

CANADA
PROVINCE DE QUÉBEC
DISTRICT DE QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-034874-087
ESTATE NO.: 41-341678

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

Direct Source Special Products Inc.,

a body politic and corporate, duly incorporated
according to law and having its head office and its
principal place of business at:
2695 Dollard Street
LaSalle QC H8N 2J8

Debtor

Notice of Proposal to Creditors
(Section 51 of the Act)

Take notice that Direct Source Special Products Inc. of the City of LaSalle in the Province of Québec has filed with us a proposal under the *Bankruptcy and Insolvency Act*.

A copy of the proposal, a condensed statement of the Debtor's assets and liabilities, a list of the creditors affected by the proposal and whose claims amount to \$250 or more and forms of proof of claim, proxy and voting letter as well as the Trustee's Report are enclosed.

A general meeting of the creditors will be held at Montreal (Quebec) on the 22nd day of May 2009 at 10:30 a.m. at the Office of the Official Receiver situated at 5 Place Ville-Marie, 8th floor, Montréal, Québec.

The creditors or any class of creditors qualified to vote at the meeting may by resolution accept the proposal either as made or as altered or modified at the meeting. If so accepted and if approved by the court, the proposal is binding on all the creditors or the class of creditors affected.

Proofs of claim, proxies and voting letters intended to be used at the meeting must be lodged with us prior to the commencement of the meeting.

Dated at Montréal, Province of Québec, this 11th day of May 2009.

RSM Richter Inc.

Trustee

Yves Vincent, FCA, CIRP
Administrator

(Français – au recto)

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
COURT NO.: 500-11-034874-087
ESTATE NO.:

S U P E R I O R C O U R T
Commercial Division
"In matters of bankruptcy and insolvency"

IN THE MATTER OF THE PROPOSAL OF **DIRECT SOURCE SPECIAL PRODUCTS INC.**, a legal person duly incorporated according to law, having its head office and principal place of business at 2695 Dollard Street, in the City and District of Lasalle, Province of Quebec, H8N 2J8.

DEBTOR

P R O P O S A L

We, **Direct Source Special Products Inc.** (hereinafter the "Debtor" or the "Company"), the above-named Debtor, hereby submit the following proposal under the *Bankruptcy and Insolvency Act*:

1. **Definitions:** For all purposes relating to the present proposal proceedings under the *Bankruptcy and Insolvency Act*, the following terms shall have the following meanings:
 - 1.1 "Act": *The Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.
 - 1.2 "Additional Fund": the sum of one hundred thousand dollars (\$100,000.00) to be deposited by the Debtor with the Trustee, and subsequently deposited by the Trustee in accordance with paragraph 6 of the Proposal.
 - 1.3 "CDP": The Caisse de Dépôt et Placement du Québec, a Secured Creditor.
 - 1.4 "Crown Claims": For the purposes of this Proposal, Crown Claims shall be limited to the claims of Her Majesty in right of Canada or a province described in section 60(1.1) of the Act, that were outstanding on the Date of the Proposal.
 - 1.5 "Date of the Proposal": For all purposes herein, the date of the Proposal shall be deemed to be the date of the filing of the Notice of Intention to Make a Proposal, namely November 21, 2008.
 - 1.6 "Employee Claims": The amounts that employees or former employees would be qualified to receive under paragraph 136(1)(d) of the Act, if the Debtor became bankrupt on the Date of the Proposal, as well as wages, salaries, commissions or compensation for services rendered from and after the Date of the Proposal up to and including the date of the Proposal Approval, together with, in the case of traveling salesmen, disbursements properly incurred by those salesmen in and about the Debtor's business during the same period, all as envisaged by Section 60(1.3) of the Act.
 - 1.7 "Employee Creditors": all of the Debtor's past and present employees having Employee Claims, and "Employee Creditor" means any of them.
 - 1.8 "Ordinary Unsecured Claims": The claims other than Secured Claims, Employee Claims, Crown Claims and Preferred Claims. For greater certainty, but without limiting

the generality of the foregoing, the Ordinary Unsecured Claims shall include claims of every nature and kind whatsoever, whether due or not due for payment as of the date of the Proposal, including Restructuring Claims, contingent and unliquidated claims (once quantified) arising out of any transaction entered into by the Debtor prior to the date of the Proposal. Furthermore, the Ordinary Unsecured Claims shall include any claim for a breach of an obligation contracted before the Date of the Proposal, regardless of the date of the breach, to the extent that such breach occurred prior to November 21, 2008.

- 1.9 **“Ordinary Unsecured Creditors”**: All persons having an Ordinary Unsecured Claim.
- 1.10 **“Preferred Claims”**: The claims as described in Section 136(1)(a) through 136(1)(j) of the Act, being such claims directed by the Act to be paid in priority to all other claims in the distribution of the property of a bankrupt, excluding Employee Claims.
- 1.11 **“Preferred Creditors”**: A person having a Preferred Claim.
- 1.12 **“Proposal”**: This proposal or any amendment thereto, which amendments may be made at any time prior to a vote by the creditors on the Proposal or by the Court at the time of ratification of the Proposal.
- 1.13 **“Proposal Approval”**: The situation arising from the Proposal having been accepted by the statutory majority of Creditors as required by the Act and having been approved by the Court in a final and enforceable judgment which has become executory as a result of the delay for appeal having expired without there having been an appeal, or an appeal having been lodged and the judgment having been confirmed or the appeal withdrawn.
- 1.14 **“Proposal Fund”**: the aggregate sum of one hundred and fifty thousand dollars (\$150,000.00) to be deposited by the Debtor with the Trustee, and subsequently deposited by the Trustee in accordance with the terms of this Proposal.
- 1.15 **“Related Person(s)”**: any person(s) who is (are) related to any other person(s) as defined and described in Section 4 of the Act.
- 1.16 **“Restructuring Claim”**: Any right of any person against the Debtor arising after the Date of the Proposal, in connection with any indebtedness, liability or obligation of any kind owed to such person arising out of the restructuring of the Debtor or the repudiation or termination of any contract, lease, employment agreement, collective agreement or other agreement, whether written or oral, including any right of any person who receives a notice of repudiation or termination from the Debtor and any claims from the tax authorities resulting, directly or indirectly, from the acceptance of the Proposal by the Creditors and its approval by the Court, including any claims for Goods and Services Tax and for Sales Tax payable following a reduction and/or a settlement of the Company’s debt.
- 1.17 **“Secured Claims”**: The claims of the Secured Creditors, to the extent of the value of the security held by the Secured Creditors, as assessed by the Secured Creditor and accepted by the Trustee or as determined by the Court.

1.18 **“Secured Creditors”**: As defined in section 2 of the Act, inasmuch as the security would be opposable to a bankruptcy trustee if the Debtor had become bankrupt at the Date of the Proposal.

1.19 **“Trustee”**: RSM Richter Inc., a licensed trustee, having a place of business at 2 Place Alexis Nihon, Suite 2200, in the City of Montreal, Province of Quebec, H3Z 3C2.

