

C A N A D A
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 20 – BEDFORD
COURT NO.: 460-11-001473-076
ESTATE NO.: 42-1002057

SUPERIOR COURT
(In bankruptcy and insolvency)

IN THE MATTER OF THE PROPOSAL OF:

De Ball Inc.

a body politic and corporate, duly incorporated according to law and having its principal place of business at:
835 Industriel Boulevard
Granby QC J2J 1A5

Debtor

**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION
OF THE DEBTOR AND ON THE PROPOSAL
(Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*)**

The purpose of the First Meeting of Creditors is to consider the Proposal filed on December 5, 2007 (hereinafter referred to as “the Proposal”) by De Ball Inc. (hereinafter referred to as the “Debtor”, “De Ball” or the “Company”).

Pursuant to Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act* (hereinafter referred to as the “Act” or “BIA”), and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Debtor and on the Proposal.

We caution the reader that we have neither conducted an audit nor a verification of the books and records of the Debtor. Consequently, we cannot render an opinion as to the accuracy of the information contained therein. The information discussed herein emanates from the books and records of the Debtor as well as from our discussions with the Management of the Debtor.

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I. INTRODUCTION

On October 5, 2007, De Ball filed a Notice of Intention to Make a Proposal (hereinafter referred to as the "Notice of Intention") to its creditors and RSM Richter Inc. (hereinafter referred to as "Richter") was named Trustee.

On November 1, 2007, the Superior Court of Quebec (Commercial Division) granted the Debtor's Motion to Extend the Delay for Filing a Proposal for a 45 day-period until December 19, 2007.

On December 5, 2007, the Debtor filed a Proposal to its creditors. We have enclosed herewith the Proposal made by the Debtor to its creditors, a proof of claim form, a voting form, a proxy and a notice indicating the place and time of the first meeting of the creditors to address the Proposal.

The following summarizes the relevant information and key elements that may assist the creditors in evaluating the Debtor's affairs and the Proposal.

II. BACKGROUND OF THE DEBTOR

De Ball was established in December 2004 pursuant to the purchase of certain assets of JL De Ball Inc. De Ball is a manufacturer of high quality velvet and corduroy products for the North American Apparel and home furnishing sectors with exportations representing approximately 80% of total sales.

Since 2004, the Company has invested significant amounts in order to consolidate all its manufacturing operations in Granby (closing of North Carolina plant) and improve the plant efficiency.

Nevertheless, market conditions and the continued strengthening of the Canadian Dollar against other currencies contributed to seriously hamper the Debtor's ability to generate profits and contributed to enhance its financial difficulties.

According to Management, notwithstanding the steps taken to return to profitability, the Company could not continue to operate as a going concern and meet its obligations as they came due. De Ball needed time to restructure its financing arrangements and, as such, filed the Notice of Intention. Although the plant operations were initially stopped, they have now resumed.

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The principal reasons for the poor financial performance of the Company can be summarized as follows:

- Longer than anticipated re-engineering of the business model;
- Loss of important clients;
- Difficult market conditions;
- Continued strengthening of the Canadian dollar as exportations represent a significant portion of De Ball's sales.

III. **RESTRUCTURING EFFORTS**

Pursuant to the filing of the Notice of Intention, Management has taken the following steps in order to improve the Debtor's profitability and its balance sheet:

- Refinancing of the term debt and operating credit facility;
- Negotiation to repurchase the \$3,847,500 subordinated debt at a substantial discount;
- Negotiation of salary concessions with regards to the unionized and non-unionized employees of approximately \$1,000,000 (on an annualized basis);
- Downsizing of the warehouse, storage and other leased areas (annualized savings of approximately \$676,000).

A) **Refinancing**

Before the filing of the Notice of Intention, Banque Nationale du Canada (hereinafter referred to as "BNC") had expressed its intention to no longer support the Debtor's financial needs on a going concern. In addition, Management's assessment of its working capital needs indicated that additional financing was required to support the operations. Therefore, the Company made the following arrangements in order to refinance its existing financing with BNC:

