Inc. ("**Diversicare**"). The Receiver has not

performed an audit or other verification of such information. Diversicare has been engaged as day-to-day manager of Casa Verde and West Park on behalf of the Receiver.

10. 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.

MR. ORAVEC'S EMPLOYMENT

11. On or about May 26, 1982, Casa Verde hired Mr. Oravec as a janitor, on a part-time basis. Mr. Oravec was subsequently promoted to other positions at Casa Verde, the most recent of which was the Director of Activities, which was also referred to as the Program Director.
12. Mr. Oravec remained in his position as Casa Verde's Program Director until the Appointment Order became effective on January 24, 2006.
13. Upon the making of the Appointment Order, Mr. Oravec's employment was terminated by operation of law, effective January 24, 2006.
14. Accordingly, on January 24, 2006, the Receiver convened a meeting with the employees of Casa Verde (the "**Meeting**"), which Mr. Oravec attended. At the Meeting, the Receiver informed the employees of Casa Verde, including Mr. Oravec, that the Receiver had been appointed pursuant to the Appointment Order, and as a result, the employees' employment with Casa Verde was terminated. The Receiver also provided the employees with a letter, dated January 23, 2006, which is attached hereto at **Appendix "C"**.
15. During the Meeting, the Receiver indicated that it would like to employ former employees of Casa Verde on certain terms and conditions so that the Receiver could operate Casa Verde as a going concern until the Assets could be sold. The Receiver then indicated that it would be issuing a letter to the employees indicating the terms and conditions of employment with the Receiver.
16. On or about January 31, 2006, the Receiver issued another letter to the employees, including Mr. Oravec. The letter became Mr. Oravec's Employment Contract with the Receiver, and as such, it governed the terms and conditions of Mr. Oravec's employment with the Receiver. Mr. Oravec was given time to consider, sign and return the Employment Contract to the Receiver if he agreed with its terms and conditions. At no time was any pressure exerted over any employee, including Mr. Oravec, to sign the Employment Contract.

17. In or around April or May 2006 (the "April/May Meeting"), Diversicare learned that some employees, and specifically Mr. Oravec, had questions about the Employment Contract. Accordingly, Diversicare convened a meeting to answer any questions the employees may have had.
18. At the April/May Meeting, only Mr. Oravec asked questions about the provisions of the Employment Contract. In fact, Mr. Oravec made handwritten marks on his Employment Contract beside the clauses he referred to in his questions. Specifically, Mr. Oravec inquired about the Receiver's responsibility for his prior years of service in the event he was terminated from his employment with the Receiver. In response, Diversicare confirmed that the Receiver would not recognize Mr. Oravec's service with Paragon for any purpose and advised him that, if he felt he wanted to pursue his entitlements for further notice or pay in lieu thereof, he could pursue his former employer, if he so chose. After the April/May Meeting, Mr. Oravec was given further time to consider the Employment Contract with the Receiver. Mr. Oravec then signed and returned the Employment Contract to the Receiver on June 23, 2006.
19. The Employment Contract lists the terms upon which the Receiver was willing to employ Mr. Oravec. Specifically, the Employment Contract indicated:
 - o "The Receiver will engage all active former employees of the Company who were on the payroll on January 23, 2006 (the "Former Employees") on a week-to-week basis until further notice"; and
 - o "Your engagement date is January 24, 2006. The Receiver does not recognize your service with the Company for any purpose".
20. In addition to the above terms, the Employment Contract specified that the Receiver had no obligation in respect of the unpaid wages owing from Casa Verde to its employees. Despite the foregoing, the Receiver agreed to pay unpaid wages from January 16, 2006 until January 23, 2006 in exchange for Mr. Oravec's execution of Schedule A to the Employment Contract.
21. Schedule "A" to the Employment Contract includes the following provisions:
 - o "[Mr. Oravec]...hereby confirms that it has no further claim whatsoever against the Receiver, Paragon, its estate, or any trustee in bankruptcy of Paragon, or any

representatives, successor or assign of same...and hereby agrees to release the Releasees from any claim whatsoever arising from or relating in any way to the Employment of the Assignor by Paragon"; and

- o "[Mr. Oravec]...acknowledges that he/she has been employed by the Receiver since January 24, 2006 and confirm that he/she has no claim whatsoever against the Receiver for any matter whatsoever in any way arising from his/her employment prior to January 24, 2006".

