RSM Richter Inc.

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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 13-BEAUCE
COURT NO.: 350-11-000075-040
ESTATE NO.: 43-140080

SUPERIOR COURT
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE PROPOSAL OF:

Groupe Bocenor Inc.,

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:
274 Duchesnay Street
Sainte-Marie de Beauce QC G6E 3C2

Debtor

TRUSTEE'S REPORT ON THE FINANCIAL SITUATION OF THE DEBTOR AND ON THE PROPOSAL

(Subsections 50(5), 50(10) b) and 50(11) of the *Bankruptcy and Insolvency Act* ("Act"))

On June 10, 2004, Groupe Bocenor Inc. (hereinafter called "Bocenor" or the "company") filed a notice of intention to make a proposal ("notice of intention") to its creditors. RSM Richter Inc. ("Richter") was named trustee to the notice of intention.

On June 25, 2004, Bocenor filed a proposal addressed to its creditors. The proposal submitted by the company to its creditors, a proof of claim form, a voting letter, a proxy and a notice indicating the location and time of the creditors' meeting ("first meeting of creditors) to study the proposal, are appended to these presents. Although the creditors must refer to the specific terms contained in the proposal, the highlights of the said proposal are as follows:

- The secured debts and the secured debts resulting from an interim financing of the operations will be paid in keeping with the agreements executed with the secured creditors or in keeping with those to be reached with them. The secured creditors will not be allowed to take part in the dividend distribution as unsecured creditors for any residual amount of their claim;

- All of the amounts that are likely to be covered by a request in keeping with the provisions of subsection 224(1.2) of the Income Tax Act or any essentially similar provision of a provincial legislation, and any other amounts owing in keeping with the provisions of section 60(1.1) of the Act, as the case may be, and which were due as at the date of the notice of intention shall be paid in full within six (6) months following the approval of the proposal;

- Any proven claim with respect to a preferred debt, and which is not otherwise covered by the proposal, shall be paid in keeping with the Act and given priority over unsecured debts. For the purposes of voting, the preferred debts are classified with the unsecured debts;

- Any debt arising out of an obligation incurred during the normal course of the company's business after the date of the filing of the notice of intention, debts incurred for goods delivered after the date of the notice of intention and the sums payable in keeping with the provisions of any executory contract for the period following the date of the notice of intention, shall be honoured in the normal course of the company's business;

- The company shall pay the trustee a total sum of five million dollars ($5,000,000) to be distributed to the preferred and unsecured creditors, in keeping with the following terms:

    - An initial distribution of $3,500,000 shall be paid to the trustee at the latest on October 31, 2004. This sum shall be used to pay the preferred debts first and then to pay, at the creditor's choice:

        1. The proven claim or one thousand five hundred dollars ($1,500) whichever amount is the less; or

        2. A pro rata share on a pari passu basis of the balance of the initial distribution for the proven claims of the other creditors in this category, without interest or penalty.

    - A final distribution of $1,500,000 shall be paid to the trustee, at the latest on June 30, 2005, to be distributed, in the manner stated above, to the unsecured creditors who have decided to receive the dividend provided for in the previous paragraph;

In conformity with paragraph 50(10) b) and subsection 50(5) of the Act and in order to help the creditors study the proposal, the trustee submits the present report on the financial situation of the company.

We would like to notify the creditors that we have not audited or reviewed the company's books and records and that, as a result, we are not able to express an opinion concerning the accuracy of the information contained herein. The information provided in this document emanates from the books and records that were made available to us, as well as from discussions with the management of the company.

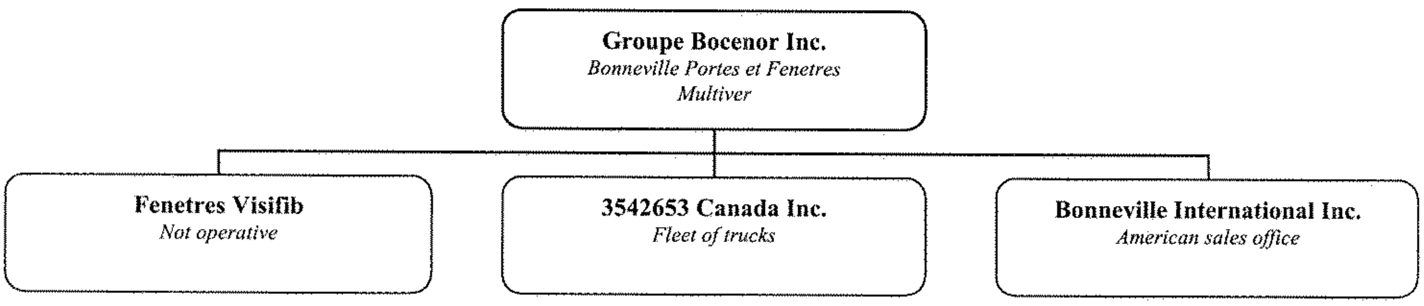
(Français – verso)