2. **Employee Claims**

2.1 The Employee Claims will be paid in full, immediately following Proposal Approval.

2.2 With respect to all of the Employee Creditors who are currently employed by the Debtor, all of their Employee Claims have been or shall have been fully paid by the Debtor to such Employees, in the normal course of the Debtor’s business.

3. **Crown Claims**

3.1 All Crown Claims, to the extent not already paid by the Debtor in the ordinary course of the Debtor’s business, shall be paid in full, within six (6) months after Proposal Approval or as may otherwise be arranged with the Crown.

4. **Proposal Fund**

4.1 Conditionally upon Proposal Approval, the Debtor will deposit the Proposal Fund with the Trustee on the date of Proposal Approval.

5. **Secured Claims**

5.1 Secured Creditors shall be paid in accordance with existing contracts or as may be otherwise arranged with the Secured Creditors. For greater certainty, except as otherwise indicated in the present Proposal, the Proposal is not addressed to the Secured Creditors and they shall not be bound by the Proposal in respect of their Secured Claim, inasmuch as the said Secured Claim has been allowed by the Trustee or determined by the Court in accordance with the provisions of Section 135 of the Act.

5.2 Furthermore, the creditors holding a Secured Claim shall be entitled to value their security, exercise a right to vote and participate in any distribution as an Ordinary Unsecured Creditor, with respect to the amount of their claims which exceeds the value of the security held by the Secured Creditor, as accepted by the Debtor or the Trustee or determined by the Court.

6. **Secured Claim of CDP**

6.1 The Trustee shall pay to CDP the amount of one hundred thousand dollars (\$100,000.00) out of the Additional Fund within thirty (30) days of Proposal Approval, the whole without interest, in full satisfaction of the Secured Claim of CDP, if the following conditions are satisfied:

6.1.1 CDP has valued its Security, and has converted the remaining amount of its Secured Claim into an Ordinary Unsecured Claim for the purpose of exercising a right to vote;

6.1.2 CDP has voted in favour of the Proposal;

6.1.3 CDP waives any rights it may have to participate in any distribution as an Ordinary Unsecured Creditor;

7. Subsequent Claims

7.1 The claims arising in respect of goods supplied, services rendered or other consideration given to the Debtor subsequent to the date of the Proposal, including (without limitation) salaries and other compensation of employees, have been or shall be paid in full by the Debtor in the ordinary course of business, and on regular trade terms.

8. Preferred Claims

8.1 Preferred Creditors shall be paid in accordance with existing contracts or as may be otherwise arranged with the Preferred Creditors, unless no such contract or arrangement exists, in which case, the Preferred Creditors shall be paid out of the Proposal Fund, within sixty (60) days of Proposal Approval.

9. **Ordinary Unsecured Creditors:** The Trustee will pay to each of the Ordinary Unsecured Creditors, in full and final settlement of its Ordinary Unsecured Claim, without interest or penalty, an amount equal to:

9.1 the lesser of \$500 or the amount of its Ordinary Unsecured Claim, payable out of the Proposal Fund, within sixty (60) days of Proposal Approval;

9.2 with respect to the balance of its Ordinary Unsecured Claim, if any, its pro rata share of the balance of the Proposal Fund, as soon as reasonably possible, as determined by the Trustee, after the final determination of all the known claims of the Ordinary Unsecured Creditors and the Preferred Creditors.

10. Claims against directors

10.1 In accordance with section 50(13) of the Act, the Proposal Approval shall be deemed for all purposes whatsoever to constitute the complete release and discharge of all claims against past and present directors in office as at the Date of the Proposal from any and all liability or obligation for which they may be liable by law in their capacity as directors, in respect of any debt of the Debtor which arose before the Date of the Proposal. It is understood however that nothing herein shall be interpreted as an acknowledgment of any liability or obligation on the part of the directors in office as at the Date of the proposal, any such liability or obligation being specifically denied.

11. Committee

11.1 A committee (the "Committee") of up to five (5) individuals shall be appointed by the Ordinary Unsecured Creditors at a meeting of the Creditors called to consider the

Proposal. Such Committee shall be thereafter deemed to have been formed and constituted for the purposes hereafter set forth.

11.2 The powers of the Committee shall be limited to the following:

11.2.1 To advise the Trustee in connection with the Trustee's actions under the Proposal, as the Trustee may, from time to time, request;

11.2.2 To advise the Trustee concerning any dispute which may arise as to the validity or valuation of any proofs of claim under the Proposal;

11.2.3 To postpone, suspend or cause the postponement or suspension of Approval, if deemed necessary by the Trustee and the Committee;

11.2.4 To authorize the deferment of any payment of any of the Dividends, in whole or in part, and entirely at the discretion of the Committee;

11.2.5 To receive reports regarding the operations of the Debtor, upon request and only through the Trustee;

11.2.6 To provide approval regarding the professional fees.

12. **General**

12.1 **Reviewable Transactions, Preferential Payments, etc.:** The provisions of sections 91 to 101 of the Act or any provision of provincial legislation having a similar objective, shall not apply to the Proposal.

12.2 **Trustee:** All monies payable to the creditors under the Proposal namely the payments addressed in paragraph 8 of the Proposal, shall be paid over to the Trustee who shall make the payments of the dividends, the whole in accordance with the terms of the Proposal.

12.3 **Titles:** The headings or titles herein are provided solely for the convenience of the reader. They do not form part of the Proposal and as such shall have no authoritative meaning in interpreting the Proposal.


DATED AT DELRAY BEACH, FLORIDA, this 30th day of April, 2009.

**DIRECT SOURCE SPECIAL PRODUCTS WITNESS:
INC.**

per: William J. Shannon



Per: Anna Kyratas



Direct Source Special Products Inc.
Condensed Statement of Affairs
As at April 30, 2009
(As declared and estimated by the Debtor Company)

LIABILITIES

Secured Creditors	\$14,393,616.74	
Less: unsecured portion	(8,319,086.74)	\$ 6,074,530.00
Preferred Creditors		40,605.00
Ordinary Creditors	16,927,565.49	
Plus: unsecured portion of secured claims	<u>8,319,086.74</u>	<u>25,246,652.23</u>
		<u>\$31,361,787.23</u>

ASSETS
(encumbered)

Inventory		\$ 4,288,599.00
Accounts receivable		1,685,931.00
Warehouse equipment and furniture and fixtures		100,000.00
Computer equipment		0.00
Prepaid and deposits		0.00
Licenses		<u>0.00</u>
		<u>\$ 6,074,530.00</u>
 DEFICIENCY		 <u>\$25,287,257.23</u>

I, William J. Shannon, of the City of Westmount in the Province of Quebec., do swear (or solemnly declare) that this statement is to the best of my knowledge, a full, true and complete statement of my affairs on the 30th day of April 2009 and fully disclose all property of every description that is in its possession or that may devolve on me in accordance with Section 67 of the Act.

(signed) William J. Shannon

William J. Shannon
Officer

SWORN (or SOLEMNLY DECLARED)
before me in the City of Delray Beach in the State of Florida
on this 30th day of April 2009.

