

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**

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### Trustee's Report Relating to the Affairs of 177841 Canada Inc. Since the Meeting of Creditors Held on January 20, 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. As well, the December 1, 2004 meeting was subsequently adjourned to January 20, 2005.

At the creditors' meetings held on December 1, 2004 and January 20, 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 January 20, 2005 meeting to March 24, 2005.

The financial situation of the Company has been reviewed in the Trustee's prior Reports dated August 17, 2004, December 1, 2004 and January 18, 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 Statement of Receipts and Disbursements for the period ended March 22, 2005, which summarizes Richter's mandate as both Interim Receiver and Trustee.

<b>Receipts</b>	
Sale of assets	
J.L. de Ball Canada Inc.	\$6,200,000
Asheville Velour Inc.	800,000
Girmes Special Textiles (Zhangjiagang) Company Ltd.	886,540
Signing fee	120,000
Glenoit Fabrics (HG) Corporation deposit	100,000
	<u>8,106,540</u>
Collection of accounts receivable	3,161,296
Income tax refund	444,004
Other	37,752
<b>Total receipts</b>	<u><u>11,749,592</u></u>
<b>Disbursements</b>	
Post-filing operating expenses (net of Company advances)	1,095,967
Collection fees (accounts receivable)	160,207
Trustee's and Interim Receiver's remuneration	346,992
Legal fees and costs	367,429
Remittances pursuant to GSTZ sale agreement	287,935
Settlement of claim (Le Groupe Simoneau)	35,576
<b>Total disbursements before remittances to secured lender</b>	<u><u>2,294,106</u></u>
Excess of receipts over disbursements	9,455,486
<b>Remittances to BMO Bank of Montreal (secured lender)</b>	(9,373,334)
<b>Funds on hand</b>	<u><u>\$82,152</u></u>

With regard to the cash on hand of approximately \$82,000 as at March 22, 2005, there remain contingent liabilities approximating \$65,000, leaving an available balance of only \$17,000.

## 3. REMAINING ASSETS TO BE REALIZED UPON

### 3.1. Trade Receivables

As indicated in our previous Report of January 18, 2005, the Company's books and records indicated gross accounts receivable for approximately \$3,660,000 as at November 29, 2004 (close of business prior to the sale of De Ball's assets on December 1<sup>st</sup>, 2004).

For the period December 1<sup>st</sup>, 2004 to March 22<sup>nd</sup>, 2005, collections have amounted to approximately \$3,161,000, which funds were utilized to reduce the indebtedness of the Company's secured lender, BMO.

As at March 22, 2005, the estimated residual gross accounts receivable amount to approximately \$270,000, which we estimate to have a net realizable value in the range of \$25,000 to \$100,000.

### 3.2. Sales Taxes Receivable

The Company's books and records reflect sales taxes receivable (GST/QST) of approximately \$691,900 summarized as follows:

January/February 4, 2004	\$130,750
August/September 2004	234,050
October/November 2004	250,600
December 2004 (to be filed)	63,000
January/February 2005 (to be filed)	TBD
	<u>\$691,900</u>

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 will most likely conduct an audit and may deduct the portion of sales taxes included in the unpaid claims of the creditors of the Estate. The estimated realization may be between \$100,000 and \$400,000.

### 3.3. Income Taxes Receivable

Pursuant to the filing of its 2003 corporate tax returns, the Company has recovered Quebec income taxes of \$444,000, which funds have been deposited into the Interim Receiver's account.

The books and records of the Company indicate that upon the filing of its 2004 tax returns, de Ball may be entitled to claim a further reimbursement of approximately \$135,000.

The actual amounts to be collected will only be confirmed once the tax assessments are issued.

## 4. Liabilities

### 4.1. Bank Indebtedness

As at the close of business on November 29, 2004, the BMO bank indebtedness was approximately \$9,370,000. BMO holds a valid first ranking secured charge over all the assets of the Company securing its advances.

The BMO bank indebtedness has been repaid in its entirety from the various proceeds referred to in sections 1 and 2 above.

### 4.2. Post-Filing Obligations

#### 4.2.1 3<sup>rd</sup> 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 settled in the amount of approximately \$200,000.

#### 4.2.2 Related claims

The books and records of the Company indicate that certain amounts are claimed by related parties as follows:

	C\$	US\$	Euro	C\$
Related-Party Payables				
Girmes GmbH	-	-	51,949	\$83,118
J.L. de Ball America Inc.	-	\$242,216		302,770
	-	\$242,216	51,949	<u>\$385,888</u>

We have not reviewed the validity of the amounts claimed.

#### 4.3. Pre-filing liabilities

The Company's books and records indicate pre-filing (pre-February 4, 2004) liabilities summarized as follows:

	C\$	US\$	Euro	C\$
	Trade Payables	\$1,350,375	\$419,163	11,215
Related-Party Payables				
Girmes GmbH			232,930	\$372,688
J.L. de Ball America Inc.		1,006,483		\$1,258,104
	<u>\$1,350,375</u>	<u>\$1,425,646</u>	<u>244,145</u>	<u>\$3,523,065</u>

The Trustee has not reviewed the validity of the amounts claimed.

#### 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:

<b>Estimated value</b>	Range	
	Low	High
Cash on hand, net of estimated contingencies (paragraph 2)	\$17,000	\$17,000
Collection of residual trade receivables (paragraph 3.1)	25,000	100,000
Recovery of GST/QST (paragraph 3.2)	100,000	400,000
Recovery of income taxes (estimated) (paragraph 3.3)	75,000	135,000
<b>Estimated gross proceeds</b>	<u>217,000</u>	<u>652,000</u>
<b>Less:</b>		
Estimated 3 <sup>rd</sup> party post-filing trade obligations (paragraph 4.2.1)	(200,000)	(200,000)
Ongoing professional fees	TBD	TBD
<b>Estimated funds available for creditors (prior to post-filing related-party claims and ongoing professional fees)</b>	<u>\$17,000</u>	<u>\$452,000</u>

The estimated funds from the realization of the Company's residual assets represents the amount that may be available to settle the post-filing related claims (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. CONCLUSION AND RECOMMENDATION**

Richter is of the opinion that the realization value of the remaining assets will be maximized if a bankruptcy is avoided and as such is recommending that this meeting of creditors be further adjourned until September 22, 2005 to allow for the filing of a Liquidating Proposal, which would provide for the distribution of the net realization to the creditors, according to their rights.

DATED IN MONTREAL, this 23<sup>rd</sup> day of March, 2005.

**RSM Richter Inc.**

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

Trustee