

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

BETWEEN:

BANK OF MONTREAL

Applicant

- and -

INGENIOUS PACKAGING GROUP ULC

Respondent

**REPORT OF DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS THE PROPOSED RECEIVER OF
INGENIOUS PACKAGING GROUP ULC
DATED JULY 23, 2018**

TABLE OF CONTENTS

INTRODUCTION - 1 -

TERMS OF REFERENCE - 2 -

DEBTOR BACKGROUND - 3 -

THE DEBTOR'S CURRENT CIRCUMSTANCES - 10 -

THE MESIROW SALES PROCESS - 12 -

DUE DILIGENCE FINDINGS AND PROTRACTED NEGOTIATIONS - 14 -

THE PROPOSED SALE TRANSACTION - 15 -

PROPOSED RECEIVER'S RECOMMENDATIONS - 20 -

EXHIBITS

EXHIBIT	DESCRIPTION
A	Confidential Supplemental Report dated July 23, 2018

INTRODUCTION

1. An application has been made before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) by Bank of Montreal (“**BMO**”) for an order (the “**Receivership Order**”) appointing Deloitte Restructuring Inc. (“**Deloitte**”) as receiver, pursuant to section 243(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 “**Receiver**”), of the assets, property and undertaking (the “**Property**”) of Ingenious Packaging ULC (“**Ingenious**”, or the “**Debtor**”).
2. On July 9, 2018, Deloitte was retained by Borden Ladner Gervais LLP (“**BLG**”), Canadian legal counsel to BMO, as financial advisor to BMO to review the Debtor’s current operations, financial position and the proposed going concern sale transaction of substantially all of the business and assets of Ingenious (the “**Proposed Transaction**”).
3. Deloitte is a licensed trustee within the meaning of section 2 of the BIA and has consented to act as Receiver in these proceedings in the event that this Court grants the Receivership Order. We are writing this report (the “**Report**”) as proposed Receiver of Ingenious (the “**Proposed Receiver**”).
4. The purpose of the proposed receivership is to consummate the Proposed Transaction on an expedited basis, as the Debtor is facing significant financial and operational issues.
5. Copies of Court documents and reports with respect to this matter will be posted on the Proposed Receiver’s website at <http://www.insolvencies.deloitte.ca>.
6. The purpose of this Report is to:
 - (a) provide the Court with an overview of the Debtor’s business, including its corporate structure, assets and liabilities, historical financial performance and the current state of the affairs of the business;
 - (b) summarize the results of a marketing process the Debtor has undertaken for the sale of its assets and operations;
 - (c) describe the Proposed Transaction which, subject to Court approval, is to be effected through an executed asset purchase agreement, dated July 20, 2018 (the “**APA**”) between the Debtor, the Proposed Receiver, and Ingenious Packaging Group, Inc., a

newly incorporated subsidiary of Resource Label Group (“**RLG**”), as purchaser (the “**Purchaser**”), as well as the effects of the Proposed Transaction on the Debtor’s key stakeholders; and

- (d) provide the Proposed Receiver’s observations and recommendations in connection with the Proposed Transaction.

TERMS OF REFERENCE

7. In preparing this Report, Deloitte has been provided with, and has relied upon unaudited, draft and/or internal financial information, the Debtor’s books and records, discussions with management of the Debtor (“**Management**”), and information from third-party sources including Michael Silverman of Silverman Consulting, the Debtor’s Chief Restructuring Officer (“**CRO**”), (collectively, the “**Information**”). Except as described in this Report:

- (a) Deloitte has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, Deloitte has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CAS**”) pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and
- (b) Deloitte has prepared this Report in its capacity as Proposed Receiver to support the Court’s consideration of the relief being sought by BMO in its application for the Receivership Order and, subject to the granting of the Receivership Order, the relief being sought by the Proposed Receiver in its motion for approval of the Proposed Transaction. Parties using the Report other than for the purposes outlined herein are cautioned that it may not be appropriate for their purposes.

8. Reference is made to the Affidavit of Jack Kane, sworn July 20, 2018 (the “**Kane Affidavit**”), and the Affidavit of Michael Silverman, also sworn July 20, 2018 (the “**Silverman Affidavit**”), in support of BMO’s application for the appointment of Deloitte as receiver of the Property, and approval of the APA and the Proposed Transaction.

9. Unless otherwise stated, all dollar amounts contained in this Report are expressed in U.S. dollars.

10. All other capitalized terms not otherwise defined in this Report shall have the meaning ascribed to them in the Kane Affidavit.