(signed) Barbara J. Gilligan #DD 830681

(français – au recto)

DANS L'AFFAIRE DE LA PROPOSITION DE Produits Spéciaux Direct Source Inc., personne morale légalement constituée et dûment incorporée ayant son siège social et son principal établissement commercial au 2695 rue Dollard, LaSalle QC H8N 2J8.

IN THE MATTER OF THE PROPOSAL OF Direct Source Special Products Inc., a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at 2695 Dollard Street, LaSalle QC H8N 2J8.

La liste suivante des créanciers a été préparée à partir des documents remis au syndic et ne constitue pas l'acceptation d'une réclamation ou de réclamations.

The following list of creditors has been prepared from documents submitted to the Trustee and does not constitute acceptance of any claim or claims.

CRÉANCIERS GARANTIS / SECURED CREDITORS

MONTANT / AMOUNT

Voir liste ci-jointe
See list attached

14 393 616,74 \$

CRÉANCIERS PRIVILÉGIÉS / PREFERRED CREDITORS

Voir liste ci-jointe
See list attached

40 605,00 \$

CRÉANCIERS CHIROGRAPHAIRES / ORDINARY CREDITORS

Voir liste ci-jointe
See list attached

16 927 565,49 \$

LISTE SUPPLÉMENTAIRE / SUPPLEMENTARY LIST

1. Monsieur Michel Huot (séquestre officiel)
2. Ministère du Revenu du Québec
3. Agence des douanes et du revenu du Canada
4. Agence des douanes et du revenu du Canada (DAS)
5. Bell Canada (Section faillite et insolvabilité)
6. Gaz Métropolitain
7. Commission de la santé et de la sécurité du travail
8. Commission des normes du travail
9. Dun & Bradstreet du Canada Itée
10. Equifax Canada Inc., Montréal
11. Equifax Canada Inc., Toronto
12. Palais de Justice de Montréal
13. Hydro-Québec (Section du risque)
14. Monsieur William J. Shannon
15. Me Shari Munk-Manel (avocat), BCF
16. M. Pierre Pharand, Caisse de dépôt et placement du Québec

RSM Richter Inc., Syndic/Trustee
Liste des créanciers / Creditors List
Dans l'affaire de la proposition de / In the Matter of The Proposal of
Direct Source Special Products Inc.

Nom / Name	Montant / Amount
Créanciers garantis / Secured Creditors	
EURO CANADIAN CORPORATION	10,206,116.74
CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC	4,187,500.00
Créanciers garantis / Secured Creditors	14,393,616.74
Créanciers privilégiés / Preferred Creditors	
GE CANADA REAL ESTATE HOLDING COMPANY	40,605.00
Créanciers privilégiés / Preferred Creditors	40,605.00
Créanciers chirographaires / Ordinary Creditors	
602137-9 CANADA INC.	341.85
9153-3448 QUEBEC INC.	110.62
ACROBAT*	37,451.58
ACT ENTERTAINMENT*	224.35
ACTION TAG & LABEL (1987) INC	1,425.05
ADT SECURITY SERVICES CANADA	1,004.46
ALERT SPRINKLERS INC.	480.00
AMERIC DISC INC.	7,085.43
AMERICANA NU-SOUND*	8,021.96
ANYTIME PRODUCTS	1,500.50
BELL MOBILITY	2,504.80
BELL CONFERIA INC.	156.67
BELL CANADA	4,142.28
BELL CONFERENCES INC.	55.92
BLISTECK PLASTIC INC.	62,291.59
BOIS LAURENTIEN	1,512.53
BRUCE T. OGIIVIE	1,300.94
CAFE SELENA INC. (SERV. DE CAFÉ VAN HOUTTE)	434.78
CANON CANADA INC.	3,481.44
CASSELS BROCK LAWYERS	127.20
CHACRA*	6,713.68
CHRIS PENNINGTON CAN	7,873.65
CHRIS PENNINGTON*	9,125.37
CHRYSLER	16,803.40
CLEAR SOLUTIONS INC.	1,455.00
CMRRA	716,035.71
CONSTRUCT DATA*	2,264.04
COPYRIGHT GROUP	2,170.94
CREATIVE SOUNDS*	41,465.44
DC DISPLAY-CORR	12,065.66
DELOITTE & TOUCHE	55,605.06
DEMON*	7,235.83
DENIS BOUCHER COMMUNICATIONS	1,275.49
DIRECT HOLDINGS AMERICA (TIME LIFE)*	80,649.78
DISQUE AMERIC INC.*	6,856,058.95
DISTRIBUTION PATRICK DUMULONG ENR.	231.25
DON WILLIAMS*	5,687.47
DORSEY & WHITNEY LIP	20,144.24
DOVERCO INC.	1,677.88
DUPLIUM CORPORATION	148,119.95
EASYLINK SERVICES	340.00
EDI GATEWAY	237.32
EMBALLAGES FESTIVAL PACKAGING	1,710.51
EMI C/O MELLON FINANCIAL SERVICES	64,563.44
EMI ENTERTAINMENT WORLD INC.	3,271.25
ENABLE CORPORATION	340.00

RSM Richter Inc., Syndic/Trustee
Liste des créanciers / Creditors List
Dans l'affaire de la proposition de / In the Matter of The Proposal of
Direct Source Special Products Inc.