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- During the month of November 2007, De Ball obtained from Dennis Wood Holdings Inc. a new \$4,000,000 operating credit facility in replacement of the existing facility from BNC. This financing provides access to the Company to increase its borrowings (if needed and based on margining values) which are similar to those previously offered by BNC. This operating credit is secured by a first ranking hypothec on the universality of the assets of the Company, except for the land and building located at 835 Industriel Boulevard in Granby (hereinafter referred to as the "Building"), on which a second ranking hypothec is registered;
- On November 29, 2007, the Debtor obtained a \$3,000,000 mortgage loan from Koneca Investments B.V. on the Building, which allows it to reimburse the BNC \$1,500,000 mortgage loan and generate additional liquidity to finance its working capital needs. This mortgage is secured by a first ranking hypothec on the Building;
- The \$2,000,000 existing mortgage loan held by the shareholders of De Ball, pursuant to the March 2007 specific financing, is secured by a second ranking hypothec on the universality of De Ball's assets (excluding the Building) and by a third ranking hypothec on the Building (previously second ranking);
- In addition, the Company has negotiated, subject to the Approval of the Proposal, a \$500,000 redemption of the \$3,847,500 subordinated debt owed to Fonds de Solidarité des Travailleurs du Québec (hereinafter referred to as "FSTQ"). The FSTQ transaction greatly reduces the financial cost and burden of the Company.

B) Salary Concessions

- As part of Management's restructuring efforts, approximately \$1,000,000 of salary concessions were obtained from all employees in order to reduce costs. After lengthy negotiations between Management and the employees, both parties have reached an agreement which can be summarized as follows:

Unionized Employees (total annual savings of \$620,000 for 76 employees)

- Reduction of \$2.45 per hour in the base salary, resulting in annual savings of **\$387,000** (based upon 2,080 hours per annum for 76 employees);

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- Abolition of the RRSP employer contribution of \$0.50 per hour, resulting in total savings of **\$79,000** (based upon 2,080 hours per annum for 76 employees);
- Abolition of the one week vacation for personal days paid to each unionized employees representing annual savings of **\$53,000** (based upon an average hourly rate of \$17.50 and 40 hours per week);
- Corresponding reduction in vacation payment resulting from the decrease in base salary totalling approximately **\$38,000**;
- Cancellation of the \$0.40 per hour base salary increase effective starting January 2008 (as per the terms of the collective agreement in force before the filing of the Notice of Intention) representing total savings of **\$63,000**;
- The above salary concessions agreed by the unionized employees consist in an overall gross salary reduction of approximately 20%. Management also confirmed that no headcount reduction was implemented pursuant to the re-launch of the production.

Non-Unionized Employees (total annual savings of \$380,000 for 29 employees)

- Management negotiated a 17% gross salary reduction of all non-unionized employees resulting in annual savings of **\$280,000** (26 employees);
- In addition, 3 head office personal were laid off with annual salaries amounting to **\$100,000**.

C) Downsizing of Warehouse, Storage and Other Leased Areas (annual savings of \$676,000)

- De Ball had originally consolidated the storage and shipping functions of all its finished goods in a leased warehouse located in Boucherville, Quebec, while raw materials and work-in-progress inventories were located in Granby. However, in order to reduce the overhead expenses associated with the Boucherville rent and the related shipping charges, the Company decided to transfer its entire inventory into the Granby facilities. The annual Boucherville rent amounted to **\$480,000**. Management was not able to estimate the approximate savings attributable to the resulting reduction in shipping charges. In addition, Management intends to charge to its customers the shipping costs when possible;

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- As part of its restructuring efforts, the Debtor also cancelled 3 leased locations used as sales offices. The annual rent for these locations totalled approximately **\$196,000**.

IV. FINANCIAL INFORMATION

The following financial data, as at November 28, 2007, was extracted either from the internal books and records of the Debtor, the audited financial statements or from discussions held with Management. This information is submitted solely to assist the reader in assessing the current financial position of the Debtor.

The Trustee makes no representations or warranty as to the accuracy of said financial information.

A) Operating Results

The Company's historical results are summarized below:

| Financial Results Year ended August 31 | | | | | | |
|---|-----------------|-------------|-----------------|------------|-----------------|-----------|
| (In \$MM) | 2007 | | 2006 | | 2005 (9 months) | |
| | Unaudited | % | Audited | % | Audited | % |
| Sales | \$ 13.9 | | \$ 19.5 | | \$ 16.5 | |
| Gross profit | 1.4 | 10% | 3.9 | 20% | 3.8 | 23% |
| Selling & shipping | 2.3 | 17% | 3.3 | 17% | 1.8 | 11% |
| General & administrative | 1.4 | 10% | 1.8 | 9% | 1.3 | 8% |
| Dep'n & writedown | 0.5 | 4% | 0.5 | 3% | 0.3 | 2% |
| Interest & other | 0.3 | 2% | 1.1 | 6% | 1.1 | 7% |
| Net loss | \$ (3.1) | | \$ (2.8) | | \$ (0.7) | |
| EBITDA | \$ (2.3) | -17% | \$ (1.2) | -6% | \$ 0.7 | 4% |