DEBTOR BACKGROUND

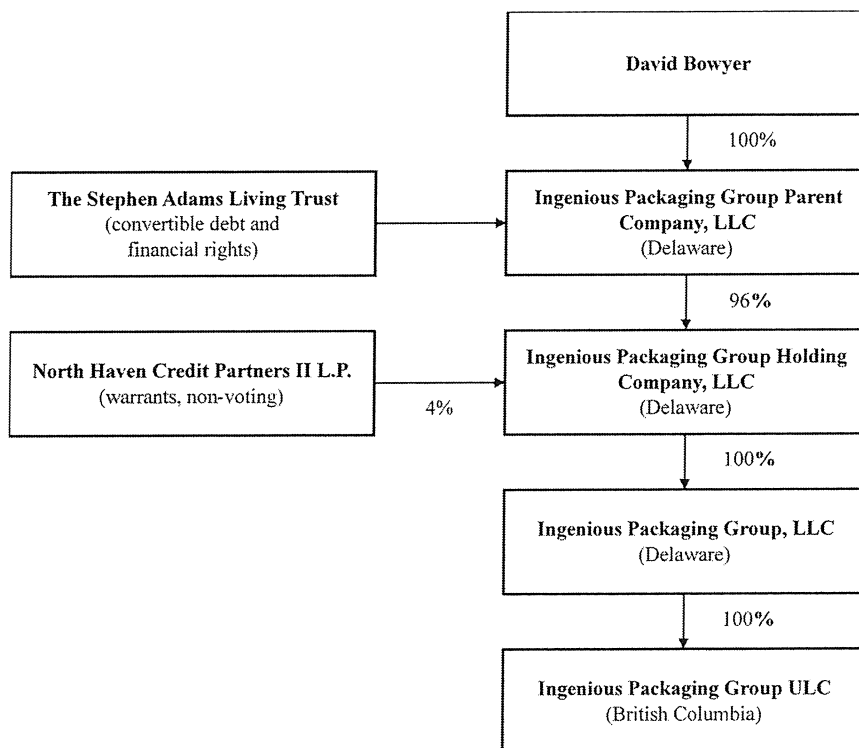
Overview

11. Ingenious is a manufacturer and service provider of customized, comprehensive and graphic intensive labels for a variety of products for various industries including food and beverage, health and personal care, nutraceutical, pharmaceutical, spirits and craft beer, tobacco and chemicals. Ingenious is a top producer of craft beer shrink sleeves in Canada and a top three producer in the United States.
12. Approximately 80% of Ingenious' sales are derived from a Canadian customer base, and the remaining 20% of sales are generated from customers in the United States, Mexico and the Caribbean. The customer base of the Debtor consists of more than 350 customers, with the top 20 customers comprising approximately 65% total revenue as set out in paragraph 18 of the Silverman Affidavit.
13. Prior to their divestiture of the businesses in January, 2018 (as further described below), the Proposed Receiver understands that Ingenious' parent and sister companies maintained four (4) operating facilities in Oregon and California (the "**West Coast Assets**"), as well as one in Vancouver . Ingenious relocated its Vancouver facility to Toronto, Ontario in August, 2017. In doing so, Ingenious transferred all manufacturing operations to leased premises located at 999 Progress Avenue in the City of Toronto (the "**Leased Premises**"). The Leased Premises include 132,000 square feet of head office and manufacturing space.
14. As further detailed in this report, Ingenious has approximately \$27 million in annual revenues (fiscal 2017 revenue), \$27.4 million in total assets (currently) and \$56.4 million in total liabilities (currently). Ingenious has generated a year-to-date net loss of \$1.2 million to June 30, 2018. There are approximately 125 suppliers in Canada and the U.S.
15. The Ingenious workforce consists of 130 employees in Canada, 36 of which are salaried and 94 are hourly. In addition, Ingenious has 4 employees who are based in the United States. None of Ingenious' employees are represented by a union and Ingenious does not sponsor a pension plan. From time to time, the Debtor also retains temporary staff depending on the level of operations.

16. Ingenious' predecessor companies, which mostly operated under the "Tapp Label" brand, were comprised of entities and plants located in the United States and Canada, and were subsequently divested or relocated over the last several years.