Nom / Name		Montant / Amount
ENERGY LOGISTICS	SUITE #200, 2555 DOLLARD AVENUE, LASALLE QC H8N 3A9	53,983.67
ENERGY LOGISTICS*	SUITE #200, 2555 DOLLARD AVENUE, LASALLE QC H8N 3A9	13,172.75
ENTERPRISES ESCAPE	5023 IRWIN, LASALLE QC H8N 1A1	3,386.25
EVERETT COLLECTION, INC.*	FLOOR #3, 104 WEST 27TH STREET, NEW YORK NY 10001	1,380.00
FEDEX FREIGHT EAST	4103 COLLECTION CENTER DRIVE, CHICAGO IL 60693	722.52
FEDEX TRADE NETWORKS*	PO BOX 600, NIAGARA FALLS ON L2E 6V2	2,170.34
FEDEX TRADE NETWORKS CAN INC.	P.O. BOX 10007, STATION A, TORONTO ON M5W 2B1	247.75
FILM OPTION CAN	3401 ST-ANTOINE STREET, MONTREAL QC H3Z 1X1	3,904.83
FILM OPTION USA*	3401 ST-ANTOINE STREET, MONTREAL QC H3Z 1X1	50,481.75
FIRST GENERATION*	1300 DIVISION STREET, SUITE 301, NASHVILLE TN 37203	2,619.03
FREDERICK P. SANJEK	2104 WEST LINDEN AVENUE, NASHVILLE TN 37212	2,750.00
FREMANTLE*	1 STEPHEN STREET, LONDON, ENGLAND W1T 1AL	405,380.84
FUEL TRANSPORT	7630 RUE CENTRALE, LASALLE QC H8P 1K9	27,488.32
FUEL TRANSPORT*	7630 RUE CENTRALE, LASALLE PQ H8P 1K9	62,094.00
GAZ METROPOLITAIN	1717 RUE DU HAVRE, MONTREAL QC H2K 2X3	1,084.97
GE (LANDLORD)	8250 DECARIE BOULEVARD, SUITE #300, MONTREAL QC H4P 2P5	1,040,000.00
GOING AIR INC.	P.O. BOX 901028, HOMESTEAD FL 33090	863.40
GRAFIKOM	25 SCARSDALE ROAD, TORONTO ON M3B 2R2	13,923.01
GRAMMERCY RECORDS*	2801 TOWNSGATE ROAD, SUITE #222, WESTLAKE VILLAGE CA 91361	6,881.91
GRAPHIQUES COLORAMA INC.	6620 ABRAMS, ST-LAURENT QC H4S 1Y1	3,290.30
HARRY FOX*	711, 3RD AVENUE, NEW YORK NY 10017	2,131,312.19
HITRON NETWORKS LTD.	8530 DELMEADE, MONTREAL QC H4T 1L6	135.45
HOLLYWOOD AT HOME*	C/O NEEDLE & ASSOCIATES, 12324 N. ECHO VALLEY DR., TUCSON AZ 85755	12,374.14
HOLMESTED & ASSOCIES, S.E.N.C.	BUREAU 1230, 1010 DE LA GAUCHETIERE O., MONTREAL QC H3B 2N2	2,020.30
HUNT PERSONNEL INTERIM AIDE	BUREAU #1801, 666 RUE SHERBROOKE O., MONTREAL QC H3A 1E7	2,533.87
HYDRO QUEBEC	7575 HENRI-BOURASSA O., ST-LAURENT QC H4S 1Z2	10,408.03
ICELOGIC CONSULTING LTD	157 VICTORIA STREET, KAMLOOPS BC V2C 1Z4	630.00
IDS RICOH	534 MCCAFFREY, ST-LAURENT QC H4T 1N1	2,150.13
IMPRESSIONS JADE	749 MISTASSINI, LACHENAIE QC J6W 5H2	3,853.56
INSTACHANGE DISPLAYS LTD.	230 EDWARD STREET, AURORA ON L4G 3S8	2,235.84
JAZZ INSPIRATION	675 COCHRANE DRIVE, 6TH FL., EAST TOWER, MARKHAM ON L3R 0B8	6,791.70
JSM	419 DAHLIA DRIVE, BERNTWOOD TN 37027	3,863.10
KTEL DOMINION*	2491 XENIUM LANE NORTH, #100, PLYMOUTH MN 55441	50,132.25
LAUGHING STOCK RECORDS*	2521 LAGUNA VISTA DRIVE, NOVATO CA 94945-1562	10,132.07
MAISON VIAU INC.	SUITE #2, 173 A ST-JEAN BAPTISTE, CHATEAUGUY QC J6K 3B4	90.56
MARKUS*	8 PADDINGTON PLACE, TORONTO ON M9R 2T1	1,377.60
MEGADATA EDI	SUITE #205, 5760 ROYALMOUNT, TOWN OF MONT-ROYAL QC H4P 1K5	84.04
MICHELE PACKAGING COMPANY*	1237 WEST CAPITOL DRIVE, ADDISON DRIVE IL 60101	35,240.00
MINISTERE DU REVENU DU QUEBEC	C.P. 5500, SUCC DESJARDINS, MONTREAL QC H5B 1A8	274,273.19
MITCHEL-LINCOLN PACKAGING LTD.	3737 BOUL. THIMENS, ST-LAURENT QC H4R 1V1	1,096.16
MOORE PACKAGING CORPORATION	191 JOHN STREET, BARRIE ON L4N 2L4	4,982.86
NAPCO*	120 TROJAN AVENUE, SPARTA NC 28675	24,549.62
NORAMPAC-VICTORIAVILLE, DIV.CASCADES CDA INC.	418, RUE DES INDUSTRIES, LE GARDEUR QC J5Z 4X5	23,019.11
ONSITEASAP	2320 BEDFORD ROAD, MONTREAL QC H3S 1E9	482.55
ORBI XXX*	206 RUE PLESSIS #300, MONTREAL QC H2L 2Y3	5,962.04
PAUL MARTIN SERV. DE DISTRIBUTRICES ENR.	9579 COTE DE LIESSE, DORVAL QC H9P 1A3	309.89
PLANETE COURRIER INC.	104 RUE LINDSAY, DORVAL QC H9P 2T8	790.25
PRESTIGE*	34 GRAT JAMES STREET, LONDON, ENGLAND WC1N 3HB	12,096.01
PRIMUS CANADA	SUITE #400, 5343 DUNDAS STREET O., TORONTO ON M9B 6K5	555.27
PVB INDUSTRIES	4999 SAINTE-CATHERINE O. SUITE 250, WESTMOUNT QC H3Z 1T3	749,098.28
RCI ENVIRONNMENT INC./INTERSAN	9501 BOUL. RAY LAWSON, ANJOU QC H1K 4H2	1,448.64
RECEIVER GENERAL OF CANADA	875 HERON ROAD, OTTAWA ON K1A 9Z9	201,705.33
REGIE DE CINEMA	390 RUE NOTRE-DAME O., MONTREAL QC H2Y 2T9	16,684.50
ROGERS AT & T	C.P. 3100, VILLE ST-LAURENT QC H4L 5J8	1,330.65
ROSS ELLIS PRINTING INC.	300 RUE ANN, MONTREAL QC H3C 2K2	55,946.18

RSM Richter Inc., Syndic/Trustee
Liste des créanciers / Creditors List
Dans l'affaire de la proposition de / In the Matter of The Proposal of
Direct Source Special Products Inc.