22. Mr. Oravec was offered, and accepted, employment on the terms and conditions in the Employment Contract.

TERMINATION OF MR. ORAVEC'S EMPLOYMENT WITH THE RECEIVER

23. Mr. Oravec was employed with the Receiver from January 24, 2006 until May 14, 2007 when his employment was terminated without cause.
24. On termination, Mr. Oravec was provided with a termination letter, termination pay, severance pay and any accrued but outstanding vacation pay pursuant to the *Employment Standards Act, 2000* and the Employment Contract. A copy of the termination letter provided to Mr. Oravec on May 14, 2007 (the "Termination Letter") is attached hereto at **Appendix "D"**.
25. The Receiver provided Mr. Oravec with the amounts indicated in the Termination Letter.
26. Based on the terms of the Employment Contract, Mr. Oravec is not entitled to any further payment from the Receiver.

RELIEF SOUGHT

27. The Receiver respectfully requests that this Honourable Court make an Order dismissing the Oravec Motion with costs payable to the Receiver.

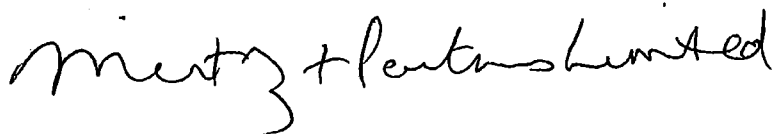
Third Report to the Court of Mintz & Partners Limited as
Interim Receiver and Receiver and Manager of
Paragon Health Care Inc., Paragon Health Care (Ontario) Inc.
and 1508669 Ontario Limited

August 24, 2007
Court File No. 06-CL-6233

Page 6

All of which is respectfully submitted to this Honourable Court.

DATED this 24th day of August, 2007.

A handwritten signature in cursive script that reads "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

TAB A

APPENDIX "A"

**TO THE THIRD 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**

**SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

THE HONOURABLE) MONDAY, THE 23rd DAY
)
JUSTICE CUMMING) OF JANUARY, 2006

Applicant

- and -

Respondents

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 36
 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

TAB B

APPENDIX "B"

**TO THE THIRD 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**

Mintz & Partners Limited

29

January 31, 2006

200 - 1 Concorde Gate
North York, ON M2H 1A1

Tel: 416-391-2900

Fax: 416-644-4303

Notice to All Non-Unionized Employees of Paragon Health Care Inc.
of Casa Verde Health Centre and the Independent Living Centre ("Casa Verde" or the "Company")

As you are aware, on January 24, 2006, the Ontario Superior Court of Justice issued an order (the "Court Order") appointing, effective 9:00 a.m. January 24, 2006, Mintz & Partners Limited as Interim Receiver and Receiver and Manager (the "Receiver") of the assets, property and undertaking of Casa Verde.

The Court Order and Ontario law have the effect of terminating your employment with the Company effective as at the effective time of the Court Order, that is on January 24, 2006. You should treat this letter and the Court Order as your notice of termination from the Company.

The Receiver, in its appointed capacity and not in its personal capacity, will retain your services for a TEMPORARY period of time on the terms and conditions set out herein to assist in the receivership process. BY CONTINUING IN EMPLOYMENT WITH THE RECEIVER, YOU WILL BE DEEMED TO HAVE ACCEPTED THESE TERMS AND CONDITIONS. HOWEVER, WE REQUIRE THAT YOU EXECUTE AND RETURN THIS LETTER TO US BY NOON ON FEBRUARY 6, 2006 OR UPON YOUR RETURN TO WORK, WHICHEVER IS LATER.

The terms and conditions of your continued employment are as follows:

The Job

The Receiver will engage all active former employees of the Company who were on the payroll on January 23, 2006 (the "Former Employees") on a week-to-week temporary basis until further notice. Former Employees who accept this new temporary work will work substantially in the same job and position as they were performing previously as employees of the Company.

Salary

The Receiver will pay Former Employees at the same salary rate as previously paid by the Company. All employer registered retirement savings plan contributions have ceased as of the date of the Court Order and the Receiver is not continuing nor assuming any obligation under any registered retirement savings plan or pension plan whatsoever. Graciously, the Receiver will increase your base salary by an amount equal to the normal employer registered retirement savings plan contributions, if any, which you received on an individually determined basis as were made by the Company immediately prior to the Court Order. All payments will be less applicable withholdings and deductions.

Vacation Pay

The Receiver agrees that during the period of its appointment the Receiver will comply with all vacation notices and vacation pay will be paid to the Former Employees of the Company in accordance with the following conditions. The Receiver will pay to each Former Employee, during each Former Employee's previously scheduled vacation period, the vacation pay to which each employee is entitled for that period. Upon the termination of your temporary employment by the Receiver, the then outstanding accrued balance due to you ("Vacation Pay Balance"), including any amount related to the period prior to January 24, 2006, will either be paid to you by the Receiver or assumed by a purchaser of the Company's assets and undertakings. Any payment of Vacation Pay



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Moore Rowland International,
associations of independent accounting
firms throughout the world

Balance by the Receiver will be conditional upon the Former Employee executing an assignment of claim form.

