RSM Richter Inc.

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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUEBEC
DIVISION NO.: 01 - MONTREAL
COURT NO.: 500-11-032325-082
ESTATE NO.: 41-1030545

SUPERIOR COURT
(Commercial Division)

Bentley Leathers Inc.

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:
3700 Griffith, Suite 200
St. Laurent, Québec H4T 2B3

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 March 28, 2008 (hereinafter referred to as "the Proposal") by Bentley Leathers Inc. (hereinafter referred to as the "Debtor" or "Bentley").

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.

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I. INTRODUCTION

On January 18, 2008, Bentley filed a Notice of Intention to make a proposal (hereinafter referred to as the "Notice of Intention") to its creditors and RSM Richter Inc. (hereinafter referred to as "Richter") was appointed Trustee.

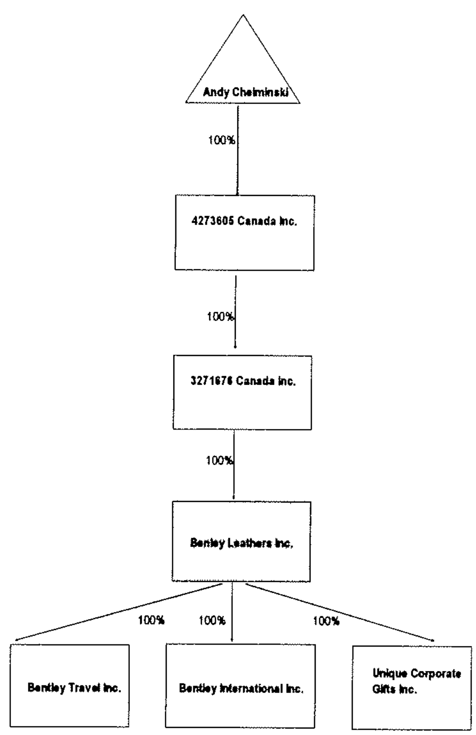
On January 24, 2008, Richter was appointed Interim Receiver pursuant to an application made by the Debtor and since then, Richter is controlling the Debtor's receipts and disbursements.

On March 28, 2008, 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 address the Proposal.

The following summarizes the relevant information and key elements that may assist the creditors in evaluating the Debtor's affairs and the Proposal.

II. BACKGROUND

The Debtor is a privately held company controlled by Mr. Andrew Chelminski through various holding companies as shown below:



Bentley, established in 1987, operates a chain of retail stores throughout Canada specializing in luggage, wallets, purses, backpacks as well as accessories. The Company operates under various banners including Bentley, Access, Xcetera and Unic.

At the time of the filing, Bentley employed approximately 3,600 in its stores, warehouses and head office. By early April 2008, the number of employees has been reduced to approximately 2,900 due to the reduction of seasonal employees, closure of certain store locations and other headcount reductions.

Bentley's head office is located in Montreal, Quebec and its warehouses are located in Hawkesbury, Ontario.

III. CAUSES OF INSOLVENCY AND CORRECTIVE MEASURES

Bentley attributes its financial difficulties to the following:

- The accessories division (Xcetera) has been unprofitable since its creation in 2004;
- During F2007 and F2008 (i.e. fiscal years ended January 2007 and January 2008) 133 stores were opened, relocated or resized (including Xcetera store locations) and many of them did not perform as expected. During this period, Bentley incurred $11.5 million of capital expenditures in connection with the opening of new store locations for all banners as well as for the renovation of existing store locations;
- The poor performance of the short-term temporary winter kiosks in F2007 and F2008 contributed to lower than expected sales during the Holiday periods;
- The lower than expected sales during Holiday F2007 and F2008 resulted in a build up of inventory;
- The Company incurred losses following an unsuccessful expansion into the United States. In F2007 and F2008, Bentley closed the six store locations that it had opened and recorded a write-off of $2 million.

