Unofficial Translation

RSM Richter Inc.

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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
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 Amended Proposal filed on May 8, 2008 (hereinafter referred to as "the Amended 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 Amended Proposal, the Trustee is submitting its report on the financial situation of the Debtor and on the Amended 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. On December 7, we advised the creditors of the filing of the Proposal and convened a meeting of creditors, while also asking the creditors to file proofs of claim.

On December 19, 2007, the creditors' meeting was held. The creditors voted unanimously in favour of the acceptance of the Proposal.

On January 11, 2008, the Trustee advised the creditors that the motion to the Court for ratification of the Proposal would be heard on January 30, 2008. The Court ratified the Proposal ("Initial Proposal").

Default under the Initial Proposal

De Ball had offered its creditors a settlement which provided terms of payment for debts due as at October 5, 2007. The financial consideration offered to the unsecured creditors provided the following:

- *The Debtor will remit to Richter a total amount 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;

  ii) the pro rata and pari passu share of the balance of their proven claims, 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 $3,848,075, the FSTQ will be paid the sum of $500,000 within sixty (60) days following the approval of the Proposal.*

The funds required to make the first dividend payment to creditors total approximately $1,056,000.

The Company had until April 9, 2008 to make the first payment to the Trustee. However, this payment was not made and the resulting default was not corrected prior to May 9, 2008 (as set out in the Act).

As De Ball was not able to correct the default to meet the terms of the Initial Proposal, the Debtor filed an Amended Proposal within the deadlines set out in the Act.

In view of the circumstances, this report provides for a summary of the relevant information and key elements to assist the creditors in evaluating the Debtor's affairs and the terms of the Amended Proposal.

II. THE COMPANY'S SITUATION

Creditors should refer to the Trustee's report dated December 7, 2007 for a better understanding of the ambiguities relating to the Company's business and restructuring efforts undertaken in 2007 (a copy of which is available on our Web site at: www.rsmrichter.com/Restructuring/deball.aspx).

Despite its restructuring efforts to date, De Ball has not been able to make its operations profitable. The significant corrective measures implemented in 2007 can be summarized as follows:

- Refinancing of the term debt and the operating credit facility.
- Negotiation to repurchase the $3,848,075 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).

The Debtor presently remains able to meet its current obligations. However, there has not been any major improvement in its performance. Accordingly, the Debtor has not generated sufficient liquidities that would allow it to pay the Trustee the amounts needed to comply with the Proposal filed on December 5, 2007.

III. FINANCIAL INFORMATION

The following financial data, as at March 31, 2008, was extracted either from the unaudited financial statements of the Company 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 the said financial information.

A) Operating Results

Financial results for the period from December 1, 2007 to March 31, 2008 can be summarized as follows:

Financial Results For the Four-Month Period Ended March 31, 2008						
	Actual - Prel.		Projected (N1)		Difference Favourable / (Unfavourable)	
(in millions of dollars)	$	%	$	%		
Sales	$ 4.1		$ 5.7		$ (1.6)	-28%
Gross Margin	0.1	2%	1.3	23%	(1.2)	-92%
Administrative Expenses	0.6	15%	0.7	12%	0.1	14%
Amortization	0.2	5%	0.2	4%	-	0%
Bank Charges and Interest	0.2	5%	0.2	3%	(0.0)	-25%
Net Profit/Net Loss	$ (0.9)		$ 0.2		$ (1.1)	
EBITDA	$ (0.5)	-12%	$ 0.6	11%	$ (1.1)	-177%

Note 1: Based on Management's initial financial forecasts (refer to the Trustee's report dated December 7, 2007).

The salient facts of the results for the four-month ended March 31, 2008 can be summarized as follows:

- During this four-month period, the Company's sales decreased by approximately $1,600,000 (28% reduction) as compared to the initial financial projections. According to Management, this decrease is largely due to the following:
  - Climate of uncertainty among customers due to the procedures aimed at restructuring the Company's operations under the *Bankruptcy and Insolvency Act*;
  - Unfavourable impact of the slowdown in the US economy;
  - Absence of new products released by the Company.

- The significant reduction in the gross margin as compared to the initial financial projections (2% versus 28%) is directly linked to the decline in sales, thus resulting in reduced plant efficiency (coverage of overhead expenses).

- Administrative and other expenses have remained relatively consistent with the initial financial projections.

B) Assets

Based on the Company's unaudited financial statements as at March 31, 2008, the assets can be summarized as follows:

Assets As at March 31, 2008	Book Value
Cash	$ -
Accounts Receivable	
Gross	2,428,121
Provision	(26,142)
	2,401,978
Sales Tax and Other	156,093
Prepaid	59,900
Inventory	2,522,550
	5,140,521
Capital Assets	4,192,412
Total Assets	$ 9,332,934

All of the Company's assets are pledged to secure its current financing agreements with Dennis Wood Holdings Inc., Koneca Investments B.V. and 4170075 Canada Inc.

