

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

BETWEEN:

BANK OF MONTREAL

Applicant

- and -

**1100225 B.C. UNLIMITED LIABILITY COMPANY
(formerly INGENIOUS PACKAGING GROUP ULC)**

Respondent

**FIRST REPORT OF DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS RECEIVER
DATED APRIL 30, 2021**

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APPENDICES

| APPENDIX | DESCRIPTION |
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| A | Pre-Filing Report of the Proposed Receiver dated July 23, 2018 (without appendices) |
| B | Appointment Order dated July 24, 2018 |
| C | Endorsement of Justice McEwen dated July 24, 2018 |
| D | Approval and Vesting Order dated July 24, 2018 |
| E | B.C. Registry Services Notice of Alteration dated August 1, 2018 |
| F | Certificate of Appointment (Bankruptcy) dated August 2, 2018 |
| G | Statement of Receipts and Disbursements for the period July 24, 2018 to April 28, 2021 |
| H | Affidavit of Stefano Damiani of Deloitte Restructuring Inc. sworn April 28, 2021 |
| I | Affidavit of Bradley Wiffen of Goodmans LLP sworn April 28, 2021 |

INTRODUCTION

1. An application was made on July 20, 2018 by Bank of Montreal (“**BMO**”) for an order of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) appointing Deloitte Restructuring Inc. (“**Deloitte**”) as receiver (the “**Receiver**”) of the assets, undertakings and properties (the “**Property**”) of Ingenious Packaging ULC (the “**Debtor**”) pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the “**BIA**”) and section 101 of the *Courts of Justice Act* R.S.O. 1990 c. C.43, as amended.
2. The purpose of the receivership was to consummate the going concern sale transaction of the assets and business of the Debtor (the “**Transaction**”) on an expedited basis, as the Debtor was facing significant financial and operational issues. The Transaction was completed as of July 30, 2018. The Transaction maximized the value of the Debtor’s business, preserved the employment of substantially all of the Debtor’s employees, and resulted in the assumption of substantially all trade and other ordinary course obligations.
3. The Debtor, a British Columbia unlimited liability company, was a manufacturer and service provider of customized, comprehensive and graphic intensive labels for a variety of products for various industries. The Debtor’s workforce consisted of 130 employees in Canada and 4 employees based in the United States. The Debtor conducted its manufacturing and general operations from leased premises located at 999 Progress Avenue in the City of Toronto (the “**Leased Premises**”).
4. Bank of Montreal (“**BMO**”) is the administrative agent under a credit agreement (the “**Credit Agreement**”), by, among others, the Debtor and BMO and the other lenders from time to time party thereto (together, the “**Secured Lenders**”).
5. On July 23, 2018, Deloitte issued its pre-filing report (the “**Pre-Filing Report**”) in its capacity as the proposed receiver (“the “**Proposed Receiver**”) for the purpose of, among other things, (i) providing information in respect of the Debtor’s financial affairs, creditors and Property, (ii) summarizing the results of a marketing process the Debtor had undertaken for the sale of its assets and operations, and (iii) describing the Transaction to be effected, subject to Court approval, pursuant to 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, as purchaser (the “**Purchaser**”), as well as the effects of the Transaction on the Debtor’s key stakeholders. A copy of the Pre-Filing Report (without appendices) is attached hereto as **Appendix “A”**.