Since the filing of the Notice of Intention, Bentley has initiated various corrective measures to reduce overhead expenses and close underperforming stores. On a preliminary basis, Bentley has identified $4.9 million of annualized net savings which includes the following:

- Closure, sale or lease renegotiation of approximately 140 underperforming store locations including the closure of the Xcetera banner;
- Closure of all kiosks and other temporary locations;
- Consolidation of warehouses resulting in the reduction of its Hawkesbury main warehouse by half (effective September 2008), closure of the Brampton, Ontario facility, rent concessions for its secondary Hawkesbury warehouse, and reduction of overall warehouse workforce;
- Reduction of head office staffing levels by approximately 48 staff in March and April 2008;
- Reduction of head office space;
- Negotiation of lower commission rates paid to a foreign agent on imports;
- Closure of the office in Shanghai, China;
- Reduction of advertising expenses.

As part of its restructuring, Bentley is planning to liquidate in excess of $12 million of inventory through liquidation sales in both closing and continuing store locations throughout Canada, which sale commenced in March 2008.

Bentley is also planning on engaging a CFO to provide better overall financial management of its operations and to continue to identify opportunities for additional cost savings.

IV. FINANCIAL INFORMATION

The following financial data was extracted either from the Statement of Affairs filed with the Official Receiver on March 28, 2008, the books and records of the Debtor, the audited financial statements or from discussions held with Management. This information is submitted solely to assist the reader in assessing the current financial position of the Debtor.

The Trustee makes no representations or warranty as to the accuracy of said financial information.

A) Non-Consolidated Statement of Operations and Retained Earnings

Bentley Leathers Inc.
Statement of Operations and Retained Earnings

(In $ millions)	F2008 Unaudited	F2007 Audited	F2006 Audited
Revenues	211.7	210.9	202.8
Cost of Sales	97.8	96.4	95.7
Inventory write-down	6.6	-	-
Gross profit	107.3	114.5	107.1
	51%	54%	53%
Operating expenses [1]	111.4	105.5	95.5
Interest & bank charges	3.6	3.5	2.5
Depreciation & amortization	4.5	4.3	4.0
Other [2]	-	2.2	0.9
Income taxes	(4.4)	0.1	(1.4)
Net earnings (loss)	(7.8)	(1.1)	5.6
Retained earnings, beginning	11.5	13.1	7.5
Dividends paid [3]	(0.2)	(0.5)	-
Retained earnings, ending	3.5	11.5	13.1

[1] F2008 operating expenses include a $3.6MM writedown of fixed assets due to store closures.

[2] Other consists of losses incurred on the write-off of amounts due from subsidiaries or losses incurred upon the wind up of subsidiares.

[3] In F2007 and F2008, the Debtor paid a total of $650,000 of dividends to Andrew Chelminski as part of his remuneration.

B) Non-Consolidated Balance Sheet

Bentley Leathers Inc. Balance Sheet (In $millions)	F2008 Unaudited
Assets	
Accounts receivable	1.9
Income taxes receivable	0.1
Inventory	40.4
Loans receivable	1.4
Deferred income taxes	4.1
Prepaid expenses and sundry assets	0.6
	48.5
Investments in wholly-owned subsidiaries	0.2
Capital assets (at net book value)	14.1
	62.8
Liabilities	
Bank indebtedness [1]	14.4
Accounts payable	2.6
	17.0
Long-term debt	11.3
Pre-filing accounts payable	26.6
Accrued vacation pay	1.5
Loan payable (A. Chelminski) [2]	2.5
Deferred revenue	0.3
	59.2
Shareholder's Equity	
Capital Stock	0.3
Retained earnings	3.3
	3.6
	62.8

[1] Bank indebtedness is net of $1.3MM of outstanding deposits at January 26, 2008.

[2] The Proposal provides that the Chelminski Claim will be postponed (see Section V(F) for details.

