

16 MAY 2008
Court File No. 08-CL-7415

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
COTTON GINNY INC., CG OPERATIONS (H/O) LIMITED,
CG OPERATIONS I LIMITED, CG OPERATIONS II LIMITED

Mr. P. Shea for Cotton Ginny Inc. May 19/08
Mr. M. D. Appromont for Toronto
Mr. S. Bibe for Committee of A.C.
Ms. L. Galesien for 20 vic - Margaret
Inventories, Orford
Mr. J. Woodley for Catherine Farnish
Ms. D. Carney for Effyri Inc
Mr. D. Newdack for



ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

(PROCEEDING COMMENCED AT TORONTO)

MOTION RECORD
Returnable May 16, 2008

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Solicitors for Cotton Ginny Inc

CGI Cotton Ginning Inc. ("CGI"), CG Operations
(14/0) Limited, CG Operations I and CG Operations II
(the "Applicant") ^{brings} ~~brings~~ this motion for an Order
accepting the Plan for filing and providing directions
for the Meeting of Creditors.

The motion was served on the afternoon of May 14/08

The motion record contains a copy of the Plan.
An amended version was unveiled during this
hearing.

Counsel to the Applicant submits that CGI
is operating on a tight cash flow and that
it is important for the process to move
~~forward~~ ^{forward} ~~on so~~ in order to
bring some stability to CGI. He points
out that CGI has discussed the content
of the Plan with a number of creditors,
and a number of creditors have already
indicated their support for the Plan.

The proposed schedule calls for the
Report of the Monitor to be circulated
on May 23, with the meeting of

auditors to be held May 30 and the ³² ~~the~~ ¹¹
sanction hearing, if required, to be held
on June 3/08.

The Applicant ~~proposes~~ ^{proposes} a cons.R. stated plan
for CGI and CG & Operations (10/0) limited.
It ~~also~~ ^{also} ~~embryotes~~ ^{embryotes} that these two
entities will be amalgamated.

No Plan is proposed for CG Operations I
and CG Operations II.

The motion has the support of the
Monitor and Black Dixon, a secured creditor and DIP Lender

The two landlords ~~by~~ ^{by} appearing today
initially indicated they had a degree of
opposition to the motion, but ~~these~~ ^{their} concerns
abated, to a degree, when counsel to CGI
indicated that an amended plan ~~had~~
responded to their concerns. The landlords
took comfort from that submission but
reserved final comment, pending the opportunity

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to review the amended plan.

The motion was opposed by Effigi Inc.

Effigi was not opposed to the request to extend the Stay Termination Date but it did oppose the Plan being filed.

Effigi wanted to strike out the Plan, citing that the Applicant had not adhered to previous orders. In

particular, there ~~were~~ ^{were} outstanding issues that had previously been raised in respect of ⁽ⁱ⁾ the status of C & O operations

(H10) Limited; (ii) related party transactions; and (iii) financial transactions. In

addition, counsel to Effigi raised a concern about the legality of a Plan that proposed the amalgamation of two

insolvent entities which he ~~submitted~~ submitted was directly contrary to ~~the~~ s.178(2) of the

BCA.

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It was also noted that the issue relating to the priority dispute involving \$2.1 million paid into court in the Brangton garnishment proceedings remained unresolved. This proceeding directly involves Effigy and CG Operations H10.

There was ~~also~~ ^{also} the issue raised in the motion ~~to~~ brought by the Province of British Columbia concerning the registration of CG Operations (H10) as the operating entity in British Columbia. This motion is yet to be heard.

Having heard the submission of all parties, I acknowledge that the current financial status of the Applicant is such that these proceedings do have a degree of urgency.

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The question that remains is whether urgency should be used as the reason to bypass certain checkpoints in the process.

The Monitor has commented in its Reports on the relationship between CGI and CG Operations (H10 Limited) and has recommended that CGI proceed with the consolidated plan and the contemplated amalgamation. However, there has been no adjudication on the issue of whether proceeding in this manner is fair and reasonable to the stakeholders. Nor has there been a determination of the government proceedings. These issues, which affect CG Operations (H10) were identified as being significant during the early days of the process. It is indeed unfortunate that the issues have not been addressed. It will be necessary to do so at some

point, so ~~there~~ ^{will} the issue involving the Province of British Columbia.

The parties holding opposing ~~views~~ ^{views} have to be afforded the opportunity to put forth their legitimate positions in a legitimate forum.

Ideally, some or all of these concerns should be addressed prior to the meeting of creditors. In view of the timing pressures facing the Applicant and ~~and~~ indeed all stakeholders affected by the Applicant's future, it may not be possible ~~to~~ ^{to address all points} _{meeting of creditors or} prior to the 11 sanction hearing.

However, it is important to note that the issues will have to be addressed at some point in the process.

In my view, the Applicant has, with the support of the Monitor, set out ~~the~~ ^a basis for proceeding with a consolidated plan with one class of affected creditors.

The basis for proceeding in this manner comes ^{primarily} from the 4th and 5th Reports.

The Plan is accepted for filing. However, it should be clearly noted that the acceptance of the Plan for filing is not to be taken as being any comment or finding on the issues raised by either the Office or the Province of British Columbia. The full consideration of these issues is deferred until a later date, which may be prior to or ~~as part of~~ as part of the sanction hearing. The Applicant and the Monitor filed materials

for this motion on the eve of the hearing.

I am not satisfied that responding parties have had adequate time to properly respond. These parties include the landlord groups, Effigy and the Province of British Columbia and perhaps others who did not appear at the hearing.

The acceptance of the Plan for filing is ordered, but without prejudice to the rights of affected parties to challenge issues relating to whether it is appropriate.

- (i) to proceed with a consolidated Plan calling for the amalgamation of CGI and CG Operations (H10) limited or whether whether there should be separate plans, or at the very least, a separate

- class for creditors of CGI Operations (H10) ~~Co~~ Limited;
- (ii) to proceed to a vote at a meeting of creditors prior to a determination of the Brampton garnishment proceedings;
- (iii) to proceed with a Plan that calls for the proposed treatment of the Province of British Columbia.

This Plan is being accepted for filing, at this time, primarily because of the fiscal ^{crisis} ~~issues~~ facing the Applicant. In this regard, this case should be considered as the exception — not the rule. The Applicant is authorized to hold a meeting of Affected Creditors on May 30/08.


The Applicant is directed, regardless of whether the issues noted in this endorsement have been resolved, to separately tabulate the votes of the creditors of CGZ and the creditors of CG Operations (H/O) Limited at the upcoming creditors meeting.

I am satisfied that, having reviewed the record, the Applicant continues to act in good faith and with due diligence and ^{that} an extension of the Stay Termination Date is warranted to June 6/08.

An order shall issue, in the form submitted ~~in the form~~ today, which includes the amended plan, which amended plan was referenced

to on Friday May 16/08.

[subject to edit if
typed.]


D. MORAWETZ