Nom / Name		Montant / Amount
SAN JUAN*	499 ERNSTON ROAD, PARLIN NJ 08859	114,094.78
SCANPAK INC./AVIVA INC.	9400 HENRI-BOURASSA O., ST-LAURENT QC H4S 1N8	1,240.48
SECURITAS QUEBEC	SUITE 300, 1980 SHERBROOKE ST. WEST, MONTREAL QC H3H 1E8	2,082.57
SECURITE L.P.INC	8000 BROADWAY NORD, MONTREAL QC H1B 5B6	665.82
SERVAN EXCAVATION INC.	8101 ELMSLIE, SUITE 100, LASALLE QC H8N 2W6	553.09
SHOWTIME MUSIC PRODUCTIONS INC	90 VANZANT COURT, STOUFFVILLE ON L4A 4Z2	21,230.00
SODRAC	759 VICTORIA SQUARE, SUITE 420, MONTREAL QC H2Y 2J7	17,946.19
SOFTCHOICE CORPORATION	BUREAU 3201, 1751 RUE RICHARDSON, MONTREAL QC H3K 1G6	2,432.39
SONY & BMG MUSIC ENTERTAINMENT	210 CLAY AVENUE, ATTN: PAT FERRARA, LYNDHURST NJ 07071	171.60
SONY ATV*	8 MUSIC SQUARE WEST, NASHVILLE TN 37203	171,322.60
SPS COMMERCE, INC.*	VB BOX 3, PO BOX 9202, MINNEAPOLIS MN 55480-9202	4,002.25
STERLING COMMERCE	POSTAL STATION "A", P.O. BOX 3541, TORONTO ON M5W 3G4	6,114.98
STEVAC INC.	801 BOUL. BORD DE L'EAU, VALLEYFIELD QC J6S 0B7	3,346.88
STUDIO DI FIRENZE	9104 DESCHAMBAULT, ST. LEONARD QC H1R 2C5	225.75
SUN ENTERTAINMENT *	3106 BELMONT BLVD., NASHVILLE TN 37212	199,476.10
SYNERGY*	30 PENBROCK CT., SHREWSBURY NJ 07702	42,642.02
TECHNICOLOR CREATIVE SERVICES	2101 STE-CATHERINE OUEST, #300, MONTREAL QC H3H 1M6	2,539.69
THE NIELSEN COMPANY*	1 NORTH LEXINGTON AVE., 14TH FLOOR, WHITE PLAINS NY 10601	17,306.25
THE MARSHALL FIRM*	271 MADISSON AVENUE, 20TH FLOOR, NEW YORK NY 10016	4,200.00
THOMSON TREMBLAY INC.	SUITE #200, 2040, PEEL STREET, MONTREAL QC H3A 1W5	98,903.70
TRANSPORT ALLIANCE	C.P. 34542, 3131 COTE-VERTU, ST-LAURENT QC H4R 1Y8	2,182.21
TUFF CITY*	250 WEST 49TH STREET, #705, NEW YORK NY 10019	12,144.55
TUMI MUSIC*	8-9 NEW BOND STREET PLACE, BATH, BANES BA1 1BH, ENGLAND	3,152.60
UNITED PARCEL SERVICE	77 FOUNDRY STREET, MONCTON NB E1C 5H7	27,800.89
UNITED PARCEL SERVICE*	77 FOUNDRY STREET, MONCTON NB E1C 5H7	856.05
UNIVERSAL MUSIC GROUP*	98279 COLLECTION CENTER DR., C/O BANK OF AMERICA, CHICAGO IL 60693	44,976.00
UPS SUPPLY CHAIN SOLUTIONS, INC.*	28013 NETWORK PL., ATTN: CUSTOMS BROK. SERV., CHICAGO IL 60673-1280	491.89
UPS UNITED PARCEL SERVICE*	1615 BRETT ROAD, LOCKBOX UPS, NEW CASTLE DE 19720-2425	18,263.87
VISION FILMS INC.*	14945 VENTURA BLVD., SUITE 306, SHERMAN OAKS CA 91403	5,000.00
VISUAL SCAN INC.	9066 PASCAL-GAGNON, MONTREAL QC H1P 2X4	1,577.45
VULTECH INC.*	330 MARTIN AVE., DORVAL QC H9S 3S3	293.48
W.I.EXTERMINATION	3115 HALPERN, VILLE ST-LAURENT QC H4S 1P5	586.96
WEA - WSM*	DEPT. CH 10125, PALATINE IL 60055-0125	71,892.40
YELLOW OF ONTARIO*	P.O. BOX 2431 "A" POSTAL STATION A, TORONTO ON M5W 2K6	26,806.99
ZANNIN CD/DVD	3305 BOUL. PITFIELD, ST-LAURENT QC H4S 1H3	81,113.06
ZUS EXCHANGE 1.2239		2,377,633.69
Créanciers chirographaires / Ordinary Creditors		16,927,565.49
Grand Total		31,361,787.23

**THIS INFORMATION SHEET
IS SUPPLIED IN ORDER TO ASSIST YOU IN COMPLETING
THE PROOF OF CLAIM FORM**

- The proof of claim must be signed by the individual completing the form.
- The signature of the claimant must be witnessed.
- Give the complete address (including postal code) where all notices and correspondence are to be forwarded.
- The amount on the statement of account must agree with the amount claimed on the proof of claim.

PARAGRAPH 1 OF THE PROOF OF CLAIM

- If the individual completing the proof of claim is not the creditor himself, he must state his position or title.
- The creditor must state the full and complete legal name of the Company or the claimant.

PARAGRAPH 3 OF THE PROOF OF CLAIM

- A detailed statement of account must be attached to the proof of claim and must show the date, the invoice number and the dollar amount of all the invoices or charges, together with the date, the number and the amount of all credits or payments. A statement of account is not complete if it begins with an amount brought forward. In addition, a creditor must indicate his/her address, phone number, fax number and E-mail address.

PARAGRAPH 4 OF THE PROOF OF CLAIM

- An unsecured creditor (subparagraph (A)) must check and state whether or not a priority rank is claimed under Section 136 of the Bankruptcy and Insolvency Act.
- A claim of landlord (subparagraph (B)) for disclaim of lease must be completed with full particulars and calculations.
- A secured creditor must complete subparagraph (C) and attach a copy of the security documents.
- A farmer, fisherman or aquaculturist must complete subparagraph (D).
- A wage earner must complete subparagraph (E), if applicable.
- A claim against director(s) (subparagraph (F)), in a proposal which compromises a creditor's claim, must contain full particulars and calculations.
- A customer of a bankrupt securities firm must complete subparagraph (G).

PARAGRAPH 5 OF THE PROOF OF CLAIM

- The claimant must indicate whether he/she is or is **not related** to the debtor, as defined in the Bankruptcy and Insolvency Act, by striking out that which is not applicable.

PARAGRAPH 6 OF THE PROOF OF CLAIM

- The claimant must attach a detailed list of all payments received and/or credits granted, as follows:
 - a) within the **three months** preceding the initial bankruptcy event, in the case where the claimant and the debtor are **not related**;
 - b) within the **twelve months** preceding the initial bankruptcy event, in the case where the claimant and the debtor are **related**.
- PROXY**
 - a) A creditor may vote either in person or by proxy;
 - b) A debtor may not be appointed as proxy to vote at any meeting of the creditors;
 - c) The Trustee may be appointed as a proxy for any creditor;
 - d) In order for a duly authorized person to have a right to vote he must himself be a creditor or be the holder of a properly executed proxy. The name of the creditor must appear in the proxy.

PROOF OF CLAIM

(Section 50.1, subsections 65.2(4), 81.2(1), 81.3(8), 81.4(8), 102(2), 124(2), 128(1),
and paragraphs 51(1)(e) and 66.14(b) of the Act)

(All notices or correspondence regarding this claim must be forwarded to the following address: _____)

Telephone number: _____

Fax number: _____

E-mail Address: _____

In the matter of the proposal of **Direct Source Special Products Inc.** of LaSalle, Québec, and the claim of:

_____, creditor.

I, _____, of _____, do hereby certify:
(name of creditor or representative of the creditor) (city and province)

1. That I am a creditor of the above-named debtor (or that I am _____,
(state position or title)
of _____).
(name of creditor)

2. That I have knowledge of all the circumstances connected with the claim referred to below.

3. That the debtor was, at the date of the notice of intention to make a proposal, namely the **21st day of November 2008**, and still is, indebted to the creditor in the sum of \$ _____, as specified in the statement of account (or affidavit) attached and marked Schedule "A", after deducting any counterclaims to which the debtor is entitled. **(The attached statement of account or affidavit must specify the vouchers or other evidence in support of the claim. In addition, indicate the creditor's address, fax number, telephone number and E-mail address).**

4. (Check and complete appropriate category)

() A. **UNSECURED CLAIM OF \$ _____**

(other than as a customer contemplated by Section 262 of the Act)

That in respect of this debt, I do not hold any assets of the debtor as security and

(Check appropriate description.)

