

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 SERTAPAK INC.

THE MONITOR'S SECOND REPORT

(April 8, 2009)

INTRODUCTION

1. On January 20, 2009, Sertapak Inc. ("**Sertapak**" or the "**Company**") filed for and obtained protection from its creditors by Order of the Honourable Mr. Justice Colin Campbell (the "**Initial Order**") made pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). A copy of the Initial Order is attached as **Exhibit "A"**.
2. On February 18, 2009, an extension was granted by Mr. Justice Wilton-Siegel (the "**First Extension Order**"). A copy of the First Extension Order is attached as **Exhibit "B"**.
3. Pursuant to paragraph 18 of the Initial Order, BDO Dunwoody Limited was appointed monitor (the "**Monitor**").
4. The role and responsibilities of the Monitor are set out in the CCAA and further articulated in paragraph 19 of the Initial Order, which provides that the Monitor is directed and empowered to:

- (a) monitor Sertapak's receipts and disbursements;
 - (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
 - (c) have full and complete access to the books, records and management, employees and advisors of the Applicant and to the Business and the Property to the extent required to perform its duties arising under this Order;
 - (d) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order; and
 - (e) perform such other duties as are required by this Order or by this Court from time to time.
5. The purpose of this, the Monitor's Second Report (the "**Second Report**"), is to advise and update this Honourable Court as to:
- (a) the activities of the Monitor since the Monitor's First Report (which was filed in support of the First Extension Order);
 - (b) the activities of Sertapak since the Monitor's First Report;
 - (c) Sertapak's actual cash-flow for the period ending April 3, 2009;
 - (d) Sertapak's cash flow projections to June 26, 2009; and
 - (e) Sertapak's and the Monitor's planned activities should this Court grant the extension of the Stay Period that is being sought by Sertapak.

6. The information contained in this report has been obtained from the accounting records of Sertapak and is based on discussions with, and representations made by Sertapak's management, including in particular Messrs. David Nettleton, Peter Corbiere and Bruce Orr. The Monitor has not verified the accuracy of this information and expresses no opinion upon it. Further, given that the information is based on management's assumptions regarding future events, actual results may vary from forecast and such variations may be material.
7. The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, re-production or use of this report. Any use which any party, other than the Court, makes of this report, or any reliance on or decision made based on it, is the responsibility of such party.
8. Capitalized terms not defined herein are as defined in the Initial Order or the affidavit of Nettleton.
9. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

10. 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.
11. Sertapak operates a 140,000 sq ft production facility from leased premises at 1039 Dundas Street, in Woodstock, Ontario. At the time of the initial filing, 106 individuals were employed at this facility on a full-time basis, while 58 were employed on a temporary basis.
12. The Company also operates a much smaller sales and design office in Portland (Nashville), Tennessee, which currently employs three individuals. This office is

in the process of being shut down. The Company anticipates completing this process by the end of April, after which the remaining employees will work from their home offices.

13. The Company's operations and the cause of its current financial difficulties are described in the affidavit of Sertapak's President, Chief Executive Officer and director, David Nettleton, sworn January 15, 2009, in support of the Initial Order.

THE MONITOR'S ACTIVITIES SINCE THE MONITOR'S FIRST REPORT

14. The Monitor has posted the Initial Order, the First Extension Order and other documents filed with the Court to date in the within proceedings on a website maintained by the Monitor with the following URL: www.bdo.ca/sertapak .
15. The Monitor has been and continues to work closely with the Company's management, in particular Messrs. Nettleton, Corbiere and Orr. Sertapak's management is directing execution of the Company's restructuring plan with the support and guidance of the Monitor.
16. The Monitor has and continues to advise and assist Sertapak on a number of matters since the issuance of the Initial Order, including:
 - (i) the implementation of appropriate procedures for the daily monitoring of receipts and disbursements, along with the weekly review of Sertapak's cash flow and reporting to the Bank of Montreal ("BMO"); and
 - (ii) assisting Sertapak with its weekly cash-flow reporting obligations; its reporting obligations to the BMO; its dealings with Century Services Inc. ("Century"), a factoring company; communications with the Business Development Bank of Canada ("BDC"), a term lender; and various other creditor-related issues and reporting matters.

