
**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

BETWEEN:

BANK OF MONTREAL
Applicant

- AND -

CPI PLASTICS GROUP LIMITED, CPI PLASTICS GROUP (CANADA) LTD.,
CPI PLASTICS GROUP, INC., CRILA INVESTMENTS INC.
and CRILA PLASTICS INDUSTRIES, INC.

Respondents

**THIRD REPORT OF DELOITTE & TOUCHE INC.
IN ITS CAPACITY AS INTERIM RECEIVER AND RECEIVER AND MANAGER OF
CPI PLASTICS GROUP LIMITED, CPI PLASTICS GROUP (CANADA) LTD.,
CPI PLASTICS GROUP, INC., CRILA INVESTMENTS INC.
and CRILA PLASTICS INDUSTRIES, INC.**

March 17, 2009

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- EXHIBIT C Order Granting Recognition as a Foreign Main Proceeding and Related Relief dated February 10, 2009**
- EXHIBIT D First Report of the Receiver dated January 21, 2009**
- EXHIBIT E Second Report of the Receiver dated January 28, 2009**
- EXHIBIT F Newspaper and Industry Magazine Advertisement Publications**
- APPENDIX 1 Redacted Copy of Agreement of Purchase and Sale (Canadian Agreement)**

Introduction

1. This report is the Receiver's third report (the "Third Report") to the Ontario Superior Court of Justice (Commercial List) (the "Court").
2. On January 8, 2009, Bank of Montreal ("BMO") made a motion for an Order pursuant to section 47(1) of the *Bankruptcy and Insolvency Act* (the "BIA") and section 101 of the *Courts of Justice Act* appointing an interim receiver and receiver and manager of all the assets, undertakings and properties of CPI Plastics Group Limited ("CPI"), CPI Plastics Group (Canada) Ltd. ("CPI Canada"), CPI Plastics Group, Inc. ("CPI US"), Crila Investments Inc. ("Crila Canada"), Crila Plastics Industries, Inc. ("Crila US"), (each a "Company" and collectively, the "CPI Group"). By Order of the Honourable Mr. Justice Campbell (the "Receivership Order"), Deloitte & Touche Inc. was appointed as interim receiver and receiver and manager (jointly, the "Receiver") without security, of all of the assets, undertakings and properties of the CPI Group. Attached hereto as Exhibit A is a copy of the Receivership Order.
3. On January 27, 2009, the Receiver sought and obtained an Order (the "Sales Process Order") authorizing the Receiver, among other things, to conduct a sales process in respect of the CPI Group's business or any material portions thereof, substantially in accordance with the sales process as set out in the Receiver's First Report. A copy of the Sales Process Order is attached as Exhibit B.

Purpose of Report

4. The purpose of this Third Report is to:
 - a. report on the activities of the Receiver since the date of the Receiver's Second Report to Court dated January 28, 2009 (the "Second Report");
 - b. report on the results of the sales process conducted by the Receiver with respect to certain of the property of the CPI Group; and
 - c. seek an Order of the Court:
 - i. approving a transaction for the sale of substantially all of the Canadian assets (the "Canadian Assets"), on an going concern basis, pursuant to an agreement of purchase and sale dated as of March 17, 2009 (the "Canadian Agreement") among the Receiver and Gracious Living Innovations Inc. ("Gracious Living") for any and all Lots included within Parcels A, B and C, Lots 1, 2, 3, 5, 6, 12, 16 and the Canadian pre-receivership accounts receivable included in Lot 8 within Parcel G, and Lot 1 included within Parcel D of the Information Package;

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- ii. vesting the right, title and interest of the CPI Group in the Canadian Assets;
 - iii. sealing the unredacted copy of the Canadian Agreement until further order of this Court; and
 - iv. approving the activities of the Receiver, all as described in this Third Report;

Receiver's Activities

In addition to those activities since the date of the Receiver's First Report and Second Report, the Receiver has undertaken the following activities:

- Attendance in US Bankruptcy Court in Milwaukee, Wisconsin to seek approval of the Order Granting Recognition as a Foreign Main Proceeding and Related Relief dated February 10, 2009 ("US Recognition Order"). A copy of the US Order is attached as Exhibit C;
- Effecting payment of all wage arrears and unpaid vacation pay accruals to former employees as at the date of receivership,;
- Discussions and correspondence with the Ministry of Labour (Ontario) with respect to worker safety compliance and the *Employment Standards Act*;
- Discussions and correspondence with the Office of the Superintendent of Bankruptcy with respect to the *Wage Earners Protection Program Act*;
- Completing the review of all 30-day goods claims;
- Arranging and attending at Canada Revenue Agency audits for GST and payroll;
- Arranging for new insurance coverage for all the CPI Group's assets and seven (7) premises in Canada and the US;
- Notification and collection of pre-filing and post-filing accounts receivable including correspondence with the CPI Group's accounts receivable insurance broker and underwriter;
- Negotiation of finished goods inventory sales on an "as is, where is" basis;
- Preparation of the Receiver's Second Report to Court;
- Negotiations for continued occupation with all of the CPI Group's landlords in Canada and the US;
- Review and approval of receipts and disbursements on a daily basis;
- Preparation, review and regular updating of operational cash flow projections;
- Negotiation with suppliers and customers with respect to accommodation agreements while continuing operations during the receivership period;
- Review of income tax compliance in Canada and US including preparation of legal entity

financial statements;

- Attending daily (Monday to Friday) at the premises of CPI Group's head office to manage day-to-day operations;
- Consolidation of all of the CPI Group's operations into substantially three operating facilities – two in Canada and one in the US in an effort to reduce cost structure, improve cash flow and improve realizations to the estate during the receivership proceedings;
- Winding down the CPI Group's operations in Elkhart, Indiana and selling remaining nominal inventory and fixed assets at the Elkhart, Indiana location;
- Establishing and maintaining the Receiver's website to inform creditors and all other stakeholders of the receivership proceedings, Court Orders, Receiver's reports and other relevant information;
- Maintaining the books and records related to the receivership administration, and
- Preparation of the Receiver's Third Report.

Receiver's Sale Process

5. In accordance with the Receivership Order and the Sales Process Order, the Receiver conducted a sales process as follows:
 - i. Preparation and concurrent circulation of information memoranda for the Canadian and US assets;
 - ii. Solicitation of potential purchasers including identification of strategic and financial parties through the Receiver's professional network and additional solicitation through announcement of sale in the Globe & Mail, Wall Street Journal and Plastics Magazine. Copies of the newspaper and industry magazine advertisements are attached hereto as Exhibit F;
 - iii. Preparation of confidentiality agreements to be executed by potential purchasers prior to obtaining access to an electronic data room;
 - iv. Establishment and maintenance of an electronic data room in order for potential purchasers to conduct due diligence;
 - v. Preparation of an information package (the "Information Package") included in the electronic data room outlining the sales process and description of all the CPI Group's assets for sale on an "as is, where is" basis;
 - vi. The assets included in the Information Package consisted of equipment, inventory, accounts receivable, intangibles, office furniture and computer equipment for both of the CPI Group's Canadian and US operations. These assets were allocated to seven (7) lots with over forty (40) parcels to maximize the realizable value of the tendered assets in the event an acceptable *en bloc* offer was not received. Prospective purchasers were given the option of making offers on

- one or more lots of assets or assets within a lot;
- vii. The deadline for submission of offers was 5:00pm Eastern Standard Time (Toronto time), Tuesday, February 24, 2009 (the "Offer Date");
 - viii. The Receiver reserved the right to negotiate with any prospective purchaser at any time and to sell any or all assets at any time prior to the Offer Date;
 - ix. The acceptance of any offer was subject to Court approval; and
 - x. Each offer was to be accompanied by a deposit in the form of a bank draft or certified cheque payable to the Receiver in the amount of 10% of the gross purchase price offered.
6. The information memorandum was sent to one hundred and forty-four (144) prospective purchasers who were identified through the Receiver's professional network and based on responses to the Receiver's sale announcement in the Globe & Mail, Wall Street Journal and Plastics Magazine;
 7. Confidentiality agreements were sent to eighty-nine (89) prospective purchasers, forty-eight (48) of whom signed back and were provided immediate access to the electronic data room for due diligence purposes;
 8. Site visits and management meetings were arranged for fifteen (15) prospective purchasers to view the Canadian assets being offered for sale;
 9. Site visits and management meetings were arranged for thirteen (13) prospective purchasers to view the US assets being offered for sale;
 10. By the Offer Date, offers were received from thirteen (13) bidders. There were three (3) offers for substantially most of the Canadian assets to affect a going-concern sale of the Canadian operations, including an offer from Gracious Living (the "Gracious Living Offer"). These three (3) offers are collectively referred to as the "going-concern" offers for the Canadian assets. The balance of the remaining offers were on selected parcels and/or selected assets for Canadian and US assets. Upon receipt of the offers on the Offer Date, the Receiver corresponded with various of the prospective purchasers to clarify certain aspects of their offers.
 11. The following is a breakdown of offers received by the following categories: Canadian operations, US operations, Liquidators and Other (companies interested in specific lots or parcels).