() Regarding the amount of \$ _____, I do **not** claim a right to a priority ("Ordinary Creditor");

() Regarding the amount of \$ _____, I claim a right to a priority under section 136 of the Act ("Preferred Creditor"). (Set out on an attached sheet details to support priority claim.)

() B. **CLAIM OF LESSOR FOR DISCLAIMER OF A LEASE \$ _____**

That I hereby make a claim under subsection 65.2(4) of the Act, particulars of which are as follows:

(Give full particulars of the claim, including the calculations upon which the claim is based.)

() C. **SECURED CLAIM OF \$ _____**

That in respect of this debt, I hold assets of the debtor valued at \$ _____, as security, particulars of which are as follows:

(Give full particulars of the security, including the date on which the security was given and the value at which you assess the security, and attach a copy of the security documents.)

() D. **CLAIM BY FARMER, FISHERMAN, OR AQUACULTURIST OF \$ _____**

That I hereby make a claim under subsection 81.2(1) of the Act for the unpaid amount of \$ _____

(Attach a copy of sales agreement and delivery receipts.)

() E. **CLAIM BY WAGE EARNER OF \$ _____**

() That I hereby make a claim under subsection 81.3(8) of the Act for the unpaid amount of \$ _____

() That I hereby make a claim under subsection 81.4(8) of the Act for the unpaid amount of \$ _____

PROOF OF CLAIM

(continued)

() **F. CLAIM AGAINST DIRECTOR \$ _____**

(To be completed when a proposal provides for the compromise of claims against directors.)

That I hereby make a claim under subsection 50(13) of the Act, particulars of which are as follows:

(Give full particulars of the claim, including the calculations upon which the claim is based.)

() **G. CLAIM OF A CUSTOMER OF A BANKRUPT SECURITIES FIRM \$ _____**

That I hereby make a claim as a customer for net equity as contemplated by section 262 of the Act, particulars of which are as follows:

(Give full particulars of the claim, including the calculations upon which the claim is based.)

5. That, to the best of my knowledge, I am (or the above-named creditor is) (or am not or is not) related to the debtor within the meaning of section 4 of the Act, and have (or has) (or have not or has not) dealt with the debtor in a non-arm's length manner.

6. That the following are the payments that I have received from, the credits that I have allowed to, and the transfers at undervalue within the meaning of subsection 2(1) of the Act that I have been privy to or a party to with the debtor within the three months (or, if the creditor and the debtor are related within the meaning of section 4 of the Act or were not dealing with each other at arm's length, within the 12 months) immediately before the date of the bankruptcy event within the meaning of Section 2(1) of the Act, which is 21st day of November 2008: *(Provide details of payments and credits.)*

Dated at _____, this ____ day of _____.

Witness

Signature of creditor or his representative

NOTE: If an affidavit is attached, it must have been made before a person qualified to take affidavits.

WARNINGS: A trustee may, pursuant to subsection 128(3) of the Act, redeem a security on payment to the secured creditor of the debt or the value of the security as assessed, in a proof of security, by the secured creditor.

Subsection 201(1) of the Act provides severe penalties for making any false claim, proof, declaration or statement of account.

PROXY

(Subsection 102(2) and paragraphs 51(1)(e) and 66.15(3)(b) of the Act)

IN THE MATTER OF THE PROPOSAL OF **Direct Source Special Products Inc.:**

I, _____, of _____
(name of creditor) *(name of town or city)*

a creditor in the above matter, hereby appoint _____ of _____

to be my proxyholder in the above matter, except as to the receipt of dividends, with (or without) power to appoint another proxyholder in his or her place.

Dated at _____, this ____ day of _____.

Name of creditor and name of authorized signatory

Signature of witness

Per : _____
Signature

CANADA
PROVINCE DE QUÉBEC
DISTRICT DE QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-034874-087
ESTATE NO.: 41-341678

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

Direct Source Special Products Inc.,

a body politic and corporate, duly incorporated
according to law and having its head office and its
principal place of business at:
2695 Dollard Street
LaSalle QC H8N 2J8

Debtor

VOTING LETTER

(Paragraphs 51(1)f) and 66.15(3)c) of the Act)

I, _____, creditor
(or I, _____, representative of _____, creditor)
of _____ (name of town or city), a creditor in the above matter for
the sum of _____\$, hereby request the trustee acting with respect to the proposal of **Direct Source
Special Products Inc.** to record my vote _____ (for or against) the acceptance of the
proposal as made on the 1st day of May 2009.

Dated at _____, this _____ day of _____ 200__.

Witness

Individual Creditor

- OR -

Name of Corporate Creditor

Witness

Per : _____
Signature of Signing Officer

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01 - MONTREAL
COURT NO.: 500-11-034874-087
ESTATE NO.: 41-341678

**SUPERIOR COURT
(Commercial Division)**

IN THE MATTER OF THE PROPOSAL OF:

Direct Source Special Products Inc.

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:

2695 Dollard Street
Lasalle, QC H8N 2J8

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 May 1, 2009 (hereinafter referred to as the "Proposal") by Direct Source Special Products Inc. (hereinafter referred to as the "Company" or "Debtor").

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.

INTRODUCTION

On November 21, 2008, the Debtor filed a Notice of Intention to Make a Proposal in accordance with the *Bankruptcy and Insolvency Act* (the "Act").

On November 27, 2008, documents were sent by regular mail to all creditors of the Debtor, as identified by it, which included a copy of the Debtor's Notice of Intention.

On December 18, 2008, the Court granted the Motion filed by the Debtor to Extend the Delay for the Filing of a Proposal until February 3, 2009.

On January 29, 2009, the Debtor filed a Motion to Extend the Delay for the Filing of a Proposal until March 20, 2009. On February 2, 2009, the Court granted the Motion and the delay to file a Proposal was extended until March 19, 2009.

On March 19, 2009 the Court granted a Motion to delay the filing of the Proposal until May 4, 2009.

On May 1, 2009, 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 consider the Proposal.

This report summarizes the relevant information and key elements that may assist the creditors in analysing the Debtor's affairs and the terms of the Proposal. The report is presented under the following sections:

- I. Background of the Debtor
- II. Causes of Insolvency
- III. Restructuring Measures
- IV. Financial Information
- V. Proposal
- VI. Distribution to Creditors
- VII. Conclusion

I. BACKGROUND OF THE DEBTOR

The Company's business consists primarily in selling and distributing music CDs, DVDs and videos and focuses on a market niche within the music industry selling as well as repackaging low or modest priced motion pictures and non major labels music discs.

