

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

**EIGHTH REPORT OF THE MONITOR
(JULY 31, 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.

OTHER PROCEEDINGS

2. On June 4, 2008, Shermag was granted a first extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement, as provided for in the Initial Order, until September 8, 2008.
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 September 8, 2008, Shermag was granted a second extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement until December 10, 2008.
6. On November 4, 2008, the Court approved the liquidation process to sell, by way of an auction, Shermag' surplus machinery and equipment.
7. On December 5, 2008, Shermag was granted a third extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement until April 4, 2009.
8. 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.
9. On February 26, 2009, the Court authorized Shermag to enter into a second key employee retention bonus plan.
10. On March 26, 2009, the Court dismissed Shermag's motion for the reorganization of its share capital ("Reorganization Motion").
11. On April 4, 2009, Shermag was granted a fourth extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement until July 13, 2009.
12. 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").
13. On July 13, 2009, Shermag was granted a fifth extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement until July 24, 2009.
14. On July 24, 2009, Shermag was granted a sixth extension of the Stay Termination Date and of the delay to file a Plan of Arrangement until July 31, 2009.

15. On July 30, 2009, Shermag filed a Seventh Motion for an Order extending the Stay Period to August 5, 2009.
16. In addition, on July 30, 2009, Shermag also filed a Motion before the Court for an Order Approving a Transaction, extending the Stay Period until October 16, 2009 and granting an interim financing. It is contemplated that this Motion would only be heard by the Court on August 5, 2009.

MONITOR'S REPORT

17. The Monitor hereby submits to the Court its Eighth Report in connection with the Petitioners' CCAA proceedings.
18. The purpose of this Eighth Report of the Monitor is to inform this Honourable Court on the following:
 - A. Status of Call For Tenders Process
 - B. Current Financial Results
 - C. Cash-flow Projections
 - D. Extension of the Forbearance Agreement
 - E. Monitor's Position.
19. 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) STATUS OF CALL FOR TENDERS PROCESS

20. Pursuant to the Call for Tenders Process authorized by the Court on June 4, 2009, the Monitor opened the offers received as at noon on July 10, 2009, in the presence of the management of Shermag, the independent committee of Shermag's Board of Directors ("Independent Committee") as well as the Petitioners' legal advisor.
21. As reported in the Monitor's seventh report dated July 24, 2009, pursuant to the opening of the tenders, 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").
22. More importantly, on July 22, 2009, in accordance with the Call for Tender Process Order, the Petitioners and the Monitor had extended the delay to approve the offers. While an extension until August 4, 2009, was initially contemplated, the Independent Committee ultimately determined that given the financial situation of the Petitioners, the Offerors who wished to make a revised offer should do so by no later than July 28, 2009, with the view to submit a transaction to this Court by July 31, 2009.
23. In summary, the highlights of the ongoing dealings with the Offerors can be summarized as follows:
 - i) On July 28, 2009, the Offerors submitted revised offers.
 - ii) On July 29, 2009, the Monitor and the Petitioners' counsel discussed with the Offerors to obtain clarifications on their revised offers.
 - iii) 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.
 - iv) 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.

- v) On July 30, 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").
- 24. The Bermex Transaction cannot be completed unless Shermag obtains confirmation that Bermex has reached an agreement with Geosam, the Petitioners' lender, pursuant to which the latter would agree to extend its financing until October 16, 2009 at the latest.
- 25. Bermex and Geosam are currently discussing the terms and conditions of the agreement mentioned at paragraph 24 above.
- 26. Shermag and the Monitor are confident that an agreement will be entered into prior to August 5, 2009.

B) CURRENT FINANCIAL RESULTS

Financial Results for the week ending July 25, 2009

- 27. Attached hereto as **Schedule A** to our report, is the comparative cash flow statement for the week ending July 25, 2009.
- 28. The Total Bank indebtedness (amounts owed to Geosam) is lower than projected by \$66,000 (\$11,415,000 actual compared to a budget of \$11,481,000) which can be explained as follows:
 - i) Net operating cash flow generated a higher cash surplus of \$477,000 compared to the forecasted surplus of \$349,000 due mainly to lower disbursements relating to operating expenditures;
 - ii) Liquidation of the excess inventory generated non-budgeted proceeds of \$25,000;
 - iii) Financing expenditures are higher than projected by \$5,000.
- 29. The July 25, 2009 post-filing liabilities are estimated to approximate \$4,757,000, including outstanding professional fees relating to the restructuring process of approximately \$600,000.

C) CASH FLOW PROJECTIONS

Cash flow projections for the period August 2, 2009 to August 8, 2009

30. Attached hereto as **Schedule B** to our report, are the daily cash flow projections, compiled by Shermag's management, for the one-week period ending August 8, 2009 which can be summarized as follows:
- i) Net cash flow for the one-week period should amount to a surplus of approximately \$266,000;
 - ii) The cash flow assumes payments of certain fees in arrears to the restructuring professionals;
 - iii) The cash flow assumes the receipt of the proceeds of approximately \$900,000 from the sale of the Edmundston property ;
 - iv) The projected bank indebtedness is expected to decrease to \$11.45 million.
31. During this reference period, the value of the post-filing liabilities is assumed to remain relatively at the same level.
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.

D) EXTENSION OF FORBEARANCE AGREEMENT

33. As a result of the Order granted on July 30, 2008, approving various agreements, Geosam had entered into an assignment agreement with Wachovia, the former secured lender. Geosam has amended and extended the previous Forbearance Agreement which expired on July 31, 2009.
34. The Forbearance Agreement has been extended to August 5, 2009.
35. 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.

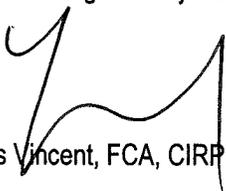
E) MONITOR'S POSITION

36. The Monitor is of the opinion that the Seventh Motion for an Order Extending the Stay Period filed by Shermag, to obtain a further delay until August 5, 2009, is reasonable for the following reasons:

- i) The delay requested is essential to allow Shermag to finalize the financing arrangements with Bermex and Geosam, in conjunction with the Bermex transaction which must be approved by the Court pursuant to the Sale by Tender Process;
- ii) Shermag continues to act diligently, in good faith and in the best interest of all involved, including its creditors;
- iii) The Company's principal secured lender (Geosam) supports the Petitioners' request submitted to the Court.

Dated at Montreal, this 30th day of July, 2009.

RSM Richter Inc.
Monitor designated by the Court


Yves Vincent, FCA, CIRP