Court File No. 06-CL-6690

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF AN APPLICATION UNDER 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 CANTAR POOL PRODUCTS LIMITED / PRODUITS DE PISCINES CANTAR LIMITÉE

Applicant

SUPPLEMENTAL MOTION RECORD

(motion for a Sanction Order and an extension of the Stay Period, returnable January 18, 2007)

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INDEX

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INDEX

TAB 1

A. Farber
& Partners Inc.
MEMBER OF FARBER FINANCIAL GROUP

Court File No. 06-CL-6690

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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 CANTAR POOL PRODUCTS LIMITED / PRODUITS DE PISCINES CANTAR LIMITEE (the "Applicant" or "Cantar")

November 23, 2006

MONITOR'S FIRST REPORT TO CREDITORS

1. INTRODUCTION

On October 17, 2006, the Applicant commenced proceedings under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the "CCAA") pursuant to an order of this Honourable Court dated October 17, 2006 (the "Initial Order"). Pursuant to the Initial Order, A. Farber & Partners Inc. was appointed monitor of the Applicant during its CCAA proceedings (the "Monitor").

Under an Order dated November 16, 2006 (the "Claims Procedure and Meeting Order"), the court has established a claims procedure (the "Claims Procedure") to determine the value of Creditors' Affected Claims against Cantar for the purposes of voting on a plan of compromise or arrangement (the "Plan") and receiving distributions under the Plan. The Plan was filed on November 23, 2006.

The purpose of this report is to provide the Affected Creditors with:

- A brief background report on Cantar to assist Affected Creditors in evaluating the current state of affairs and financial position of Cantar.
- An overview of the Plan (see Section 7).
- An overview of the Claims Procedure to assist creditors in becoming eligible to vote on the Plan and participate in distributions, if the Plan is approved.
- The Monitor's recommendation in respect of the Plan.

2. SUMMARY OF RECOMMENDATIONS

As described in greater detail below, the Plan proposed by Cantar, if approved, would result in a better prospect of recovery for the unsecured creditors than would occur in the event of bankruptcy.

The Plan has required extensive negotiations with Cantar's primary secured creditor, LaSalle Business Credit LLC ("LaSalle"), which has agreed, subject to approval of the Plan, to release its security over Cantar's remaining assets in order to allow unsecured creditors to achieve recoveries, as further described in this report. In addition, affiliates of Cantar with very significant claims have agreed not to participate in these distributions, in order to maximize distributions to unsecured creditors under the Plan.

Absent the Plan, LaSalle would be entitled to enforce its security over these remaining assets and there likely would be no recovery for any of the unsecured creditors.

Accordingly, as summarized below, the Monitor recommends that Affected Creditors vote IN FAVOUR of the Plan.

3. TERMS OF REFERENCE

In preparing this Report to creditors, the Monitor has relied upon unaudited, internally prepared financial information, Applicant's records and discussions with management of the Applicant. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook has not been performed. Future oriented financial information relied upon in this report is based on Cantar management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

Unless otherwise stated, dollars referenced in these materials are in Canadian funds.

Background to these CCAA proceedings, including the Initial Order and subsequent orders issued by the Court, supporting materials and Court Reports by the Monitor, have been posted by the Monitor on its web site at www.afarber.com. A brief background of the Cantar is provided for ease of reference below.

4. BACKGROUND OF CANTAR

Cantar was incorporated pursuant to the laws of the Province of Ontario on March 24, 2003 as 1566783 Ontario Limited. Cantar is an indirect wholly-owned subsidiary of Polyair Inter Pack Inc. ("Polyair"), through a complex corporate structure involving a number of U.S. and Canadian holding and operating companies (collectively, the "Polyair Group"). Polyair's shares are publicly traded on the Toronto Stock Exchange and the American Stock Exchange.

Cantar had been one of North America's leading manufacturers and distributors of above-ground steel swimming pools, pool equipment and pool accessories. Its recent operations had three main business lines: Above Ground Pools; Pool Accessories, and Pool Equipment.

5. CAUSES OF INSOLVENCY AND EFFORTS TO RESTRUCTURE

Management attributes the dramatic downturn in its business, profitability and financial position to a convergence of factors over the past two years that have negatively impacted a lot of Canadian manufacturers with an export focus in recent times: high steel prices; high freight costs; price pressures from competitors and excess capacity and; the strong Canadian dollar. This was due to the fact that a higher proportion of sales were in U.S. dollars in comparison to input costs, which are mostly in Canadian dollars. All of these factors negatively impacted margins with significant losses generated in the past two years.

