

Court File No. CV-09-8122-00CL

Indalex Limited
Indalex Holdings (B.C.) Ltd.
6326765 Canada Inc. and
Novar Inc.

FIRST REPORT OF THE MONITOR
April 8, 2009

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
INDALEX LIMITED
INDALEX HOLDINGS (B.C.) LTD.
6326765 CANADA INC. and
NOVAR INC.

**FIRST REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA ULC
IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On April 3, 2009, Indalex Limited ("**Indalex**"), Indalex Holdings (B.C.) Ltd. ("**Indalex BC**"), 6326765 Canada Inc. ("**632**") and Novar Inc. ("**Novar**") (collectively, the "**Applicants**") made an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") and an initial order (the "**Initial Order**") was made by the Honourable Mr. Justice Morawetz granting, *inter alia*, a stay of proceedings against the Applicants until May 1, 2009, (the "**Stay Period**") and appointing FTI Consulting Canada ULC as monitor ("**FTI Canada**" or the "**Monitor**"). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the "**CCAA Proceedings**".

2. Indalex's parent is Indalex Holding Corp. ("**Indalex Holding**"), which is a wholly-owned subsidiary of Indalex Holdings Finance, Inc. ("**Indalex Finance**"). Indalex BC, 632 and Novar are wholly owned subsidiaries of Indalex. Collectively, Indalex Finance and its affiliates (the "**Indalex Group**") is the second largest aluminium extruder in North America.
3. On March 20, 2009, Indalex Holding, Indalex Finance, Indalex Inc., Caradon Lebanon, Inc. and Dolton Aluminum Company, Inc. (collectively, the "**US Debtors**") commenced proceedings (the "**Ch.11 Proceedings**") under chapter 11 of the *United States Bankruptcy Code* (the "**USBC**") in the United States Bankruptcy Court, District of Delaware (the "**US Court**"). The case has been assigned to Judge Walsh.
4. The purpose of this report is to inform the Court on the following:
 - (a) The request for approval of debtor-in-possession financing ("**DIP Financing**") pursuant to a credit agreement substantially in the form of the draft credit agreement between, *inter alia*, the Senior Secured Lenders (as hereinafter defined), the US Debtors and the Applicants (the "**DIP Agreement**") and attached as Exhibit C to the April 8 Affidavit, as hereinafter defined;
 - (b) The Applicants' request for approval of DIP Financing pursuant to the DIP Agreement and the granting of a charge securing the Applicants' obligations thereunder (the "**DIP Charge**");
 - (c) The independent opinion (the "**Security Opinion**") provided to the Monitor by Stikeman Elliott LLP, independent counsel to the Monitor ("**Monitor's Counsel**"), regarding the security of the Senior Secured Lenders;

- (d) The Monitor's recommendation in respect of the Applicants' request for approval of the DIP Agreement and the granting of the DIP Charge; and
 - (e) The Applicants' revised and extended cash flow forecast to June 26, 2009, 2009 (the "**April 7 Forecast**"), prepared on the assumption that the DIP Agreement is approved.
5. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with the Applicants' management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
6. Unless otherwise stated, all monetary amounts contained herein are expressed in United States Dollars. Capitalized terms not otherwise defined herein have the meanings defined the Initial Order or in the affidavit of Patrick Lawlor, Chief Financial Officer of the Indalex Limited, sworn April 8, 2009, and filed in support of the Applicants' motion (the "**April 8 Affidavit**") or the Pre-Filing Report dated April 3, 2009, filed by FTI Canada in its capacity as proposed Monitor of the Applicants in connection with the Applicants' initial application.
7. This report should be read in conjunction with the April 8 Affidavit as certain information contained in the April 8 Affidavit has not been included herein in order to avoid unnecessary duplication. Copies of the April 8 Affidavit and the Pre-Filing Report will be available on the Monitor's website at <http://cfcanada.fticonsulting.com/indalex>.