I. CONTEXT

A) Company History

Bocenor was founded in 1946 and manufactures doors and windows. On June 25, 1987, the company became a public corporation that is now traded on the Toronto Stock Exchange under the symbol GBO. In recent years, Bocenor has undergone several modifications, changing both its name and its share capital. The company known as Matériaux Décoren Inc, was replaced by Groupe Bocenor BF Inc., and finally by Groupe Bocenor Inc. The company operates under the names of Bonneville Portes et Fenêtres and Multiver.

The corporate structure of Bocenor is as follows:



- *The assets of 3542653 are composed of fixed assets having a net book value of $86,000;*
- *The assets of Bonneville Int'l include accounts receivable resulting from the sale of products to the American customers. These accounts are pledged to Bocenor's lenders;*

B) Commercial Activities

Bocenor, which has its head office in Sainte-Marie de Beauce, is one of the largest Canadian manufacturers of doors and windows and offers a variety of product lines such as steel doors, patio doors, and windows manufactured from several basic materials. Moreover, their Multiver division, which manufactures tempered glass, polished glass, laminated glass, bevelled glass and sealed glass with a high energy rating, ensures the vertical integration of their production.

The company employs more than 1 100 employees in six plants, located as follows:

Location	Operations
Sainte-Marie de Beauce	Head office, distribution and order centre, and manufacturing of wood products.
Levis	Manufacturing of steel doors and wood and PVC sliding windows.
St-Raphaël	Preparation and processing of wood used in production.
St Joseph	Manufacturing of a line of PVC windows.
Bois-des-Fillions	Manufacturing of aluminum products.
Multiver - Ville Vanier	Production of sealed and tempered glass.

(Français – verso)

C) Financial Difficulties

The management at Bocenor attributes the company's financial difficulties to the following factors:

- the company has been over-levered and under capitalized for several years, rendering it incapable of investing to modernize its manufacturing facilities, a measure which is key if the company is to be competitive on the North American market. Despite a generally favourable market, the company has been unable to generate profits due to its high production and operating overheads;

- the value of the American dollar compared to that of the Canadian dollar;

- considering its current financial situation, Bocenor is no longer able to secure performance bonds for the various construction projects on which it would normally have an opportunity to work;

II. EVENTS SUBSEQUENT TO THE FILING OF THE NOTICE OF INTENTION

A) Operations

Since the filing of the notice of intention on June 10, 2004, the company has continued its activities in the normal course of business.

B) Reorganization Efforts

The recovery plan developed by the company essentially includes the following:

- Reduction of Bocenor's secured debt by more than $8,000,000. In fact, the company's secured creditors have agreed to settle, subject to various conditions, the term debt owing to them for a sum of more than $8,000,000 less than the balance owing. In this respect, Bocenor is currently finalizing an agreement with new lenders to finance the company's ongoing operations;

- Proposal made to Bocenor's unsecured creditors for a total sum of $5,000,000;

- Injection of fresh capital of $14,0000,000 by Bocenor's two main shareholders;

- Modernization program of Bocenor's manufacturing facilities and operations over a three year period. The company's business plan provides for a budget of $4,000,000 for the current year and $12,000,000 for the next two years. A substantial portion of these investments will be financed;

III. FINANCIAL INFORMATION

The following financial information mainly emanates from Bocenor's unaudited internal financial statements as at May 31, 2004, audited consolidated financial statements for 1999 to 2003 and discussions with management.

This information is presented solely for discussion purposes and to assist the creditors in their assessment of Bocenor's current financial situation. The trustee makes no representations and provides no guarantees with respect to the accuracy or exhaustive nature of the financial information contained in this report.