Breakdown of offers received	
Offers for Canadian operations	3
Offers for Film operations	4
Liquidation offers	4
Other offers	2
Total offers received	13

12. The three (3) going concern offers on the Canadian operations, as described above, were received from three (3) strategic parties. The four (4) offers for the US Assets, comprised substantially of the

Film Division operations as described in the table above, were received from three (4) strategic parties with interests in various substantial parcels of the US assets. The four (4) Liquidators required the use of the Canadian and US premises for an extended period of time to conduct an onsite auction. As well, the wording of each of the going concern offers required further negotiation by the Receiver to determine the ultimate recovery.

Approval of the Sale Transaction

Canadian Assets

13. Upon acceptance of the Gracious Living Offer, the Receiver entered into negotiations with Gracious Living to complete a definitive agreement. As a result, the parties entered into the Canadian Agreement which provides for the purchase and sale of substantially all the Canadian Assets (the "Recommended Canadian Transaction"). A redacted copy of the Canadian Agreement is attached hereto as Appendix 1. Certain key elements of the Agreement include:
 - (a) the payment of a cash purchase price on closing;
 - (b) accommodation for continued occupation at 691 Gana Court for a short period following closing;
 - (c) accommodation for continued occupation at 1666 Shawson Drive for a short period following closing; and
 - (d) working capital adjustment on closing based on pre-receivership accounts receivable and inventory movements.

14. The Canadian Agreement provides that the Recommended Canadian Transaction is subject to certain conditions, including the following:
 - (a) Gracious Living shall have received all required consents on terms acceptable to Gracious Living, acting reasonably; and
 - (b) Gracious Living shall have negotiated a new lease agreement in respect of the premises located at 151 Courtney Park Drive West, Mississauga, Ontario upon such terms and conditions as shall be satisfactory to Gracious Living.

15. The Receiver recommends that this Honourable Court approve the Recommended Canadian Transaction for the following reasons:
 - i. The Recommended Canadian Transaction provides for a greater recovery on the Canadian Assets than the other going concern offers and all possible combinations of offers on individual parcels;
 - ii. The Recommended Canadian Transaction eliminates the Receiver's need to incur costs

associated with a protracted onsite liquidation, and potential significant costs that could arise from the dismantling and removal of assets sold to bidders;

- iii. The Recommended Canadian Transaction provides for continued employment of the majority of the CPI Group's former employees;
- iv. The Recommended Canadian Transaction provides for a closing which is anticipated to take place immediately after the granting of the Approval and Vesting Order, if so granted by this Honourable Court, which will in turn reduce the Receiver's costs associated with securing and monitoring the assets of the CPI Group;
- v. The Recommended Canadian Transaction will result in reduced professional fees relating to the closing of the sale of assets as there is only one and not multiple purchasers with whom the Receiver is required to complete a sale; and
- vi. Bank of Montreal, the largest secured creditor of the CPI Group, is supportive of the Receiver's recommendation.

16. The Receiver believes that the financial terms and conditions of the Canadian Agreement constitute sensitive information which should be kept confidential until further of this Honourable Court. The Receiver respectfully requests that the unredacted copy of the Canadian Agreement be sealed from the general public by this Honourable Court and remain sealed until further Order this Court. The Receiver makes this request in order to avoid any prejudice that may be caused by publicly disclosing this information prior to the completion of the transaction.

US Assets

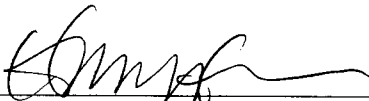
17. At the time of writing this Third Report, the Receiver is in negotiations with prospective purchasers to finalize an agreement of purchase and sale to sell the remaining US assets of the CPI Group. The Receiver anticipates that negotiations to finalize the sale of US assets will be completed in the near term and a separate recommendation to this Honourable Court will be made forthwith.

Conclusion

18. The Receiver respectfully requests that this Honourable Court grant the relief requested in paragraph 4 above.

Dated the 17th day of March, 2009.

RESPECTFULLY SUBMITTED,



Huey Lee, MBA, CMA, CIRP
Vice-President

Deloitte & Touche Inc.

In its capacity as Interim Receiver and Receiver and Manager of
CPI Plastics Group Limited, CPI Plastics Group (Canada) Ltd.
CPI Plastics Group, Inc., Crila Investments Inc. and Crila Plastics Industries, Inc.
and not in its personal capacity.