

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
DIVISION NO.: 04-GRANBY  
COURT NO.: 460-11-000938-046  
ESTATE NO.: 42-043090

SUPERIOR COURT  
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE PROPOSAL OF:

**177841 Canada Inc.**  
**(formerly known and operating as J.L. de Ball**  
**Canada Inc.),**

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:  
835 Industriel Blvd.  
Granby Quebec J2J 1A5

**Debtor**

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### **Trustee's Report Relating to the Affairs of 177841 Canada Inc. Since the Meeting of Creditors Held on December 1, 2004**

On February 4, 2004, 177841 Canada Inc. (formerly known as J.L. de Ball Canada Inc.) (hereinafter called the "Company") filed a Notice of Intention to Make a Proposal to its creditors. RSM Richter Inc. ("Richter") was named Trustee to the Notice of Intention.

On August 4, 2004, the Company filed a Proposal to its creditors ("Proposal"). Although the creditors must refer to the specific terms contained in the Proposal, the highlights of the said Proposal, which is considered as a "Holding Proposal", are as follows:

- Secured Claims shall be paid in accordance with arrangements existing between the Company and the secured creditors;
- Preferred Claims are to be paid in full; and
- The payment of Unsecured Claims is deferred until the Company tables at the First Meeting of Creditors or at any postponement thereof an Amended Proposal under which the Company will propose a basis of payment to be made in full and final settlement of the Unsecured Claims.

In conformity with paragraph 50(10)b) and subsection 50(5) of the Act and in order to help the creditors to study the Proposal, the Trustee submitted an initial report on the financial situation of the Company, dated August 17, 2004.

At the first Meeting of Creditors, held on August 25, 2004, a resolution was unanimously passed adjourning the meeting to December 1, 2004.

At the creditors' meeting held on December 1, 2004, the Trustee submitted an updated Report on the status of the affairs of the Company pursuant to the sale of its operating assets and discussed with the creditors the outstanding issues and the measures taken by the Company to finalize matters and maximize the realization results. Under the circumstances, the creditors unanimously agreed to adjourn the meeting to January 20, 2005.

The financial situation of the Company has been reviewed and discussed in the Trustee's prior Reports dated August 17, 2004 and December 1, 2004. Nevertheless, pursuant to the marketing process and, more specifically, the Court Orders granted on November 18, 2004, we summarize the most salient facts relating to the realization of J.L. the Company's assets as follows:

## 1. SALE OF ASSETS

### 1.1. J.L. de Ball Canada Inc. (now known as 177841 Canada Inc.)

On November 30, 2004, the operating assets of the Company were sold to 4237803 Canada Inc. (the "Purchaser") for \$6,200,000. An initial payment of \$2,200,000 was received by RSM Richter ("Richter") in trust, in its capacity as Interim Receiver, pursuant to the Court Order rendered on August 18, 2004, wherein the sale was authorized.

The sale transaction provided for a balance of sale of \$4,000,000 to be paid no later than March 31, 2005. This balance of sale was subject to a deduction of the amount of accrued vacation pay owing to unionized workers, which will be paid by the Purchaser on behalf of the Company.

On December 31, 2004, the balance of sale was paid by the Purchaser. In this regard, an amount of \$3,670,368 was remitted directly to BMO Bank of Montreal ("BMO"), the secured creditor, representing the balance of sale of \$4,000,000, plus interest of \$21,370, less the accrued vacation pay of \$231,000 and the reimbursement of a portion of the signing fees of \$120,000.

### 1.2. Asheville Velour Inc. ("Asheville")

On November 30, 2004, concurrent to the above-mentioned sale of the Company's operating assets, BMO, the secured lender financing Asheville, sold to 4237803 Canada Inc. for \$800,000 at a private sale substantially all of Asheville's assets, pursuant to the laws of the State of North Carolina, U.S.A.

### 1.3. Girmes Special Textiles (Zhangjiagang) Company., Ltd. ("GSTZ")

The sale of GSTZ finally closed on January 11, 2005. This transaction will ultimately generate US\$750,000 of which US\$243,600 is to be shared by the holders of related party/affiliated claims. Thus, the net realization of US\$506,400 (C\$607,000) is first to be used to cover the fees for professional services rendered in Hong Kong. The remaining funds are estimated at C\$394,000.

