

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
No.: 500-11-033234-085

SUPERIOR COURT
Commercial Division
(Bankruptcy and Insolvency)

IN THE MATTER OF *THE COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. (1985), c. C-36 WITH
RESPECT TO:

SHERMAG INC., a legal person constituted under the
Companies Act (Québec), having its domicile at
2171 King Street West, in the City of Sherbrooke and
District of Saint-François, Province of Québec, J1J 2G1

- and -

JAYMAR FURNITURE CORP., a legal person
constituted under the laws of Nova Scotia and continued
under the laws of Canada, having its domicile at
75 Jaymar Street, in the City and District of Terrebonne,
Province of Québec, J6W 1M5

- and -

SCIÉRIE MONTAUBAN INC., a legal person constituted
under the laws of Canada, having its domicile at
100 Route du Lac George, in the City of Notre-Dame-de-
Montauban and District of Saint-Maurice, Province of
Québec, G0X 1W0

- and -

MÉGABOIS (1989) INC., a legal person constituted
under the Companies Act (Québec), having its domicile
at 2171 King Street West, in the City of Sherbrooke and
District of Saint-François, Province of Québec, J1J 2G1

- and -

SHERMAG CORPORATION, a legal person constituted
under the laws of the State of Delaware, having its chief
executive office at Corporation Trust Center,
1209 Orange Street, in the City of Wilmington, State of
Delaware, 19801, U.S.A.

-and-

JAYMAR SALES CORPORATION, a legal person constituted under the laws of the State of Nevada, having its chief executive office at Incorp Services, Inc., 3155 East Patrick Lane, Suite 1, in the City of Las Vegas, State of Nevada, 89120-3481, U.S.A.

Debtors/Petitioners

-and-

RSM RICHTER INC., a duly incorporated legal person having its principal place of business at 2 Place Alexis-Nihon, in the city and district of Montreal, H3Z 3C2

Monitor

**NINTH REPORT OF THE MONITOR
(ORIGINALLY DATED JULY 30, 2009)
(UPDATED AND ISSUED ON AUGUST 11, 2009)**

INITIAL ORDER

1. On May 5, 2008, Shermag Inc. and its affiliates (hereinafter referred to as "Petitioners" or "Shermag") filed a motion before the Québec Superior Court asking for the issuance of an Initial Order in accordance with the provisions of the *Companies' Creditors Arrangement Act*, R.S.C. (1985), c. 36 ("CCAA"). In this regard, the Honourable Robert Mongeon, J.S.C., rendered the order in question and appointed RSM Richter Inc. as Monitor ("RSM" or "Monitor") and set a Stay Termination Date of June 4, 2008.
2. Since then, the Stay Termination Date and the delay for filing a Plan of Arrangement, pursuant to the Initial Order, has been extended eight times by the Court, the latest extension expires on August 12, 2009.

OTHER PROCEEDINGS

3. On July 16, 2008, Petitioners filed a Petition to Establish a Claims and Meetings Process ("Claims Process") which was granted by the Court. The Claims Process set the bar date for the filing of Proofs of Claim or Notices of Dispute with the Monitor to September 5, 2008 at 5:00 p.m.

4. On July 31, 2008, the Court rendered an Order Approving Various Agreements regarding its financing, and authorizing Geosam Investment Limited ("Geosam") to replace Wachovia Capital Finance Corporation ("Wachovia") as secured lender.
5. On November 4, 2008, the Court approved the liquidation process to sell, by way of an auction, Shermag's surplus machinery and equipment.
6. On January 13, 2009, the US Court rendered an order pursuant to *Chapter 15 of the United States Bankruptcy Code* (US Order) recognizing the Canadian proceedings as foreign main proceedings, enforcing the Claims Process and establishing the US bar date as February 27, 2009 at 5:00 p.m.
7. On February 26, 2009, the Court authorized Shermag to enter into a second key employee retention bonus plan.
8. On March 26, 2009, the Court dismissed Shermag's motion for the reorganization of its share capital ("Reorganization Motion").
9. On June 4, 2009, the Court granted an Order authorizing the sale of a real property and related vesting order as well as an Order authorizing a Call for Tenders Process. ("Call for Tenders Process").
10. On July 30, 2009, Shermag filed a Motion for an Order Approving a Transaction, extending the Stay Period until October 16, 2009 and granting an interim financing (this Motion was originally to be heard by the Court on August 5, 2009).
11. On August 11, 2009, Shermag filed an Amended Motion for an Order approving a Transaction, extending the Stay Period until October 16, 2009 and granting an interim financing.

MONITOR'S REPORT

12. The Monitor hereby submits to the Court its Ninth Report in connection with the Petitioners' CCAA proceedings.

13. The purpose of this Ninth Report of the Monitor is to inform this Honourable Court on the following:
 - A. Acceptance of Offer
 - B. Interim Financing
 - C. Current Financial Results
 - D. Cash-flow Projections
 - E. Monitor's Position.

14. The Court should be made aware that the information contained herein has not been the subject of a formal audit by the Monitor and comes from the unaudited books and records of the Petitioners made available to the Monitor as well as from conversations with the management of the Petitioners. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy and completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report.

A) ACCEPTANCE OF OFFER

15. Pursuant to the Call for Tenders Process authorized by the Court and the July 10, 2009 opening of tenders, as previously reported to the Court, the Monitor has had numerous meetings and discussions with the independent committee of Shermag's Board of Directors (Independent Committee), the Petitioners' legal advisors and the Board of Directors to finalize the terms and conditions of any proposed transaction with one of the two "*en bloc*" offerors (the "Offerors").

