

RSM Richter Inc.

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**CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 05-TROIS-RIVIÈRES
COURT NO.: 400-11-003831-095
ESTATE NO.: 43-146169**

**SUPERIOR COURT
(In Bankruptcy and Insolvency)**

IN THE MATTER OF THE BANKRUPTCY OF:

**Aleris Aluminium Canada S.E.C / Aleris Aluminium
Canada L.P.**

a body politic and corporate, duly incorporated according
to law and having its head office and its principal place of
business at :
290, St-Laurent
Cap-de-la-Madeleine (Québec) G8T 7W9

Bankrupt

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On March 30, 2009, Aleris Aluminium Canada S.E.C. / Aleris Aluminum Canada L.P. ("Aleris" or the "Company" or the "Debtor") made an assignment in bankruptcy in accordance with Article 49 of the *Bankruptcy and Insolvency Act* and RSM Richter Inc. was appointed Trustee to the Bankruptcy ("Richter" or the "Trustee").

The information contained in this Report has been prepared from the available books and records of Aleris. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.

I. OVERVIEW

Aleris is a Canadian Limited Partnership which was part of a group of companies controlled by Aleris International, Inc. since the acquisition by it, in September 2006. The Company operated an aluminum product manufacturing plant situated at 290 St-Laurent, Cap-de-la-Madelaine, Québec. The aluminum products manufactured by the Company were destined for the automobile sector (50%), construction materials sector (30%), the aluminum product industry (18 %) and others (2 %).

Aleris sustained important losses in 2007 and 2008. Management attributes these losses in part to the Canadian dollar's strength against the American dollar, which caused the sales to drop. In addition, the global demand for aluminum products decreased considerably over the last years, which resulted in lower selling prices. Finally, the Company was unable to reduce its cost structure to offset the situation.

Protective measures which are required to be undertaken by the Trustee to secure the assets will entail large disbursements. The conservation costs are estimated at over \$3,000,000 annually. In order to be able to pay the conservatory costs, the Trustee obtained Court approval to borrow an amount of \$240,000 from Aleris Specification Alloy Products Canada Company. The secured creditors have acknowledged that the Trustee will proceed to the repayment of the loan from the realization of the assets of the bankrupt and in priority to their eventual secured claims. The Trustee will be able to borrow an additional amount of \$210,000 upon the approval by the Inspectors to be appointed.

In addition, the Trustees' fees and disbursements are guaranteed by Aleris Specification Alloy Products Canada Company.

II. FINANCIAL INFORMATION

The financial information contained in the current section was not audited and is subject to adjustments.

A) Historical Financial Results

The financial information contained in the current section is derived from the Company's internal financial statements.

A summary of the financial results (unaudited) for the years ended December 31, 2007 and 2008, is presented hereinafter:

- In 2008, sales decreased by \$127,303,000 from 2007 and the Company incurred a margin deficit of over \$28,000,000;
- General, administrative and sales expenses increased by \$422,000 in 2008;
- The Company recorded forgiveness of debts payable to affiliated companies for \$49,885,000;
- The Company devaluated its assets by approximately \$64,000,000 in 2008;
- In 2008, the Company realized foreign exchange gains of approximately \$3,000,000 compared to foreign exchange losses of \$600,000 in 2007;
- During 2008, the Company suffered a net loss of approximately \$46,000,000 compared to a net loss of approximately \$15,300,000 in 2007.

Aleris Aluminium Canada L.P.		
(Extracts of Internal Financial Statements - unaudited)		
Years ended December 31		
	2008	2007
Statement of Earnings		
Sales	\$119,100,000	\$246,403,000
Cost of goods sold	<u>(147,722,000)</u>	<u>(255,388,000)</u>
Gross margin (Margin deficit)	(28,622,000)	(8,985,000)
General, administrative and sales expenses	3,511,000	3,089,000
Forgiveness of debt	(49,885,000)	-
Assets devaluation and other closings costs	64,026,000	-
Interest and restructuring costs	2,705,000	2,650,000
Loss (Gain) on foreign exchange	<u>(3,000,000)</u>	<u>600,000</u>
Net loss	<u>\$(45,979,000)</u>	<u>\$(15,324,000)</u>

B) Statement of Affairs

The Statement of Affairs as at March 30, 2009 (Bankruptcy date) is derived from the books and records of the Company and Management's best estimates.

