

To the Creditors of Vaughn Mills Packaging Ltd.

**A. INTRODUCTION**

1. On December 16, 2022 (the "**Filing Date**"), Vaughn Mills Packaging Ltd. ("**VMPL**" or the "**Company**") signed a Notice of Intention to Make a Proposal ("**NOI**") which NOI was filed with the Official Receiver. The Company's proposal under Part III, Division 1 of the *Bankruptcy and Insolvency Act* (Canada), R.S.C. 1985, C. B 3, as amended (the "**BIA**"), was filed with the Official Receiver on December 29, 2022 (the "**Proposal**").
2. RSM Canada Limited ("**RSM**" or the "**Trustee**") is the Trustee named in the Proposal.
3. Enclosed is a notice of the meeting of creditors which is to be held on January 18, 2023 at 11:00 a.m. at the offices of the Trustee, located at 11 King St. West, Suite 700, Toronto, Ontario (the "**Meeting of Creditors**"). Creditors wishing to participate in the meeting virtually can do so by following the instructions set out in the attached Notice of Proposal to Creditors (the "**Notice**").
4. The purpose of the Meeting of Creditors is to consider the Proposal.
5. In addition to the Notice, the following documents are enclosed:
  - The Proposal;
  - A condensed statement of the assets and liabilities of VMPL (the "**Condensed Statement**");
  - List of the Company's creditors;
  - Proof of Claim form;

- Voting Letter;
  - General Proxy; and
  - Convenience Creditor Election form.
6. This report (the "**Report**") has been prepared by RSM in its capacity as Proposal Trustee to assist creditors in considering their position with respect to the Proposal. The primary purpose of the Report is to:
- a) provide background information concerning the Company, its financial situation, the cause of the Company's financial difficulties and the changes proposed by the Company to improve the results of the Company's business;
  - b) outline the terms of the Proposal;
  - c) compare the amounts distributable under the Proposal to Unsecured Creditors if the Proposal is accepted by the Unsecured Creditors and approved by the Court, to the estimated distribution to Unsecured Creditors in the event the Proposal is not accepted by the Unsecured Creditors or is not approved by the Court, and VMPL is deemed to have made an assignment in bankruptcy; and
  - d) provide the Trustee's recommendation to creditors with respect to the Proposal.
7. In preparing the Report and making the comments herein, the Trustee has relied upon information provided by the Company and/or obtained from third-party sources (collectively, the "**Information**"). Certain of the information contained in the Report may refer to, or is based on, the Information. Any future oriented financial information in this Report is based on management's assumptions regarding future events; actual results may vary from this information and these variations may be material. As the Information has been provided by other parties, the Trustee has relied on the

Information and, to the extent possible, reviewed the Information for reasonableness. However, the Trustee 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 pursuant to the CPA Canada Handbook and, accordingly, the Trustee expresses no opinion or other form of assurance in respect of the Information.

8. Unless otherwise stated, all dollar amounts contained in the Report are expressed in Canadian dollars.
9. Capitalized terms used in the Report are as defined in the Proposal, unless otherwise defined herein.
10. The Report should only be read in conjunction with the Proposal. If there are inconsistencies between the Report and the terms of the Proposal, the terms of the Proposal shall govern.
11. Information related to these proposal proceedings are posted on the Trustee's website at the following URL:

<http://www.rsmcanada.com/vaughn-mills-packaging>

Additional information will be posted on the Trustee's website as that information becomes available.

## **B. BACKGROUND**

12. VMPL was incorporated in Ontario on December 31, 2018. The Company, whose head office and operations are located at 60 Courtland Ave., Concord, Ontario, provides food packaging services.

13. The Company's unaudited financial statements for the fiscal years ending December 31, 2021 and December 31, 2020 set out that the Company incurred net losses of approximately \$5.2 million and \$1 million, respectively, in those years. In 2022, the Company's cash position further deteriorated, and the Company's indebtedness to unsecured creditors was in excess of \$2.8 million. As the Company was unable to meet its obligations as they generally became due, on December 16, 2022, the Company filed the NOI.