The Debtor's head office and main warehouse is located in Lasalle, Québec. A large portion of the Debtor's inventory is located in a warehouse in the U.S. owned or leased by the Company's major supplier.

The Debtor has various licences allowing it to produce and distribute a variety of CDs and DVDs. The Company is accredited as official vendor for numerous important retailers in Canada and the U.S.A.

II. CAUSES OF INSOLVENCY

The Debtor attributes its financial difficulties to the following:

- i) Major music labels decreasing the prices of their products in an attempt to adapt to the market trend;
- ii) Drastic reduction in sales to the Company's major U.S.A. customer, representing over 75% of the Company's business volume. In addition, the Company received significant returns which decreased the value of its accounts receivable;
- iii) Legal and illegal downloads of music; and
- iv) General economic downturn in the U.S.A., being the Company's principal market.

The above factors resulted in significant operating losses.

III. RESTRUCTURING MEASURES

Since the filing of the Notice of Intention, the Debtor has initiated various corrective measures such as:

- i) The Company's principal banker, BNP Paribas, was replaced by Euro Canadian Corporation (hereinafter "EURO") who has entered into an interim financing agreement with the Debtor;
- ii) Negotiations with its other secured creditor, the Caisse de Dépôt et Placement du Québec (hereinafter "CDPQ") to finalize the terms of a settlement to be considered in conjunction with the Proposal to its creditors;
- iii) Temporary suspension of its operations;
- iv) Headcount reductions which resulted in layoffs of approximately 15 employees;

- v) Overall reduction of operating expenses;
- vi) Collection of certain accounts receivable;
- vii) Reduction and sale of certain inventory;
- viii) Pursued negotiation efforts to recover inventory located in the United States; and
- ix) Updated the Company's books and records, including the analysis of the royalty expense and related reporting requirements.

IV. FINANCIAL INFORMATION

Although the Company's books and records have not been updated since February 28, 2009, the Statement of Affairs filed with the Official Receiver on May 1, 2009, indicated the Company's best estimate of its financial position as at April 30, 2009.

The Trustee makes no representations or warranty as to the accuracy of said financial information. Our review of the Company's financial information as at February 28, 2009 is summarized as follows:

A) Operating results

Direct Source Special Products Inc. Operating Results (Unaudited)				
	28-Feb-09 (8 months)		30-Jun-08 (12 months)	
Sales	\$ 7,005	100%	\$ 36,772	100%
Returns	<u>(15,842)</u>	-226%	<u>(13,261)</u>	-36%
Net Sales/(Returns)	<u>(8,837)</u>	-126%	<u>23,512</u>	64%
Gross Margin/(Loss)	<u>(20,416)</u>	-291%	<u>4,264</u>	12%
Operating Expenses	<u>4,805</u>	69%	<u>9,141</u>	25%
Income Tax Recovery	<u>-</u>	0%	<u>(1,089)</u>	-3%
Net Loss	<u>\$ (25,221)</u>	-360%	<u>\$ (3,788)</u>	-10%

The above table shows the poor financial performance of the Company for the last 20 months and the unusual high level of returns.

B) Balance Sheet

The Debtor's books and records reflect the following as at February 28, 2009:

Direct Source Special Products Inc. Balance Sheet As at February 28, 2009	
	Book Value
Current Assets	
Accounts receivable	\$ 1,686
Inventory	4,289
Other current assets	521
	<hr/> 6,496
Future income tax	757
Property and equipment	123
	<hr/> Total Assets
	\$ 7,376
Current Liabilities	
Bank indebtedness	11,584
Accounts payable and royalties payable	14,890
Accrued liabilities	394
Loan payable to C.D.P.Q.	4,188
	<hr/> 31,056
Shareholders' Deficit	(23,679)
	<hr/> Total Liabilities and Shareholders' Deficit
	\$ 7,376

Our comments concerning the February 28, 2009 balance sheet are summarized as follows:

Assets

Accounts Receivable

The book value of the accounts receivable totaled \$3,066,909 as at February 28, 2009, before any consideration for uncollectible amounts and returns of products. As per the Statement of Affairs, Management has estimated the realization value of accounts receivable at \$1,685,931. The accounts receivable are secured by a first charge in favour of EURO who has entered into an interim financing agreement with the Debtor.

Inventory

The original cost of the inventory as at February 28, 2009 is \$8,440,984 which can be broken down as follows:

▪ Finished goods	\$7,052,360
▪ Packaging	1,219,030
▪ Displays	<u>169,594</u>
▪ Total	<u>\$8,440,984</u>

Management has taken a reserve of \$4,152,385 (or 49%) to provide for the decline in market values.

Other current assets

Other current assets include miscellaneous assets.

Future Income Tax

The future income tax asset includes capitalized loss carry forwards which can be applied against future taxable income of the Company.

Property and Equipment

Property and equipment includes tooling and other miscellaneous assets.

Liabilities

The Debtor has provided us with a list of its creditors. Notices have been sent to the known creditors. However, at the present date, we are unable to determine if the Debtor's records agree and are consistent with those of its creditors. Upon reception of the Proofs of Claim, we shall review them with the representatives of the Company and deal with any discrepancies for purposes of collocation of claims.

The Company's liabilities are detailed as follows:

Direct Source Special Products Inc. Summary of Liabilities as at February 28, 2009		
	Amount	Security
Euro	\$ 11,584	First ranking security over the accounts receivable, inventory, licences and masters, prepaids and deposits, computer equipment.
CDPQ	4,188	First ranking security over warehouse equipment, furniture and fixtures.
Accounts payable and accrued royalties	14,890	
Accrued liabilities	394	
Total	\$ 31,056	

Secured Creditors

The secured creditors are Euro and CDPQ to which the Company was indebted as at February 28, 2009 \$11,583,943 and \$4,187,500 respectively. As per the Statement of Affairs dated April 30, 2009, the CDPQ indebtedness did not change; however, the Euro loan decreased to \$10,206,117.

Based on the information presently available, the estimated net realization of the Debtor's assets will not be sufficient to satisfy the secured claims of Euro and CDPQ.

Pursuant to the Proposal, the Euro loan is unaffected while the CDPQ loan is affected.

Preferred Creditor

The preferred creditor of the Debtor is GE Canada Real Estate Holding Company, the Debtor's landlord. The \$40,605 preferred claim represents the Company's estimate of three months of rent prior to the filing of the Proposal. The Debtor does not have knowledge of any other preferred claims. However, this may vary upon reception of the proofs of claim.

Unsecured Creditors

Since the filing of the Notice of Intention on November 21, 2008, the Debtor has updated its books and records and, as such, the amount owed to Unsecured Creditors has been determined to be \$16,927,965. The amount due to the unsecured creditors will be validated upon filing by the creditors of their proofs of claim.

V. PROPOSAL

Creditors are advised to read the Proposal for complete details of the terms of the Proposal.

In summary, the more important terms of the Proposal are:

A) Funding

The Debtor will remit to the Trustee on the date of the Proposal Approval, \$150,000 for distribution to preferred and unsecured creditors. In addition, within thirty (30) days of the Proposal Approval, the Debtor will remit to the Trustee, \$100,000 for distribution to CDPQ. These amounts will be funded out of operating cash flows.