The salient facts of the above table are as follows:

- During the two year-period (2005 to 2007), when annualizing the 2005 results, sales have decreased significantly (37%) due to the loss of major customers coupled with the continued strengthening of the Canadian dollar;
- As a result, the gross margin was negatively impacted, which declined 13% to 10% over the same period;

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- The Company reported an EBITDA loss of \$2.3MM for the year ended August 31, 2007, down \$3MM from the positive EBITDA of \$0.7MM generated during the period ended August 31, 2005 (9 months). This is primarily attributable to the reduced gross margin and increased overhead expenses, even if certain overhead costs cutting measures were implemented in 2006;

B) Assets

The Company's records indicated that, as at November 28, 2007, its assets were:

| Assets As at November 28, 2007 | |
|-----------------------------------|----------------------------|
| | Book Value |
| Cash | \$ 333,875 |
| Accounts receivable | |
| Gross | 1,704,646 |
| Provision | <u>(36,250)</u> |
| | 1,668,396 |
| Sales tax & other | 115,522 |
| Prepaid | 308,312 |
| Inventory | <u>2,847,422</u> |
| | 5,273,526 |
| Fixed assets | <u>4,355,619</u> |
| Total Assets | <u>\$ 9,629,146</u> |

- All of the Company's assets are pledged to secure its current financing arrangements.

Our comments concerning the November 28, 2007 values are summarized as follows:

i) Cash in Bank (\$333,875)

The funds in bank result from advances under the operating loan and include \$28,493 and \$36,001 of outstanding cheques and outstanding deposits, respectively. The statement of receipts and disbursements for the period of October 5 to November 28, 2007 is submitted as Exhibit 1.

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ii) **Accounts Receivable (\$1,668,396)**

| Accounts Receivable Roll-Forward For the period October 5 to November 28, 2007 | | | |
|---|-------------------|---------------------|---------------------|
| | CDN | US | Total (CDN) |
| Opening accounts receivable * | \$ 453,314 | \$ 1,982,840 | \$ 2,432,784 |
| Collection | (345,618) | (1,247,483) | (1,558,848) |
| Adjustments | (41) | (46) | (71) |
| Discounts | (204) | (563) | (774) |
| Sales | 169,389 | 700,233 | 854,988 |
| Foreign exchange variance | | | (23,434) |
| Closing accounts receivable ** | \$ 276,840 | \$ 1,434,980 | 1,704,646 |
| Provision | | | (36,250) |
| Net accounts receivable | | | \$ 1,668,396 |
| * Conversion rate used of 0.9983. | | | |
| ** Conversion rate used of 0.9950. | | | |

The above table summarized the roll-forward of the accounts receivable since the filing of the Notice of Intention on October 5, 2007 (a detailed aged roll-forward is submitted as Exhibit 2).

- The majority of the accounts receivable collected relate to the pre-filing period;
- Since the filing of the Notice of Intention, the Company generated sales of approximately \$855,000 which consist primarily in the shipping of finished goods on hand as at October 5, 2007. The value of credit notes and adjustments issued during the period is nominal;
- As at November 28, 2007, approximately \$650,000 of the accounts receivable was aged 60 days and older; this is consistent with De Ball's historical collection pattern ranging from 30 to 60 days. Therefore, the filing of the Notice of Intention did not have an important impact on the collection performance. Management is projecting to collect the 60 days and older accounts receivable during the month of December 2007, while, in January 2008, they should collect the remaining balance (December 2007 sales will be collected in February 2008). The Company's cash flow projections for the period November 28, 2007 to February 2, 2008 are submitted as Exhibit 3.

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iii) **Sales Taxes & Other (\$115,522)**

- The net sales taxes receivable relate to August, October and November 2007.

iv) **Prepaid (\$308,312)**

- The prepaid amounts as at November 28, 2007 can be broken down as follows:

- Security deposits (\$270,000)
 - Gaz Metropolitain \$150,000
 - Hydro Quebec 70,000
 - Rent 50,000

These security deposits relate to post-filing obligations.