**C. FINANCIAL POSITION, CAUSES OF FINANCIAL DIFFICULTY AND PROPOSED CHANGES TO BUSINESS STRATEGY**

14. The Trustee has been advised by the Company that several factors contributed to the financial difficulties of VMPL, including:
- a) sharp rise in commodity costs – Core commodity prices rose by 2.5x over a 3-month period in 2021 and stayed high due to poor oat crop yields, rising inflation and supply chain challenges. These problems were further exacerbated by the fact that VMPL's customers were not willing to accept price increases to match the rapid and sustained cost increases faced by the Company;
  - b) product pricing – Prior to a change of management in 2022, VMPL had traditionally priced its products at levels that could not cover the Company's production costs, resulting in negative margins for the Company; and
  - c) purchasing and inventory mismanagement – In the past, the Company would purchase or enter into large contracts for raw materials and custom

packaging without firm commitments from the Company's customers, thereby exposing the Company to significant risk. Certain customers changed purchasing habits and/or suppliers before the customized materials and packaging were sold to them by VMPL, resulting in losses to the Company. Additionally, the custom materials and packaging were stored in third-party warehouses, resulting in high monthly storage fees to the Company as a result of low product turnover.

15. The Company's new management, which has been in place since September, 2022, has developed and begun executing on a strategy that positions the Company as a value-added private brand partner that can help drive category and margin growth to its customers. The tenets of this strategy include focusing on unit economics, negotiating commodity cost increases into customer contracts, exiting relationships with unprofitable customers, increasing inventory turnover, and reducing inventory risk by purchasing smaller yet more frequent volumes of raw material & custom packaging. VMPL believes that this strategy will allow it to return to profitability.
16. The Company's shareholders are supportive of the Company's strategy, and have provided additional funding to support VMPL's turnaround.
17. Prior to the Filing Date, Canadian Imperial Bank of Commerce ("**CIBC**") provided the Company with a revolving operating line of credit to a maximum amount of \$4,500,000. Subject to certain conditions being met, the facility with CIBC will increase to \$5,000,000 effective April 1, 2023.

**D. IDENTIFICATION AND EVALUATION OF ASSETS**

18. Included in the enclosed package is the Company's Condensed Statement.
19. According to the Condensed Statement, the Company's liabilities exceeded the Company's estimate of the realizable value of VMPL's assets by over \$12,744,000; however, this amount is subject to change, possibly materially, depending upon the actual realizable value of the Company's assets and the quantum of claims filed by the Company's creditors.
20. Summarized below is information with respect to the Company's assets set out on the Condensed Statement:
  - a) the book value of the Company's inventory is \$1,840,422, of which, \$825,564 represents finished goods. The Company estimates that the net realizable value of its inventory is \$439,318;
  - b) The book value of the Company's accounts receivable is \$1,984,817. VMPL estimates that the collectible portion of the accounts receivable, if the Company is bankrupt, is \$971,329. The difference of \$1,013,488 is comprised of \$805,738 representing accounts considered uncollectible due to disputes regarding those accounts, and the \$207,750 representing the estimated cost to collect the accounts receivable as well as a provision for further uncollectable accounts;
  - c) the book value of the Company's machinery, equipment and plant is \$2,535,284, and is comprised primarily of plant/production equipment. The Company estimates, based on an appraisal it obtained, that the net realizable value of these assets is \$867,432;

- d) the book value of the Company's office and computer assets is \$8,369.  
VMPL estimates that these assets have a net realizable value of \$2,000;  
and
- e) the Company has other assets including signage, leaseholds, plates, dies  
and design with a net book value of \$119,002. The Company estimates that  
these assets have no realizable value.

#### **E. SUMMARY OF PROPOSAL**

- 21. Set out below is an overview of the terms of the Proposal. Creditors are strongly encouraged to read the Proposal in its entirety prior to voting on the Proposal as the Report is not a substitute for the Proposal. If there are inconsistencies between this Report and the terms of the Proposal, the terms of the Proposal shall govern. Creditors are also encouraged to discuss the terms of the Proposal with their legal counsel. Capitalized terms used in this Report, but not otherwise defined herein, shall have the meaning given to them in the Proposal.

