

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 04-GRANBY
COURT NO.: 460-11-000938-046
ESTATE NO.: 42-043090

SUPERIOR COURT
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE PROPOSAL OF:

177841 Canada Inc.
(formerly known and operating as
J.L. de Ball Canada Inc.),

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:
835 Industriel Blvd.
Granby Quebec J2J 1A5

Debtor

Trustee's Report Relating to the Affairs of 177841 Canada Inc.
Since the Meeting of Creditors Held on March 24, 2005

On February 4, 2004, 177841 Canada Inc. (formerly known as J.L. de Ball Canada Inc.) (hereinafter called the "Company") filed a Notice of Intention to Make a Proposal to its creditors. RSM Richter Inc. ("Richter") was named Trustee to the Notice of Intention.

On August 4, 2004, the Company filed a Proposal to its creditors ("Proposal"). Although the creditors must refer to the specific terms contained in the Proposal, the highlights of the said Proposal, which is considered as a "Holding Proposal", are as follows:

- Secured Claims shall be paid in accordance with arrangements existing between the Company and the secured creditors;
- Preferred Claims are to be paid in full; and
- The payment of Unsecured Claims is deferred until the Company tables at the First Meeting of Creditors or at any adjournment thereof an Amended Proposal under which the Company will propose a basis of payment to be made in full and final settlement of the Unsecured Claims.

In conformity with paragraph 50(10)b) and subsection 50(5) of the Act and in order to help the creditors to consider the Proposal, the Trustee submitted an initial report on the financial situation of the Company, dated August 17, 2004.

At the first Meeting of Creditors, held on August 25, 2004, a resolution was unanimously passed adjourning the meeting to December 1, 2004. On December 1, 2004, the meeting was adjourned to January 20, 2005. As well, at the January 20, 2005 meeting the meeting was subsequently adjourned to March 24, 2005.

At the creditors' meetings held on December 1, 2004, January 20, 2005, and March 24, 2005 the Trustee submitted updated reports on the status of the affairs of the Company pursuant to the sale of its operating assets and discussed with the creditors the outstanding issues and the measures taken by the Company to finalize matters and maximize the realization results.

Under the circumstances, the creditors unanimously agreed to adjourn the March 24, 2005 meeting to September 22, 2005.

The financial situation of the Company has been reviewed in the Trustee's prior Reports dated August 17, 2004, December 1, 2004, January 18, 2005 and March 23, 2005. Nevertheless, pursuant to the marketing process and, more specifically, the Court Orders granted on November 18, 2004, we summarize the most salient facts relating to the realization of the Company's assets as follows:

1. SALE OF ASSETS

1.1. J.L. de Ball Canada Inc. (now known as 177841 Canada Inc.)

On November 30, 2004, the operating assets of de Ball were sold to 4237803 Canada Inc. (the "Purchaser") for \$6,200,000. An initial payment of \$2,200,000 was received by RSM Richter ("Richter") as Interim Receiver.

The sale transaction provided for a balance of sale of \$4,000,000 to be paid no later than March 31, 2005. This balance of sale was subject to a deduction of the amount of accrued vacation pay owing to unionized workers which would be paid by the Purchaser on behalf of the Company.

On December 31, 2004, the balance of sale was paid by 4237803 Canada Inc. In this regard, an amount of \$3,670,368 was remitted directly to Bank of Montreal ("BMO"), representing the balance of sale of \$4,000,000, plus interest of \$21,370, less accrued vacation pay of \$231,000 and the reimbursement of a portion of the signing fees of \$180,000.

1.2. Asheville Velour Inc. ("Asheville")

Concurrent with the above-mentioned sale of de Ball's operating assets, BMO, the secured lender financing Asheville, sold substantially all of Asheville's assets to 4237803 Canada Inc. for \$800,000 pursuant to the enforcement of its security, in accordance with the laws of the State of North Carolina, U.S.A.