Corporate Background

17. On April 22, 2015, Ingenious was incorporated in Ontario as "ML Acquisition Company Canada Inc.;" the company's name was changed to "Tapp Label Ltd." effective on June 5, 2015.
18. Tapp Label Ltd. was subsequently continued to a British Columbia unlimited liability company on December 14, 2016 and changed its name to "Tapp Label ULC" effective January 1, 2017.
19. On January 30, 2018, Tapp Label ULC changed its name to "Ingenious Packaging Group ULC".
20. David Bowyer (President and Chief Executive Officer), Jay Ziegler (Chief Operating Officer), and Glen Beharry (Director of Operations) are Directors of Ingenious.
21. Ingenious' registered office is located at 1500 Royal Centre, 1055 West Georgia Street, Vancouver, British Columbia.
22. A summary of the corporate structure of the Debtor is as follows:



23. Ingenious Packaging Group, LLC (the “**US Borrower**”), Ingenious Packaging Group Holding Company, LLC (the “**US Guarantor**”), and Ingenious Packaging Group Parent Company, LLC (“**Parent**”), are each a limited liability company registered in Delaware, United States.
24. North Haven Credit Partners II L.P. (“**NHCP**”), an entity controlled by Morgan Stanley Canada Limited (“**Morgan Stanley**”), holds warrants issued by the US Borrower.

Assets

25. Based on an interim balance sheet provided by the Debtor Ingenious has total assets in the amount of approximately \$27.4 million as at June 30, 2018, as described below:

Asset Description	Amount (in USD)
Cash	\$446,909
Accounts receivable	4,857,160
Other receivables	144,566
Inventory	1,845,929
Prepaid expenses	113,953
Fixed Assets (net)	8,341,438
Goodwill (net)	11,617,378
Total Assets	\$27,367,333

Liabilities

26. A summary of Ingenious’ recorded liabilities is set out in the chart below, and which total approximately \$56.4 million at slightly varying dates from the end of June, 2018 to July 20, 2018.

Creditor	Secured (in USD)	Unsecured (in USD)	Comments
Secured Lenders other than Adams Trust	\$18,830,883		<ul style="list-style-type: none"> • Estimated balance as at July 20, 2018 • Amounts is before other applicable costs
The Stephen Adams Family Living Trust (the “Adams Trust”)	\$3,213,155		<ul style="list-style-type: none"> • Holder of convertible note issued by the Parent, which is subordinated in right of payment to the other secured obligations under the Credit Agreement. The Adams Trust is a Secured Lender in the Credit Agreement lending syndicate, but is subordinated in right of payment to the payment in full of all other obligations under the Credit Agreement. • Estimated balance as at July 20, 2018
Trade Accounts Payable		\$3,588,689	<ul style="list-style-type: none"> • Amounts owing to suppliers and vendors as at June 30, 2018
NHCP (Morgan Stanley)		\$30,740,216	<ul style="list-style-type: none"> • Pursuant to a Note Purchase Agreement dated July 6, 2015, North Haven Credit Partners II L.P. (“NHCP”) purchased unsecured notes issued by the Borrowers in an original aggregate principal amount of US\$35,669,250 (the “Opco Notes”) • Includes accrued PIK principal and interest as at July 20, 2018
Accrued liabilities		\$970,576	<ul style="list-style-type: none"> • Includes various normal operating employee, vendor, commodity taxes and other accruals, balance as at June 30, 2018.
Total	\$21,123,150	\$35,299,481	

Bank of Montreal

27. BMO is the administrative agent under a credit agreement dated as of July 6, 2015 (as amended, restated or modified from time to time, the “**Credit Agreement**”), by, among others, Ingenious and the US Borrower (collectively, the “**Borrowers**”), as borrowers, the US Guarantor, as guarantor, and BMO and the other lenders from time to time party thereto, which include funds managed by the Audax Group and (together, the “**Secured Lenders**”).
28. The credit facilities pursuant to the Credit Agreement (collectively, the “**BMO Facilities**”) consist of: i) a Canadian term loan facility to Ingenious; ii) a US term loan facility to the US Borrower; iii) a Second Amendment Term Facility to the US Borrower; and iv) a revolving credit facility to the Borrowers.
29. The Debtor has total recorded indebtedness of \$18,830,883, which includes outstanding principal of \$17,909,994, accrued and unpaid interest of \$446,889, and outstanding forbearance fees of \$474,000. These amounts are all before other costs (including, without limitation, legal fees and expenses), and excluding any balance attributable to indebtedness owing to the Adams Trust.
30. Each Borrower is jointly and severally liable for all obligations under the Credit Agreement. Each Borrower is also a guarantor of each other Borrower’s obligations and liabilities arising under the Credit Agreement. Moreover, each Borrower and the US Guarantor provided an unlimited guarantee of all obligations of the Borrowers arising under the Credit Agreement (the “**Guarantee**”).
31. As security for the BMO Facilities, BMO holds, among other things, the following forms of security: i) a Canadian pledge and security agreement charging all of Ingenious’ property (the “**Canadian Security Agreement**”); ii) the Guarantee; iii) a US pledge and security agreement charging all of the US Borrower’s property and the US Guarantor’s property; and iv) a trademark security agreement charging the US Borrower’s Trademarks.