##### ***Overview of the Proposal***

- 22. The Proposal is made to all of the Affected Creditors of the Company. The purpose of the Proposal is to restructure the affairs of the Company in order to enable VMPL's business to continue. The Company expects that stakeholders will generally derive a greater benefit from the continued operations of VMPL's business than would result from the immediate sale or forced liquidation of the Company's assets.

***Classes of Creditors***

23. For the purposes of voting on this Proposal, the Company's Creditors is comprised of two (2) classes, as follows:
- a) Secured Creditors; and
  - b) Unsecured Creditors.

***Secured Creditors***

24. This Proposal is being made to Secured Creditors (other than Unaffected Creditors). Secured Creditors may vote and participate as Unsecured Creditors to the extent that they surrender the value of their security.
25. Pursuant to the terms of the Proposal, the Company has assessed the value of the security held by Farm Credit Canada ("**FCC**") to be \$404,000 (the "**FCC Assessed Value**"), prior to consideration of any costs to liquidate the equipment, which the Company estimates to be approximately \$108,000. FCC may file with the Trustee a proof of secured claim and may vote as a Secured Creditor on all questions relating to the Proposal in respect of an amount equal to the lesser of: (a) the amount of the claim; and (b) the FCC Assessed Value. FCC may vote and participate as an Unsecured Creditor in the Proposal in respect of the amount of the difference between its secured claim and the FCC Assessed Value.

***Affected Creditors***

26. The Proposal is being made to the Affected Creditors who are Creditors with Claims other than Unaffected Claims, and includes creditors with Employee Priority Claims, Source Deduction Claims and Pension Priority Claims.



***Unaffected Creditors***

27. Unaffected Creditors are Creditors with Unaffected Claims. Unaffected Claims are comprised of the following:
- a) any right or claim of CIBC against the Company;
  - b) any right or claim of De Lage Landen Financial Services Canada Inc. against the Company; and
  - c) claims of any employees for accrued and unpaid vacation pay, which accrued and unpaid vacation pay shall be paid in the ordinary course.

***Claims of Convenience Creditors***

28. Pursuant to the terms of the Proposal, a Convenience Creditor Claim is defined as:
- (a) any Proven Claim of an Unsecured Creditor in an amount that is less than or equal to \$5,000, and (b) any Proven Claim of an Unsecured Creditor that has delivered to the Proposal Trustee a Convenience Creditor Election in accordance with the Proposal prior to the Convenience Creditor Election Deadline. Creditors having a Convenience Creditor Claim shall be paid an amount in cash equal to the lesser of (a) \$5,000, and (b) the value of such Convenience Creditor's Proven Claim. All Convenience Creditors will be deemed to have voted in favour of the Proposal.

***Employee Priority Claims***

29. Employee Priority Claims will be paid in full by the Company immediately following the granting by the Court of the Approval Order approving the Proposal.

***Crown Claims***

30. Source Deduction Claims are to be paid in full by the Debtor within six months of the granting of the Approval Order.

***Funding of the Proposal***

31. Starting on the Implementation Date, the Company shall deliver to the Trustee 36 equal monthly payments totaling \$1,000,000 (the “**Proposal Fund**”) to be distributed by the Trustee in accordance with the distribution scheme set out in the Proposal. The Company has informed the Trustee that, in addition to \$50,000 already provided to the Trustee as set out in Paragraph 56 of this Report, the Proposal is to be funded from surplus cash generated by the Company’s operations and/or additional financing provided by the Company’s shareholders and/or lenders. The Proposal also provides that the Company may accelerate the timing of these payments if its circumstances permit.