1.3. Girmes Special Textiles (Zhangjiagang) Company., Ltd. ("GSTZ")

The sale of GSTZ closed on January 11, 2005. The transaction value was US\$750,000 of which US\$243,600 was remitted to the holders of related party/affiliated claims, in accordance with the sale agreement. The net benefit to de Ball, estimated at US\$456,400, was utilized to pay the fees owing to RSM Nelson Wheeler (US\$150,000) and Jones Day (US\$40,000) for professional services rendered in conjunction with the sale transaction, with the balance remitted to BMO, the secured lender.

2. STATEMENT OF RECEIPTS AND DISBURSEMENTS

Following is a summary of the combined Statement of Receipts and Disbursements of both the Interim Receiver and the Trustee, for the period ended September 20, 2005.

| | Period ended Mar 22, 2005 | Period Mar 23 to Sept 20, 2005 | TOTAL |
|---|------------------------------|-----------------------------------|--------------------|
| Funds on hand, beginning of period | \$ - | \$ 82,152 | \$ - |
| Receipts | | | |
| Sale of assets | | | |
| J.L. de Ball Canada Inc. | 6,200,000 | - | 6,200,000 |
| Asheville Velour Inc. | 800,000 | - | 800,000 |
| Girmes Special Textiles (Zhangjiagang) Company Ltd. | 886,540 | - | 886,540 |
| Signing fee | 60,000 | - | 60,000 |
| Glenoit Fabrics (HG) Corporation deposit | 100,000 | - | 100,000 |
| | 8,046,540 | - | 8,046,540 |
| Collection of accounts receivable | 3,165,948 | 5,942 | 3,171,890 |
| Income tax refund | 444,004 | - | 444,004 |
| Other | 33,098 | 30,936 | 64,034 |
| Total receipts | 11,689,590 | 36,878 | 11,726,468 |
| Disbursements | | | |
| Post-filing operating expenses (net of Company advances) | 1,292,178 | 63,971 | 1,356,149 |
| Collection fees (accounts receivable) | 160,207 | 1,946 | 162,153 |
| Trustee's and Interim Receiver's remuneration | 346,992 | - | 346,992 |
| Legal fees and costs | 367,429 | - | 367,429 |
| Remittances pursuant to GSTZ sale agreement | 287,935 | - | 287,935 |
| Settlement of claim (Le Groupe Simoneau) | 35,576 | - | 35,576 |
| Total disbursements before remittances to secured lender | 2,294,106 | 65,917 | 2,360,023 |
| Excess of receipts over disbursements | 9,395,484 | (29,039) | 9,366,445 |
| Remittances to BMO Bank of Montreal (secured lender) | (9,313,332) | - | (9,313,332) |
| Funds on hand, end of period | \$ 82,152 | \$ 53,113 | \$ 53,113 |

Note: All amounts are in Canadian dollars (transactions in US dollars have been converted)

3. REMAINING ASSETS TO BE REALIZED UPON

3.1. Trade Receivables

As at September 20, 2005, the estimated residual gross accounts receivable amount to approximately \$180,000, which we estimate to have a net realizable value of nil.

3.2. Sales Taxes Receivable

The Company's books and records reflect sales taxes receivable (GST/QST) of approximately \$744,000 summarized as follows:

| | TOTAL |
|----------------------------|-------------------|
| January/February 4, 2004 | \$ 131,000 |
| August/September 2004 | 234,000 |
| October/November 2004 | 251,000 |
| December 2004/January 2005 | 111,000 |
| February/March 2005 | 17,000 |
| April/May 2005 | nil |
| June/July 2005 | nil |
| August | nil |
| | 613,000 |
| Balance receivable | \$ 744,000 |

Due to de Ball's current legal status, it is unclear as to when these funds, if any, will be recovered. Before any remittance is made, the tax authorities may arbitrarily deduct the portion of sales taxes included in the unpaid claims of the creditors of the Estate. For purposes of this report, we have estimated that the realization value may be between \$550,000 and \$600,000.

To date, we have been unable to recover any of these funds.