Our comments concerning the March 31, 2008 values are summarized as follows:

i) Accounts Receivables ($2,401,978)

Summary of Aged Accounts Receivable As at March 31, 2008						
	Total	1 - 30	31 - 60	61 - 90	91 - 120	> 120
CDN$ Accounts	$ 284,432	$ 115,444	$ 156,518	$ 7,931	$ 4,103	$ 436
		41%	*55%*	*3%*	*1%*	*0%*
US$ Accounts	$ 2,089,162	$ 962,866	$ 644,969	$ 154,651	$ 173,290	$ 153,386
		46%	*31%*	*7%*	*8%*	*7%*
Total *	$ 2,401,978	$ 1,091,392	$ 810,250	$ 164,683	$ 179,747	$ 155,906
		45%	*34%*	*7%*	*7%*	*6%*

* Conversion rate = 1.0136

As at March 31, 2008, there was approximately $500,000 in accounts receivables aged 60 days or older, which is consistent with De Balls' historical collection pattern ranging between 30 and 60 days.

ii) Sales Tax and Other ($156,093)

Net sales tax receivables relate to the months of January, February and March 2008.

iii) Prepaid ($59,900)

Prepaid expenses as at March 31, 2008 can be summarized as follows:

- Security deposits:
    - Hydro-Québec $50,000
    - Yellow Transport $4,900
    - UPS $5,000

These security deposits pertain to obligations subsequent to October 5, 2007.

iv) Inventory ($2,522,550)

Inventory As at March 31, 2008	Book Value
Raw materials	$ 975,464
Work-in-progress	
Greige dyed & not dyed	871,176
Finished goods	2,030,228
	3,876,868
Provision	(1,354,318)
	$ 2,522,550

The provision for obsolescence relates to raw materials and finished products.

v) Fixed assets ($4,192,412)

No capital expenditure was recorded since the Notice of Intention was filed.

Capital assets may be broken down as follows:

Fixed Assets As at March 31, 2008	Book Value
Land and Building	$ 1,882,565
Furniture & fixtures	84,670
Computer equipment	3,766
Machinery and equipment	2,221,412
Total	$ 4,192,412

C) Liabilities

As at March 31, 2008, the Company's internal financial statements reflect the following liabilities:

Liabilities As at March 31, 2008		Book Value	
Secured Creditors			
Dennis Wood Holdings Inc.	$	1,626,337	
Koneca Investments B.V.		3,030,575	
4170075 Canada Inc.		2,116,669	
		6,773,581	
Preferred Creditors		NIL	
Unsecured Creditors			
FSTQ (Pre-filing)		3,847,500	
Other Creditors (Pre-filing)		1,859,058	
		5,706,558	Note (1)
Post-filing the Notice of Intention		378,799	
		6,085,357	
Accrued liabilities		703,573	
Total liabilities	$	13,562,511	

Note 1: It should be noted that only those creditors subject to the Initial Proposal are affected by the terms of the Amended Proposal. In this regard, the value of proven claims filed to date totals $6,093,959.

i) Secured Creditors ($6,773,581)

De Ball's secured creditors are Dennis Wood Holdings Inc. (short-term operating credit) and 4170075 Canada Inc. (term loan) to which De Ball was indebted as at March 31, 2008 in an aggregate approximate amount of $1,626,00 and $2,117,000, respectively.

On November 29, 2007, the Company obtained a mortgage loan of $3,000,000 from Koneca Investments B.V.

The Amended 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. ($1,626,337)

- 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.

4170075 Canada Inc. ($2,116,669)

- 4170075 Canada Inc. (the holding company of De Ball's shareholders) 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.

Koneca Investments B.V. ($3,030,575)

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

Validity of Security

Richter had retained the services of an attorney to obtain, prior to the creditors' meeting held on December 19, 2007, an independent legal opinion confirming the validity of the security held by Dennis Wood Holdings Inc., by 4170075 Canada Inc. and by Koneca Investments B.V.

ii) Preferred Creditors (NIL)

Under the terms of the Amended Proposal, all employees' claims shall be paid in full in the normal course of business, while all preferred claims will be paid in full in priority to any unsecured claims. At the time of preparing this report, no preferred claim existed. Management of De Ball does not know of nor expects any claims.

iii) Unsecured Creditors ($6,788,930)

Affected Creditors ($5,706,558)

Following the filing of the Initial Proposal, creditors filed proofs of claim representing a total value of $6,093,959 (including an amount of $3,848,075 payable to the FSTQ) representing the amount to be paid to unsecured creditors now affected by the Amended Proposal. As of the present date, there is only one claim for which the amount has not been approved.