THE US DEBTORS' REQUEST FOR APPROVAL OF THE DIP AGREEMENT

8. On April 7, 2009, the US Debtors filed a motion for the approval of the DIP Agreement with the US Court. The motion is scheduled to be heard at 3 p.m. Eastern Time on April 8, 2009.

THE APPLICANTS' REQUEST FOR APPROVAL OF THE DIP AGREEMENT

THE PRE-FILING FUNDING ARRANGEMENTS

9. The April 8 Affidavit sets out the Applicants' pre-filing funding arrangements pursuant to the Revolving Credit Facility (the lenders thereunder being the "**Senior Secured Lenders**"). As set out therein, prior to March 6, 2009, the indebtedness of the US Debtors (the "**US Primary Indebtedness**") was secured on the assets of the US Debtors and the indebtedness of the Applicants (the "**Canadian Primary Indebtedness**") was secured on the assets of the Applicants. In addition, the US Debtors had provided a secured guarantee of the Canadian Primary Indebtedness. Prior to March 6, 2009, the US Primary Indebtedness was not guaranteed by the Applicants pursuant to the Revolving Credit Facility.
10. As described in paragraphs 18 to 23 of the April 8 Affidavit, on March 6, 2009, the Applicants, among others, entered into the Forbearance Agreement.

THE APPLICANTS' EFFORTS TO ARRANGE DIP FINANCING

11. In anticipation of the possibility that the Applicants and the US Debtors may have to commence formal restructuring proceedings, the Indalex Group, assisted by its Investment Bankers, Jefferies & Company, Inc. ("**Jefferies**"), undertook efforts to obtain DIP Financing.
12. Given the capital structure of the US Debtors, which includes approximately \$306 million of secured debt, Jefferies determined that there was no likelihood of obtaining DIP Financing ranking subordinate to the existing secured lenders. The Monitor concurs with this view.

13. Accordingly, Jefferies approached the following parties that were considered as logical potential candidates to consider providing DIP Financing secured by a priming charge. These groups included:
 - (a) The Senior Secured Lenders;
 - (b) Sun Indalex LLC (“**Sun Indalex**”), which holds \$30 million of secured debt ranking subordinate to the Senior Secured Lenders;
 - (c) The ad hoc committee of holders of the Senior Secured Notes (the “**Noteholders**”); and
 - (d) Two parties not currently providing financing to the Indalex Group.
14. Sun Indalex, the Noteholders and one of the unconnected parties all declined to provide DIP Financing.
15. The Senior Secured Lenders and one of the unconnected parties (“**Party A**”) indicated that they were prepared to consider providing DIP Financing.
16. After lengthy negotiation, both the Senior Secured Lenders and Party A provided term sheets for DIP Financing. Both Party A and the Senior Secured Lenders stated that they would require that the DIP Financing for the US Debtors and the Applicants be secured by Court-ordered charges and be fully cross-guaranteed.
17. On its face, the term sheet provided by Party A provided better pricing terms. However, it was subject to due diligence conditions, giving rise to closing risk. Furthermore, proceeding with Party A would require the Indalex Group to obtain priming charges ranking in priority to the Senior Secured Lenders, and it was anticipated that the Senior Secured Lenders would strenuously object to any priming charge.