6. Also on July 23, 2018, the Receiver filed a confidential supplement to the Pre-Filing Report (the “**Confidential Pre-Filing Report**”) which disclosed additional information with respect to the Transaction, including the purchase price.
7. On July 24, 2018, the Court issued two orders in these proceedings. The first order (the “**Appointment Order**”) appointed Deloitte as the Receiver of the Property, a copy of which is attached hereto as **Appendix “B”**.
8. The second order (the “**Approval and Vesting Order**”), among other things: (i) approved the Transaction and authorized the Receiver to complete the Transaction in accordance with the APA, including the distributions contemplated therein, (ii) vested in the Purchaser all of the Debtor’s right, title and interest in respect of the purchased assets upon closing of the Transaction, (iii) authorized the Receiver to act as Escrow Agent for the purposes of holding the Adjustment Escrow Amount (defined below) deposited by the Purchaser in respect of the Transaction, (iv) authorized the Receiver or Debtor to facilitate any required change to the corporate name of the Debtor in accordance with the APA, (v) authorized the Receiver to transfer to the Purchaser all of the Debtor’s human resources and payroll information, and (vi) sealed the Confidential Pre-Filing Report. A copy of the Endorsement of Justice McEwen dated July 24, 2018 is attached hereto as **Appendix “C”** and a copy of the Approval and Vesting Order is attached hereto as **Appendix “D”**.
9. The going concern sale Transaction closed effective July 30, 2018 (the “**Closing Date**”) as described in greater detail below. The Debtor and CRO (defined below) continued to operate the business until the Closing Date, and provided ongoing reporting to the Receiver during that period.
10. Attached as **Appendix “E”** is a British Columbia Registry Services Notice of Alteration date August 1, 2018 evidencing the change of the Debtor’s legal name to 1100225 B.C. Unlimited Liability Company.
11. On August 2, 2018, the Debtor filed an assignment into bankruptcy. A copy of the Certificate of Appointment of Deloitte as trustee of the bankrupt estate of the Debtor is attached hereto as **Appendix “F”**.
12. Copies of application materials, court orders and other materials with respect to this matter are available on the Receiver’s website at <http://www.insolvencies.deloitte.ca/en-ca/Ingenious>.
13. This first report of the Receiver (the “**Report**”) is filed in connection with the Receiver’s motion for an order (the “**Discharge Order**”), among other things:

- (a) authorizing and directing the Receiver to distribute to BMO, as agent on behalf of the Secured Lenders, in one or more distributions, all funds or proceeds now or hereafter forming part of the Debtor's estate after the payment of the professional fees of the Receiver and its counsel and any other amounts otherwise payable pursuant to the Appointment Order or the Approval and Vesting Order;
- (b) approving the Receiver's Statement of Receipts and Disbursements for the cumulative period July 24, 2018 to April 28, 2021;
- (c) approving the professional fees and disbursements of the Receiver and its independent legal counsel; and
- (d) upon the issuance by the Receiver of a certificate confirming that all matters to be attended to in connection with the receivership of the Debtor have been completed to the satisfaction of the Receiver (the "**Receiver's Discharge Certificate**"), discharging Deloitte as the Receiver and releasing and discharging Deloitte and its affiliates, partners, employees, agents and advisors from any and all liability that such persons now or may hereafter have by reason of, or in any way of arising out of, the acts or omissions of the Receiver while acting in its capacity as Receiver in these proceedings.

TERMS OF REFERENCE

14. In preparing this Report, the Receiver 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 Chief Restructuring Officer (the "**CRO**") of the Debtor (collectively, the "**Information**"). Except as described in this Report:
- (a) the Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Receiver 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) the Receiver has prepared this Report in its capacity as a Court-appointed Receiver to support the Court's approval of the Receiver's activities and other relief being sought.

Parties using the Report other than for the purposes outlined herein are cautioned that it may not be appropriate for their purposes.

15. Unless otherwise stated, all dollar amounts contained in this Report are expressed in U.S. dollars.
16. All other capitalized terms not otherwise defined in this Report shall have the meanings ascribed to them in the Pre-Filing Report.