Current Accounts Payable ($378,799)

De Ball has continued, in the ordinary course of business, to pay for goods and services acquired after October 5, 2007. They are not subject to the Amended Proposal and will be paid in full on regular trade terms.

Accrued Liabilities ($703,573)

Unrecorded goods and services purchased subsequent to October 5, 2007 total approximately $704,000. They are not subject to the Amended Proposal and will be paid in full in the ordinary course of business, according to regular trade terms. Accrued liabilities pertain to wages and benefits due, as well as to miscellaneous accruals for overhead expenses, such as utilities and tax on capital.

IV. PROPOSAL TO CREDITORS

As previously mentioned, on May 8, 2008, the Company filed an "Amended Proposal" to its creditors affected by the Initial Proposal. The highlights of this Amended Proposal are:

- The secured claims will be paid in accordance with existing or future agreements between the Debtor and the secured creditors. The Amended Proposal is not, and shall not be, made in respect to the secured claims or to the security of the secured creditors.

- The employee claims shall be paid in full in the ordinary course of business.

- The crown claims under section 60(1.1), will be paid in full without interest within six (6) months of the date of approval of the Amended Proposal.

- Preferred claims will be paid in full, without interest, in priority to all unsecured claims.

- The Debtor will remit to Richter a total amount of $2,100,000 (hereinafter referred to as the "Basket Amount"). The unsecured creditors, other than the FSTQ, will receive from this Basket Amount:

    i) the lesser of a) 100% of their proven claims, without interest, and

    b) $10,000,

    the whole payable within one hundred eighty (180) days following the approval of the Amended Proposal;

    ii) their pro rata and pari passu share of the balance of their proven claim, if any, in eight (8) equal instalments, the first payable two hundred and seventy (270) days after the date of approval of the Amended Proposal and the remaining instalments payable thereafter once every three (3) months, without interest.

- In final and complete settlement of its unsecured claim of $3,848,075, the FSTQ will be paid the sum of $500,000, without interest, within one hundred eighty (180) days following the approval of the Amended Proposal;

- The Amended Proposal will constitute a compromise to all claims against directors and will operate as a full and complete discharge in favour of such directors with respect to such claims.

- It should be noted that the same value of $2,100,000 is offered to meet the payment of claims affected by the Amended Proposal. In fact, professional fees pertaining to the Amended Proposal will not be paid out of this $2,100,000. The only relevant change with respect to the Initial Proposal is the deferral of the dividend payment to creditors.

V. FINANCIAL PROJECTIONS

The following tables summarize the revised financial projections prepared by Management for the 12-month period from December 2007 to November 2008. It should be noted that the revised financial projections include actual unaudited preliminary results for the period from December 2007 to March 2008.

The revised projections are:

Projections For the 12-Month Period Ended November 30, 2008						
	Revised Projections		Initial Projections (N1)		Variance Favourable/ Unfavourable	
(in millions of dollars)	$	%	$	%		
Sales	$ 12.1		$ 16.2		$ (4.1)	-25%
Gross Margin	0.8	7%	4.0	25%	(3.2)	-80%
Administrative Expenses	1.8	15%	2.5	15%	0.7	28%
Amortization	0.5	4%	0.5	3%	-	0%
Bank Charges and Interest	0.8	7%	0.8	5%	-	0%
(Net) Profit/Loss	$ (2.3)		$ 0.2		$ (2.5)	
EBITDA	$ (1.0)	-8%	$ 1.5	9%	$ (2.5)	-167%

Note 1: Based on initial forecasts prepared by Management (refer to the Trustee's report dated December 7, 2007).

The three-year comparison is:

Projections						
	Nov. 30, 2008 12 Months		Aug. 31, 2007 12 Months		Aug. 31, 2006 12 Months	
(in millions of dollars)	Revised Projections	%	Unaudited	%	Audited	%
Sales	$ 12.1		$ 13.9		$ 19.5	
Gross Margin	0.8	7%	1.4	10%	3.9	20%
Administrative Expenses	1.8	15%	3.7	27%	5.1	26%
Amortization	0.5	4%	0.5	4%	0.5	3%
Bank Charges and Interest	0.8	7%	0.3	2%	1.1	6%
Net Loss	$ (2.3)		$ (3.1)		$ (2.8)	
EBITDA	$ (1.0)	-8%	$ (2.3)	-17%	$ (1.2)	-6%

The key assumptions can be summarized as follows:

- The sales are expected to decrease by 13% from 2007, due to the poor performance reported by the Company in the four months ended March 31, 2008 and due to the market conditions that are currently unfavourable to the Company.
- The budgeted exchange rate is at par.
- The reduction in the budgeted gross margin is essentially due to the decrease in the sales volume anticipated by Management, despite the 20% wage reduction ($0.6 million), resulting from the agreement concluded with unionized employees.
- The projected decrease of $1.9 million in overhead and administrative expenses results from wage cuts at the head office and the reduction in rental expenses (cancellation of the lease at the Boucherville warehouse and other leased facilities).
- No other cost-cutting initiative (other than those noted above) has been included in the 2008 forecasts. Management could, however, make other labour cuts should market conditions not return to normal quickly enough.
- No capital expenditure is scheduled for 2008 (only the usual maintenance costs are budgeted).