18. Indalex Group was advised by Jefferies and its US legal counsel that because of the “adequate assurance” requirements that would need to be met in the Ch.11 Proceedings in order to obtain a priming charge over the objection of the Senior Secured Lenders, obtaining approval of DIP Financing with Party A would take significantly longer than approval of DIP Financing with the Senior Secured Lenders and there could be no assurance that the application for the priming charge would be successful.
19. Given these risks and the likely destabilising effect a drawn out contested US DIP approval process would have on the business, the Indalex Group, in consultation with Jefferies and its legal and professional advisors, concluded that the additional uncertainty and closing risk associated with proceeding with Party A were not justified and elected to proceed with the Senior Secured Lenders.
20. The Monitor believes that the decision reached by the Indalex Group and its advisors to select the Senior Secured Lenders as the party with which to attempt to negotiate DIP Financing was reasonable and justified in the circumstances.
21. The original proposal for DIP Financing by the Senior Secured Lenders provided for additional borrowing availability to fund the liquidity requirements of the US Debtors and the Applicants and the repayment of the pre-filing indebtedness under the Revolving Credit Facility over time through the application of post-filing collections and, in the United States, through advances made under the new DIP Financing facility. The indebtedness of the US Debtors would be secured on the assets of the US Debtors and the indebtedness of the Applicants would be secured on the assets of the Applicants. In addition, the Applicants would provide a secured guarantee of the indebtedness of the US Debtors and the US Debtors would provide a secured guarantee of the indebtedness of the Applicants.
22. In considering whether to support a request for court approval of DIP Financing and a priority DIP charge by an entity filing under the CCAA, the Monitor believes that the following factors are among those that should be considered:

- (a) The need for additional financing;
 - (b) The benefits that may accrue to the stakeholders if the request is approved and the prejudice to those stakeholders if the request is denied;
 - (c) Any alternatives that may be available;
 - (d) Any potential prejudice to the creditors of the entity if the request is approved; and
 - (e) A balancing of the benefits accruing to stakeholders with any potential prejudice to creditors.
23. Given the circumstances surrounding the inclusion of the Canadian Pre-Filing Guarantee in the Forbearance Agreement on March 6, 2009, the Monitor was concerned that any DIP structure securing the Canadian Pre-Filing Guarantee via a court-ordered charge could potentially prejudice Canadian stakeholders by predetermining the issue of the validity and enforceability of the Canadian Pre-Filing Guarantee¹.
24. The Monitor therefore informed the Applicants and the Senior Secured Lenders that it would not support an application for DIP Financing that unconditionally secured the Canadian Pre-Filing Guarantee by way of a Court-ordered charge.
25. The Applicants and the Senior Secured Lenders agreed to address the concerns of the Monitor and, as a result, all parties have worked co-operatively towards a mutually acceptable solution. As a result of these combined efforts, the Applicants, the US Debtors and the Senior Secured Lenders reached an agreement on the structuring of DIP Financing and the related charges as follows:

¹ Nothing in this report should be interpreted or construed as the Monitor intending to express a view as to the validity or invalidity, enforceability or unenforceability of the Canadian Pre-Filing Guarantee

- (a) Additional advances will be made to fund the operations of the US Debtors and the Applicants (the “**US Additional Advances**” and the “**Canadian Additional Advances**” respectively);
- (b) Following the preliminary approval of the DIP Agreement by the US Court, post-filing collections by the US Debtors will be applied to repay the pre-filing indebtedness of the US Debtors and the balance of the pre-filing indebtedness of the US Debtors will be paid from the DIP Financing once the final order in respect of the DIP Agreement is granted (the “**US Roll-up**”);
- (c) Post-filing collections by the Applicants will be applied to repay the pre-filing indebtedness of the Applicants (the “**Canadian Roll-up**”);
- (d) A Court-ordered charge (the “**DIP Charge**”) will secure the direct indebtedness of the Applicants against the assets of the Applicants and a similar charge will be granted by the US Court (the “**US Charge**”) securing the direct indebtedness of the US Debtors against the assets of the US Debtors;
- (e) The US Debtors will guarantee the indebtedness of the Applicants, such guarantee being secured under the US Charge; and
- (f) The Applicants will guarantee the indebtedness of the US Debtors, such guarantee being secured by the DIP Charge, provided that if the Canadian Pre-Filing Guarantee of the Applicants is found not to be valid, binding and enforceable or avoidable as against third parties, the amount of the Applicants’ guarantee secured by the DIP Charge shall be limited to an amount equal to the amount advanced to the US Debtors under the DIP Financing less the amount by which the US Primary Indebtedness is reduced through collections or deemed payment under the DIP Financing.