RECEIVER'S ACTIVITIES

17. Since the date of the Appointment Order, the Receiver has undertaken the following activities:
 - (a) held on-site meetings at the Leased Premises and additional correspondence with the CRO, the Debtor's senior management, and the Purchaser with respect to various transition, closing and post-closing matters in connection with the Transaction;
 - (b) monitored the Debtor's bank account activity reports and additional financial information prepared by the CRO and the Debtor's financial management to the Closing Date;
 - (c) facilitated the closing of the Transaction, including receiving the closing proceeds from the Transaction and making distributions as contemplated pursuant to the APA (as described in greater detail below);
 - (d) remitted payroll and other payments in accordance with the APA;
 - (e) collected cash on hand in the Company's bank accounts and residual receipts, which did not form part of the purchased assets pursuant to the Transaction;
 - (f) communicated with the Purchaser in respect of the status of its meetings and offers of employment delivered to the Debtor's Canadian employees;
 - (g) coordinated the delivery of Records of Employment and final T4 slips to the former employees of the Debtor;
 - (h) informed Canada Revenue Agency ("CRA") of the receivership, established a new HST account for the post-receivership period, and filed HST returns for the pre-receivership and post-receivership periods;
 - (i) made arrangements with CRA and the Debtor's financial management to conduct audits of the Debtor's payroll tax and HST accounts;

- (j) retained the Debtor's former external accountants to file the Debtor's final corporate income tax return to facilitate the release of temporarily withheld HST refunds;
- (k) notified the Debtor's insurance broker of the Appointment Order and reviewed the insurance coverage;
- (l) issued its statutory Notice and Statement of Receiver pursuant to subsections 245(1) and 246(1) of the BIA, which also included a description of the Transaction and the Purchaser's contact information;
- (m) prepared and filed ongoing statutory interim reports with the Superintendent of Bankruptcy pursuant to subsection 246(2) of the BIA;
- (n) attended to numerous stakeholder inquiries from vendors, customers and former employees;
- (o) arranged for the electronic backing up of the Debtor's accounting system;
- (p) opened new trust accounts in the name of the Receiver;
- (q) continued to engage Goodmans LLP ("**Goodmans**") as its independent legal counsel; and
- (r) addressed various additional matters as they arose from time to time.

CLOSING OF THE TRANSACTION

18. Reference is made to paragraphs 66 to 71 of the Pre-Filing Report, which summarized the terms of the APA and the Funds Flow (defined below). The APA, among other things, contemplated the preservation of employment of Canadian staff and the assumption of trade indebtedness owing to vendors and suppliers.
19. Upon the issuance of the Approval and Vesting Order on July 24, 2018, the Receiver worked diligently with the Purchaser, Management and the CRO to close the Transaction and carry out the terms set out in the APA on an expedited basis.
20. The Receiver facilitated the Purchaser's access to the Leased Premises and arranged for meetings with employees to enable the delivery of offers of employment and to respond to employee inquiries.

21. Pursuant to paragraph 3 of the APA, the ultimate purchase price was to be calculated as \$22.0 million (inclusive of a \$1.1 million deposit), subject to an adjustment based on the Estimated Net Working Capital (as defined in the APA). In addition to the Purchase Price, the Purchaser also assumed various liabilities that were described in the Pre-Filing Report and the APA.
22. As described at paragraph 68 of the Pre-Filing Report, there was an additional working capital adjustment agreed by the parties which was calculated as the amount required to bring working capital to normalized levels and primarily based on the significant overdue accounts payable. That working capital adjustment was deducted by the Purchaser on closing from the sale proceeds, which was reviewed by the Receiver for reasonableness.
23. The Receiver reviewed the CRO's estimated working capital analysis and closing adjustments for the determination of the purchase price due on the Closing Date. The Receiver also attended at the inventory count conducted by the Debtor and the Purchaser's accountants at the Leased Premises. The parties agreed to an Estimated Net Working Capital adjustment of \$839,211. Accordingly, the Purchase Price was reduced to \$21,160,789 on a net basis, before further adjustments for the Escrow Adjustment Amount (defined below).
24. Prior to the Closing Date, the Receiver and the Purchaser reviewed the Company's funds flow schedule (the "**Funds Flow**") of the proposed distribution of sale proceeds to various parties upon closing of the Transaction. The Funds Flow was more particularly described in paragraph 70 of the Pre-Filing Report.
25. The Receiver executed the requisite closing documents, collected the closing proceeds, and completed the Transaction effective July 30, 2018 as evidenced by the issuance of the Receiver's Certificate pursuant to the Approval and Vesting Order.
26. In accordance with the APA, the Receiver entered into an escrow agreement (the "**Escrow Agreement**") with the Debtor and the Purchaser to hold the sum of \$520,000 (the "**Adjustment Escrow Amount**") in escrow for potential adjustments to the purchase price subject to a final working capital determination subsequent to the Closing Date.
27. The Receiver conducted a detailed review of the Purchaser's findings with respect to final working capital and updated financial information, and held consultations with the Debtor's financial management, the CRO and legal counsel with respect to the proposed Adjustment Escrow Amount. Following negotiations between the Receiver and the Purchaser, the amount of the proposed Adjustment Escrow Amount was agreed to by the parties.

