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**CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-039457-102
ESTATE NO.: 41-1393380**

**SUPERIOR COURT
(Commercial Division)**

IN THE MATTER OF THE BANKRUPTCY OF:

POWER BATTERY (IBERVILLE) LTD.

a corporation duly incorporated having its head
office at 6290 des Grandes Prairies, St-Leonard,
Quebec H1P 1A2

Bankrupt

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On August 12, 2010, Power Battery (Iberville) Ltd. (the "Company" or "PBI") filed a Notice of Intention to Make a Proposal to its creditors ("NOI") in accordance with the Bankruptcy and Insolvency Act (the "Act") and RSM Richter Inc. ("Richter") was appointed as Trustee under the NOI.

On December 3, 2010, PBI filed a Proposal to its creditors which was accepted by same at the Meeting of Creditors held on December 17, 2010. The success of the Proposal was dependent on the conclusion of an investment transaction with an investor group (the "Investor Group Transaction"). The Proposal and the Investor Group Transaction was conditional on the successful restructuring of the Company's indebtedness owing to its secured creditors, namely the National Bank of Canada ("NBC"), GE Real Estate Financing Business Property Company ("GE") and Alter-Moneta Corporation ("Alter-Moneta"). PBI was not able to complete the successful restructuring of the indebtedness owing to its secured creditors and therefore the Investor Group Transaction could not be successfully concluded. Consequently, at the hearing of application for Court approval of the Proposal on January 20, 2011, the Court refused to approve the Proposal and PBI was thereupon deemed to have made an assignment. Richter was appointed as trustee of the bankrupt estate by the Official Receiver (the "Trustee").

The information contained in this Report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently the Trustee expresses no opinion whatsoever with respect to the validity, the exactitude or the reliability of the information contained herein.

I. OVERVIEW

PBI formed part of a corporate group including its parent, Power Battery Co., Inc. ("PBCI"), a New Jersey corporation, and its subsidiaries, Power Canada Cables Ltd. ("PCC") and Batterie Universelle Ltee ("BUL") (collectively, the "Group"). PCC and BUL are also Bankrupt and Richter has been appointed as Trustee in both estates.

PBI's main business activities consisted of the design and manufacturing of stationary batteries and cabinets used in backup or standby applications which ensured continuous power to critical applications in the event of a loss of power, and of motive power batteries which are used in small industrial equipment such as forklift trucks. PBCI's business activities were similar to PBI's. PBCI had historically manufactured a small portion of the Group's batteries and assembled the majority of its battery cabinets. PBCI has recently discontinued its operations.

In addition to its core business activities, PBI operated a Truck Parts distribution and retail outlet up to mid-November 2010 at which time those activities were discontinued.

II. CAUSES OF INSOLVENCY

The Company has incurred operating losses in the past two fiscal years (ending March 31, 2009 and 2010) due to a combination of extraordinary factors which include:

- Absentee management due to illness;
- Significant volatility in raw material costs, particularly the cost of lead which is a significant component of the batteries manufactured by the Company; and
- A downturn in the global economy which resulted in a loss in sales.

III. FINANCIAL RESULTS

The following table summarizes the internal, unaudited financial results of PBI for the fiscal years ending March 31, 2009 and 2010.

Power Battery (Iberville) Ltd.		
Summary of results		
	Fiscal year ended March 31,	
	2010	2009
Sales	\$ 40,486,764	\$ 46,196,440
Expenses	37,487,211	43,052,869
Gross Margin	2,999,553	3,143,571
Gross Margin (%)	7.4%	6.8%
Selling, General and Administration	2,367,975	2,729,807
Interest and Others	3,513,756	501,040
Net Earnings/(Loss)	\$ (2,882,178)	\$ (87,276)

- Sales have decreased by \$5.7MM (12%) between fiscal 2009 and fiscal 2010;
- Gross margin has increased slightly from 6.8% to 7.4% during fiscal 2010;
- Selling, General and Administration expenses have decreased by \$362,000 in fiscal 2010; and
- Interest and Other includes a foreign exchange loss of \$1,889,000 in fiscal 2010 as opposed to a foreign exchange gain of \$1,360,000 in fiscal 2009.

IV. RECEIVERSHIP

As noted below, the Company's accounts receivable are pledged in favour of NBC. We have obtained an independent legal opinion from Me. Michel Laroche which confirms the validity of NBC's security.

On February 3, 2011, NBC mandated Richter to act as its Receiver and collect the Company's accounts receivable.

V. STATEMENT OF AFFAIRS

The following table summarizes the Company's assets as per the Statement of Affairs as at January 20, 2011:

Power Battery (Iberville) Ltd. Statement of Affairs - Assets As at January 20, 2011		
	Amount	Secured in Favor of:
Inventory	\$ 1,000,000	NBC
Accounts Receivable	1,600,000	NBC
Equipment	4,331,000	NBC/Alter-Moneta
Iberville Building	3,673,000	GE Capital
Vermont Cottage	760,000	NBC
	<u>\$ 11,364,000</u>	

A) Assets

- **Inventory - \$1.0 MM**

The inventory is pledged in favour of NBC. The inventory comprised of finished batteries, raw materials and batteries components such as lead plates and grids.

- **Accounts receivable - \$1.6 MM**

The accounts receivable are pledged in favour of NBC: As noted above, Richter was appointed by NBC to act as its Receiver and collect the Company's accounts receivable. At the date of this report, it is difficult to evaluate the amount that will be collected.