16. More importantly, on July 30, 2009, the Monitor, the Independent Committee and the Petitioners' legal advisor met to discuss the revised offers. After careful considerations, the Independent Committee came to the conclusion that the offer submitted by Groupe Bermex Inc. ("Bermex" / "Bermex Offer") was the best transaction available to the Petitioners and their creditors in the circumstances.

17. The Bermex Offer provides the best available contribution to the unsecured creditor and allows for the presentation of a plan of arrangement, which was uncertain with the other offer submitted.

18. On July 30, 2009, the Petitioners, upon the recommendation of the Independent Committee and the approval of Shermag's Board of Directors, accepted the Bermex Offer and instructed the Petitioners' counsel and the Monitor to take the appropriate steps to finalize the contemplated transaction ("Bermex Transaction").
19. The Bermex Transaction offers Shermag, amongst other considerations, the opportunity to:
 - obtain interim financing of \$3,000,000 to fund current operations;
 - access to new funds of \$1,250,000 to finance a Plan of Arrangement;
 - refinance its affairs and reimburse in full its current lender, Geosam Investments Limited ("Geosam"); and
 - pay all post filing obligations.
20. The Bermex Transaction, as contemplated, can now proceed in view of the fact that Shermag has confirmed that they have reached with Geosam an agreement to extend its financing until October 16, 2009 at the latest.

B) INTERIM FINANCING

i) Extension of Forbearance Agreement

21. Pursuant to the Order granted on July 30, 2008, which approved various agreements, Geosam had entered into an assignment agreement with Wachovia, the former secured lender. Geosam has since offered continued financing, as documented in a Forbearance Agreement, which has been since July 30, 2008, amended and extended until August 12, 2009.
22. The Forbearance Agreement has been further amended and extended to October 16, 2009.
23. Geosam's financing facility loan will not exceed \$11 million during the period, the whole subject to the terms of the Forbearance Agreement.

24. Although, Geosam has already issued the 60-day notice to enforce its securities pursuant to the *Code civil du Quebec*, which notice period is now expired, Geosam has agreed to postpone exercising its rights and recourses pending the outcome of the Call for Tenders Process.

ii) **Bermex Interim Financing**

25. Pursuant to the Bermex Offer, Bermex will make available to Shermag, an interim financing of \$3 million ("DIP Financing") to enable Shermag to meet its obligations as they fall due and to maintain the stability of their operations while completing their restructuring as more fully detailed in the cash flow projected submitted as **Schedule B**.
26. In conjunction with the above mentioned Forbearance Agreement and the DIP Financing, Geosam and Bermex have entered into an intercreditor agreement for the benefit of Shermag.
27. The DIP Financing will bear interest at a rate of 6% per annum and will be secured by a charge on the universality of Shermag's assets senior to any other charge, other than the D&O Charge, the Administrative Charge and any charge, hypothec, lien or security interest or priority guaranteeing the obligations of Shermag towards Geosam.

C) **CURRENT FINANCIAL RESULTS**

Financial Results for the week ending August 8, 2009

28. Attached hereto as **Schedule A** to our report, is the comparative cash flow statement for the week ending August 8, 2009.
29. The Total Bank indebtedness (amounts owed to Geosam) is lower than projected by \$467,000 (\$10,983,000 actual compared to a budget of \$11,450,000) which can be explained as follows:
- i) Net operating cash flow generated a lower cash deficit of \$300,000 compared to the forecasted deficit of \$588,000 due mainly to lower collections than budgeted (\$603,000 timing) which forced Shermag to postpone disbursements relating to inventory purchases of a similar amount (\$623,000). Other projected disbursements (\$357,000) were also delayed;

- ii) Liquidation of excess real estate has generated a timing variance of \$900,000 as it was received earlier than anticipated;
 - iii) Financing expenditures are higher than projected by \$22,000.
30. The August 8, 2009 post-filing liabilities are estimated to approximate \$4,700,000, including outstanding professional fees relating to the restructuring process of approximately \$600,000.

D) CASH FLOW PROJECTIONS

Cash flow projections for the week ending October 17, 2009

31. Attached hereto as **Schedule B** to our report, are the cash flow projections, compiled by Shermag's management, for the ten-week period ending October 17, 2009 which can be summarized as follows:
- i) Net cash flow projections for the period indicate a cash deficit of approximately \$3,003,656;
 - ii) During the reference period, Geosam's financing will reach the authorized limit of \$11 million and Shermag will use the \$3MM DIP Financing offered by Bermex.
32. The Petitioners' projections depend on future events, which are beyond the control of the parties involved, the actual results will differ and such differences may be substantial.

E) MONITOR'S POSITION

33. The Monitor is of the opinion that the Motion before the Court for an Order Approving a Transaction, Extending the Stay Period until October 16, 2009 and granting an interim financing, is reasonable for the following reasons:
- i) The delay requested is essential to allow Shermag to finalize its restructuring in conjunction with the Bermex Transaction;
 - ii) The Bermex Transaction is beneficial to Shermag as it provides for interim financing, the funding of a Plan of Arrangement and the refinancing of its affairs;

- iii) During the extension period, Shermag will be filing a Plan of Arrangement and a creditors' meeting will be held to obtain their approval;
- iv) The Bermex Transaction is in the best interest of all stakeholders;
- v) Shermag continues to act diligently, in good faith and in the best interest of all involved, including its creditors.

34. The Company's principal secured lender (Geosam) supports the Petitioners' request submitted to the Court.

Dated at Montreal, this 11th day of August, 2009.

RSM Richter Inc.
Monitor designated by the Court



Yves Vincent, FCA, CIRP