Security Review

32. Goodmans LLP, in its capacity as independent legal counsel to the Proposed Receiver, conducted a review of the security granted by the Debtor to secure its obligations under the Credit Agreement. Goodmans’ conclusions with respect to the security are contained in a report delivered to Deloitte on July 23, 2018 (the “**Security Review**”), a copy of which is available to this Court on request.

33. The Security Review is limited to the law of the Province of Ontario and the federal laws of Canada applicable therein ("**Ontario Law**"). With the exception of the Canadian Security Agreement which is governed by Ontario Law, the Credit Agreement and other loan documents are governed by the laws of the State of New York ("**New York Law**"). The Security Review assumes the enforceability of the New York Law documents and the validity of the indebtedness and guarantees incurred thereunder.
34. Subject to standard assumptions and qualifications set forth in the Security Review, the Security Review concludes that, *inter alia*:
- (a) the Canadian Security Agreement constitutes a valid and binding obligation of the Debtor;
 - (b) the Canadian Security Agreement creates a valid security interest in favour of the Administrative Agent in the Collateral (as defined in the Canadian Security Agreement) to which the *Personal Property Security Act* (Ontario) (the "**Ontario PPSA**") applies, which collateral constitutes substantially all of the Debtor's personal property, subject to certain customary categories of excluded property; and
 - (c) the registration has been made pursuant to Ontario Law where such registration is necessary to perfect the security interests created by the Canadian Security Agreement in favour of the Administrative Agent in the Collateral to which the Ontario PPSA applies and in which the Debtor has rights, other than in respect of any Collateral consisting of motor vehicles as such collateral classification has not been included in the Administrative Agent's financing statement.
35. The Security Review describes the results of searches conducted under the Ontario PPSA and the *Personal Property Security Act* (British Columbia) (the "**B.C. PPSA**"). Other than registrations under the Ontario PPSA and the B.C. PPSA by the Administrative Agent, the only other registrations are registrations relating to specific equipment by Fujifilm Canada Inc. ("**Fujifilm**") under the Ontario PPSA and E.I. Dupont Canada Company ("**Dupont**") under the Ontario PPSA and the B.C. PPSA. The CRO advises the Proposed Receiver that the Debtor does not have any financing or capital lease payment obligations, and that the encumbrances of Fujifilm and Dupont are in respect of certain plates and tooling equipment which the Debtor is entitled to use with no rental costs. The equipment registrations in respect of Fujifilm and Dupont constitute "Permitted Encumbrances" under the terms of the APA and the proposed Approval and Vesting Order.

Adams Trust

36. As noted above, the Adams Trust is the lender of the subordinated secured term loan pursuant to the Credit Agreement, which is accruing PIK principal and interest for a total estimated balance of \$3,213,155 as at July 20 2018.

Trade Accounts Payable

37. As at June 30, 2018, Ingenious had unsecured trade accounts payable totaling approximately \$3.5 million, with vendors located in Canada and the United States.
38. As at June 30, 2018, Ingenious owed approximately \$2.0 million to its top four suppliers which provide substantially all critical raw materials. Of those four vendor balances, more than \$1.4 million are aged over 30 days past due and \$771,000 are aged over 60 days past due.

NHCP / Morgan Stanley

39. As set out in the Kane Affidavit, NHCP had purchased Opco Notes issued by the Borrowers and Holdco Notes issued by the U.S. Guarantor, which notes became subject to subordination and inter-creditor agreements with BMO.
40. Based on information provided by Silverman Consulting, there is of \$30,740,216 of unsecured indebtedness owing to NHCP under the Opco Notes and Holdco Notes as at July 20, 2018.
41. Cash payments of principal and interest formerly due under the NHCP indebtedness were suspended following the execution of a Subordination and Inter-creditor Agreement in September 2017, and PIK principal and interest has accrued since that time.

Accrued Liabilities

42. The Debtor has accrued liabilities of \$1,352,550 as at June 30, 2018 with respect to various normal operating employee, vendor, commodity tax and other accruals.

Historical Operating Performance

43. The Debtor has generated net sales for the fiscal years ending December 31, 2016 and December 31, 2017 of \$24.7 million and \$27.1 million. During those years, the Debtor generated net losses of \$350,000 and \$3.2 million, respectively.

44. For the year-to-date period ending June 30, 2018, the Debtor reported net sales of \$15.0 million and net losses of \$1.2 million.