- **Fixed Assets - \$8.8 M**

The Company's fixed assets are summarized as follows:

- Equipment (\$4.3MM) which is comprised of lead casting, battery assembly and electrical charging equipment which are all pledged in favour of NBC or Alter-Moneta;

- The Iberville Building (\$3.7MM), from which the Company previously operated is mortgaged in favour of GE; and
- The Vermont Cottage (\$760,000) is mortgaged in favour of NBC for an amount of approximately \$400,000. The Trustee has not yet begun the process of realizing on the Vermont Cottage and it is therefore unknown at this time whether there would be any equity flowing to the Bankrupt estate.

B) Liabilities

It is important to note that the exact amount of the liabilities which existed as at January 20, 2011 will only be determined once the Proof of Claims are submitted by the creditors and have been compiled by the Trustee. We, nonetheless, present hereinafter a summary of the Company's liabilities, based on PBI's books and records.

Description	Amount
Secured creditors	\$ 11,074,740
Preferred creditors	300,000
Unsecured Creditors	22,503,827
	<u>\$ 33,878,567</u>

• **Secured Creditors - \$11,074,740**

The Company's secured lenders are NBC, Alter-Moneta and GE and their claims and the value of their security as per the Statement of Affairs is as follows:

- NBC's secured claims total \$20,388,699 and the value of the assets comprising their security is \$6,684,132;
- GE's secured claim is in the amount of \$3,586,766 and the value of the assets comprising their security is \$3,856,766; and
- Alter-Moneta's claim is in the amount of \$627,301 and the value of the assets comprising their security is \$627,301.

Alter-Moneta has filed a secured claim with the Trustee. According to the legal opinion of Me. Michel Laroche, a portion of Alter-Moneta's secured claim is not valid. The Trustee intends to prepare a notice of disallowance, which will be subject to a 30 day appeal period.

NBC and GE have not yet filed secured claims with the Trustee.

T.D. Bank, N.A ("TD"), a secured creditor of PBCI (the Company's parent), has registered a hypothec on certain of the Company's assets. According to a legal opinion obtained from Me. Michel Laroche, TD's hypothec against the Company's assets is not valid. The Trustee intends to prepare a notice of disallowance of TD's alleged security, which will be subject to a 30 day appeal period. TD has not filed a claim with the Trustee.

In addition to the above, the Company's books and records reflect amounts owing on account of property taxes to the *Commission Scolaire des Hautes Rivieres* (\$11,963) and to the *Ville de St-Jean sur Richelieu* (\$164,577). These claims, if valid, represent a first ranking claim on the Iberville Building.

- **Preferred Creditors - \$300,000**

Based on the Company's records, there is approximately \$300,000 owing to employees a portion of which may be considered a priority under section 81.3 or 136 of the Act.

- **Unsecured Creditors - \$22,503,827**

The books and records of the Company have not been fully updated and the claims received from unsecured creditors may therefore differ from the amounts reflected in the Statement of Affairs. The amount reflected as unsecured liabilities in the Statement of Affairs includes the estimated shortfall by NBC on its secured claims (\$13,704,567).

VI. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE ESTATE

- **Books and Records**

The books and records of the Bankrupt were not up to date as at the Bankruptcy. The Trustee has engaged the Company's former controller who is bringing certain of the records up to date

for the administration of the Bankrupt Estate. The Trustee is presently performing an inventory of the books and records and will take them into its custody for future reference.

- **Security and Protective Measures**

Since January 20, 2011, the Trustee has undertaken various security and protective measures such as:

- Changing locks and notifying the alarm company;
- Hiring former employees of PBI, on a temporary basis, to assist the Trustee in its functions;
- Opening trust bank accounts;
- Safeguarding the information contained in the computer system;
- Adding the Trustee's name to the insurance policies in force covering the assets of the Company;
- Making arrangements with certain suppliers of services to maintain the continuity of essential services (utilities etc...); and
- Corresponding with any parties who are in possession of property of the Company to advise them of the Trustee's appointment.

- **Transaction Review**

Richter, either as Trustee under the NOI or as Trustee under the Proposal, performed a review of the payments made by the Company in order to identify preferential payments and transactions at undervalue. Richter's review covered the following periods:

- In the case of unrelated parties (including creditors), for the period which begins three months prior to the filing of the NOI and ending on the date of Bankruptcy; and
- In the case of related parties (including creditors), for the period which begins twelve months preceding the date of the filing of the NOI and ending on the date of bankruptcy.

Based on our review, we did not note any payments appearing to be preferential or which were made at undervalue.

VII. SUMMARY OF THE ONGOING SALE PROCESS

During the NOI period, Richter initiated a sale process targeting going-concern purchasers, i.e. battery-related companies and investment funds (the "First Sale Process"). The First Sale Process did not result in finding a going-concern purchaser for the Company's assets.

Since the bankruptcy, Richter initiated another sale process to solicit offers for the assets of the Company from strategic buyers as well as from auctioneers, liquidators and dismantlers (the "Second Sale Process"). In this regard, we have gathered relevant information and built a virtual data room for prospective buyers. Access is granted upon request to the Trustee.

We have requested offers ("Offers") to be submitted no later than February 10, 2011 at 3:00 p.m. (Montreal time). Time is of the essence as the Trustee presently only has limited funds, and substantial costs are being incurred to safeguard and secure the Company's assets. The Offers shall be reviewed with the Inspectors.

VIII. PROPERTY OF OTHERS

To date, the Trustee has received several property claims and is reviewing them with the assistance of Me. Michel Laroche.

IX. PROJECTED DIVIDEND

Based on the administration to date, the Company's secured lenders are likely to suffer a shortfall and consequently, the Trustee does not foresee any distribution of a dividend to the ordinary creditors.

RSM Richter Inc.
Trustee



Benoit Gingues, CA, CIRP
Administrator of the Estate