- Miscellaneous & other (\$38,312)

v) **Inventory (\$2,847,422)**

| Inventory | | |
|-------------------------|---------------------|---------------------|
| | As at Oct. 5, 07 | As at Nov. 28, 07 |
| Raw materials | | |
| Yarn | \$ 834,223 | \$ 955,958 |
| Chemicals | 259,002 | 277,519 |
| | <u>1,093,225</u> | <u>1,233,476</u> |
| Work-in-progress | | |
| Greige dyed & not dyed | 1,010,202 | 948,011 |
| Finished goods | <u>2,200,572</u> | <u>2,249,775</u> |
| | 4,303,999 | 4,431,263 |
| Provision | <u>(1,552,015)</u> | <u>(1,583,840)</u> |
| | \$ 2,751,984 | \$ 2,847,422 |

- As shown in the above table, the inventory remained relatively constant during the period of October 5 to November 28, 2007. Increase in yarn inventory is mainly due to the receipts of raw materials, while the finished goods inventory remained constant as sales were offset by new production.

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vi) **Fixed Assets (\$4,355,619)**

- No capital expenditure was recorded since the filling of the Notice of Intention;
- The breakdown of fixed assets is detailed as follows:

| Fixed Assets As at November 28, 2007 | |
|---|----------------------------|
| | Book Value |
| Land & building | \$ 1,917,955 |
| Furniture & fixtures | 98,266 |
| Compter equipments | 8,680 |
| Machinery & equipments | <u>2,330,718</u> |
| Total | \$ <u>4,355,619</u> |

C) **Liabilities**

As at November 28, 2007, the Company's internal financial statements reflect the following liabilities:

| Liabilities As at November 28, 2007 | |
|--|-----------------------------|
| | Book Value |
| Secured creditors | |
| Dennis Wood Holdings Inc. | \$ 3,940,897 |
| 4170075 Canada Inc. | <u>2,117,808</u> |
| | 6,058,705 |
| Preferred creditors | NIL |
| Unsecured creditors | |
| FSTQ (pre-filing) | 3,847,500 |
| Other creditors (pre-filing) | <u>1,859,058</u> |
| | 5,706,558 |
| Post-filing (after Oct. 5, 07) | <u>446,256</u> |
| | 6,152,814 |
| Accrued liabilities | <u>478,178</u> |
| Total liabilities | \$ <u>12,689,697</u> |

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i) **Secured Creditors (\$6,058,705)**

De Ball's secured creditors are the Dennis Wood Holdings Inc. (short term operating credit) and 4170075 Canada Inc. (the Debtor's shareholders' holding company) to which De Ball was indebted as at November 28, 2007 in an aggregate approximate amount of \$3,941,000 and \$2,118,000, respectively.

It is important to note that on November 29, 2007, the Company received a \$3,000,000 mortgage loan from Koneca Investments B.V.

The Proposal provides that the secured claims will be paid in accordance with existing or future agreements between the Debtor and the secured creditors or pursuant to the rights which the BIA grants to such creditors.

The details of the secured indebtedness are as follows:

Dennis Wood Holdings Inc. (\$3,940,897)

- Dennis Wood Holdings Inc. has the following security:
 - First ranking hypothec right on the universality of De Ball's assets, excluding the Building;
 - Second ranking hypothec right on the Building.
- Pursuant to the receipt of the proceeds from the mortgage loan with Koneca Investments B.V., the facility was reduced temporarily to approximately \$1,250,000;
- This operating credit facility was essentially used to refinance the BNC loans (operating credit and term mortgage loan). BNC has assigned all of its security rights to Dennis Wood Holdings Inc.

4170075 Canada Inc. (\$2,117,808)

- 4170075 Inc. has the following security:
 - Second ranking hypothec right on the universality of De Ball's assets, excluding the Building;
 - Third ranking hypothec right on the Building.

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Koneca Investments B.V. (\$3,000,000)

- Koneca Investments B.V. has the following security:
 - First ranking hypothec right on the Building.

Validity of Security

Richter has retained the service of an attorney to obtain, prior to the creditors' meeting, an independent legal opinion confirming the validity of the security held by Dennis Wood Holdings Inc., 4170075 Canada Inc. and Koneca Investments B.V. In the interim, our review of the amounts outstanding indicates that the secured debts are for valid consideration and are owed.

ii) Preferred Creditors (NIL)

Based upon the terms and conditions of the Proposal, all employee claims shall be paid in full in the normal course of business, while all preferred claims will be paid in full in priority of all unsecured claims. At the time of preparing this report, no preferred claims existed as all unpaid salaries and vacation pay were paid by De Ball in the normal course of business since the filing of the Notice of Intention. Management of De Ball does not know of nor expects any claims.

iii) Unsecured Creditors (\$6,152,814)

Pre-Filing (\$5,706,558)

- Since the filing of the Notice of Intention on October 5, 2007, the Debtor has updated its books and records and as such the amount owed to unsecured creditors has been determined to be \$5,706,558 (including \$3,847,500 owed to FSTQ). The amount due to the unsecured creditors will be validated upon the filing by the creditors of their proofs of claim and are subject to the Proposal.