***Distribution of Proposal Fund***

32. The Proposal Fund will be distributed by the Trustee in the following order of priority:

- a) firstly, to pay the Administrative Fees and Expenses. Administrative Fees include the fees and expenses, including legal fees and disbursements, of the Trustee and the Company in connection with these Proposal proceedings;
- b) secondly, to pay the Pension Priority Claims, if any, in full;
- c) thirdly, to pay the Proven Claims of Preferred Creditors, if any, in accordance with the priority set out in Section 136 of the BIA;
- d) fourthly, to pay the Proven Claims of Convenience Creditors; and
- e) lastly, the balance of the Proposal Fund to each Creditor who holds Proven Unsecured Claims in an amount equal to such Creditor’s *pro rata* portion of such balance.

***Other Provisions of the Proposal***

33. Payments and distributions to Creditors pursuant to the Proposal shall be paid net of any applicable Superintendent's Levy payable to the Office of the Superintendent of Bankruptcy pursuant to Section 147 of the BIA.
34. Creditors will, at the Meeting of Creditors to be held to consider the Proposal, be entitled to appoint up to five Inspectors, whose powers will be limited to:
  - a) advising the Trustee concerning any dispute which may arise as to the validity of Claims; and
  - b) advising the Trustee from time to time with respect to any other matter that the Trustee may refer to them.
35. Upon the occurrence of the Implementation Date, but subject to implementation of the Proposal, all Claims, other than the Unaffected Claims, will be forever discharged and released. The compromises contemplated in the Proposal will be binding upon all Persons and each Affected Creditor, its heirs, executors, administrators, successors and assigns, for all purposes, in accordance with the terms of the Proposal and the BIA.
36. Upon distribution by the Trustee of the amounts payable under Article 6 of the Proposal, the Proposal will have been fully performed and the Trustee will issue to the Debtor the certificate referred to in section 65.3 of the BIA.
37. Any Claims against the Company by any Creditor that are also Claims against the Directors however arising for which the Directors are by applicable law liable in their capacity as Directors will, upon the Trustee issuing to the Company the certificate

referred to in section 65.3 of the BIA, and to the extent permitted by the BIA, be released and forever discharged as against the Directors.

38. The Trustee will not be responsible or liable for any obligations of the Company before, on or after the Filing Date and will be exempt from any personal liability in fulfilling any duties or exercising any powers conferred upon it by the Proposal, except for those acts resulting from gross negligence or willful misconduct.
39. Upon completion of payments in accordance with the terms of the Proposal, the Trustee will be entitled to apply for its discharge as Trustee.

#### **F. TIMING AND PROCESS**

40. The timing of the Proposal is as follows:
  - a) the Meeting of Creditors to consider and vote on the acceptance or rejection of the Proposal is scheduled for 11:00 a.m. on January 18, 2023 at the offices of RSM, or virtually by following the instructions included in the Notice;
  - b) upon acceptance of the Proposal by the Unsecured Creditors by a majority in number of the Creditors who actually vote upon the Proposal (in person or by proxy) at the Meeting or by a Voting Letter, representing two-thirds in value of the Proven Unsecured Claims of the Unsecured Creditors who actually vote upon the Proposal (whether in person or by proxy) at the Meeting of Creditors or by a Voting Letter, an application will be made to the Court for an order approving the Proposal (the "**Application**");

- c) the Court will set a date to hear the Application and a notice of the Court hearing will be sent to every creditor with a proven claim at least fifteen days before the date of the hearing; and
- d) subject to the fulfilment of the conditions in Article 7.5 of the Proposal, including Court approval of the Proposal and the expiry of all appeal periods in respect of the Approval Order, the Company will implement the Proposal. The Trustee notes that in paragraph 1.1(w) of the Proposal, the definition of Implementation Date incorrectly refers to the conditions in "Section 5" of the Proposal whereas it should read "Section 7.5".