A) Historical financial results

We comment on Bocenor's financial results for the last three fiscal years ending on February 28 2001 to 2003. The highlights are as follows:

- Bocenor's sales have been increasing since fiscal 2000, as a result of significant growth in residential construction and renovations, as well as from an increase in the market share held by Bocenor. However, we noted a slight decline in sales in 2002, following Bocenor's decision to withdraw from certain unprofitable markets and to increase its vertical integration. As previously explained, the company has not been able to convert these sales increases into profits;

- In fact, Bocenor recorded significant operating losses from 2000 to 2002. During 2001, Bocenor incurred exceptional expenses of more than $15,000,000 as a result of its reorganization. These extraordinary expenses resulted mainly from the write-off of fixed assets, which have not affected the company's cash flow;

- The company's gross margins have declined constantly over the last three years;

- As reflected in the extracts from the financial statements, the company's balance sheet reflected working capital deficiencies over the last three years. It is essentially this situation that forced Bocenor to submit this proposal to its creditors;

In order to assist the creditors, extracts of the company's consolidated financial statements are provided below:

GROUPE BOCENOR INC. Consolidated Financial Statements					
(,000)	Feb. 28 2003	Feb. 28 2002	Feb. 28 2001	Feb. 29 2000	Dec. 31 1999
Statement of income				(2 months)	(10 months)
Sales	$ 127,699	$109,401	$114,275	$ 6,846	$89,073
Cost of merchandise sold and operating expenses	117,683	102,607	121,821	8,786	80,097
Amortization of fixed assets	3,150	3,495	4,575	277	1,762
Amortization of deferred charges	-	-	674	41	216
Amortization of goodwill	-	50	194	32	19
Interest on long-term debt	881	1,475	3,698	341	901
Dividends on preferred shares classified as liabilities	1,471	1,335	200	33	200
Other financial charges	1,377	3,005	2,506	102	580
Exceptional items	-	-	15,455	-	-
Income (loss) before income tax	3,137	(2,566)	(34,848)	(2,766)	5,298
Income tax	1,555	113	(10 062)	(895)	1,098
Net income (net loss)	1,582	(2,679)	(24,786)	(1,871)	4 ,200
Balance sheet					
Working capital	(1,016)	(858)	(10,218)	2,251	2,473
Investments	75	2,347	2,287	2,246	2,214
Fixed assets	31,401	32,180	36,501	38,182	33,252
Goodwill	950	950	-	-	-
Future income taxes	5,210	6,730	-	(3,220)	(2,538)
Other items	271	490	7,944	7,567	5,134
Long-term debt	3,601	10,210	47,539	33,290	24,928
Distress and redeemable preferred shares	30,909	31,030	2,000	2,000	2,000
Dividends on preferred shares classified as liabilities	456	256	-	-	-
Shareholders' equity	1,925	343	(13,025)	11,736	13,607
Statement of changes in financial position					
Operating activities					
Net income (loss)	1,582	(2,679)	(24,786)	(1,871)	4,200
Non-cash items					
Loss (gain) on transfer of assets	40	(126)	(7)	(10)	(14)
Amortizations, net depreciations and write-offs	3,396	4,393	14,567	350	1,997
Future income taxes	1,493	(64)	(9,684)	682	145
Changes in working capital items	(2,245)	(2,874)	10,064	1,733	(3,141)
Cash flows from operating activities	4,266	(1,350)	(9,846)	884	3 ,87
Investment activities					
Investments (and temporary investments)	(61)	(60)	(46)	6	2,013
Acquisition of companies	-	-	(92)	-	(10,973)
Fixed assets	(2, 199)	(691)	(6,935)	(3,547)	(5,610)
Disposal of fixed assets	104	1,042	25	14	97
Deferred charges	-	(257)	(617)	(2,506)	(427)
Disposal of fixed assets intended for sale	-	-	-	-	25
Patent	(28)	-	-	-	-
Cash flows from investment activities	(2,184)	34	(7,665)	(6,033)	(14,875)
Financing activities					
Outstanding cheques in excess of bank balances	(710)	1,117	4,940	(6,699)	3,762
Bank loans	2,000	(10,000)	3,150	3,758	2,438
Long-term loan	-	6,000	14,666	10,300	17,200
Repayment of loans	(3,251)	(784)	(5,270)	(2,210)	(11,838)
Redemption of distress preferred shares	(121)	(970)	-	-	-
Cash issue of common shares	-	5,953	25	-	126
Cash flows from financing activities	(2,082)	1,316	17,511	5,149	11,688