Post-Filing (\$446,256)

- The unpaid goods and services purchased after the filing of the Notice of Intention total approximately \$446,000. They are not subject to the Proposal and will be paid in full in the ordinary course of business and on regular trade terms.

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iv) **Accrued Liabilities (\$478,178)**

The unrecorded goods and services purchased after the filing of the Notice of Intention total approximately \$478,000. They are not subject to the Proposal and will be paid in full in the ordinary course of business and on regular trade terms. The accrued liabilities relate to salary and benefit accruals as well as miscellaneous accruals for overhead expenses such as utilities and tax on capital.

V. **PROPOSAL TO UNSECURED CREDITORS**

As previously mentioned, on December 5, 2007, the Company filed a Proposal to its creditors. In summary, the salient facts are:

- The secured claims will be paid in accordance with existing or future agreements between the Debtor and the secured creditors. The Proposal is not, and shall not be, made in respect to the secured claims and the security of the secured creditors;
- The Employee Claims shall be paid in full in the normal course of business;
- The Crown Claims, without interest, will be paid in full within six (6) months of the approval of the Proposal;
- Preferred Claims, without interest, will be paid in full in priority to all unsecured claims;
- The Proposal expenses will be paid in full in priority to all Preferred Claims, Crown Claims and Unsecured Claims;
- The Debtor will remit to Richter a total of \$2,100,000 (hereinafter referred to as the "Basket Amount"). After payment of the proposal expenses from the Basket Amount, the unsecured creditors, other than the FSTQ, will receive from the Basket Amount:
 - i) the lesser of
 - a) 100% of their proven claims, without interest, and
 - b) \$10,000,

the whole payable within sixty (60) days following the Approval of the Proposal;

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- ii) the pro rata and pari-passu share of the balance of their proven claim, if any, in eight (8) equal instalments, the first payable 150 days after the date of Approval of the Proposal and the remaining instalments payable thereafter once every three (3) months (the last instalment would be paid on or about February 2010).
- As a final and complete settlement of its unsecured claim, in the amount of \$3,847,500, the FSTQ will be paid the sum of \$500,000 within sixty (60) days following the Approval of the Proposal;
- The Proposal will constitute a compromise of all claims against directors and will operate as a full and complete discharge in favour of such directors with respect to such claims.

VI. FINANCIAL PROJECTIONS

The following tables summarize the financial projections prepared by Management for the 12-month period from December 2007 to November 2008:

| Proforma Financial Projections | | | | | | |
|--------------------------------|----------------|-----------|-----------------|-------------|-----------------|------------|
| (In \$MM) | Nov. 30, 08 | | August 31, 2007 | | August 31, 2006 | |
| | 12 months | | 12 months | | 12 months | |
| | Forecast | % | Unaudited | % | Audited | % |
| Sales | \$ 16.2 | | \$ 13.9 | | \$ 19.5 | |
| Gross profit | 4.0 | 25% | 1.4 | 10% | 3.9 | 20% |
| General & administrative | 2.5 | 15% | 3.7 | 27% | 5.1 | 26% |
| Dep'n & writedown | 0.5 | 3% | 0.5 | 4% | 0.5 | 3% |
| Interest & other | 0.8 | 5% | 0.3 | 2% | 1.1 | 6% |
| Net (loss)/profit | \$ 0.2 | | \$ (3.1) | | \$ (2.8) | |
| EBITDA | \$ 1.5 | 9% | \$ (2.3) | -17% | \$ (1.2) | -6% |

| Sales & EBITDA | | |
|----------------|------------------|-----------------|
| F2008 | | |
| (In \$000's) | Sales | EBITDA |
| December | \$ 1,119 | \$ (88) |
| January | 1,535 | 243 |
| February | 1,535 | 209 |
| March | 1,535 | 182 |
| April | 1,535 | 190 |
| May | 1,535 | 164 |
| June | 1,286 | 183 |
| July | 1,286 | 88 |
| August | 1,286 | 217 |
| September | 1,170 | 125 |
| October | 1,170 | (110) |
| November | 1,170 | 86 |
| Total | \$ 16,162 | \$ 1,489 |