SERTAPAK'S OPERATIONS AND ACTIVITIES SINCE THE MONITOR'S FIRST REPORT

17. Sertapak has provided the Monitor with full co-operation and unrestricted access to the Company's premises, books and records.
18. Since the commencement of the within proceedings, and with the assistance of the Monitor, Sertapak has stabilized its operations.
19. The Company has, from the date of the Initial Order to March 27, 2009, operated in compliance with a forbearance agreement entered into prior to the commencement of the within proceedings with its major lender, BMO. Since then, the Company has been unable to meet all of the terms of the Forbearance Agreement. The Company, with the participation of the Monitor, has prepared a revised projected cash flow for the period to 26 June 2009 (the "**Second Updated Projected Cash Flow**"), advised BMO that it is unable to meet the terms of the Forbearance Agreement and initiated negotiations for an extension and amendment of the Forbearance Agreement.

Supplier Issues

20. Sertapak, with the assistance of the Monitor, continues to promptly address supplier concerns to ensure an orderly and cohesive communication strategy with suppliers.
21. Sertapak has been required to pay most suppliers on a COD or weekly basis to ensure continued supply.
22. Since the issuance of the Initial Order, the Company has, with the concurrence of the Monitor, made payment of pre-filing liabilities, to various suppliers, in the amounts of Cdn\$7,700 and US\$8,636. Further payments of Cdn\$15,484 may be required.

Customer Issues

23. Sertapak is in continuous communication with its key customers, including Toyota, its largest single customer.
24. To date, no customer has cancelled an existing order. However, due to the economic environment, some customers have postponed their programmes.

Employee Issues

25. Sertapak has reviewed its staffing levels at its principal location in Woodstock, Ontario. At the date of this report, 67 individuals were employed at this facility on a full-time basis.
26. The Company has also scaled back operations at its subsidiary facility located in Portland (Nashville), Tennessee. Production has been moved to the Woodstock location and the subsidiary is focused on sales. The three remaining employees will be working from their home offices.

ACTUAL CASH FLOWS FOR THE PERIOD ENDING APRIL 3, 2009

27. The Monitor has reviewed Sertapak's actual unaudited cash flow for the twelve week period from January 12, 2009 through April 3, 2009 and has compared it to management's forecast cash flow for the same period. Actual net cash flow for this period was \$2,358,121, which represents a 16% negative variance compared to the forecast of \$2,819,682. \$380,000 of this \$462,000 negative variance occurred in the week ending April 3, 2009 as a result of lower than projected cash inflows. The comparison of the actual cash flows to the forecast is attached hereto as **Exhibit "C"**.
28. Receipts for the period were \$11,287,509. The shortfall from the projected receipts of \$14,075,500 is largely the result of the delay in various customer programmes, as described above, resulting in lower than projected sales.

29. To date, Sertapak's disbursements of \$8,929,388 are less than projected by some \$2,326,430. This positive variance is the result of lower than projected contingency and unforeseen expenses, lower materials purchases as a result of lower than projected production volumes and timing differences.
30. The negative variance in net cash flow means that the loan balance to BMO stands at \$1.3 million instead of the anticipated \$940,000.

CASH FLOW PROJECTIONS TO JUNE 26, 2009

31. Sertapak has updated and revised the initial projected cash flow for the twelve week period ending June 26, 2009 as the Second Updated Projected Cash Flow. A copy of the Second Updated Cash Flow is attached hereto as **Exhibit "D"**. The projection has also been extended eight weeks from the week ending May 1, 2009 to June 26, 2009. This period has been chosen as it is anticipated that the proposed transaction will be complete by that date. This document has been reviewed by the Monitor and submitted to BMO.
32. The Second Updated Projected Cash Flow reflects the Company's projected cash flow based on a detailed review of short-term sales projections and further cost cutting measures by the Company.
33. Management projects that the Company will remain cash flow positive for the projection period with net positive cash flow of some \$1.1 million. However, the Second Updated Projected Cash Flow is materially different from the projected cash flow filed with the application for the Initial Order and the Updated Projected Cash Flow filed with the Monitor's First Report.
34. Due largely to delays in certain orders from customers, partially offset by further cost cutting measures, the Company projects a positive cash flow of some \$1,090,490 for the twelve weeks ending June 26, 2009. This is significantly less

than the previously projected positive cash flow of some \$1,000,000 for the four weeks ended May 1, 2009.