Aleris Aluminium Canada L.P. Statement of Affairs As at March 30, 2009 (unaudited)	
	As declared
Liabilities	
Secured creditors	\$ 17,275,001
Preferred creditors	-
Unsecured creditors	<u>43,033,135</u>
	60,308,136
Assets	
Current assets	1,260,001
Long-term assets	<u>16,015,000</u>
	\$ 17,275,001
Deficit	<u>\$(43,033,135)</u>

i) Assets

All the assets are pledged in favor of two secured lenders (discussed later).

The current assets consist of the bank account balances, inventory and accounts receivable.

The Trustee has already deposited the bank balances totaling approximately \$280,000.

Delivery of inventory has occurred since the Bankruptcy and other shipments are projected until May 2009. The total value of these shipments should amount to approximately \$1,100,000. The Trustee has commenced a detailed analysis of the accounts receivable and will proceed with the collection of the accounts. At the date of this report, it is difficult to evaluate the amount that will be collected since there are many litigious accounts.

The long term assets consist of the land and building, machinery and production equipment.

The Trustee is presently analyzing the different realization alternatives and will report to the Inspectors to be appointed.

ii) **Liabilities**

- **Secured creditors (\$17,275,001)**

The secured creditors are Deutsche Bank AG New York for \$5,200,000 and, by subrogation, Aleris International, Inc. and affiliated companies for \$12,075,001.

A legal opinion on the validity of the security held by the secured lenders has been requested from the Trustees' legal counsel. Upon receipt of the legal opinion the Trustee will report to the Inspectors to be appointed.

Subject to the validity of their security and their ranking, the secured creditors will receive the proceeds from the realization of the assets up to the amount of their claim.

The City of Trois-Rivières has remitted to the Trustee a secured proof of claim for an amount of approximately \$439,000 representing the 2009 municipal taxes. The Trustee is presently gathering the information relating to the contributions to the different pension plans.

It is too early to evaluate if the secured creditors will be repaid in full.

- **Preferred creditors**

The books and records of the Company do not indicate any preferred creditors.

- **Unsecured creditors (\$43,033,135)**

According to the Statement of Affairs, the amount due to the unsecured creditors totals \$43,033,135. As at the date of the preparation of this report, the Trustee has not received sufficient proofs of claim to validate this amount.

III. **SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE TRUSTEE**

A) **Books and Records**

The books and records of the Debtor were not up to date as at the Bankruptcy date. The Trustee took the necessary steps to bring them to date and will take possession of the books and records of the Debtor for future reference.

B) Protective Measures

Since March 30, 2009, the Trustee has undertaken various security and protective measures such as:

- Hiring of former employees of Aleris, on a temporary basis, to assist the Trustee in its functions;
- Opening of a trust bank account;
- Retaining the services of a security company in order to secure the assets at the premises;
- Initiate the inventory-taking of the assets;
- Safeguarding the information contained in the computer system;
- Adding the Trustee's name to the insurance policies in force covering the assets of the Company;
- Making arrangements with utilities companies and certain suppliers of goods and services to maintain the assets;
- Keep in place environmental monitoring procedures.

C) Realization Process

The Trustee is presently analyzing different assets realization scenarios. The selected process will have to consider the important conservation costs that are currently incurred.

D) Property of Others

To date, the Trustee has not received any property claims.

E) Reviewable Transactions and Preferential Payments


The Trustee will perform a review of the Company's books and records to determine any potential preferential payments or any reviewable transactions and will produce a report to the Inspectors to be appointed.

IV. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

The process to liquidate the assets has not commenced, it is too early to estimate the anticipated realization and the projected distribution.

Dated at Montréal, this 22nd day of April 2009.

RSM Richter Inc.
Trustee



Benoit Gingues, CA, CIRP
Administrator of the Estate