The significant underlying assumptions can be summarized as follows:

- Sales are projected to increase by approximately 16% over 2007, which is explained by the 10% price increase that the Company already communicated to its customers coupled with an expected overall improvement in the market conditions;

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- The budgeted foreign exchange rate is at par;
- The budgeted gross margin improvement is primarily attributable to the 20% salary reduction (\$0.6MM) resulting from the agreement entered into with the unionized employees;
- The \$1.2MM projected decrease in general and administrative expenses result from the head office salary reductions as well as from the reduced rent expenses (termination of the Boucherville warehouse rent and of other leased locations);
- No additional cost cutting measures (other than those previously described) are factored in the 2008 forecast, nor that Management projects further head count reductions;
- No capital expenditures are forecasted for 2008 (only the regular maintenance costs are budgeted).

The financial projections prepared by Management for the period December 2007 to November 2008, appear reasonable, as they reflect the historical trending and the cost cutting measures recently implemented, and are in agreement with the conditions set out in the Proposal. In addition, given that the operating credit is projected to reach a maximum of \$3MM during the period (authorized limit of \$4MM), additional financing would be available to the Company in the case the financial performance would differs from what initially projected. However, since the projections are based upon assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

VII. ESTIMATE AS TO DISTRIBUTION TO CREDITORS

In the event that the creditors reject the Proposal, the Debtor will automatically be bankrupt and the net proceeds of the sale of assets after the payment of the Trustee's fees and expenses will be distributed to the creditors in the order provided for under the Act. The following information is to inform the creditors on the estimate as to the distribution to creditors under the Proposal in comparison to the estimated distribution under a bankruptcy scenario.

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A) Proposal

Based upon the current list of unsecured creditors, unsecured claims, excluding the claim of FSTQ, total approximately \$1,859,000. Therefore, it appears that the \$2.1MM Basket Amount would be sufficient to cover the entirety (100%) of the unsecured claims, before taking into account the Proposal expenses ranking in priority of the unsecured creditors and dependent on the final determination of all proven claims of the unsecured creditors and the preferred creditors. However, the success of this Proposal is dependant on the Debtor's ability to meet its financial projections.

The estimated distribution under the Proposal is summarized as follows:

| Proposal Estimated Distribution | | | | |
|---|---------------------------------|---------------------------|------------------------------|----------------------------|
| <u>Professional fees</u> | | | | \$ 250,000 |
| <u>Dividends to creditors</u> | Estimated Payment in | # of creditors | % of distribution | |
| First dividend (< of proven claims or \$10,000) | | | | |
| | Feb. 2008 | 163 | 100% | 314,275 |
| | Feb. 2008 | 31 | 20.1% | <u>310,000</u> |
| | | | | 624,275 |
| Other dividends (8 equal installments) | May 2008 to Feb. 2010 | 31 | 79.3% | <u>1,225,725</u> |
| | | | 99.4% | <u>1,850,000</u> |
| Total Basket Amount | | | | <u>\$ 2,100,000</u> |

B) Bankruptcy

In a bankruptcy scenario, it has been estimated that the net realization value of the assets could range from \$4.5MM to \$6.0MM.

Based upon the following analysis of the estimated net realization of the Debtor's assets, at the present time, their estimated realization value is not sufficient to reimburse in full the secured claims. Thus, we believe that under a bankruptcy scenario no amount would be available for distribution to the unsecured creditors.

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| Estimated Realization Value As at November 28, 2007 | | | | | |
|--|------------------|---------------|------|-----------------------|---------------------|
| | Book Value | % Realization | | Range | |
| | \$ | Low | High | Low | High |
| Cash ¹ | \$ 333,875 | 0% | 0% | \$ - | \$ - |
| Accounts receivable | 1,668,396 | 50% | 70% | 834,000 | 1,168,000 |
| Inventory | 2,847,422 | 20% | 30% | 569,000 | 854,000 |
| Sales taxes & other | 115,522 | 0% | 0% | - | - |
| Prepaid | 308,312 | 0% | 0% | - | - |
| | <u>5,273,526</u> | | | <u>1,403,000</u> | <u>2,022,000</u> |
| Land & building | 1,917,955 | | | 3,000,000 | 4,000,000 |
| Machinery & equipment | 2,330,717 | 15% | 20% | 350,000 | 466,000 |
| Other Assets | 106,947 | 0% | 0% | - | - |
| Estimated realization value | 9,629,146 | | | 4,753,000 | 6,488,000 |
| Professional fees and realization costs | | | | <u>300,000</u> | <u>500,000</u> |
| Net estimated realization value | | | | 4,453,000 | 5,988,000 |
| Secured claims ² | | | | <u>6,366,558</u> | <u>6,366,558</u> |
| Surplus/(deficit) | | | | \$ (1,913,558) | \$ (378,558) |

¹ The cash in bank will be use to pay for post filling obligations.