35. BMO is currently the beneficiary of any positive net cash flow. Currently all available funds would be applied to paying down BMO and other secured creditors.

MARKETING AND SALES PROCESS

36. As contemplated in the affidavit of David Nettleton, sworn January 15, 2009, in support of the Initial Order (see e.g., para. 34), Sertapak is attempting to close a transaction with a strategic or financial investor.
37. This process is well underway. The previously reported timeline for a sales transaction is outlined in the table below:

PHASE	TIMING	ACTION
I	Completed	<ul style="list-style-type: none"> • Develop sales objectives, timeline, sales process and marketing strategy • BDO conduct site visits, review projections and other valuation data and compile preliminary potential purchaser's list. • Prepare a confidential information memorandum ("CIM").
II	Completed	<ul style="list-style-type: none"> • Finalize potential purchaser's list and sales strategy • Begin preparation of data room
III	Completed	<ul style="list-style-type: none"> • Advertisements will be placed in national newspapers and publications as the Monitor and Sertapak deem appropriate • Potential purchasers will be contacted and interested parties will be asked to execute a confidentiality agreement ("CA"). Parties that execute a CA will be provided with the CIM • A timeline will be given for interested purchasers to submit non-binding indications of interest (Friday March 6, 2009) and these interested parties will constitute the second round of potential purchasers
IV	March 6, 2009 to May 30, 2009	<ul style="list-style-type: none"> • Interested purchasers will be given access to the due diligence data room and site visits will be arranged • A draft purchase and sale agreement will be circulated and binding offers will be required to be submitted substantially in the form of the draft purchase and sale agreement • Negotiations with the top bidders/preferred parties will be entered into and a purchaser will be selected • A definitive purchase and sale agreement will be negotiated, executed and court approval of the sale will be sought

38. The Monitor has been actively assisting the Company in regards to this sale process, in particular in attempting to identify a possible purchaser of and/or

investor in the Company's business, obtaining Letters of Intent and preparing the Company for the due diligence process.

39. The process is now in Stage IV. The Company has received expressions of interest from several interested parties. The interested parties being considered for the next round have been invited to attend at the Sertapak premises for a Management Presentation, in which both Sertapak and the interested party each make a presentation to the other about themselves, and a site visit, prior to commencing due diligence.
40. Parties have been asked to submit binding offers by April 24, 2009. At that time, Management and the Monitor will evaluate the offers in order to determine which party, if any, will be chosen for negotiation of a definitive purchase and sale agreement, subject to the approval of this honourable court.

MONITOR'S RECOMMENDATION

41. Since the date of the Initial Order, Sertapak and its advisors have worked diligently in stabilizing Sertapak's operations and advancing the restructuring for the benefit of stakeholders. It is the Monitor's view that Sertapak has acted and continues to act in good faith and with due diligence.
42. In addition, based on the information currently available, including the cash flow results and projections discussed above, the Monitor believes that creditors would not be materially prejudiced by an extension of the Stay Period.
43. Therefore, the Monitor recommends that this Honourable Court:
 - (a) approve Sertapak's request for an extension of the Stay Period until May 29, 2009;
 - (b) approve the activities of the Monitor to date, as disclosed in this Second Report; and

- (c) grant an order substantially in the form of the draft order contained in the Motion Record filed by the Company in support of the motion returnable April 15, 2009.

All of which is respectfully submitted, this 9th day of April, 2009.

**BDO DUNWOODY LIMITED,
In its capacity as Monitor in the Matter of a Plan
of Compromise or Arrangement of Sertapak Inc.**

Per:



Christopher J. Porter, MBA, CA•CIRP
Vice-President