THE DEBTOR'S CURRENT CIRCUMSTANCES

Overview and timeline of recent events

45. As described in the Silverman Affidavit, subsequent to and as a result of its acquisition of certain wine label manufacturers in the North American West Coast (previously defined as the "West Coast Assets") in 2015, Ingenious began to experience poor financial results and its financial condition began to deteriorate in a material way.
46. To address its poor financial circumstances, Ingenious retained Silverman Consulting as financial advisor in June 2017.
47. In September 2017, Ingenious appointed Michael Silverman of Silverman Consulting as the Debtor's Chief Restructuring Officer.
48. In December 2017, the Ingenious group divested the West Coast Assets. Ingenious unsuccessfully sought financing from an existing subordinated noteholder which declined to advance negotiations following its due diligence and credit approval process.
49. As a result of its ongoing financial difficulties, the Debtor sought the assistance of a corporate finance advisor to lead a sales and marketing process of the Property. In February 2018, Ingenious retained Mesirow Financial, Inc. ("**Mesirow**"), a specialist capital markets and investment banking firm based in the United States, as corporate finance advisor to conduct the sales process (the "**Mesirow Sales Process**"). The CRO and Management have advised the Proposed Receiver that Mesirow was selected as corporate finance advisor due to its expertise and credentials in the label and packaging industry in North America.
50. As described later in this Report, Mesirow conducted a comprehensive sales process which commenced on March 1, 2018 and resulted in several letters of intent being received on April 19, 2018. The leading bidder was selected but the Mesirow Sales Process did not culminate in a transaction within the intended timeline as the leading bidder's due diligence process resulted in the identification of a number of issues including, poor customer feedback, the unwillingness of a landlord to amend the existing off-market lease, and significant required capital expenditures in order to improve customer on-time deliveries.

51. In March 2018, the Secured Lenders agreed to forbear from exercising certain rights and remedies against the Borrowers and the US Guarantor (the “**Forbearance Agreement**”). The Forbearance Agreement expired on June 29, 2018 and was not extended by the parties.
52. As described more particularly in paragraph 35 of the Kane Affidavit, several Events of Default have occurred, including but not limited to, the failure of the Borrowers to pay principal and interest due under the Credit Agreement on July 2, 2018, and the failure to comply with certain financial and reporting covenants.
53. On July 19, 2018, BMO issued a demand for payment and a Notice of Intention to Enforce Security pursuant to the BIA, to the Borrowers.

The Resulting Current Circumstances Facing the Debtor

54. The above events have left the Debtor in the following situation:
 - (a) The business continues to generate losses;
 - (b) The Debtor’s cash resources have been almost entirely depleted, and it has no sources of further funding. Paragraph 20 of the Silverman Affidavit sets out a deteriorating financial position and forecasts ending weekly cash positions of between \$ nil and \$500,000, and is averaging weekly total disbursements of \$515,000. Paragraph 7 of the Silverman Affidavit sets out that Ingenious is unable to maintain payments to its lenders, vendor payment terms have been stretched and Ingenious has inadequate operating cash levels. The Proposed Receiver has reviewed the Debtor’s financial circumstances and is of the view that the Debtor is insolvent;
 - (c) Its trade payable accounts are overdue, with current payables which are past their terms totalling \$1.4 million on a balance of \$3.5 million. Paragraph 21 of the Silverman Affidavit sets out that the CRO is receiving an increasing number of communications from anxious suppliers in respect to outstanding accounts payable. The Proposed Receiver has been advised that Management is attempting to keep its vendors supplying on the basis that the terms of the Proposed Transaction will include an assumption of all of outstanding trade debt, as is the case under the terms of the APA for the Proposed Transaction;
 - (d) On July 2, 2018, the Debtor failed to make a quarterly payment of principal and interest owing to the Secured Lenders in the amount of approximately \$704,000, and has also

been unable to meet a forbearance fee obligation of \$474,000, all owing to the Secured Lenders;

- (e) The Debtor ceased making cash payments owing to subordinated lenders in 2017 and has since been issuing PIK principal and interest payments;
- (f) Due to its lack of access to further capital, the Debtor has not been able to invest in certain printing equipment which has resulted in the Debtor's inability to consistently produce its product within promised order delivery times. The Silverman Affidavit also notes a significant decline in on-time deliveries in 2018, and that only 49.7% of June 2018 deliveries were made within prescribed delivery dates;
- (g) The Debtor's leading customers, who were contacted by RLG during the Mesirow Sale Process (as part of their due diligence), are aware that the Debtor's assets are for sale, and one major customer has resourced, with others indicating their attempt to resource to other label providers. Paragraph 18 of the Silverman Affidavit indicates that: "*RLG also learned that Ingenious had lost one significant customer, and was at risk to lose several others. It is important to understand that the top 20 customers comprise approximately 65% of the Ingenious revenue base. In addition, since the material provided by Ingenious is custom and specific to customer products, those customers would move proactively to alternate sources in order to ensure continuity of label material.*";
- (h) We are advised that employee retention is becoming an issue as set out in paragraph 22 of the Silverman Affidavit, and that there is a retention bonus program in place; and
- (i) The Debtor has defaulted on its BMO indebtedness and BMO is enforcing on its security. The Debtor is unable to repay or refinance the secured indebtedness owed to BMO and the other Secured Lenders under the Credit Agreement.