Time of Payment

The Receiver will pay wages and vacation pay earned subsequent to the date of the Court Order on the same pay days as such payments were made by the Company.

Prior Service

Your engagement date is January 24, 2006. The Receiver does not recognize your service with the Company for any purpose.

Termination

As indicated above, your employment is on a week-to-week basis. The Receiver may terminate your employment by providing you with a minimum of one week's notice of termination or payment in lieu thereof.

Current Unpaid Amounts

Please note that the Receiver's position is that it has no obligation in respect of any obligation of the Company in respect of unpaid wages or vacation pay earned prior to the date of the Court Order, nor for any amounts of termination or severance pay arising out of employment with the Company or the termination thereof. However, provided that and in consideration of all Former Employees executing the attached Assignment of Claim form, upon termination, the Receiver shall pay to the Former Employees any normal accrued but unpaid salary (excluding severance pay and termination pay) owing to such employees as of the date of the receivership of the Company. Unpaid vacation pay is to be dealt with as set out on page 1 of this letter.

We thank you in advance for your assistance and co-operation in this matter. Should you have any questions, you can contact the undersigned.

Please sign where indicated signifying your acceptance of the terms and conditions set out in this letter. Your acceptance and execution of this letter of agreement in no way prejudices your rights, if any, to assert a claim against the Company with respect to the termination of your employment with the Company.

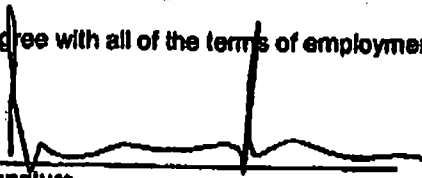
Yours very truly,

MINTZ & PARTNERS LIMITED
solely in its capacity as
Court-Appointed Interim Receiver and Receiver and Manager of
Paragon Health Care Inc. o/a Casa Verde Health Centre
and not in its personal capacity

Per: *Hartley Bricks*
Hartley Bricks, MBA, CA-CIRP
Vice-President

Accepted and Agreed:

I agree with all of the terms of employment as set out in this letter.


Signature

DAVID ORAVEC
Please print your name above

Date: June 23/06

::ODMA\PCDOCS\MINTZ\2220621

SCHEDULE "A"
FORM OF RELEASE AND ASSIGNMENT

This **ASSIGNMENT AND RELEASE AGREEMENT** was made as of _____, 2006.

THE UNDERSIGNED DAVID ORAVEZ (insert name) (referred to herein as the "Assignor") confirms that:

1. He/she was an employee of Paragon Health Care Inc. ("Paragon") prior to its insolvency on January 24, 2006;
2. The Assignor is owed the following amounts from Paragon as at January 23, 2006:
 - Wages for the period January 16 to 23, 2006
3. Mintz & Partners Limited in its capacity as Court-Appointed Interim Receiver and Receiver and Manager of Paragon Health Care Inc. (the "Receiver") has offered the Assignor employment, which the Assignor has accepted; and
4. The Receiver has paid all or part of the amounts set out in paragraph 2 above to the Assignor.

IN CONSIDERATION of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby irrevocably acknowledged, the Assignor agrees with the Receiver as follows:


1. **Assignment.** Upon the signing of this assignment and release, the Assignor hereby irrevocably, absolutely and unconditionally assigns to the Receiver (the "Assignee") all of the right, title and interest of the Assignor in and to any and all rights whatsoever relating to the employment of the Assignor with Paragon (referred to herein as the "Employee's Claim", including, without limitation, any right to payment of any wage, statutory claim for vacation pay, termination or severation pay, or reimbursement of any expenses incurred while the Assignor was an employee of Paragon. This assignment will include all of the right, title and interest of the Assignor in and to (a) any proof of claim or document of similar effect filed in any bankruptcy of Paragon and (b) all rights of the Assignor to receive dividends or other payment from the estate of Paragon; and (c) all suits and causes of action and voting or other rights and benefits arising or relating to the Employee's Claim. The Assignor specifically acknowledges that the Assignee will have complete discretion in how to deal with the Employee's Claim assigned to it herein.