Furthermore, Cantar offered extended payment terms to customers on pre-season sales in early 2006. Customers were slow in paying amounts owed to Cantar, which disrupted Cantar's cash flows and further affected Cantar's ability to fund its operations and pay its current obligations.

Cantar engaged in informal restructuring efforts through 2006 including efforts to sell the three business lines, which ultimately lead to negotiation and sale of the assets of each business line. These sales transactions provided approximately $5.2 million in proceeds which were used to pay-down the debt of Cantar's primary secured creditor, LaSalle . The third and final sale, relating to the Pool Equipment business, was Court approved as part of the CCAA proceedings on October 17, 2006 and closed on October 18, 2006.

On October 17, 2006 Cantar was forced to seek relief under the CCAA. The CCAA provided the tools, flexibility and temporary reprieve to facilitate the realization of remaining assets to pay down LaSalle debt obligations, to formulate and file a Plan, and to prevent creditors and others from taking steps to try and achieve a better position in comparison to others.

6. EVALUATION OF ASSETS AND LIABILITIES

Set out below is a brief description of the primary secured creditor obligations and realizations to date to reduce those secured debt obligations. We have then briefly profiled remaining assets to be realized compared to the unsecured creditor balances, to provide some overview of potential recoveries under the Plan as filed.

LaSalle Pay-Down

As part of the CCAA proceedings, Cantar has moved forward with an orderly wind-down and liquidation process. Obtaining relief under the CCAA required the agreement of the primary secured creditor LaSalle and meeting specific targets around pay-down of its debt. This was defined in the Initial Order as the LaSalle Minimum Amount in the approximate amount of US$8.6 million and was required to be paid down by November 17, 2006.

Since granting the Initial Order, three separate transactions representing a key part of the realization program to pay down the LaSalle Minimum Amount and in turn provide prospects for a recovery to Cantar's unsecured creditors, have been court approved and closed. In summary these were the following:

- Sale of the Pool Equipment division assets (US$1,957,000)
- Sale of residual assets of The Above Ground Pool division (US$58,000),
- Sale of Cantar's right, title and interest in real estate at 330 Humberline Drive Toronto, (hereinafter described as the "Property Sale") (US$5.637 million in net cash proceeds)

As part of the Property Sale, and to enable the transaction to move forward, Cantar agreed to take back a promissory note secured by a second mortgage charging the property ("VTB Mortgage"). The VTB Mortgage is for $ 1.6 million, with a five-year term, bearing a 6.5% interest rate, with interest to be paid on maturity. The mortgagors, Humberline (Industrial) Realty Inc. and Canada Mortgage and Housing Corporation, as administrator of the CMHC Pension Plan, effectively have a right to set off amounts owing to them by the tenant Polyair Canada Limited, ("Tenant"), in the event the Tenant is in default under the lease.

Effective the date of this reporting, the LaSalle Minimum Amount has been paid down to comply with the Initial Order target of a complete pay-down of the LaSalle Minimum Amount by November 17, 2006. However, it is critical to note that LaSalle will not release its security over the remaining assets of Cantar, until: (i) the Plan is approved by the creditors and Court, and; (ii) the Plan is implemented under the current terms with release of the security subject to a certain maximum recovery to the Affected Creditors, as set out in further detail below.

Cantar is a principal borrower, together with Polyair Canada Limited (formerly Cantar/ Polyair Canada Limited) ("Polyair Canada") under a credit agreement with LaSalle, as well as a guarantor of the obligations of the borrowers under the Polyair Group's U.S. credit facilities (collectively "Credit Agreements"). The aggregate amount outstanding under both Credit Agreements, effective the date of this reporting was approximately US $19 million.

Independent legal counsel engaged by the Monitor has confirmed that LaSalle's security is valid and enforceable, with first-ranking security over all of the assets of Cantar in Ontario and Quebec.

Remaining Asset Realizations

The Plan contemplates realization of the remaining receivables and tangible assets, which are defined in the Plan as the Distribution Assets. In turn, realizations from those Distribution Assets provide a pool of funds for distribution to Affected Creditors, after providing for certain costs, including pay out of smaller claims (under Article 4 of the Plan). This pool of funds is defined as the Affected Creditors' Distribution Pool in the Plan. Proceeds from the Distribution Assets will come from two primary sources: the VTB Mortgage and collection of accounts receivable.