² Including the \$3MM mortgage loan and the reduction in the operating credit which took place after November 28, 2007.

- It should be noted that in December 2004, De Ball purchased inventories (book value of \$8.7MM) and fixed assets for an aggregate purchase price of \$7.1MM (excluding the assets (\$563,000) located in the closed North Carolina plant). Included in the purchase price was the Building for an amount of \$3MM.

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VIII. CONCLUSION

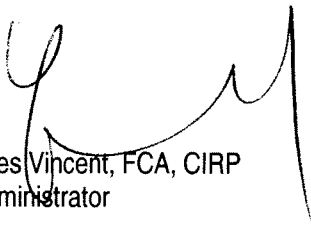
After having estimated that no amount would be available for the unsecured creditors in the context of a bankruptcy, we are of the opinion that the present Proposal is more advantageous to the creditors.

For these reasons, the Trustee recommends the approval of the Proposal.

Dated at Montreal, Province of Quebec, this 7th day of December 2007.

RSM Richter Inc.

Trustee



Yves Vincent, FCA, CIRP
Administrator

| Summary of Receipts and Disbursements For the Period October 5 to November 28, 2007 | | | |
|---|------------------------------|----------------------------|----------------------------|
| | Budget | Actual * | Variance |
| <u>Receipts</u> | | | |
| Accounts receivable | \$ 1,230,502 | \$ 1,558,848 | \$ 328,345 |
| Sales taxes | - | 125,536 | 125,536 |
| Advances under operating credit | - | 1,102,150 | 1,102,150 |
| Other | 30 | 1,438 | 1,408 |
| Total receipts | <u>\$ 1,230,532</u> | <u>\$ 2,787,972</u> | <u>\$ 1,557,440</u> |
| <u>Disbursements</u> | | | |
| Wages & benefits | \$ 214,602 | \$ 368,650 | \$ (154,048) |
| Raw materials | - | 449,023 | (449,023) |
| Repairs and maintenance | - | 46,414 | (46,414) |
| Contractors | - | 4,007 | (4,007) |
| Utilities | 156,000 | 353,757 | (197,757) |
| Rent | 97,492 | - | 97,492 |
| Insurance | 9,820 | 79,143 | (69,324) |
| Telephone | 11,032 | 606 | 10,427 |
| Freight and delivery | 88,683 | 88,706 | (22) |
| Interests and bank charges | 61,228 | 59,659 | 1,569 |
| Professional fees | 80,000 | - | 80,000 |
| Other | 44,395 | 13,683 | 30,712 |
| Total disbursements | <u>\$ 763,252</u> | <u>\$ 1,463,649</u> | <u>\$ (700,397)</u> |
| Bank indebtedness - opening | \$ (2,324,407) | \$ (2,324,407) | \$ - |
| Change in cash | 467,280 | 1,324,323 | 857,043 |
| Reimbursement of BNC line of credit | - | 1,326,450 | 1,326,450 |
| Cash balance - closing ** | <u>\$ (1,857,127)</u> | <u>\$ 326,367</u> | <u>\$ 2,183,493</u> |
| * Conversion rate used of 0.9950. | | | |
| ** The closing cash balance excludes \$28,493 and \$36,001 of outstanding cheques and outstanding deposits, respectively. | | | |

