

Court File No.: 09-CL-7952

**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 PLAN OF COMPROMISE OR ARRANGEMENT OF
SERTAPAK INC.*

**REPORT OF BDO DUNWOODY LIMITED
IN ITS CAPACITY AS PROPOSED MONITOR
DATE: JANUARY 16, 2009**

INTRODUCTION

1. Sertapak Inc. ("**Sertapak**" or the "**Company**") has brought an application before this Honourable Court seeking various relief under the Companies' Creditors Arrangement Act ("**CCAA**").
2. This report is prepared by BDO Dunwoody Limited ("**BDO**"), in its capacity as proposed Monitor, to assist the Court in considering the Applicant's request for relief.
3. Capitalized terms not otherwise defined in this Report are as defined in the affidavit of C. J. David Nettleton sworn in support of Sertapak's application (the "**Nettleton Affidavit**").

TERMS OF REFERENCE

4. In preparing this Report, BDO has relied upon unaudited financial information, the Company's books and records, the financial information

prepared by the Company and its advisors, and discussions with management of Sertapak.

5. BDO has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information. BDO expresses no opinion or other form of assurance on the information contained in this Report.

ENGAGEMENT OF BDO

6. BDO was initially retained by Sertapak in November 2008, to assist the Company in finding new financing or a strategic partner/purchaser.
7. The Company was motivated to engage BDO by its deteriorating financial position in light of working capital and cash flow challenges arising from a substantial investment in a new steel fabrication facility; the write-off of certain assets in 2006; working capital requirements to finance the production of orders; the breach of certain loan covenants with its bank, the Bank of Montreal (“BMO”); a worsening economy, generally; and a significantly worsening automotive sector, specifically.

BACKGROUND

8. Sertapak is a privately held corporation incorporated under the laws of the Province of Ontario. The Company is a major supplier of custom packaging solutions for a variety of industries.
9. It operates a 140,000 sq ft production facility from leased premises at 1039 Dundas Street, Woodstock, Ontario, that employs 106 full-time and 58 temporary employees.
10. It also operates a much smaller sales and design office in Portland (Nashville), Tennessee, which as of January 30, 2009 is anticipated to employ four individuals.

11. The Company's operations are more fully described in the Nettleton Affidavit.

FINANCIAL DIFFICULTIES

12. Since a significant portion of Sertapak's business is the production of reusable packaging (known as dunnage) for parts for new automobile models, the Company has been particularly impacted by the slowdown in the automotive industry. The reduction in the rate of launches of new vehicle models, which would necessitate the design and production of new dunnage, has negatively affected the business.

13. In the year ending April 30 2006, the Company lost \$2.5 million. This loss was due to reduced sales volume as well as approximately \$1.8 million in non-recurring expenses including costs to shut down a facility located in Windsor, Ontario, and start-up costs related to the Portland, Tennessee facility.

14. The loss eliminated the Company's entire shareholder equity and put it off-side on some of its borrowing covenants.

15. In fiscal 2007 and 2008, sales volumes were returned to previous levels. However, the company suffered a small loss in 2007 and had Net Income of \$283,000 in 2008. Operating results were negatively affected by the investment in a new steel fabrication facility, costs to achieve operating efficiencies and the Company's constrained working capital position.

16. Much of these losses have been funded by cash contributions from the owners of Sertapak. The current balance due to related parties is approximately \$4.1 million. BDO has been advised by management that these advances are secured by a general security agreement, but that this

security interest is subordinate to the security held by Sertapak's three major lenders, as detailed below.

17. Sertapak's major lender is BMO, which has outstanding operating loans of approximately \$3.7 million.
18. Business Development Bank of Canada ("BDC") is owed \$1.4 million, having financed certain machinery and equipment purchases.
19. Century Services Inc. ("Century"), a factoring company, is owed approximately \$1.8 million for accounts receivable financing.
20. These secured obligations are more fully described in the Nettleton Affidavit.
21. In addition to the obligations to secured creditors, trade creditors are owed some \$6.7 million.

CASH FLOW

22. Management has prepared and provided a detailed four month cash flow projection that shows that the Company will only be able to satisfy obligations that are critical for the Company to complete known contracts during the restructuring period. These costs include payments to critical suppliers, cost of administration, ongoing operating costs, debt service costs for secured creditors and other essential cost as show in the Company's cash flow projection.
23. Given the current prevailing economic conditions, the Company's order volume has been reduced and productivity has been negatively affected.
24. As a result of decreasing cash flow, Sertapak has defaulted on a number of covenants in its lending arrangements with BMO.

CCAA RESTRUCTURING

25. To date, BDO has been consulted and has assisted in the preparation of the specific plans of downsizing and refocusing of the operations of Sertapak, and in the preparation of cash flows and sales forecasts recognizing these extraordinary circumstances.
26. BDO has also communicated with BMO in regards to Sertapak's restructuring efforts.
27. BDO will attend meetings with Century and BDC aimed at obtaining their agreement for continued support and financing throughout the restructuring process.
28. BDO will also attend meetings with the Company's major customers, aimed at obtaining their continued support as the Company downsizes its operations and seeks to formulate a Plan of Compromise or Arrangement.

CONCLUSION

29. Over the last number of weeks, BDO has been increasingly consulted by management of Sertapak as it recognized the worsening financial crisis in the automotive sector, strove to understand the extent of these difficulties and their impact on Sertapak, and began to consider the various alternatives available to Sertapak to begin to effect a turnaround, utilizing the protection afforded by the CCAA.
30. BDO is advised that Sertapak wishes to nominate BDO as Monitor, and BDO has consented to so act, should this Court appoint BDO.

All of which is respectfully submitted.

BDO DUNWOODY LIMITED

Per:

A handwritten signature in black ink, appearing to read 'cmk' followed by a stylized flourish.

Clark McKeown, CA • CIRP, CFE, CMC
Senior Vice-President