The Plan provides authority for Cantar and the Monitor to enter into negotiations to attempt to monetize the VTB Mortgage, to provide more immediate recoveries to creditors. Based on current circumstances, prospects for obtaining value in the proximity of the principal amount of the VTB Mortgage appear reasonable, if the VTB mortgage was to go to maturity.

Cantar has trade accounts receivable of approximately $1.2 million. Ultimate realizations are expected to be significantly less than book value, for the following reasons:

- Some customers are refusing to pay their account balances due to their concerns surrounding future warranty coverage. Purchasers of the Above Ground and Pool Equipment division assets have agreed to honour their respective warranty claims. The purchasing companies are now working closely with Cantar to alleviate these concerns, which may hopefully assist with the collection process.

- Some customers are requesting account reconciliations before remitting payment. Cantar and its advisors are working diligently with these customers to satisfy their own internal requirements; however, this process has and continues to be time consuming and difficult.

- There are customers who ultimately are refusing to pay their balances. In these instances, Cantar may be forced to initiate legal proceedings and/or report these companies to Export Development Corporation, which has insured some of the foreign receivables, but in any event these amounts are subject to the collections issues mentioned above.

Liabilities

Our review of Cantar's accounts payable records to date indicates there are about 300 creditors, owed approximately $9 million in total. Not included in these figures are Cantar Polyair Canada Limited and affiliated inter-company payables ("Inter-Company Payables"), which total approximately US $15 million. The initial application materials in support of the initial order contain more information about these Inter-Company Payables. It is however confirmed that the holders of the Inter-Company Payables have agreed not to participate in the proposed Claims Process, in order to maximize the recovery prospects of the Affected Creditors if the Plan proceeds.

Also included in the initial application materials in support of the Initial Order is disclosure related to severance payments made to Cantar employees, who were entitled to receive statutory severance amounts. These payments are often made in these sort of circumstances to ensure cooperation and facilitation of the restructuring process.

Potential Recoveries

Given the uncertainties with respect to the collection of remaining accounts receivable, it is difficult to predict with any precision at this time the net proceeds available for the Affected Creditors Distribution Pool. In addition, the quantum of Proven Claims of Affected Creditors will not be known with any certainty until the Claims Process is completed. However, to assist creditors in evaluating the merits of the Plan compared to bankruptcy, we have provided some guidance by way of range estimates to show what creditors could potentially receive as a percentage of the proven claims.

- Based on review with Cantar management and its advisors, assuming the Plan is approved, estimated net realizations from the Distribution Assets, after all costs are provided for (including the small creditor payouts), range from $1 million to $1.6 million.

- Assuming a pro rata distribution, and Proven claims of $9 million, the dividend payout would range from 11.1% to 17.8% to provide a mid point dividend rate of 14.4%. Under Article 5 of the Plan, this payout could be over several years.

- Under the proposed Plan, Article 4 provides for a distribution of 25% for claims of $5,000 or less, or those claims in respect of which Affected Creditors have elected to reduce their claim to $5,000. As an example, If a claimant with a claim as high as $10,000 elects to reduce it to $5,000, on approval of the Plan, it would achieve a 12.5% payout ($1,250/$10,000) and possibly a more immediate payout.

Benefits of the Plan

If the Plan is not approved, the likely outcome is that LaSalle would enforce its security and there would be no recovery for the unsecured creditors at all. In addition, Inter-Company Payables would also be entitled to participate if any proceeds were available for unsecured creditors, further diluting any recoveries to the other unsecured creditor.

Accordingly, given the current information available, Affected Creditors would likely have a higher recovery through the Plan than through bankruptcy.

Furthermore, the Plan as described below in Section 7, is structured to provide a more immediate payout to creditors with smaller claims, if they so elect.

7. OVERVIEW OF THE PLAN

This description of the Plan is a summary only and is provided for the assistance of Affected Creditors. The governing document is the Plan which is included in this package.

Key factors in providing improved prospects for recovery to the Affected Creditors are:

a) the agreement and concessions provided by LaSalle to cap the level of debt to be satisfied from the Cantar asset realizations to approximately US$8.6 million, (subject to certain realization thresholds set out below), which is well below Cantar's direct debt and guarantee obligations; and,

b) the non-participation of Inter-Company Payables.

Key elements of the Plan are summarized below:

- There is one single class of Affected Creditors under the Plan.