B) Amounts to be paid as a Priority

Employees' Claims

The Employees' Claims will be paid in full, immediately following Proposal Approval.

With respect to all of the Employees Creditors who are currently employed by the Debtor, all of their Employees' Claims have been or shall have been fully paid by the Debtor to such Employees, in the normal course of the Debtor's business.

Crown's Claims

All Crown's Claims, to the extent not already paid by the Debtor in the ordinary course of the Debtor's business, shall be paid in full, within six (6) months after Proposal Approval or as may otherwise be arranged with the Crown.

Subsequent Claims

The claims arising in respect of goods supplied, services rendered or other consideration given to the Debtor subsequent to the date of the Proposal, including (without limitation) salaries and other compensation of employees, have been or shall be paid in full by the Debtor in the ordinary course of business and on regular trade terms.

Preferred Claims

Preferred Creditors shall be paid in accordance with existing contracts or as may be otherwise arranged with the Preferred Creditors, unless no such contract or arrangement exists, in which case, the Preferred Creditors shall be paid out of the Proposal Fund, within sixty (60) days of Proposal Approval.

C) Amounts to be paid to Secured Creditors

Secured Creditors shall be paid in accordance with existing contracts or as may be otherwise arranged with the Secured Creditors. For greater certainty, except as otherwise indicated in the Proposal, the Proposal is not addressed to the Secured Creditors and they shall not be bound by the Proposal in respect of their Secured Claim, inasmuch as the said Secured Claim has been allowed by the Trustee or determined by the Court in accordance with the provisions of Section 135 of the Act.

Furthermore, the creditors holding a Secured Claim shall be entitled to value their security, exercise a right to vote and participate in any distribution as an Ordinary Unsecured Creditor, with respect to the amount of their claim which exceeds the value of the security held by the Secured Creditors, as accepted by the Debtor or the Trustee or determined by the Court.

However, the Trustee shall pay to CDPQ the amount of one hundred thousand dollars (\$100,000.00) out of an Additional Fund (to be deposited by the Debtor with the Trustee) within thirty (30) days of Proposal Approval, the whole without interest, in full satisfaction of the Secured Claim of CDPQ, if the following conditions are satisfied:

- i) CDPQ has valued its Security, and has converted the remaining amount of its Secured Claim into an Ordinary Unsecured Claim for the purpose of exercising a right to vote;
- ii) CDPQ has voted in favour of the Proposal;
- iii) CDPQ waives any rights it may have to participate in any distribution as an Ordinary Unsecured Creditor.

D) Amounts to be Disbursed to Ordinary Creditors

The Trustee will pay to each of the Ordinary Unsecured Creditors, in full and final settlement of its Ordinary Unsecured Claim, without interest or penalty, an amount equal to:

- i) the lesser of \$500 or the amount of its Ordinary Unsecured Claim, payable out of the Proposal Fund, within sixty (60) days of Proposal Approval;
- ii) with respect to the balance of its Ordinary Unsecured Claim, if any, its pro rata share of the balance of the Proposal Fund, as soon as reasonably possible, as determined by the Trustee, after the final determination of all the known claims of the Ordinary Unsecured Creditors and the Preferred Creditors.

E) Other

The Proposal provides that the statutory terms of Sections 91 to 101 of the Act, and similar civil Code of Quebec provisions, shall not apply as permitted by Section 101.1 of the Act.

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.

The Proposal shall be deemed to be accepted by the creditors if, and only if, the unsecured creditors vote for the acceptance of the Proposal by a majority in number and two thirds in value of the unsecured creditors present, personally or by proxy, at the meeting and voting on the resolution.

It is the responsibility of the creditors to review and analyse the Proposal submitted by the Debtor.

VI. 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 analysis compares the estimated value to be distributed to creditors under the Proposal versus a nil Bankruptcy distribution.

A) Proposal

We estimate that the distribution to Ordinary Unsecured Creditors would correspond to the following:

Direct Source Special Products Inc. Proposal Estimated Distribution			
	Number of Creditors	Percentage of distribution	
A) Proposal Fund			\$ 150,000
Less: Preferred creditor claims ¹	1	100%	<u>(40,605)</u>
Dividend available to unsecured creditors			109,395
<u>First \$500 dividend</u>			
Claims equal or less than \$500	22	100%	(5,613)
Claims greater than \$500	115	0.34%	<u>(57,000)</u>
<u>Remaining dividend to be distributed to unsecured creditors</u>			<u>\$ 46,782</u>
Unsecured claims, net of the first \$500 dividend ^{1, 2}	115	0.28%	<u>\$ 16,864,953</u>
Estimated total percentage of distribution to unsecured creditors			0.65%
B) Additional Fund to CDPQ			\$ 100,000
CDPQ claim			\$ 4,187,500
Estimated % distribution			2.4%
¹ Claim amounts are based on the liabilities included in the Statement of Affairs filed on May 1, 2009.			
² The unsecured claims, including the first \$500 pay-out, total \$16,927,765.			

B) Bankruptcy Scenario

In a bankruptcy scenario, based on the value of the assets we estimate that the distribution would be as follows:

Direct Source Special Products Inc. Bankruptcy Estimated Distribution		
(in thousand of CDN\$)	Original Cost	Estimated Value ¹
Accounts receivable	\$ 3,067	\$ 1,686
Inventory	8,441	4,289
Other current assets	521	-
Future income tax	757	-
Property and equipment, net of amortization	123	100
	<u>\$ 12,909</u>	<u>6,075</u>
Professional fees and realization costs		(300)
Estimated net proceeds available for distribution		5,775
Secured claims ²		14,394
Projected deficit		<u>\$ (8,619)</u>
Distribution to preferred and unsecured creditors		<u>\$NIL</u>

¹ Estimated values are as per the Statement of Affairs filed on May 1, 2009.
² As per the Statement of Affairs filed on May 1, 2009.

The above analysis indicates that the estimated realization values of the Debtor's assets are not sufficient to reimburse in full the secured creditors' claims.

VII. CONCLUSION

Notwithstanding the nominal recovery for the Ordinary Unsecured Creditors under the terms of the Proposal, the Trustee's comments are as follows:

- i) The Proposal, if accepted, offers to the Debtor the opportunity to continue its business relationships with its suppliers;
- ii) The CD/DVD industry is currently facing difficult conditions which has and continues to affect the Company's financial situation; and

- iii) As previously noted, in the event of a Bankruptcy and an ensuing liquidation of the Company's assets, the secured creditors will suffer a substantial loss with no dividend available to the unsecured creditors.

It is up to the creditors to vote on the Proposal either by submitting their voting letter prior to the creditors meeting or in person at the creditors' meeting.

Dated at Montreal, Province of Quebec, this 11th day of May 2009.

RSM Richter Inc.

Trustee

A handwritten signature in black ink, appearing to read 'Yves Vincent', written over a horizontal line.

Yves Vincent, FCA, CIRP
Administrator