26. The intent of this structure is for the Senior Secured Lenders to obtain the benefit of Court-ordered charges securing the DIP Financing and the cross-guarantees of the US Additional Advances and the Canadian Additional Advances while maintaining the status quo vis-à-vis the Canadian Pre-Filing Guarantee.

THE DIP AGREEMENT

27. The DIP Agreement is described at paragraphs 29 to 39 of the April 8 Affidavit. In summary the DIP Agreement provides a maximum facility of up to \$84.6 million. The Applicants may draw up to \$24.36 million, and the US Debtors are able to borrow the balance, in each case subject to margin availability under borrowing base calculations for the Applicants and the US Debtors.
28. As described in the April 8 Affidavit, the DIP Agreement contains a number of milestones in respect of the sale or restructuring of the US Debtors and the Applicants, including a requirement that the Applicant shall have obtained approval from the Court for a sale process within ten business days after the Effective Date (as defined in the DIP Agreement). The Monitor will work with the Applicants, the US Debtors and their advisors to ensure that the sales process ultimately proposed complies with the *Sound Air* principles.
29. Also as described in the April 8 Affidavit, Article VII of the DIP Agreement contains a number of events of default. Included at Article VII(l) is an event of default that shall occur if:

“the Loan Guaranty shall fail to remain in full force or effect (except as permitted by the Loan Documents) or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Loan Guaranty (other than any action taken by a third party with respect to the Loan Guaranty by the Canadian Subsidiary Borrower and the Canadian Subsidiary Loan Parties of up to \$[•] of Secured Obligations of the Parent Borrower), or any Loan

Guarantor shall fail to comply with any of the terms or provisions of the Loan Guaranty to which it is a party, or any Loan Guarantor shall deny that it has any further liability under the Loan Guaranty to which it is a party, or shall give notice to such effect”

30. As a result, a successful challenge of the Canadian Pre-Filing Guarantee could potentially be an event of default of the DIP Agreement.

REVIEW OF SENIOR SECURED LENDERS’ SECURITY

31. The Monitor asked its counsel to conduct a security review of the Senior Secured Lenders’ security, other than the Canadian Pre-Filing Guarantee. The Monitor has received an opinion from its counsel which states that, subject to the assumptions and qualifications contained therein, the Senior Secured Lenders’ security is valid and enforceable and ranks in priority to other claims with respect to accounts and inventory. A copy of the opinion will be provided to the Court and any interested party requesting a copy of same who confirms in advance that:
- (a) such party is not Stikeman Elliott’s client and therefore is not entitled to rely upon the opinion and that Stikeman Elliott has no liability to such party in connection with the provision to such party of the opinion or the contents thereof;
 - (b) such party will not disclose the opinion to any other party; and
 - (c) the provision of the opinion does not constitute a waiver of privilege.

MONITOR’S RECOMMENDATION IN RESPECT OF THE APPLICANTS’ REQUEST FOR APPROVAL OF THE DIP AGREEMENT AND DIP CHARGE

32. The Monitor has considered the Applicants’ request for Court approval of the DIP Agreement and the DIP Charge in light of the five factors set out earlier in this report, namely:
- (a) The need for additional financing;

- (b) The benefits that may accrue to the stakeholders if the request is approved and the prejudice to those stakeholders if the request is denied;
- (c) Any alternatives that may be available;
- (d) Any potential prejudice to the creditors of the entity if the request is approved; and
- (e) A balancing of the benefits accruing to stakeholders with any potential prejudice to creditors.

THE NEED FOR ADDITIONAL FINANCING

33. The Applicants are under significant liquidity constraints and additional financing is required in order to maintain going concern operations.