| Summary of Aged Accounts Receivable For the Period October 5 to November 28, 2007 | | | | | | |
|--|-------------------|-------------------|-------------------|------------------|------------------|------------------|
| | Total | 1 - 30 | 31 - 60 | 61 - 90 | 91 - 120 | > 120 |
| AR AS AT OCTOBER 5, 2007 * | | | | | | |
| CDN Accounts | | | | | | |
| Opening balance (05-10-07) | \$ 453,314 | \$ 210,746 | \$ 150,929 | \$ 91,319 | \$ - | \$ 320 |
| Collection & adjustments | (395,397) | (157,816) | (146,333) | (91,248) | - | - |
| Closing balance (28-11-07) | \$ 57,917 | \$ 52,931 | \$ 4,596 | \$ 71 | \$ - | \$ 320 |
| | | 91% | 8% | 0% | 0% | 1% |
| USD Accounts | | | | | | |
| Opening balance (05-10-07) | \$ 1,982,840 | \$ 968,210 | \$ 695,977 | \$ 165,219 | \$ 62,839 | \$ 90,596 |
| Collection & adjustments | (1,178,602) | (534,842) | (413,776) | (109,342) | (46,804) | (73,838) |
| Closing balance (28-11-07) | \$ 804,238 | \$ 433,368 | \$ 282,201 | \$ 55,876 | \$ 16,035 | \$ 16,758 |
| | | 54% | 35% | 7% | 2% | 2% |
| AR "POST" OCTOBER 5, 2007 | | | | | | |
| CDN Accounts | | | | | | |
| Opening balance (05-10-07) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Adjustments | 49,534 | 59,225 | (9,691) | - | - | - |
| Sales | 169,389 | 145,182 | 24,208 | - | - | - |
| Closing balance (28-11-07) | \$ 218,923 | \$ 204,406 | \$ 14,517 | \$ - | \$ - | \$ - |
| | | 93% | 7% | 0% | 0% | 0% |
| USD Accounts | | | | | | |
| Opening balance (05-10-07) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Collection & adjustments | (69,491) | (17,755) | (51,736) | - | - | - |
| Sales | 700,233 | 604,231 | 96,002 | - | - | - |
| Closing balance (28-11-07) | \$ 630,742 | \$ 586,476 | \$ 44,266 | \$ - | \$ - | \$ - |
| | | 93% | 7% | 0% | 0% | 0% |

* Based upon the aged accounts receivable listing as at October 5, 2007.

De Ball Inc.
Statement of Projected Cash Flow
For the Period November 28, 2007 to February 2, 2008

Cash Receipts

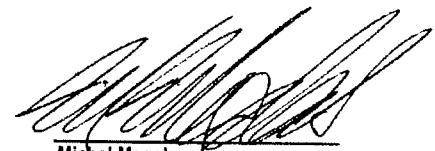
| | |
|------------------------------------|-------------------------|
| Collection of accounts receivable | \$ 1,650,000 |
| Proceeds from term loan (mortgage) | 3,000,000 |
| Total cash receipts | <u>4,650,000</u> |

Cash Disbursements

| | |
|---|----------------------------|
| Yarn purchases | \$ 913,000 |
| Chemicals | 175,000 |
| Duty, freight & delivery | 62,000 |
| Factory supplies | 40,000 |
| Wages & benefits | 708,000 |
| Commissions | 28,500 |
| Utilities | 210,000 |
| Rent | 45,580 |
| Insurance & other | 31,000 |
| Payment of accounts payable (post-filing) | 485,652 |
| Interests | 100,000 |
| Other | 90,000 |
| Total cash disbursements | <u>\$ 2,888,732</u> |

| | |
|--|------------------------------|
| Opening balance - bank indebtedness ¹ | (3,607,023) |
| Change in cash | 1,761,268 |
| Closing balance - bank indebtedness | <u>\$ (1,845,755)</u> |

¹ Net of approximately \$334,000 of cash as at November 28, 2007.



Michel Megelas
December 5, 2007



DE BALL INC.

NOTES TO
STATEMENT OF PROJECTED CASH FLOW
FOR THE PERIOD NOVEMBER 28, 2007 TO FEBRUARY 2, 2008

Note 1: General

The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of De Ball Inc, for the period November 28, 2007 to February 2, 2008, relating to the filing of a Notice of Intention to Make a Proposal on October 5, 2007 and to the filing of the Proposal. This Statement of Projected Cash Flow has been prepared by Management on December 5, 2007 based on available financial information at that date in accordance with Sections 50.4(2)(b) and 50(6)(b) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the Trustee's Report on the Cash Flow Statement. Readers are cautioned that this information may not be appropriate for other purposes.

The Statement of Projected Cash Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period November 28, 2007 to February 2, 2008, considering the economic conditions that are considered the most probable by Management.

As the cash flow is based upon various assumptions about future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Note 2: Assumptions

A. Cash Receipts

- Collection of opening accounts receivable is based upon Management's best estimate.
- De Ball Inc. refinanced its operating credit and term loan to ensure the continuing support and funding of its operations during the period subsequent to the filing of the Proposal.

B. Cash Disbursements

- The projected cash disbursements are based upon historical data and best estimates of the Company.
- The cash disbursements do not provide for the payment of arrears.

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