#### **G. VOTING ON THE PROPOSAL**

- 41. To be eligible to vote at the Meeting of Creditors, each Creditor that is not an Unaffected Creditor must properly complete the enclosed proof of claim and proxy form (if required), and file the completed forms with the Trustee **prior to the commencement of the Meeting of Creditors.**
- 42. Creditors who do not intend to vote either in person or by giving their proxy to a personal representative to vote on their behalf at the Meeting of Creditors, may cast their vote by completing the enclosed voting letter. The voting letter must be returned with a properly completed proof of claim **prior to the commencement of the Meeting of Creditors.** Votes cast by voting letter will then be counted at the Meeting of Creditors on the same basis as if the creditor was attending in person.
- 43. Unsecured Creditors having Claims greater than \$5,000 who wish to be a Convenience Creditor must file the Convenience Creditor Election **prior to the**

**commencement of the Meeting of Creditors.** All Convenience Creditor Claims will be deemed to have been voted in favour of the Proposal.

44. Creditors may return proofs of claim, proxies, voting letters and Convenience Creditor Elections to the Trustee by hand delivery, mail, facsimile, or by email to the following email address: [jeff.berger@rsmcanada.com](mailto:jeff.berger@rsmcanada.com).
45. If the Proposal is not accepted by the creditors or is not approved by the Court, VMPL will be deemed to have filed an assignment in bankruptcy.

#### **H. CONDUCT OF THE COMPANY**

46. Sections 95 to 101 of the BIA and any other laws relating to preferences, or transfers at undervalue will not apply to the Proposal or to any payment or distributions made in connection with the restructuring of the Company, whether made before or after the Filing Date, including to any and all transactions contemplated by, or implemented pursuant to, the Proposal, or to which the Proposal is conditional or dependent upon.
47. In connection with the above provision of the Proposal, the Trustee has been informed by management of the Company that the Company has not conducted any transactions in the last 12 months that would be considered to be transfers at undervalue.
48. The Trustee has also reviewed the Company's bank statements for the period January 1, 2022 to December 31, 2022 for payments greater than \$50,000 and has not identified any transactions that would appear to be out of the ordinary course of business.

**I. CREDITORS' CLAIMS**

49. According to the Condensed Statement, the claims of the Creditors consist of:

<b>Claim Classification</b>	<b>Balance per Condensed Statement</b>
Secured	\$2,280,079.00
Preferred	-
Unsecured	12,744,753.98
Employee Priority Claims and Pension Priority Claims	-
<b>Total</b>	<b>\$15,024,832.98</b>

50. According to the Condensed Statement, the parties which hold security over the Company's assets are:

- CIBC, owed \$2,208,470, secured by, among other things, a General Security Agreement representing a first charge on all of the Company's personal property and equipment. CIBC is an Unaffected Creditor in the Proposal;
- FCC, owed \$1,615,877, secured by specific equipment, plus \$500,000, which is secured by a General Security Agreement;
- Kensington Private Equity Fund ("**Kensington**") is owed \$6,076,927 which is secured by a General Security Agreement. Kensington is a related party to the Company. Pursuant to a letter dated December 28, 2022 addressed to RSM, Kensington, for purposes of the Proposal, assessed the value of its security as \$nil and agreed to waive its rights to any dividends payable under the Proposal to Unsecured Creditors; and

- VMP Capital Partners Ltd. (“VMP”) is owed \$1,804,498, which is secured by a General Security Agreement. VMP is a related party to the Company. Pursuant to a letter dated December 28, 2022 addressed to RSM, VMP, for purposes of the Proposal, assessed the value of its security as \$nil and agreed to waive its rights to any dividends payable under the Proposal to Unsecured Creditors.
51. The Trustee has requested from Jaffe & Peritz LLP (“J&P”), independent counsel retained by the Trustee, that J&P provide its opinion on the validity and enforceability of the security held by CIBC and FCC. The Trustee anticipates that the legal opinions will be available prior to the Meeting of Creditors and the Trustee will provide an update in the Trustee’s report pursuant to Section 50(5) of the BIA that will be presented at the Meeting of Creditors (the “Trustee’s Meeting Report”).
  52. In addition to the above secured claims, it is the Trustee’s understanding that the Employee Priority Claims and Pension Priority Claims (if any) have priority to the claims of the Unsecured Creditors.
  53. Unsecured Creditors are required to file a proof of claim form complete with supporting documentation in order to vote at the Meeting of Creditors and to receive a distribution from the Proposal Fund.
  54. The Trustee points out that there are likely to be variances between amounts owing to creditors per the Company’s books and records and their respective creditors’ records. The Trustee will review the Proofs of Claim filed, and will provide additional information in respect of Proofs of Claim filed in the Trustee’s Meeting Report.