Assets

i) **Accounts receivable** – approximately $1.5 million consists of amounts owing from credit card companies which are collected in the normal course of business. The balance consists of accrued receivables from various customers which are not expected to be collected.

ii) **Inventory** – $40.4 million of inventory consists of reported inventory in the Company's stores and its warehouses and is net of: i) a $6.6 million inventory writedown provision recorded in F2008 to account for the expected writedown of inventory pursuant to the liquidation of closing store and excess inventory, and ii) a $2.6 million provision for estimated shrinkage and obsolescence.

iii) **Loan receivables** – consists of the following loans to related parties:

Bentley Leathers Inc.
Loan Receivables
As of January 26, 2008

(In $thousands)	Amount
4273605 Canada Inc.	647
Inglot Canada Inc.	570
Bentley Travel	218
Unique Corporate Gifts	95
Continental Salvage	(214)
Other	40
	1,356

We comment as follows:

- 4273605 Canada Inc. is wholly owned by Andrew Chelminski. The loan receivable from 4273605 Canada Inc. is unchanged from the loan balance outstanding as of the F2007 year end. As noted below, Mr. Chelminski is a secured creditor of Bentley for an amount of $2,487,000 which more than offsets the amount owing by 4273065 Canada Inc.;

- Inglot Canada Inc. ("Inglot") operates 13 store cosmetic retail chain. Mr. Chelminski owns 24% of this Inglot with the balance owned by Cindy Norman. In F2008, the loan receivable from Inglot increased from $397,000 to $570,000 based on additional advances through June 2007. No amounts were advanced after that date. Management advises that at the present time, Inglot does not have the capacity to repay this loan balance;

- Bentley Travel Inc. ("Travel") is a wholly owned subsidiary of Bentley located in Hawkesbury, Ontario which was formed in F2008 as an internet based travel agency which would leverage off of the Bentley Group store customer base. The loan receivable consists of amounts invested in F2008 in connection with the start up of this operation. Management has informed us that in the current circumstances, it has closed this company effective March 28, 2008 to enable it to concentrate on Bentley's restructuring. The loan receivable from Travel will be written off;

- Unique Corporate Gifts Inc. ("Unique") is a wholly owned subsidiary of Bentley specializing in promotional gift items which are sold to corporate customers. At the present time, we are informed that Unique does not have the ability to repay this loan receivable;

- Continental Salvage is a liquidation company which is owned 66.7% by Andy Chelminski and 33.3% by Leonard Gucciardi (an employee of Bentley). Prior to the filing of the Notice of Intention, Continental would deposit the proceeds of its sales into Bentley's bank accounts. In addition, Continental would often sell merchandise to Bentley. At year end, Bentley's records reflect an amount owing to Continental of $214,000. We note that this amount is prior to consideration of expenses incurred by Bentley in F2008 on Continental's behalf which offset the $214,000 payable.

iv) **Investment in subsidiaries** - $211,000 represents Bentley's 100% ownership of Unique which it purchased in F2007.

v) **Capital Assets** – includes the net book value of store fixtures, leasehold improvements, point of sale equipment as well as capitalized hardware and software costs for approximately 400 store locations. This amount is net of a $3.6 million writeoff in F2008 due to store closures.

Liabilities

The Debtor has provided us with a list of its Creditors. Notices have been sent to the known Creditors and, to date, we are unable to determine if the Debtor's records agree with those of its Creditors. As Proofs of Claim are received, we shall record the specific amounts claimed by the Creditors and, prior to paying any dividend, we shall perform a variance analysis.

Liabilities indicated below are based on the books and records of the Debtor as well as management's representations, estimated as follows:

i) Secured Creditors

All assets of the Debtor are encumbered in favour of various secured creditors. The Trustee has retained the services of an attorney to obtain, prior to the creditors' meeting, an independent legal opinion confirming the validity of the security of the National Bank of Canada, Alterinvest Fund L.P., Andrew Chelminski and Bank of Nova Scotia. As per the Debtor's books and records, $28.3 million of secured claims as at January 26, 2008 can be summarized as follows:

Bentley Leathers Inc.
Secured Claims
As of January 26, 2008

(In $thousands)	Amount
National Bank of Canada [1]	14,362
Alterinvest Fund L.P. (BDC)	6,750
Andrew Chelminski	2,487
Bank of Nova Scotia	2,387
Dell Financial Services of Canada	1,313
CIT Financial Limited	751
Wendy Redfern	100
IBM	67
CIBC Equipment Finance Ltd.	4
	28,221

[1] Bank indebtedness is net of $1.3 million of outstanding deposits as at January 26, 2008.