THE MESIROW SALES PROCESS

55. Subsequent to its retention, Mesirow prepared a Confidential Information Memorandum ("**CIM**"), established an electronic data room, and compiled a targeted list of potential purchasers in advance of launching the Mesirow Sales Process.

56. Under the guidance of the CRO and the Debtor's Management and Board of Directors, Mesirow conducted a commercially reasonable sales process which included the following activities, steps and timelines that are not dissimilar from other sales processes commonly approved by this

Court:

Timing	Activity
March 1, 2018	<ul style="list-style-type: none">• Commencement of marketing outreach to prospective purchasers
March 21, 2018	<ul style="list-style-type: none">• Deadline for preliminary indications of interest (each, an “IOI”)
April 2 to 6, 2018	<ul style="list-style-type: none">• Management presentations to shortlisted parties
April 19, 2018	<ul style="list-style-type: none">• Deadline for letters of intent (each, an “LOI”)
April 23, 2018	<ul style="list-style-type: none">• Selection of Resource Label Group, LLC as the successful bidder• Execution of an LOI with RLG
May and June 2018	<ul style="list-style-type: none">• Confirmatory due diligence
July 20, 2018	<ul style="list-style-type: none">• Execution of the APA

57. Mesirow approached a group of twelve (12) strategic industry participants and five (5) select financial sponsors. Fifteen (15) parties executed a confidentiality agreement and were given access to the CIM. Seven (7) written IOI’s were received, six (6) parties were invited to attend Management presentations, and four (4) parties submitted LOI’s.
58. As set out in paragraph 13 of the Silverman Affidavit, each of the offers contemplated a purchase of the assets at a wide range of values.
59. The Debtor, in consultation with the CRO and with the recommendation of Mesirow, selected the LOI submitted by RLG (the “**RLG Offer**”) as the leading bidder for the purpose of completing the transaction. RLG is a leading North American provider of pressure sensitive label, shrink sleeve and RFID/NFC technologies for the food, beverage, personal care, chemical, nutraceutical, pharmaceutical and durable good customer segments. Moreover, we understand that RLG generates estimated sales of \$225 million from 16 locations in North America.

DUE DILIGENCE FINDINGS AND PROTRACTED NEGOTIATIONS

60. RLG's due diligence efforts resulted in the identification of serious concerns in respect of customer satisfaction and potential loss of key customers, the rental agreement with respect to the Leased Premises, and significant further required capital expenditures, all of which resulted in protracted negotiations.
61. As a result of its due diligence, RLG and its advisors made adjustments to its stated purchase price. The Proposed Receiver understands that Management, in consultation with the CRO and Mesriow, performed a detailed review of all of the purchase price adjustments. Paragraph 19 of the Silverman sets out the following in respect of the amendments to the RLG Offer: *“Notwithstanding the reduction in purchase price, we remained of the view that the factors identified in the RLG due diligence would have similarly resulted in a reduction of the other bidders' purchase prices. In addition, RLG had gained a significant understanding of the Ingenious business through the due diligence process. Consequently, we recommended proceeding to close the Transaction with RLG.”*
62. The Proposed Receiver has also reviewed the detailed adjustments made to the original purchase price offered by RLG and concurs with their reasonableness. The Proposed Receiver also agrees with the view of the CRO, as set forth in paragraph 19 of the Silverman Affidavit, that the factors identified in the RLG due diligence would likely have produced similar reductions in the purchase prices offered by the other bidders in their respective LOI's, upon completion of their respective due diligence processes.

Alternate Sales Process Considerations

63. The Proposed Receiver held discussions with Management, the CRO and the Secured Lenders with respect to an abridged or extended sales process, with RLG potentially acting as a stalking horse bidder. RLG was not willing to proceed on that basis because it is apparent that the value of the Debtor's business is eroding and at further risk of further erosion due to customer loss, employee loss, actions from suppliers, its lack of liquidity and its insolvency in general.
64. The Proposed Receiver also considered the RLG Offer in comparison to a liquidation scenario, and is of the view that at liquidation scenario would result in a highly significant shortfall to all stakeholders relative to the RLG Offer.