2. **Release.** As a result of the foregoing assignment, the Assignor hereby confirms that it has no further claim whatsoever against the Receiver, Paragon, its estate, or any trustee in bankruptcy of Paragon, or any representative, successor or assign of same ("Releasees") and hereby agrees to release the Releasees from any claim whatsoever arising from or relating in any way to the Employment of the Assignor by Paragon.

3. **Acknowledgement.** The Assignor acknowledges that he/she has been employed by the Receiver since January 24, 2006 and confirms that he/she has no claim whatsoever against the Receiver for any matter whatsoever in any way arising from his/her employment prior to January 24, 2006.

IN WITNESS WHEREOF the Assignor and the Assignee have each caused this agreement to be executed on its behalf as of the date set forth above.

MINTZ & PARTNERS LIMITED
solely in its capacity as Court-
Appointed Interim Receiver and
Receiver and Manager of
Paragon Health Care Inc. and not
in its personal capacity



Name of Employee:

Per: _____

**Diversicare**

www.diversicare.ca

34

March 14, 2006

Re: David Orvac
Name**Benefit Entitlement**

The following represents the benefit entitlement available to David Orvac, as that entitlement is understood by Diversicare Canada Management Services Co., Inc. ("Diversicare"), in its capacity as manager of Casa Verde Health Centre on behalf of Mintz & Partners Limited, in its capacity as Court appointed Interim Receiver and Receiver and Manager (the "Receiver") of Paragon Health Care Inc. and Paragon Health Care (Ontario) Inc.

This entitlement is set out solely for reference. Diversicare does not warrant, suggest, or otherwise represent this entitlement is accurate, or that by setting out this entitlement, any obligation is created. This information has not been independently verified.

- Wages: \$2,019.23 (Bi-weekly)
- Vacation entitlement – In accordance with the current Collective Agreement for unionized staff, subject to any revision provided in personnel policies dated August, 2005. Note that vacation pay is in accordance with and subject to a letter * from the Receiver dated January 31, 2006, under the Letterhead of Mintz & Partners Limited.
- Sick Leave – In accordance with the current Collective Agreement for unionized staff, subject to any revision provided in personnel policies dated August, 2005.
- Holidays - In accordance with the current Collective Agreement for unionized staff, subject to any revision provided in personnel policies dated August, 2005.
- Life and health benefits, with 100% employer paid premiums, provided you were enrolled in those benefits as of January 24, 2006.

No other benefits are provided, and without limiting the generality of the foregoing, it is specifically noted all employer registered retirement savings plan contributions have ceased as of January 24, 2006, subject to the January 31, 2006 letter from the Receiver, under the Letterhead of Mintz & Partners Limited.

A practice by which management staff could accrue extra hours, or in certain circumstances, work at times other than the times established for their position has now been eliminated.

I acknowledge receipt of a copy of this information.


Name
Date**CORPORATE OFFICE**

Diversicare Canada Management Services Co., Inc.

2121 Argenta Road, Suite 301, Mississauga, Ont. L5N 2X4
905 • 821 1161 Fax 905 • 821 2477

TAB C

APPENDIX "C"

**TO THE THIRD 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**

January 23, 2006

200 - 1 Commerce Gate
North York, ON M2H 3G4

Tel: 416-591-2800

Fax: 416-644-4303

Web site: www.mintz.ca

TO: All Employees of Paragon Health Care Inc. & Paragon Health Care (Ontario) Inc. o/a Casa Verde Health Centre and the Independent Living Centre

Dear Employee

Paragon Health Care Inc. & Paragon Health Care (Ontario) Inc. o/a Casa Verde Health Centre ("Casa Verde" or the "Facility") – Receivership

We are writing to advise you that on January 23, 2006, the Ontario Superior Court of Justice issued an Order appointing Mintz & Partners Limited as Interim Receiver and Receiver and Manager of Casa Verde (the "Receiver"). On the same date, Paragon Health Care Inc. was assigned into bankruptcy and Mintz & Partners Limited was appointed trustee in bankruptcy.

The Receiver is continuing to manage and operate Casa Verde with a view to marketing the Facility for sale on a going concern basis.

The bankruptcy of Casa Verde has the effect of terminating your employment with Casa Verde - effective as at the time of the Order, that is, on January 23, 2006. However, the Receiver, in its capacity as Receiver and not in its personal capacity, will retain your services on a temporary basis. For employees who are members of the Service Employees International Union, Local 204 or Local 1 (the "Unions"), the Receiver has already entered into an agreement with the Unions to continue your employment and has agreed to abide by the terms of the Collective Agreements during the receivership (except for those provisions dealing with severance pay, termination pay or pay in lieu of notice and the provisions of any pension plans). Union employees can contact their local union representative to obtain further information regarding the agreement between the Receiver and the Unions. For non-union employees, the Receiver will be providing you with a letter of employment in the next few days that will set out the terms of your employment by the Receiver going forward.