(Français – verso)

B) Financial information as at May 31, 2004

Bocenor's in-house, unconsolidated and unaudited financial statements as at May 31, 2004 reflect the following:

GROUPE BOCENOR INC. Balance sheet as at May 31, 2004 (,000)	
ASSETS	
Short-term assets	
Temporary investment/cash	$ 50
Accounts receivable	19,927
Deferred Income taxes	168
Inventory	10,586
Prepaid expenses	485
	31,216
Bill receivable	25
Fixed assets	28,128
Intangible assets	1,086
Deferred charges and goodwill	1,689
Deferred Income taxes	6,137
	$68,281
LIABILITIES AND SHAREHOLDERS' EQUITY	
Short-term liabilities	
Outstanding cheques in excess of bank balance	$4,016
Revolving loan	9,550
Accounts payable	20,484
Short-term portion of long-term debt	2,953
	31 003
Long-term debt	29,734
Redeemable preferred shares classified as liabilities	2,000
Dividends on preferred shares classified as liabilities	706
	$69,443
Shareholder's equity	
Share capital	27,792
Deficit	(28,954)
	(1,162)
	$ 68,281

(Français – verso)

A. ASSETS

We comment hereafter on the important components of the assets:

- **Accounts receivable ($19,927,000)**

The accounts receivable are summarized as follows:

Bonneville Portes et Fenêtres	$12,745,000
Multiver	3,523,000
Bonneville International (subsidiary)	3,659,000
	$19,927,000

Approximately 67% of the accounts receivable are current and 12% represent amounts that have been outstanding for more than 90 days. The clients are located in Quebec, Ontario and the United States.

The accounts receivable are pledged as security in favour of the company's bankers. In the event of a forced liquidation, given the permanent interruption of the company's operations and the difficulties in collecting accounts in such a context, no amount would be available for the unsecured creditors.

- **Inventory ($10,586,000)**

The inventory is summarized as follows:

Raw materials	$7,200,000
Work in process	2,042,000
Finished goods	2,090,000
Allowance for obsolescence	(746,000)
Total	$10,586,000

The finished goods and the work in process are subject to orders and were soon to be delivered as at May 31, 2004.

The inventory is pledged as security in favour of the company's bankers. In the event of a forced liquidation, no amount would be available for the unsecured creditors.

- **Fixed assets (net of accumulated depreciation – $28,128,000)**

  The fixed assets essentially include equipment, tooling and buildings, which have a net book value of approximately $23,000,000. The fixed assets are pledged in favour of Bocenor's lenders.

  Given the age of the main components of the equipment, and the fact that several are out-dated, in the event that the company is liquidated, the bankers would definitively suffer a major shortfall.

B. LIABILITIES

Bocenor's estimated debt as at June 10, 2004, the date on which the notice of intention was filed, is broken down among the secured, preferred and unsecured creditors, as follows:

i) Secured creditors

The company is indebted to its bankers for a total sum in excess of $44,300,000, of which approximately $12,300,000 represents its revolving loan and approximately $32,000,000 its term loans. The bankers hold security over all the assets of Bocenor and its subsidiaries.

ii) Preferred creditors

As at June 10, 2004, the company is not aware of priority claims owing to the government authorities or of amounts owing to the employees for vacation pay or unpaid wages, given that they are paid in the normal course of business. However, in the event of an interruption in the operations, such claims could exceed $4,000,000 and take rank ahead of the unsecured creditors.

iii) Unsecured creditors

The company's unsecured debt is estimated at approximately $24,000,000. Certain debts will however not be included in the total creditors who will benefit from the dividend distribution, such as related parties, thereby reducing the value of the debts to less than $18,500,000. Proofs of claim forms have been supplied with this report to the company's creditors so as to validate their debts. We can only express an opinion as to the scope of the debt once we will have received the proof of claim forms in question.