- The Plan is structured such that creditors with certain size claims, or those who elect to reduce their claim, can be paid subject to a formula and be paid in a specific time-frame, and creditors with larger claims can participate in a payout of net realizations over a potentially longer term, after provision for certain costs and prior charges. Specifically, the Plan provides for distribution to those types of creditors as follows:

    - Pursuant to Article 4 of the Plan, Affected Creditors with aggregate Claims of $5,000 or less are paid 25 cents on the dollar. In addition, Affected Creditors with Affected Claims exceeding $5,000 who elect to reduce their Affected Claims to $5,000, will be paid 25 cents on the dollar on the reduced amount. Under the terms of the Plan this would be paid within 6 months of the Effective Date (hereinafter described as "Article 4 Claims"). By way of example, an Affected Creditor with an Affected Claim of $4,000 would receive a $1,000 payout; an Affected Creditor with an Affected Claim of $5,000 would receive a payout of $1,250; and, an Affected Creditor with an Affected Claim of $10,000 in respect of which an Election to reduce the Affected Claim to $5,000 is filed, would receive a payout of $1,250.

    - Pursuant to Article 5 of the Plan, those Affected Claims greater that $5,000 in respect of which no election is made as referred to above, would participate in realizations from the Affected

Creditors Distribution Pool as set out in Section 5 of the Plan. Distributions from this pool of funds would occur from time to time as cash flows permit. Cantar will only make distributions from the Affected Creditors Distribution Pool if the amount available is economically practical, as determined by Cantar, acting reasonably in consultation with the Monitor.

- The Monitor has been informed that Cantar and Polyair counsel have had discussions with the LaSalle Group Lenders and their counsel, and anticipate that, provided that the Plan is accepted by the requisite majorities of creditors and approved by the Court, the LaSalle Group Lenders will be prepared to release their liens and security interests against the Distribution Assets, to the extent necessary to permit payment under the Plan from the Affected Creditors' Distribution Pool of the full amount payable in accordance with Section 4.1(a) of the Plan to Affected Creditors to which Section 4.1(a) applies, and to a maximum of 25 cents for each dollar of Affected Claims in accordance with Section 4.1(b). The Monitor understands from Cantar that the effect of this agreement, once formalized, would be to allow the Affected Creditors to share in the Distribution Assets free and clear of the prior secured claims of the LaSalle Group Lenders, to the point at which the realizations forming the Affected Creditors' Distribution Pool reach an amount sufficient, pursuant to the terms of the Plan, to provide a recovery in excess of 25% on Affected Claims pursuant to Section 4.1(b). For amounts above that level of recovery from the Distribution Assets, the LaSalle Group Lenders would be entitled to assert their security rights, although they still may not choose to do so. However, in the opinion of the Monitor, a recovery over 25% is most unlikely.

- There is provision in Section 5.4 of the Plan, authorizing Cantar and the Monitor to enter into negotiations and arrangements to attempt to monetize the $1.6 million VTB Mortgage, in order to attempt to provide more immediate recoveries to the Creditors. The Plan contemplates the appointment of up to five Inspectors, to be appointed at the Creditors' Meeting by a vote of the Affected Creditors, who will be authorized to consider and approve or reject any final arrangement or agreement in respect of monetization of the VTB Mortgage. If an arrangement or agreement with respect to the monetization of the VTB Mortgage is not finalized and approved by a majority of the Inspectors, the proceeds of the VTB Mortgage will be collected in the ordinary course in accordance with its terms.

- For the Plan to become effective, there are a number of Conditions Precedent to implementation of the Plan as set out in section 7.6, including, without limitation:

- o that the Plan be approved by the Required Majorities of Affected Creditors which means a majority in number of Creditors with Proven Claims (and, if applicable, Disputed Claims) representing two-thirds in value of such Creditors' Proven Claims (and, if applicable, Disputed Claims) with respect to the Affected Creditors Class, in each case present and voting in person or by proxy at the Creditors' Meeting;

- o that a Sanction Order is obtained from the Court approving the Plan;

- o that Secured Creditors agree to reduce the aggregate amount of Secured Claims for which funds must be reserved from the Affected Creditors Distribution Pool to less than $100,000 or that Secured Creditors otherwise agree to such arrangements as are necessary to permit payment under the Plan from the Affected Creditors' Distribution Pool of (i) the full amount payable in accordance with Section 4.1(a) of the Plan to Affected Creditors to which Section 4.1(a) applies, and (ii) a maximum of 25 cents for each dollar of Affected Claims not dealt with in Section 4.1(a), in accordance with Section 4.1(b).