The Receiver has retained Diversicare Canada Management Services Co., Inc. ("Diversicare") as its agent to manage the Facility on its behalf. Representatives of Diversicare are available to answer any questions you may have.

We thank you in advance for your assistance and cooperation in maintaining the proper level of care for Casa Verde's residents and for working with the Receiver in the continued operation of the Facility and the marketing of the Facility for sale.

In the meantime, should you have any questions or require further information, please do not hesitate to contact the undersigned.

Yours very truly,

MINTZ & PARTNERS LIMITED

**Court-Appointed Interim Receiver and Receiver and Manager of
Paragon Health Care Inc. & Paragon Health Care (Ontario) Inc.
o/a Casa Verde Health Centre**

Per:



Hartley Bricks, MBA, CA-CIRP
Vice-President

ODMA\PCDOCS\MINTZ\219940\1



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firms throughout the world

TAB D

APPENDIX "D"

**TO THE THIRD 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**

200 - 1 Concorde Gate
North York, ON M3C 4G4

T. 416.391.2900
F. 416.644.4303
Web site: www.mintzca.com

May 14, 2007

WITHOUT PREJUDICE

Delivered by Hand

Strictly Private and Confidential

Oravee MC,
Mr. David Oravee
779 Eglinton Ave. West
Apartment #2
Toronto, Ontario

Dear Sir

PARAGON HEALTH CARE INC. O/A CASA VERDE HEALTH CENTRE ("CASA VERDE" OR THE "COMPANY") – RECEIVERSHIP

As discussed today, Mintz & Partners Limited, as Interim Receiver and Receiver and Manager, of the assets, properties and undertakings of Paragon Health Care Inc., o/a Casa Verde Health Care Centre and the Independent Living Centre, has chosen to terminate your employment relationship with Casa Verde Health Care Centre (the "Receiver"). The Receiver has made this decision after reviewing its business needs.

The termination of employment is effective today.

Naturally you are entitled to be paid all wages you have earned up to and including today.

Your Record of Employment will be issued promptly.

We will make reasonable arrangements as are convenient to you for you to remove your personal property from our premises. In turn, we expect you to return all Company or Receiver property that you may have in your possession.

The Receiver is providing you with the following severance package:

1. In lieu of notice, you will be paid a lump sum amount equal to eight (8) weeks of salary. The amount of that payment is \$8,076.96, less applicable deductions.

You will also be entitled to vacation pay on the amount indicated above. The amount of that vacation pay, calculated at 12% of the payment set out in the previous paragraph is \$969.24.

In addition, you will also be provided with \$10,034.43, less applicable deductions, which represents your accrued but unused vacation entitlement.

2. As a severance payment, you will be paid a lump sum payment of \$25,159.73, less applicable deductions.
3. Your current benefit coverage will continue until July 9, 2007, as permitted by the insurance plan.

Diversicare will provide you with references and will also provide you with a letter of reference within a few days.

We remind you that you have an ongoing obligation to maintain confidentiality over information that is confidential or proprietary to the Casa Verde Health Care Centre (the "Company") or the Receiver. "Confidential Information" means all confidential and proprietary information, knowledge, data or other confidential information of every kind or character relating to or connected with the business or operations of the Company and/or Receiver and includes, without limitation, financial data, market data, customer information of every kind, as well as any information obtained during the course of your employment by the Company or the Receiver.

We regret the need to take this action and wish you well in your future endeavours.

Yours truly,

MINTZ & PARTNERS LIMITED

**Court-Appointed Interim Receiver and Receiver and Manager of
Paragon Health Care Inc.**

Per:



Hartley Bricks, MBA, CA-CIRP
Vice President

HB/ms

cc: M. Christie, Diversicare

SOLICITORS FOR THE RESPONDENTS

PEOPLES TRUST COMPANY
– Applicant –

v. PARAGON HEALTH CARE INC. AND 1508669 ONTARIO LIMITED
– Respondents –

ONTARIO

**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

(PROCEEDING COMMENCED AT TORONTO)

RESPONDING MOTION RECORD

GOWLING LAFLEUR HENDERSON LLP

Barristers and Solicitors
1 First Canadian Place
100 King Street West, Suite 1600
TORONTO, Ontario
M5X 1G5

Clifton Prophet

LSUC No.: 34845K

Telephone: (416) 862-7525

Facsimile: (416) 862-7661

SOLICITORS FOR THE RESPONDENTS