28. On February 21, 2019, the Receiver and the Purchaser executed an Escrow Release Notice which terminated the Escrow Agreement and caused the Adjustment Escrow Amount to be distributed in the amounts of \$500,000 to the Purchaser and \$20,000 to the receivership estate. Accordingly, after adjusting for the Estimated Net Working Capital and finalized Adjustment Escrow Amount, the final net Purchase Price of the Transaction was \$20,660,789.

DISTRIBUTIONS TO BMO

29. As described in paragraphs 32 to 35 of the Pre-Filing Report, the Receiver obtained an independent legal opinion confirming the validity of the security granted by the Debtor to secure its obligations under the Credit Agreement, subject to the standard assumptions and qualifications.
30. Paragraph 3 of the Approval and Vesting Order authorized and directed the Receiver to complete the Transaction in accordance with the terms of the APA, including the distributions contemplated thereby. The Receiver has made disbursements related to the receivership totaling Cdn \$384,620 and \$2,322,110 to date, and has made distributions totalling \$17,965,741 to the Secured Lenders in accordance with the Approval and Vesting Order and the APA.
31. Following the completion of the Transaction, the Receiver also collected residual receipts totalling Cdn \$70,785 (the “**CAD Residual Receipts**”) and \$84,267 (the “**USD Residual Receipts**”) (collectively, the “**Residual Receipts**”).
32. The CAD Residual Receipts consisted of (i) HST refunds totalling Cdn \$69,065 with respect to the receivership period, and (ii) Cdn \$1,720 of interest earned in the receivership estate Canadian currency trust account.
33. The USD Residual Receipts consisted of (i) \$60,856 of interest earned in the receivership estate US currency trust account, (ii) insurance refund of \$10,961, and (iii) \$12,451 in respect of a payroll service provider refund and a predecessor company collection which did not form part of the working capital and purchased assets under the APA.
34. The Residual Receipts have been applied to the fees and disbursements of the Receiver and its legal counsel.
35. The proposed form of Discharge Order authorizes the Receiver to distribute to BMO, on behalf of the Secured Lenders, all remaining estate funds and proceeds, provided that the aggregate amount of all distributions made by the Receiver to BMO shall not exceed the aggregate obligations owing by the Debtor to BMO. The Secured Lenders are expected to suffer a shortfall on the amounts

owing to them under the Credit Agreement and accordingly no funds will be available for distribution to other secured or unsecured creditors of the Debtor.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

36. Attached as **Appendix “G”** is a Statement of Receipts and Disbursements for the cumulative period July 24, 2018 to April 28, 2021. As at April 28, 2021, the closing cash balance was approximately \$131,932 in the Receiver’s U.S. dollar trust account and Cdn \$12,900 in the Receiver’s Canadian dollar trust account, all before a reserve for the Estimated Fees (as defined below). The remaining funds in the Receiver’s trust accounts following the payment of the remaining fees associated with the administration of the receivership (including the professional fees and expenses of the Receiver and its counsel) will be distributed to BMO in accordance with the proposed Discharge Order.