The Proposal does not affect the secured creditors with the exception of the Chelminski Claim (as defined below) which, assuming the Proposal is accepted, will be postponed until the Proposal is paid in full.

ii) Unsecured Creditors

According to the unaudited books and records of the Debtor, as of January 26, 2008, the Debtor's records reflect $2.6 million of post-filing accounts payable consisting of accrued wages, sales taxes and supplier payables. Other liabilities include $1.5 million of accrued vacation pay. The total amount of estimated pre-filing unsecured payables is $26.6 million. We caution that these amounts may change as proofs of claim are received, in particular as relates to landlord claims in respect of repudiated leases (see Section V(C) for further details).

V. PROPOSAL

A) Summary

According to the Proposal, from September 2008 to February 2011, the Debtor will remit to the Trustee $9 million for distribution to ordinary unsecured creditors, which amounts will be funded out of operating cash flow. In addition, the Proposal provides for the possibility of an Additional Dividend in the event of a sale of a majority of Bentley's assets or Bentley's shares occurring prior to January 2011 as described in more detail below. We note that the following is a summary only of the terms of the Proposal and **creditors are advised to read the Proposal for complete details of the terms of the Proposal.**

B) Amounts to be paid as a priority

According to the terms of the Proposal, the following amounts must be paid in priority:

- All secured claims with the exception of the Chelminski Claim shall be paid in accordance with existing agreements or as may be otherwise arranged with each of the Secured Creditors. For greater certainty, the Debtor acknowledges that the Proposal is not addressed to and shall have no effect on the rights of the holders of secured claims;

- 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 6 months after approval of the Proposal or as may otherwise be arranged with the Crown;

- The Employee Claims relating to employees who are continuing in employment with the Debtor shall be paid in the normal course of business. Amounts owing to employees who are not currently employed by the Debtor and that they would have been entitled to receive under Section 136(1)(d) of the Act if their employer had been declared bankrupt on the date of the Approval of the Proposal, shall be paid in their entirety on the latest of the following dates:

    - 5 days after acceptance of a valid proof of claim from such employee or the Court's definitively determining such proof of claim to be valid;

    - the date of approval of the Proposal by both the creditors and the Court; or

    - the date of receipt of the relevant certificates required in virtue of Section 46 of the *Employment Insurance Act*, of Canada;

- The Proposal costs shall be paid in priority to all priority claims and all unsecured claims;

- The priority claims, without interest or penalty, shall be paid in their entirety in priority to unsecured claims, within sixty (60) days of the Approval of the Proposal;

- Post-filing obligations shall be paid in full in the ordinary course of business and according to usual commercial terms or according to agreements between the Debtor and suppliers.

C) Claims from Landlords for Disclaimed Leases

The Proposal provides for the determination of the amount of the claims that each landlord will be entitled to file pursuant to the disclaimed leases, namely: actual losses (for those landlords listed on Annex A to the Proposal) or the formula provided by Section 65.2(4) of the BIA.

D) Amounts to be Disbursed to Ordinary Creditors

The Proposal provides for the Debtor to remit to the Trustee $9 million for distribution to ordinary creditors in full and final payment of their unsecured claim, without interest or penalty, as follows:

- On or before September 30, 2008: $1.5 million;
- On or before January 31, 2009: $1.5 million;
- On or before January 31, 2010: $3 million;
- On or before February 10, 2011: $3 million.

The Proposal provides that at any time prior to August 31, 2008, any ordinary creditor may elect to receive the lesser of $1,000 or the amount of its ordinary claim and that any such ordinary claim in excess of $1,000 shall be deemed to be irrevocably and unconditionally reduced to $1,000 (defined as an Electing Creditor). Electing Creditors will receive a one-time payment to a maximum of $1,000 from the funds to be remitted by Bentley to the Trustee on or before September 30, 2008. Thereafter, Electing Creditors shall not receive any further dividends.