3.3. Income Taxes Receivable

The Company has filed the following income tax returns for the last fiscal year of operation (year-ended December 31, 2004):

- Federal income tax return indicating no tax owing or refundable; and
- Quebec income tax return claiming refunds totalling approximately \$161,000, including a refund of the over-instalments of \$29,000 relating to fiscal 2004, as well as the recovery of income taxes relating to previous years of \$132,000.

The actual amounts to be collected will only be confirmed once the tax assessments are issued. To date, we have been unable to recover any of these funds. For purposes of this report, we have estimated that the realization value may be between \$75,000 and \$161,000.

4. Liabilities

4.1. Bank Indebtedness

The BMO bank indebtedness has been repaid in its entirety from the various proceeds discussed in sections 1 and 2 above, effective March 10, 2005.

4.2. Post-Filing Obligations

4.2.1 Third Party Trade Creditors

The majority of the trade creditors that provided services for the period subsequent to the February 4, 2004 filing of the Notice of Intention have been paid. However, there are certain outstanding obligations which remain to be dealt with in the amount of approximately \$65,000. This does not include amounts owing to creditors of Asheville for products/services rendered (approximately US\$40,000) during the same period.

4.2.2 Related claims

We have been advised that certain amounts are being claimed by related parties as follows:

| | C\$ | US\$ | Euro | C\$ |
|---------------------------|-----|-----------|--------|-----------|
| Related-Party Payables | | | | |
| Girmes GmbH | - | - | 51,949 | \$ 75,326 |
| J.L. de Ball America Inc. | - | 242,216 | | 290,659 |
| | - | \$242,216 | 51,949 | \$365,985 |

We have not reviewed the validity of the amounts claimed.

4.3. Pre-filing liabilities

Based on the Company's records, the pre-filing (pre-February 4, 2004) liabilities are summarized as follows:

| | Range | |
|---------------------------|------------------|------------------|
| | Low | High |
| Trade Payables | 1,875,000 | 2,620,000 |
| Related-Party Payables | | |
| Girmes GmbH | 333,000 | 383,000 |
| J.L. de Ball America Inc. | 1,200,000 | 1,400,000 |
| Asheville Velour Inc. | 700,000 | 800,000 |
| | <u>4,100,000</u> | <u>5,200,000</u> |

The Trustee has not completed his review of the various proofs of claim filed by the creditors.

5. ESTIMATED FUNDS AVAILABLE FOR CREDITORS

Based on the information referred to above, the estimated realization values of the remaining assets of the Company are as follows:

| <u>Estimated value</u> | Range | |
|--|-----------------------|-----------------------|
| | Low | High |
| - Recovery of GST/QST | 550,000 | 600,000 |
| - Cash on hand, Trust accounts | 53,000 | 53,000 |
| - Recovery of income taxes (as filed) | | |
| - Carryback of losses (estimated recovery) | 75,000 | 132,000 |
| - Refund of overpayment of installments | - | 29,000 |
| - Collection of residual trade receivables | - | <u>10,000</u> |
| Estimated gross realization | <u>678,000</u> | <u>824,000</u> |
| Less: | | |
| - Estimated 3 rd party post-filing trade obligations | (65,000) | (65,000) |
| - Estimated post-filing related claims | TBD | TBD |
| - Ongoing professional fees | <u>TBD</u> | <u>TBD</u> |
| Estimated funds available for creditors (prior to the settlement of post-filing related-party claims and ongoing professional fees) | <u>613,000</u> | <u>759,000</u> |

The funds generated from the realization of the Company's residual assets represent the only monies that the Company will have available to settle its post-filing obligations (if deemed to be valid) and pre-filing claims.

At the present time it is difficult to establish with certainty the timing and amount of funds anticipated to be generated from the remaining assets.

6. RECOMMENDATION

The Trustee will review the pending matters with creditors at the Creditors' Meeting to be held on September 22, 2005 and discuss with them the course of action that could be taken under the circumstances.

DATED IN MONTREAL, this 21st day of September, 2005.

RSM Richter Inc.

(estate formerly accepted under the responsibility of Richter & Associés Inc.)

Trustee