**J. PREVIOUS BUSINESS DEALING WITH THE COMPANY**

55. The Trustee has not provided previous services to VMPL.

**K. REMUNERATION OF THE TRUSTEE**

56. Prior to the Filing Date, the Trustee received a payment in the amount of \$50,000 from the Company, which will be applied towards the first and second monthly payments due pursuant to the Proposal. In the event that the Proposal is not accepted by the Company's Creditors or approved by the Court, the \$50,000 will be used to pay any outstanding Administrative Fees and Expenses.

57. As of December 31, 2022, the fees and disbursements of the Trustee were \$33,197.96, before consideration of HST.

58. The Trustee's fees and expenses will be paid from the Proposal Fund.

**L. LEGAL PROCEEDINGS IN WHICH THE COMPANY IS INVOLVED**

59. Two of the Company's suppliers commenced legal proceedings against the Company relating to the non-payment of accounts. These legal proceedings are stayed as a result of the filing of the NOI and the claims of these suppliers are subject to the Company's Proposal.

**M. STATEMENT OF ESTIMATED REALIZATION**

***Proposal Accepted***

60. The Proposal is considered to be accepted by the Creditors if a majority in number of the Unsecured Creditors who actually vote on the Proposal (in person or by proxy

or Voting Letter), representing two-thirds in dollar value of the Proven Claims of the Creditors who actually vote on the Proposal (in person or by proxy or Voting Letter), vote for the acceptance of the Proposal at the Meeting of Creditors. With reference to the tabulation of the votes to be cast by Creditors, as noted earlier in the Report, all Convenience Creditor Claims will be deemed to have been voted in favour of the Proposal.

61. If the Proposal is accepted by the Company's Creditors, the Trustee estimates that the distribution to Unsecured Creditors with Proven Claims will be between \$0.174 and \$0.184 per dollar of Proven Claim, calculated as follows:

<The Rest of This Page Is Intentionally Blank>

**Vaughn Mills Packaging Ltd.  
Estimated Distribution to Unsecured Creditors from the Proposal**

The following analysis estimates the potential distribution to Unsecured Creditors in the event the Proposal is accepted by the Unsecured Creditors and approved by the Court. The amounts set out herein are estimates, based on certain assumptions regarding future events. Actual results may vary from this information and the variances may be material.

	<u>High</u>	<u>Low</u>	<u>Note</u>
Proposal Fund	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	
<b>Less:</b>			
Administrative Fees and Expenses	100,000	180,000	1
Preferred Claims	-	-	2
Pension Priority Claims	-	-	3
	<u>\$ 100,000</u>	<u>\$ 150,000</u>	
Gross distributable amount	\$ 900,000	\$ 850,000	
Less: Superintendent's Levy	(45,000)	(42,500)	4
Net distributable amount	<u>A \$ 855,000</u>	<u>\$ 807,500</u>	
Total unsecured claims per Statement of Affairs excluding Unaffected Claims	<u>B \$ 4,638,158</u>	<u>\$ 4,638,158</u>	5
Estimated distribution to Unsecured Creditors per dollar of claim (rounded)	<u>A + B \$ 0.184</u>	<u>\$ 0.174</u>	6

**Notes**

1. Estimated of the fees of the Trustee, the Trustee's legal counsel and the Company's legal counsel.
2. The Company has informed the Trustee that the Company is not aware of any Preferred Claims.
3. The Company has informed the Trustee that the Company is not aware of any Pension Priority Claims.
4. The levy payable to the Superintendent of Bankruptcy on distributions of less than \$1,000,000 is 5% of the funds available for distribution.
5. The unsecured claims of CIBC, Kensington and VMP are not included in this amount.
6. The actual distributions to Unsecured Creditors may be different from that as set out in this schedule.