PROFESSIONAL FEES

37. The Receiver, and its legal counsel, Goodmans, have maintained detailed records of their professional time and costs since the issuance of the Appointment Order. Pursuant to paragraphs 19 and 20 of the Appointment Order, the Receiver and its legal counsel were directed to pass their accounts from time to time before this Honourable Court and were granted a Receiver’s Charge over the Property.
38. The fees of the Receiver during the period July 24, 2018 to April 21, 2021 amount to Cdn \$258,950.00, and together with other expenses and disbursements of Cdn \$661.00, and HST in the amount of Cdn \$33,749.43, total Cdn \$293,360.43. The time spent by the Receiver is more particularly described in the Affidavit of Stefano Damiani of Deloitte, sworn April 28, 2021 (the “**Damiani Affidavit**”) in support hereof and is attached hereto as **Appendix “H”**.
39. The legal fees incurred by Goodmans during the period July 24, 2018 to April 21, 2021 amount to Cdn \$64,294.00, and together with disbursements of Cdn \$280.37 and HST of Cdn \$8,394.69, total Cdn \$72,969.06. The time spent by Goodmans personnel is more particularly described in the Affidavit of Bradley Wiffen of Goodmans, sworn April 28, 2021 (the “**Wiffen Affidavit**”) in support hereof and attached hereto as **Appendix “I”**.
40. As set out in the Damiani Affidavit and the Wiffen Affidavit (collectively, the “**Fee Affidavits**”), the Receiver estimates fees of the Receiver and its counsel to the conclusion of the administration to be in the amounts of Cdn \$20,000 and Cdn \$25,000 plus disbursements and HST (together, the

“**Estimated Fees**”), respectively. The Estimated Fees (inclusive of HST) for the fees of the Receiver and its counsel are in addition to the fees outlined in paragraphs 38 and 39.

41. The Receiver is of the view that the fees and disbursements set out in the Fee Affidavits, including the Estimated Fees (collectively, the “**Professional Fees**”) are reasonable in the circumstances of this case. Accordingly, the form of Discharge Order sought by the Receiver approves the Professional Fees.

BOOKS AND RECORDS

42. Substantially all of the books and records of the Debtor were located at the Leased Premises and formed part of the assets that were purchased by the Purchaser.
43. The Receiver maintained its own records relating to the administration of the receivership proceeding and will retain such records in accordance with statutory requirements.

REMAINING ACTIVITIES AND DISCHARGE OF THE RECEIVER

44. The tasks to be undertaken by the Receiver prior to the conclusion of these proceedings as are as follows:
 - (a) Complete remaining HST tax reporting and correspondence with CRA, and closing of the receivership period tax accounts following the audits by CRA to be coordinated with the Receiver;
 - (b) Settlement of estate liabilities such as professional fees;
 - (c) Distribution of remaining estate proceeds to BMO, on behalf of the Secured Lenders, in accordance with the proposed Discharge Order;
 - (d) Preparation and filing the Receiver’s statutory interim and final reports to the Superintendent of Bankruptcy pursuant to subsections 246(2) and 246(3) of the BIA;
 - (e) Stakeholder communications, as required; and
 - (f) Final reconciliation of the Receiver’s bank accounts once all distributions and expenses have cleared and subsequent closure of the receivership trust accounts.
45. Other than the remaining matters to be completed as addressed in this Report, the Receiver has completed its administration of the estate in accordance with the terms of the Appointment Order and the Approval and Vesting Order. Accordingly, the Receiver recommends that it be discharged

upon the issuance of the Receiver's Discharge Certificate in the form appended to the form of Discharge Order being sought by the Receiver.

RECEIVER'S RECOMMENDATIONS

46. For the reasons set out above, the Receiver recommends that the Court grant the Discharge Order in the form sought by the Receiver.

All of which is respectfully submitted at Toronto, Ontario this 30th day of April, 2021.

DELOITTE RESTRUCTURING INC.,
solely in its capacity as Court-appointed receiver
of 1100225 B.C. Unlimited Liability Company
(formerly Ingenious Packaging Group ULC),
and without personal or corporate liability

Per:



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



Stefano Damiani, CPA, CA, CIRP, LIT
Senior Vice-President

BANK OF MONTREAL

-and-

1100225 B.C. UNLIMITED LIABILITY COMPANY
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PROCEEDING COMMENCED AT
TORONTO

**FIRST REPORT OF THE RECEIVER, DELOITTE
RESTRUCTURING INC.**

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