65. The Proposed Receiver is of the view that the RLG offer therefore represents the best value and outcome for the Debtor’s stakeholders under the circumstances and (i) there is no reasonable prospect, in light of the Debtor’s financial circumstances, that a further marketing process would produce a superior transaction capable of being implemented in the near term and (ii) that further marketing could imperil the transaction at hand, causing reduced recoveries for the Debtor’s stakeholders.

THE PROPOSED SALE TRANSACTION

Terms of the Successful Bid

66. The APA, which was finalized and signed on July 20, 2018, was negotiated by Ingenious, Mesirow, the CRO and BMO, with the involvement of Deloitte since its engagement on July 9, 2018. An unredacted copy of the APA is attached as Appendix “A” to the confidential supplemental report to the Report (the “**Confidential Supplement**”).

67. A summary of the non-commercially sensitive key terms of the APA is provided below. A more detailed summary of the key terms of the APA and the distributions contemplated thereby, which includes certain commercially sensitive information, is included in the Confidential Supplement.

Summary of the Asset Purchase Agreement	
Purchaser	<ul style="list-style-type: none">Ingenious Packaging, Inc., a newly incorporated member of the Resource Label Group, LLC group of companies.
Transaction Type	<ul style="list-style-type: none">Receivership sale of assetsForm of Approval and Vesting Order appended to the APA
Transaction Approval Date	<ul style="list-style-type: none">Hearing scheduled for July 24, 2018
Operation of Business Until Closing	<ul style="list-style-type: none">To be carried out by Silverman Consulting
Purchase Price and Adjustments to Purchase	<ul style="list-style-type: none">ConfidentialA potential working capital adjustment based on finally determined

<p>Price</p>	<p>closing capital, pursuant to the mechanics set out in the APA.</p> <ul style="list-style-type: none"> • At least one (1) day prior to the closing date, the Debtor will prepare a funds flow schedule (the “Funds Flow”) of the proposed distribution of sale proceeds upon closing, which is subject to review and final approval by RLG and the Receiver. The Funds Flow will set out the various parties who will receive the consideration on the closing of the Proposed Transaction.
<p>Deposit Received</p>	<ul style="list-style-type: none"> • An amount of 5% of the purchase price before Assumed Liabilities
<p>Use of Proceeds on Closing</p>	<ul style="list-style-type: none"> • All amounts to be disbursed or allocated from the Funds Flow within two (2) business days following the closing date in the manner prescribed therein
<p>Execution Date</p>	<ul style="list-style-type: none"> • July 20, 2018
<p>Target Closing Date</p>	<ul style="list-style-type: none"> • Outside closing date of July 30, 2018
<p>Acquired Assets and Assigned Contracts</p>	<ul style="list-style-type: none"> • Accounts receivable, customer purchase orders, prepaid expenses, and security deposits • Inventory (finished goods, work-in-process, and raw materials) • Equipment and other fixed assets • Intellectual property, intangible assets, customer data, goodwill, permits, claims against third parties, guarantees from third parties, books and records • Rights to Leased Premises • Assumed contracts notwithstanding that the Receiver will not be responsible for obtaining consents or paying cure costs to vendors
<p>Assumed Liabilities</p>	<ul style="list-style-type: none"> • Liabilities and obligations under the Assumed Contracts • Accounts payable and accrued expenses with respect to ordinary course of business of Ingenious • Pre-closing liabilities owing to Transferred Employees • Permitted encumbrances with respect to certain equipment
<p>Permitted Encumbrances and Liens on Specific Equipment</p>	<ul style="list-style-type: none"> • Schedule B to the draft form of Approval and Vesting Order sets out “Permitted Encumbrances“ to: <ul style="list-style-type: none"> ○ Fujifilm and Dupont in the Province of Ontario

	<ul style="list-style-type: none"> ○ Dupont in the Province of British Columbia. Schedule 7(A)(III) to the APA sets out two “Permitted Liens” for the same collateral description in favour of Dupont
Employees	<ul style="list-style-type: none"> • Offers of employment on substantially similar terms and conditions will be made to all Transferable Employees (as defined therein) no later than four (4) business days prior to the closing date • Subject to certain conditions, the Purchaser is not obliged to make offers to employees who are absent from work on the closing date • Payment of outstanding compensation and termination and severance pay owing to employees that are not Transferred Employees as at the closing date • Payment of the Assumed Pre-Closing Employee Obligations (as defined therein) to the Debtor’s payroll provider to perform and discharge the Assumed Pre-Closing Employee Obligations
Landlord	<ul style="list-style-type: none"> • Consent to Transfer and Lease Amendment Agreement was executed on July 20, 2018 for continued occupancy
Excluded Assets	<ul style="list-style-type: none"> • Cash and cash equivalents • Employee benefit plans and any attributable assets, tax refunds or rebates due to the Debtor, corporate documents (e.g. minute books, tax returns, stock books, etc.), and any related party or affiliate commitments or arrangements
Excluded Liabilities	<ul style="list-style-type: none"> • Any liabilities not relating to the Debtor’s business or assets • Unpaid taxes
Conditions to Closing	<ul style="list-style-type: none"> • Receivership Order issued by the Court • Approval and Vesting Order issued by the Court in respect of the APA • Cash payment of the balance of the Estimated Purchase Price • Purchaser and Receiver approval of the Funds Flow • Closing deliveries, including an executed Escrow Agreement • No material adverse effect change to business operations or assets • Established threshold of offer acceptances from Transferrable Employees • Closing by Outside Date of July 30, 2018