E) Additional Dividend to Ordinary Creditors

The Proposal provides that in addition to the $9 million to be paid to ordinary creditors, in the event that a sale of more than 51% of either the outstanding common shares or 51% of the Debtor's property occurs, then the Debtor shall pay to the Trustee for distribution to the ordinary creditors (other than Electing Creditors) the following:

- If a sale occurs at any time up to and including December 31, 2008, an amount equal to 50% of the Net Sale Proceeds (Net Sale Proceeds refers to the cash consideration received less applicable taxes and transaction related expenses);
- If a sale occurs at any time up to an including December 31, 2009, an amount equal to 20% of the Net Sale Proceeds;
- If a sale occurs at any time up to an including December 31, 2010, an amount equal to 10% of the Net Sale Proceeds;

F) 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.

- Upon acceptance of the Proposal, Andrew Chelminski agrees as follows in respect of funds owing to him (the "Chelminski Claim");

  - the Chelminski Claim shall be subordinated and postponed and shall not be entitled to receive payment from the Debtor of any principal or interest unless and until all of the dividends and Additional Dividend (if applicable) shall have been fully paid to ordinary creditors under the Proposal;

  - Andrew Chelminski waives and renounces to any right to prove the whole or any portion of the Chelminski Claim as an ordinary claim under the Proposal.

G) Creditors' Committee

The Debtor consents to the creation of a committee which shall be comprised of, at most, five (5) individuals (the "Committee") designated by the creditors at the Proposal Meeting. The Committee shall have the following powers:

- to advise the Trustee in connection with the Trustee's actions under the Proposal;

- to advise the Trustee in connection with any dispute as to the validity or valuation of any proof of claim under the Proposal;

- to receive reports regarding the operations of the Debtor, upon request and only through the Trustee;

- to agree to the amount or calculation of any Additional Dividend (if applicable);

- to authorize the deferment of any payment of any of the dividends to ordinary creditors provided for in the Proposal.

VI. VOTING ON THE PROPOSAL

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.

VII. ESTIMATE AS TO 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 information is to inform the creditors on the estimate as to the distribution to creditors under the Proposal in comparison to the estimated distribution under a bankruptcy scenario.

A) Proposal

We estimate that the distribution to ordinary unsecured creditors identified in the Debtor's Statement of Affairs could correspond to the following:

Bentley Leathers Inc.
Proposal
Estimated Distribution
As of March 28, 2008

(In $thousands)		Amount	
Proceeds			
September 30, 2008		1,500	
January 31, 2009		1,500	
January 31, 2010		3,000	
February 10, 2011		3,000	
Total dividend to be paid		9,000	
	Claim Amount [1]	Distribution	
Secured Claims	29,321	N/A	
Preferred Claims [2]	-	-	
Unsecured Claims [3]	30,427	9,000	30%
		9,000	

[1] Claim amounts are based on the liabilities included in the Statement of Affairs filed on March 28, 2008.

[2] At the time of the preparation of this report, no preferred claims existed as all unpaid salaries and vacation pay were paid by the Debtor in the normal course of business since the filing of the Notice of Intention. Management of Bentley does not know of nor expect any preferred claims.

[3] Includes $26.2 million of trade payables and $4.2 million of estimated landlord damage claims due to lease repudiations, as per the Statement of Affairs filed on March 28, 2008.

The above analysis does not include the potential amount that could be distributed to ordinary creditors on account of any Additional Dividend.

Management has prepared projections for F2009 to F2011 which incorporate the various restructuring measures noted earlier in this report as well as assumptions regarding future operations and cash flow including new arrangements with certain of its secured lenders. The Debtor is in the process of finalizing these arrangements. It should be noted that the success of this Proposal is dependent on the Debtor's ability to meets its financial projections.