BENEFITS OF APPROVAL TO STAKEHOLDERS AND PREJUDICE FROM DENIAL

34. Maintaining business operations is in the interests of all stakeholders as it will afford the Applicants the opportunity to develop a viable restructuring plan designed to maximize the recoveries of all stakeholders. Furthermore, maintaining operations continues the employment of approximately 750 people as well as providing ongoing business for suppliers and customers.
35. If the Applicants' request for approval of the DIP Agreement is denied, the Applicants will be unable to continue operations, most likely resulting in the forced liquidation of the assets to the detriment of creditors, employees, suppliers and customers.

AVAILABLE ALTERNATIVES

36. The only other source of financing currently available would require additional due diligence and a potentially long and contentious approval process in the US Court, with uncertainty over the outcome. Such a situation would result in significant uncertainty amongst suppliers, employees and customers with a potentially disastrous effect on the business and operations of the Applicants and the US Debtors.

POTENTIAL PREJUDICE TO CREDITORS

37. Based upon the opinion provided to the Monitor, and subject to the assumptions and qualifications contained therein, the Senior Secured Lenders hold valid and enforceable security over the accounts and receivables of the Applicants which ranks in priority to other creditors. Accordingly, there would appear to be no potential prejudice to other creditors of the Applicants from the Canadian Roll-up.
38. The proposed structuring of the DIP Charge, which is intended to maintain the status quo vis-à-vis the Canadian Pre-Filing Guarantee, is designed to ensure that there is no potential prejudice to creditors of the Applicants ranking subordinate to the Senior Secured Lenders from extending the guarantee to the US Primary Indebtedness.
39. As noted earlier in this report, the only other party currently prepared to provide DIP Financing would require cross-guarantees by both the Applicants and the US Debtors similar to that provided for under the proposed DIP Charge for the US Additional Advances and the Canadian Additional Advances.

40. The US Debtors' current cash flow forecast projects maximum additional borrowings of approximately \$2.4 million. Based on the information provided to the Monitor by the US Debtors, it appears that the value of the assets of the US Debtors is far in excess of the current forecast of US Additional Advances. Accordingly, it would appear that the likelihood of a call on the Applicants' guarantee of the US Additional Advances is remote. Furthermore, because the US Debtors ability to borrow is constrained by the borrowing base calculation under the DIP Agreement, even if the US Additional Advances were higher than forecast, additional assets would have to have been generated to support that borrowing and, as a result, the likelihood of a call on the guarantee in that scenario would still appear remote. In order to maintain confidentiality and to avoid prejudicing any future realization efforts, the Monitor has not included details of asset values in this report but will, of course, make them available to the Court under suitable terms of confidentiality if so requested.

THE BALANCING OF BENEFITS AND POTENTIAL PREJUDICES

41. In the Monitor's view, the approval of the DIP Agreement and the proposed structuring of the DIP Charge provide appropriate protection for the DIP Lenders and appropriately balances the benefits to stakeholders that will accrue from such approval with the need to protect the interests of the Canadian creditors against any potential prejudice.

RECOMMENDATION OF THE MONITOR

42. Predicated on the assumption that the DIP Agreement is executed in substantially the form reviewed by the Monitor, the Monitor is of the view that approval of the DIP Agreement is in the best interests of the Applicants and their stakeholders and that no creditor will be materially prejudiced by approval of the DIP Agreement and the granting of the DIP Charge as proposed. Accordingly, the Monitor respectfully recommends that the Applicants' request for approval of the DIP Agreement and the granting of the DIP Charge be approved.

REVISED AND EXTENDED CASH FLOW FORECAST TO JUNE 26, 2009

43. The April 7 Forecast is attached hereto as Appendix A. The only significant change in the underlying assumptions in the April 7 Forecast as compared to the cash flow forecast filed by the Applicants in conjunction with the initial application is the approval of the DIP Agreement.

The Monitor respectfully submits to the Court this, its First Report.

Dated this 8th day of April, 2009.