- As and from the Effective Date, the treatment of Affected Claims under the Plan shall be final and binding on all Persons affected by the Plan (and their respective heirs, executors, administrators, legal personal representatives, successors and assigns), and, upon implementation of the Plan on the Effective Date, all Affected Claims shall be discharged and the releases set out in the Plan will become effective in accordance with the terms of the Plan, excepting only the obligations to make distributions in respect of such Affected Claims in the manner and to the extent provided for in the Plan.

8. CLAIMS PROCEDURE AND MEETING ORDER

The Claims Procedure and Meeting Order timetable can be summarized as follows: a Claims Bar Date of 5:00 p.m. on December 21, 2006; the convening of a Creditors' Meeting to vote on the Plan on January 12, 2007; and a Court sanctioning hearing on or prior to January 18, 2007, or as soon after that date that the matter can be heard.

The Claims Procedure and Meeting Order can be summarized as follows:

- Creditors with a claim existing at October 17, 2006 who are provided with a Notice of Claim by the Monitor ("Known Affected Creditors") <u>are not required to submit a Proof of Claim.</u> If a creditor disagrees with the amount of its claim, a Notice of Dispute is required to be filed by 5:00 p.m. on December 12, 2006 (hereinafter defined as the "Claims Bar Date"). If an Affected Creditor has not received a Notice of Claim, it will be required to file a Proof of Claim by the Claims Bar Date. Claims in foreign currencies will be converted at the exchange rate as reported by the Bank of Canada on October 17, 2006. The Canadian / US exchange rate on the date was 1.1380 Canadian dollars to 1 US dollar.

- Creditors who do not file Notices of Dispute by the Claims Bar Date shall be deemed to have accepted the amount of its Affected Claim as set out in the Notice of Claim for all purposes, and all other Affected Claims of such Known Affected Creditor, if any, shall be forever extinguished and barred. A Person who does not receive a Notice of Claim and does not file a properly completed Proof of Claim with the Monitor by the Claims Bar Date, shall not be entitled to attend or vote at the Creditors' Meeting and shall not be entitled to receive any distribution pursuant to the Plan, and all Affected Claims of such Affected Creditor, if any, shall be forever extinguished and barred.

- By no later than 5:00 p.m. on January 2, 2007, the Monitor shall send a Notice of Revision or Disallowance to each Affected Creditor who has provided a Notice of Dispute or Proof of Claim, where the Monitor and Cantar have determined to revise or disallow such claim.

- Any Affected Creditor who wants to dispute the amount of its Affected Claim as set out in a **Notice of Revision or Disallowance** shall, by no later than 5:00 p.m. on January 10, 2007, advise Cantar and the Monitor in writing with a detailed summary of the reasons for such dispute, and by no later than 5:00 p.m. on January 15, 2007, bring a motion to have the amount of such Affected Claim determined by the Court.

- In addition, provision is made in the order Claims Procedure Order to deal with voting of Disputed Claims.

- Creditors who wish to vote can submit the **Proxy for Use by Affected Creditors** to the Monitor by no later than January 11, 2007 at 5:00pm *(See Schedule 7 attached to the Claims Procedure and Meeting Order)*, or attend the Creditors Meeting in Person to vote. They will need to ensure they have the requisite authority and a proven claim to vote on behalf of their company.

- The Meeting of Creditors to vote on the Plan is to be held at 2:00 p.m. on January 12, 2007 at the Ramada Hotel and Conference Centre, Renaissance Room 185 Yorkland Blvd., Toronto, Ontario.

9. RECOMMENDATIONS

Given the information currently available, the Monitor believes that the Plan will result in a better prospect of recovery for the Affected Creditors than would bankruptcy, given the concessions reached with LaSalle and the decision of Cantar's affiliates to forgo participation in distributions under the Plan in respect of the Inter-Company Payables. If the Plan is not approved, the likely outcome is that LaSalle will enforce its security and there will be <u>no proceeds</u> for any of the unsecured creditors.

Accordingly, the Monitor at this time recommends that the Affected Creditors vote to approve the Plan.

A. FARBER & PARTNERS INC.
In its capacity as the Court-Appointed Monitor of the Applicant

Per: A. Farber & Partners Inc.

Court File No: 06-CL-6690

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