B) Bankruptcy Scenario

In a bankruptcy scenario, based on the value of the assets and liabilities as reflected in the Statement of Affairs dated March 28, 2008, we estimate that the distribution would be as follows:

Bentley Leathers Inc.
Bankruptcy
Estimated Distribution
As of March 28, 2008

(In $thousands)	Book Value	Estimated Value [1]
Cash in bank [2]	4,149	-
Accounts receivable	1,461	1,025
Intercompany receivables	65	-
Loans receivable	1,356	-
Inventory	35,724	17,800
Capital Assets	13,817	Unknown
Investment in subsidiaries	212	-
	56,784	18,825
Professional fees and realization costs		(500)
Estimated net proceeds available for distribution		18,325
Secured Claims [3]		29,321
Projected deficit [4]		**(10,996)**

[1] Estimated values are as per the Statement of Affairs filed on March 28, 2008 and are consistent with our analysis of these asset values in Section IV of this report.

[2] Cash in bank is assumed to be required to pay post-filing obligations in respect of letters of guarantee issued by the Interim Receiver as well as post-filing obligations.

[3] As per the Statement of Affairs filed on March 28, 2008.

[4] Prior to payment of amounts to unsecured creditors, preferred claims (salaries and vacation pay) estimated at $2.5 million would also have to be paid.

The above analysis does not take into account the following:

- The realizable value of the capital assets including the value of the Debtor's remaining store leases;

- In the event of a bankruptcy, landlord damage claims would likely increase substantially over the current estimate of $4.2 million utilized in the Proposal.

Other considerations

The following are additional elements to be considered in the event of a bankruptcy:

i) Inopposability of some transactions

By the Approval of the Proposal, all the creditors waive their remedies provided by sections 91 to 101 of the Act. These remedies relate to the recovery of certain amounts under reviewable transactions, preferential treatments and asset disposals.

Since these remedies would be available in the event of a bankruptcy of the Debtor, we have performed a summary analysis of various transactions involving the Debtor and non-related third parties and related parties over the 3 months and 12 months respectively prior to the filing of the Notice of Intention.

a) Non-related Third Parties

From October 1, 2007 to January 18, 2008, approximately $26 million was paid to merchandise suppliers of the Debtor. Based on our analysis, it appears that merchandise suppliers were receiving payments in the ordinary course of business from October to December 2007.

The Debtor advises that due to financial constraints, in January 2008, it was unable to make payments to all merchandise suppliers in accordance with prior business practices. In respect of payments that were made, we note that one creditor received payments in January 2008 outside of normal terms.

These payments were made in advance to enable goods to be supplied, but, based on the terms of the agreement between Bentley and the creditor, it could be argued that the payments of $1.2 million were preferential. However, we believe that the payments were made for business reasons that appear reasonable, and furthermore, value was received as goods were received after these payments were made.

b) Related Parties

We refer to Section IV for a description of transactions with various related parties in the 12 months prior to January 18, 2008. We note that while certain transactions could be characterized as preferential, the related parties do not appear to have the ability to repay the amounts received from the Debtor and therefore, no realization could be expected.

c) Analysis

Prima facie, the transactions presented above do not appear to be subject to remedies under sections 91 to 101 of the Act.

ii) Ongoing Operations

Acceptance of the Proposal will avoid a bankruptcy and will be of benefit to the following constituents:

- In excess of 2,900 employees will have continued employment in approximately 400 stores as well as at the head office and warehouse;
- Merchandise suppliers and service providers will have a going concern entity with which to continue doing business;
- Landlords for approximately 400 store locations will continue to have tenants.

VIII. CONCLUSION

After having estimated the amount that may be available for the creditors in the context of a bankruptcy we are of the opinion that the present Proposal is more advantageous to the creditors.

It is estimated that the Proposal would provide the creditors with a dividend of approximately $0.30 on the dollar to the Unsecured Creditors as presented in the Statement of Affairs, compared to an estimated dividend of nil in the event of a bankruptcy.

For these reasons, the Trustee recommends the approval of the Proposal.

Dated at Montreal, Province of Quebec, this 4th day of April 2008.

RSM Richter Inc.
Trustee

Benoit Gingues, CA, CIRP
Administrator

(français: www.rsmrichter.com)