The revised financial projections prepared by Management for the period December 2007 to November 2008 seem to reflect the trends of the past few months and the cost-cutting measures implemented by the Company. Furthermore, in the event market conditions which are currently unfavourable to the Company do not return to normal in the near future and, if financial performance does not accordingly show significant improvement over the revised financial projections, the Company's shareholders will have to advance funds in order to meet the financial commitments of the Amended Proposal. Furthermore, since the projections are based on assumptions pertaining to future events, actual results will vary from the information presented, even if the hypothetical assumptions occur, and the variation may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

VI. ESTIMATE AS TO DISTRIBUTION TO CREDITORS

In the event that the creditors reject the Amended 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 Amended Proposal in comparison with the estimated distribution under a bankruptcy scenario.

A) Amended Proposal

Based on the list of proven claims filed, unsecured claims, excluding the FSTQ claim, total $2,245,884 . It thus appears that the $2.1 million Basket Amount will not be sufficient to cover all (100%) of the unsecured claims, based on the final determination of all proven claims of unsecured creditors. Furthermore, the success of this Amended Proposal is based on the Debtor's ability to improve its financial performance over the revised projections.

The estimated distribution under the Amended Proposal is summarized as follows:

Amended Proposal
Estimated Distribution

	Estimated Payment Date	Number of Creditors	Percentage of Distribution	
Professional Fees				N/A
Dividends to Creditors				
First Dividend (< claims or $10,000)				
	Dec. 2008	92	100%	227,261
	Dec. 2008	33	16.3%	330,000
				557,261
Other Dividends (eight equal instalments)	March 2009 - Dec. 2010	33	76.4%	1,542,739
			100.0%	2,100,000
Total Basket Amount to Cover the Payment of Dividends	(Note 1)		93.50%	$ 2,100,000

Note 1: Proofs of claim that have been filed to date, other than those of the FSTQ, total $2,245,884.

B) Bankruptcy

In a bankruptcy scenario, it has been estimated that the net realization value of the assets could range from $4.7 million to $6.4 million.

The analysis of the estimated net realization value of the Debtor's assets can be summarized as follows:

Estimated Realization Value As at March 31, 2008					
	Book Value	% Realization		Range	
	$	Low	High	Low	High
Cash	$ -	0%	0%	$ -	$ -
Accounts Receivable	2,401,978	50%	70%	1,201,000	1,681,000
Inventory	2,522,550	20%	30%	505,000	757,000
Sales Taxes and Other	156,093	0%	0%	-	-
Prepaid Expenses	59,900	0%	0%	-	-
	5,140,521			1,706,000	2,438,000
Land and Building	1,882,565			3,000,000	4,000,000
Machinery and Equipment	2,221,412	15%	20%	333,000	444,000
Other Assets	88,436	0%	0%	-	-
Estimated Realization Value	9,332,934			5,039,000	6,882,000
Professional Fees and Other				300,000	500,000
Net Estimated Realization Value				4,739,000	6,382,000
Secured Creditors				6,773,581	6,773,581
Surplus/(Deficit)				$ (2,034,581)	$ (391,581)

Thus, at the current time, the estimated realization value will be insufficient for reimbursing the secured claims in full. Therefore, we believe that no funds would be available in a bankruptcy scenario for distribution to the unsecured creditors.

VII. CONCLUSION

It should be noted that De Ball does not currently have the financial ability to pay the amounts provided to meet its commitments under the Amended Proposal. Furthermore, the financial projections do not suggest th

at the situation will improve significantly by November 30, 2008. Under the circumstances, shareholders would have to advance the funds needed to comply with the Amended Proposal.

After having concluded that no funds would be available for the unsecured creditors in the context of a bankruptcy, we are of the opinion that the Amended Proposal is more advantageous to the creditors because it offers them the possibility of recovering moneys owed to them.

For these reasons, the Trustee recommends the acceptance of the Amended Proposal.

Dated in Montreal, Province of Quebec, this 16th day of May 2008

RSM Richter Inc.
Trustee

(Signed Yves Vincent)

Yves Vincent, FCA, CIRP
Administrator