As provided for in the sale agreement, an initial amount of US\$600,000 has been remitted to Richter in trust, in its capacity as Interim Receiver, pursuant to the Court Order rendered on August 18, 2004, wherein the sale was authorized. The balance of US\$150,000 is secured by letter of guarantee and is collectible no later than February 12, 2005.

## 2. REALIZATION OF REMAINING ASSETS

Based on the Company's records, the book value of the remaining unsold assets is detailed as follows:

### 2.1. Cash in Bank

As at the close of business on November 29, 2004, the Company had the following balances in its bank accounts:

	Fx rate	US\$	US\$ in C\$	C\$ Acct	TOTAL
Closing balance, Nov 29, 2004	1.18	95,646	112,862	274,441	387,303
O/S Cheques	1.18	(4,920)	(5,806)	(25,586)	(31,392)
<b>Closing position at time of sale</b>		<b>90,726</b>	<b>107,056</b>	<b>248,855</b>	<b>355,911</b>

These funds were used to cover current payroll and cheques in circulation as well as a reduction of the Company's line of credit of \$250,000.

## 2.2. Trade Receivables

As at the close of business on November 29, 2004, the Company had accounts receivable of approximately \$3,657,000, aged as follows (in thousands):

Total	Current	1 – 30 days	31 – 60 days	61 – 90 days	91 + days
\$3,657	\$2,542	\$809	\$102	\$16	\$188
100%	70%	22%	3%	—	5%

We estimate that the proceeds from the collections of these trade receivables should generate \$3,100,000 (net of a 15% provision for bad debts). As provided for in the sale agreement, a 5% collection fee is payable to the Purchaser for managing the collection process. Thus, the net realizable value of the trade receivables is estimated at \$2,953,000. To date, C\$849,560 and US\$1,386,128 have been collected.

## 2.3. Income Taxes Receivable

Pursuant to the filing of its 2003 corporate tax returns, the Company has claimed refunds of Quebec income taxes for prior years of \$450,000. We were advised by the tax authorities that they will not remit any funds pending the outcome of de Ball's proposal to its creditors.

Subsequent to the filing of its 2004 tax returns, de Ball should be entitled to claim a further reimbursement of approximately \$133,000.

The actual amounts to be collected will only be confirmed when the tax assessments are issued.

## 2.4. Sales Taxes Receivable

Management has advised us that the Company is entitled to recover sales taxes (GST/QST). The amounts claimed are as follows:

January/February 4, 2004	\$130,748
August/September 2004	234,048
October/November 2004	264,134
December 2004	TBD
	<u>\$628,900</u>

Due to the Company's current legal status, it is unclear as to when these funds will be recovered, if any. Before any remittance is made, the tax authorities will want to deduct the unpaid portion of sales taxes claimed by the creditors of the Estate.

## 2.5. Deposit from Glenoit Fabrics (HG) Corporation ("Glenoit")

The Glenoit offer to purchase the Company's assets provided for a deposit of \$100,000, which was forfeited subsequent to the termination of negotiations. The forfeited deposit was deposited in Richter's trust account and, as such, is part of the realization proceeds.

### 3. ESTIMATED REALIZATION

BMO has a first-ranking charge on all of the Company's assets and, as such, on any proceeds realized until its indebtedness is repaid in full.

The ongoing realization process of the Company's assets can be summarized as follows:

#### 3.1. Proceeds Pursuant to Sale of Operating Assets

	<b>TOTAL</b>
Sale of operating assets	
Initial sale proceeds	\$3,000,000 (Note 1)
Balance of sale proceeds	4,000,000 (Note 2)
Signing fee (net of refund)	60,000 (Note 3)
Glenoit deposit (forfeited)	100,000
Closing adjustments	(5,177)
Interest on balance of sale	21,370
	<b>7,176,193</b>
Less: Amounts required to cover the following:	
Employee Liabilities	(698,295) (Note 4)
Professional fees (including taxes/as at December 31, 2004)	
- Trustee/Interim Receiver	(228,950)
- Legal fees	(280,010)
Amounts guaranteed to suppliers	(22,263)
Arrears of water taxes	(121,100) (Note 5)
General provision	(50,000)
	<b>(1,400,618)</b>
<b>Net proceeds (before ongoing professional fees and realization costs)</b>	<b>\$5,775,575</b>

**Note 1** \$3,000,000 was collected relating to the sale of the operating assets of the Company and Asheville.

**Note 2** The balance of sale, which was interest-bearing, was paid on December 31, 2004. The actual amount remitted to BMO was \$3,670,368, as explained in **Section 1.1**.