62. The actual distribution to the Unsecured Creditors will vary depending on the final amount of the Administrative Fees and Expenses and the quantum of proofs of claim admitted in the Proposal by the Trustee.

***Proposal Not Accepted***

63. If the Proposal is not accepted by the Creditors or, if accepted, is not approved by the Court, the Company will be deemed to have made an assignment in bankruptcy.
64. In the event of a bankruptcy, the Trustee estimates that the distribution to Unsecured Creditors with Proven Claims will be \$nil. This estimate is based on the Company's assets and liabilities as set out on the Condensed Statement. For purposes of its estimate, the Trustee assumes that the value of the Company's assets will not change materially between the time the Condensed Statement was filed and the date that a bankruptcy may occur. The Trustee's estimate considered the following:
- a) according to the Condensed Statement and other information set out earlier in this report, the total book value of all the Company's assets is \$6,487,894, excluding any amounts, if any, attributable to goodwill. As set out on the Condensed Statement, the Company estimates that the net realizable value of its assets is \$2,280,079, which is approximately 35% of the assets' book value;
  - b) the Company's indebtedness to its creditors having General Security Agreements is \$10,589,895 (the "**GSA Indebtedness**"), before consideration of the amount owing to FCC that is secured by specific equipment. The GSA Indebtedness is approximately \$4.1 million greater than the book value of the Company's assets. In the

Trustee's view, the realizable values of the Company's assets in a bankruptcy scenario will be below their book value, and possibly by a material amount;

- c) in the event of a bankruptcy, the Claims of Kensington and VMP would not be waived and would be included in the total quantum of the secured claims; and
- d) given the GSA Indebtedness, and the net realizable values of the Company's assets set out on the Condensed Statement, a sale by a Trustee in Bankruptcy of the Company's business would have to yield a value of goodwill of at least \$8,000,000, before any funds would be available for Unsecured Creditors, and before consideration of the fees and disbursements of the Trustee in Bankruptcy.

65. In summary, the Trustee estimates that the net realizations from the Company's assets in a bankruptcy, after consideration of the Trustee in Bankruptcy's fees and disbursements, would not result in secured claims being repaid in full, resulting in there not being any funds available for the Company's Unsecured Creditors.
66. The Trustee notes that in arriving at its conclusion set out above, the Trustee has assumed that the security held by CIBC and FCC is valid and enforceable. As noted earlier in this report, the Trustee has requested from J&P that J&P provide its opinion on the validity and enforceability of the security held by these creditors.
67. The Trustee will, in the Trustee's Meeting Report to be presented at the Meeting of Creditors, inform the creditors of J&P's opinion. In the event that J&P's opinion is that

the security held by any or all of these creditors is not valid and enforceable, the Trustee will, as it considers necessary, update its comments on whether the Unsecured Creditors should accept the Company's Proposal.

**N. RECOMMENDATION**

68. If the Proposal is accepted by the Creditors and approved by the Court, the Trustee estimates that there will be between \$850,000 and \$900,000 available for distribution to Unsecured Creditors with Proven Claims that will result in an estimated dividend payment of approximately \$0.174 to \$0.184 per dollar of Proven Claim.
69. In the event of a bankruptcy of VMPL, the Trustee estimates that, based on the Company's assets set out on the Condensed Statement, and assuming the validity and enforceability of the security held by CIBC, FCC, Kensington and VMP, there will be no funds available for distribution to the Unsecured Creditors.
70. Accordingly, based on the information contained in this Report, the Trustee recommends at this time that the Creditors vote to accept the Proposal in order to attempt to maximize their return from the Company's indebtedness to them.

Dated at Toronto, Ontario, the 6<sup>th</sup> day of January, 2023.

**RSM CANADA LIMITED**

in its capacity as Trustee *re:* the Proposal of  
Vaughn Mills Packaging Ltd., and not in its personal  
or corporate capacity

Per: 

Bryan A. Tannenbaum, FCPA, FCA, FCIRP, LIT  
President