68. There is an additional working capital adjustment that has been agreed by the parties that is not included directly in the APA. Such working capital adjustment, which is calculated as the amount required to bring working capital to normalized levels, is primarily based on the significant overdue accounts payable which are past their terms (approximately \$1.4 million as at the date of this report). This working capital adjustment is planned to be deducted by RLG on closing from the sale proceeds, within an agreed to calculation formula, on a calculation which the Proposed Receiver will review for accounting reasonableness.
69. As part of concluding the APA, RLG, negotiated revised terms with the landlord of the Leased Premises.

The Funds Flow

70. The Funds Flow schedule sets out the amounts to be paid to various parties out of the sales proceeds which are paid out of the Proposed Transaction, if approved. The Funds Flow includes negotiated amounts to be paid to the following parties, among others:
- (a) The working capital adjustment referenced in paragraph 68, above;
 - (b) The amounts set aside for the potential working capital adjustment, as described in the APA, above;
 - (c) The payment of various Debtor-side and lender side advisors and the Receiver and its counsel;
 - (d) Certain payments to other stakeholders of the Debtor as agreed between BMO and the Debtor, which funds would otherwise be payable to BMO; and
 - (e) The partial satisfaction of the indebtedness of the Secured Lenders, who will experience a material shortfall in their position.
71. The consummation of the Proposed Transaction would include the following:
- (a) The preservation of employment for the vast majority of the Debtor's employees, and assumption of various legacy costs (including recognition of time served in relation to potential severance obligations);
 - (b) The assumption of virtually all of Debtor's vendor indebtedness;
 - (c) A material paydown of the Secured Lenders' debt which is considered to be far in excess of liquidation value; and

- (d) A better servicing and stabilization of the Debtor's customer base.

The Proposed Receiver's Observations

72. The Proposed Receiver makes the following observations with respect to the Proposed Transaction for consideration by the Court:

- (a) The financial circumstances of the Debtor require that a transaction be completed without delay;
- (b) The Debtor has conducted a commercially reasonable sales process, which was led by Mesirow, a qualified investment banking firm with expertise in the printing and labelling sector;
- (c) Although the sales process took longer than expected, it is proposed to be concluded with the leading bidder. There were business issues identified in the process which served to reduce the initial LOI purchase price, however, it is the CROs view that any reasonable bidder would similarly reduce its price, and the Proposed Receiver concurs with that view;
- (d) As part of the transaction, the Secured Lenders, who will experience a significant loss, support and have made this application to have the Proposed Transaction approved by the Court;
- (e) No party is objecting to the conclusion of the Proposed Transaction;
- (f) Under the circumstances facing the Debtor, the Proposed Receiver believes the Proposed Transaction represents commercially reasonable value. In this regard, the Proposed Receiver has reviewed the Mesirow Sales Process, its results, as well as the adjustments which have given rise to the ultimate proceeds contemplated by the APA. It has also reviewed potential liquidation net proceeds; and
- (g) Among other things, the Proposed Transaction provides for continued employment for substantially all Ingenious' employees, an assumption of all trade payables and other obligations, ongoing service to Ingenious' customers, and provides other commercially-sensitive benefits outlined in the Confidential Supplement.

PROPOSED RECEIVER'S RECOMMENDATIONS

73. For the reasons set out above, the Receiver recommends that the Court make an Order in the form of the proposed Approval and Vesting Order, approving the APA and the Proposed Transaction and providing such other relief as set out in the proposed form of Order.

All of which is respectfully submitted at Toronto, Ontario this 23rd day of July, 2018.

DELOITTE RESTRUCTURING INC.,
solely in its capacity as the proposed
Court-appointed receiver of
Ingenious Packaging Group ULC, and
without personal or corporate liability

Per: 

Philip J. Reynolds, CPA, CA, CIRP, LIT
Senior Vice-President