(Français – verso)

VI. PROPOSAL

The proposal only affects the claims of preferred and unsecured creditors. It provides for a total dividend of $5,000,000. The initial distribution provides for the following option:

1. the lesser of the proven claim or one thousand five hundred dollars ($1,500); or

2. A pro rata share on a pari passu basis of the balance of the initial distribution for the proven claims of the other creditors in this category, without interest or penalty.

As previously stated, this dividend will be paid in two instalments, namely $3,500,000 at the latest on October 31, 2004 and $1,500,000 at the latest on June 30, 2005.

Our preliminary evaluation of the dividend available to creditors is as follows:

Total dividend	$5,000,000	$18,500,000
Payment of the $1,500 option	500,000	500,000
Balance available for distribution	$ 4,500,000	$18,000,000
	$0.25	

* ***Based upon management, in the case of the contemplated proposal, no claim exists that may take rank ahead of the unsecured creditors.***

VII. VOTE ON THE PROPOSAL

In order for the proposal to be approved, the Act requires a vote of more than 50% of the creditors which have proven their claim, which account for more than two-thirds of the value of the said claims.

VIII. ANALYSIS OF THE PROPOSAL

The creditors must decide if they accept or reject the proposal submitted by Bocenor. If the creditors accept the proposal, the company will be able to reorganize its financial structure, modernize its facilities, render its operations profitable, preserve more than 1,100 jobs and maintain a solid future economic relationship with all of the various stakeholders.

If the creditors reject the proposal, Bocenor will be immediately deemed bankrupt. In this event, considering the quantum of the secured debt, the unsecured creditors will receive nothing.

The creditors should base their decision on the following factors:

- the just and reasonable treatment of the creditors affected by the proposal (with respect to one another);
- the amount offered in the proposal in comparison to the amount that could be expected pursuant to a liquidation following a bankruptcy;
- the future economic advantages arising out of their relationship with Bocenor.

We comment on these key issues, as follows:

A) Reasonableness of the proposal

We are of the opinion that the proposal as it is presented is just and reasonable for the creditors in general. We do not believe that the company can offer to its creditors an amount significantly higher without jeopardizing its reorganization and its future viability.

The trustee is confident that the proposal is serious and that it was prepared diligently, taking into account Bocenor's financial ability to meet its obligations in keeping with the conditions of the Proposal, and its acceptance by the creditors. The trustee took part in several working sessions concerning the future focus of the company. After having reviewed the financial model prepared by the company's management, the trustee concludes that the offer made to the creditors is reasonable, given current circumstances.

It is important to note that in the context of the contemplated reorganization, Bocenor's two main shareholders will invest additional capitals of $14,000,000 and the bankers holding security over all the assets of the company, will agree to reduce their debt by more than $8,000,000.

B) Proposal versus Bankruptcy

It is important for the creditors to evaluate Bocenor's proposal in comparison to the possible realization proceeds resulting from the liquidation of assets pursuant to a bankruptcy.

The trustee analyzed the expected proceeds which would emanate from the realization of Bocenor's assets in the event of a possible bankruptcy. Our analysis revealed that the secured creditors would suffer a significant shortfall and that no funds would be available for distribution to the other classes of creditors.

Bocenor's bankruptcy would result in the lay-off of more than 1,100 employees throughout the province.

(Français – verso)

C) Future business advantages

In the event that Bocenor continues its operations, most of the creditors will benefit from a solid business relationship with the company, which will now benefit from sufficient liquidities to continue to do business with the various stakeholders. Moreover, considering the fact that Bocenor intends to modernize its operations, its annual production capacity should increase, thereby eventually increasing its volume of transactions with its suppliers.

IV. CONCLUSION AND RECOMMENDATIONS

In the event that the Proposal is not approved by the creditors, Bocenor will automatically be deemed bankrupt.

Therefore, the trustee is of the opinion that accepting the Proposal would be more advantageous for the creditors than a bankruptcy. Therefore, we recommend that each of the creditors vote in favour of the Proposal.

The creditors must submit their proof of claims to the trustee prior to the first creditors' meeting. Moreover, the creditors are invited to submit their voting forms and proxies to the trustee before the first creditors' meeting, or they can wait until the meeting for any additional clarification they feel they may require in order to vote.

SIGNED IN MONTREAL, this 30th day of June 2004.

RSM Richter Inc.
Trustee

Gilles Robillard, CA, CIRP
Administrator

Yves Vincent, CA, CIRP
Administrator

(Français – verso)