**Note 3** Under the terms of the Assets Purchase Agreement, the Purchaser paid a signing fee of \$180,000 to obtain the benefit of the balance of sale of \$4,000,000. A portion of this fee (\$120,000) was reimbursed as the balance of sale was paid on December 31, 2004.

**Note 4** Under the terms of the Assets Purchase Agreement, the Company is responsible to pay all arrears of salaries, benefits and vacation pay owing to employees. In this regard, the unionized employees will be paid by the Purchaser, on behalf of the Company. The actual amount of \$231,000 was deducted from the balance of sale when it was paid by the Purchaser.

**Note 5** Under the terms of the Assets Purchase Agreement, the arrears of water taxes are to be settled by the vendor. The City of Granby has not issued final bills. However, the amounts owing are estimated at approximately \$121,000.

### 3.2. Estimated Realization Values

Based on the information obtained to date, as previously discussed, the estimated realization values of the Company's assets are as follows:

	Range	
	Low	High
Sale of operating assets (net proceeds) (per 3.1)	\$5,600,000	\$5,775,575
Collections of trade receivables (per 2.2)	2,953,000	3,066,000
Refund of income taxes (per 2.3)		
As filed	400,000	450,000
To be filed	100,000	133,000
GST/QST (per 2.4)	TBD	300,000
Sale of GSTZ (net proceeds) (per 1.3)	394,000	394,000
<b>Estimated realization (before ongoing fees and costs)</b>	<b>\$9,447,000</b>	<b>\$10,118,575</b>

The above analysis is subject to change as issues get resolved and is before any consideration for ongoing costs relating to dealing with the wind-up of de Ball's affairs such as update of records, filing of tax returns, submission of information for tax audits, etc. as well as professional fees.

### 4. ESTIMATED BANK POSITION

As funds from realization are made available, they are remitted to BMO to reduce the Company's bank indebtedness.

	Cdn\$	US\$
<b>Bank indebtedness as at November 29, 2004:</b>		
Operating credit	\$3,150,000	-
Term loan (including accrued interest to Nov 30)	4,580,878	\$1,322,950
Interest on balance of sale	21,370	-
	<u>7,752,248</u>	<u>1,322,950</u>
Less: Remittances to date		
Initial remittance of sale proceeds (de Ball)	1,000,000	-
Balance of sale proceeds (de Ball)	3,648,998	-
Remittance of sale proceeds (Asheville)	800,000	-
Current interest paid	39,309	7,769
Interest on balance of sale	21,370	-
Collection of trade receivables (net of 5% fees)	749,436	1,157,822
	<u>6,259,113</u>	<u>1,165,591</u>
<b>Total outstanding as at January 19, 2005 (before interest and bank charges)</b>	<b>\$1,493,135</b>	<b>\$157,359</b>

The above analysis does not consider ongoing interest charges after November 30, 2004.

## **5. ESTIMATED DISTRIBUTION TO CREDITORS**

At the present time, based on the information reviewed above, it is difficult to estimate the timing and the actual surplus resulting from the realization process as well as the amount which will be available to distribute to the creditors.

However, management and representatives of the majority to shareholders have not completed their review of the Company's outstanding liabilities to determine with more certainty the actual amounts owing. The outcome of this analysis will provide a better understanding of the amounts owed to the creditors and the estimated recovery to the creditors.

## **6. OTHER**

### **6.1 Change of Name**

On December 23, 2004, Industry Canada confirmed the change of name of the Company which is now known as 177841 Canada Inc.

### **6.2 Validity of Security**

Richter, as Trustee to the Proposal, requested an independent legal opinion as to the validity of the security held by BMO.

On September 29, 2004, Messrs. Kugler Kandestin, attorneys, confirmed that BMO held valid first ranking security on all of the Company's assets.

## **7. CONCLUSION AND RECOMMENDATION**

Richter is of the opinion that the realization value of the assets will be maximized if a bankruptcy is avoided and, as such, is recommending that the Company file a "Liquidating Proposal" which would provide for the distribution of the net realization to the creditors according to their rights. Accordingly, this meeting of creditors should be further postponed until March 24, 2005 to allow for the filing of the Proposal and the call of a new meeting of creditors.

DATED IN MONTREAL, this 18<sup>th</sup> day of January, 2005.

### **RSM Richter Inc.**

(estate formerly accepted under the responsibility of Richter & Associés Inc.)