FTI Consulting Canada ULC
In its capacity as Monitor of
Indalex Limited, Indalex Holdings (B.C.) Ltd.,
6326765 Canada Inc. and Novar Inc.



Nigel D. Meakin
Senior Managing Director

Appendix A

The April 7 Forecast

Indalex Limited
Indalex Holdings (B.C.) Ltd.
6326765 Canada Inc.
Novar Inc.

Consolidated Cash Flow Forecast

Week Ending	4/10/2009	4/17/2009	4/24/2009	5/1/2009	5/8/2009	5/15/2009	5/22/2009	5/29/2009	6/5/2009	6/12/2009	6/19/2009	6/26/2009	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Receipts:													
Accounts Receivable	4,372	4,303	4,109	4,605	4,198	4,305	4,303	4,405	4,061	4,167	4,167	4,945	51,939
Other	64	290	0	0	0	64	290	0	0	64	290	0	1,062
Total Receipts	4,436	4,593	4,109	4,605	4,198	4,369	4,593	4,405	4,061	4,231	4,457	4,945	53,001
Disbursements:													
Raw Materials - Metals	3,345	2,875	2,875	2,559	3,214	2,733	2,733	3,021	3,021	3,021	3,770	3,376	36,542
Raw Materials - Other Materials	139	120	120	107	134	114	114	126	126	126	157	141	1,525
Payroll	262	533	262	533	262	533	262	533	262	533	262	397	4,633
Benefits	95	194	95	194	95	194	95	194	95	194	95	144	1,685
Operating Expenses	490	490	490	553	478	478	478	502	577	502	502	502	6,042
GST	0	0	0	354	0	0	0	354	0	0	0	354	1,062
Capex - Tool & Die	53	53	53	53	53	53	53	53	53	53	53	53	634
Capex - Other	0	0	0	0	0	0	0	0	0	0	0	0	0
Bank Fees & Interest	0	0	0	240	0	0	0	236	0	0	0	244	720
Legal & Professional Fees	210	110	60	110	60	60	85	60	60	60	60	85	1,020
Total Disbursements	4,594	4,375	3,955	4,702	4,295	4,166	3,820	5,078	4,193	4,488	4,898	5,296	53,863
Excess of Receipts over Disbursements	(158)	217	154	(98)	(97)	203	773	(673)	(132)	(257)	(441)	(351)	(862)
Cumulative Net Cash Flow	(158)	59	213	115	18	221	994	320	188	(69)	(510)	(862)	(862)
Pre-Filing Facility Roll-Up:													
Balance b/f	21,361	16,925	12,333	8,224	3,619	0	0	0	0	0	0	0	21,361
Collections	(4,436)	(4,593)	(4,109)	(4,605)	(3,619)	0	0	0	0	0	0	0	(21,361)
Balance c/f	16,925	12,333	8,224	3,619	0	0	0	0	0	0	0	0	0
DIP Facility:													
Balance b/f	0	4,594	8,970	12,925	17,627	21,343	21,141	20,368	21,041	21,173	21,431	21,872	0
Advances	4,594	4,375	3,955	4,702	3,716	0	0	673	132	257	441	351	23,199
Repayments	0	0	0	0	0	(203)	(773)	0	0	0	0	0	(976)
Balance c/f	4,594	8,970	12,925	17,627	21,343	21,141	20,368	21,041	21,173	21,431	21,872	22,223	22,223
Margin Availability	21,604	21,624	21,899	21,370	21,536	21,423	21,401	21,534	21,964	22,302	22,934	22,744	22,744
Total Senior Secured Borrowings	(21,520)	(21,302)	(21,149)	(21,247)	(21,343)	(21,141)	(20,368)	(21,041)	(21,173)	(21,431)	(21,872)	(22,223)	(22,223)
Excess/(Shortfall) Availability	84	321	751	123	193	282	1,033	493	790	871	1,062	521	521