

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-032527-083
ESTATE NO.: 41-1039022

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

J. Schreter Inc.

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:

4358 Saint-Laurent Boulevard
Montréal QC H2W 1Z5

Debtor

**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION
OF THE DEBTOR AND ON THE PROPOSAL**
(Sections 50(5) and 50(10)b) of the Bankruptcy and Insolvency Act (the "Act"))

We have recently advised you that on February 13, 2008, the Company filed a Notice of Intention to Make a Proposal ("Notice of Intention") to its creditors. RSM Richter Inc. ("Richter") was named as Trustee under the Notice of Intention.

On the 14th day of March 2008, J. Schreter Inc. filed a Proposal to its creditors.

We have enclosed herewith the Proposal of the Company to its various classes of creditors as well as a Notice of the time and place of the meeting of creditors ("First Meeting of Creditors") to consider the Proposal. In essence, claims shall be paid as follows:

- Secured creditors shall be paid in accordance with arrangements existing between the Company and the holders of secured claims;
- Preferred creditors are to be paid in full according to the Act; landlords' preferred claims are to be paid sixty (60) days after the Approval of the Proposal by the Court (the "Approval");

- Ordinary creditors shall receive a **first dividend**, in five (5) equal instalments, of their prorata share of the remaining Settlement Fund of \$120,000, after payment to the preferred creditors, on the following dates:
 - a. On December 15, 2008, one fifth (1/5) of the SETTLEMENT FUND remaining after payment of the PREFERRED CLAIMS;
 - b. On March 15, 2009, one fifth (1/5) of the SETTLEMENT FUND remaining after payment of the PREFERRED CLAIMS;
 - c. On June 15 2009, one fifth (1/5) of the SETTLEMENT FUND remaining after payment of the PREFERRED CLAIMS;
 - d. On September 15, 2009, one fifth (1/5) of the SETTLEMENT FUND remaining after payment of the PREFERRED CLAIMS;
 - e. On December 15, 2009, one fifth (1/5) of the SETTLEMENT FUND remaining after payment of the PREFERRED CLAIMS.

- Ordinary creditors shall receive a **further dividend**, in two (2) equal instalments as per f. and g. below, of their prorata share of the Settlement Fund - Additional, which fund shall be the lesser of 25% of Schreter's profits for year to end December 31, 2009, or 50% of the Ordinary Claims, deduction made for the dividends paid from the Settlement Fund, on the following dates:
 - f. On March 15, 2010, one half (1/2) of the SETTLEMENT FUND - ADDITIONAL;
 - g. On June 15, 2010, one half (1/2) of the SETTLEMENT FUND - ADDITIONAL.

The Trustee shall receive the corresponding funds from the Company for the Settlement Fund and Settlement Fund - Additional, on or before required date of distribution by the Trustee.

- Related Parties shall waive their right to claim in any dividend, and shall not make any loan reductions until the terms of the Proposal are fully met, except to the extent of \$3,000 monthly to be paid to the shareholders, in lieu of partial payment of salary.

Pursuant to Sections 50(10)b and 50(5) of the Act and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Company. The creditors may in person at the forthcoming meeting of creditors, or by Voting Letter on or before the First Meeting of Creditors, accept or reject the Proposal. Voting letters and claims forms are enclosed herewith. A Proof of Claim form has, however, previously been mailed to you for return to the Trustee's office in order for you to receive a dividend distribution. **It is not necessary to send back another Proof of Claim to the Trustee if you have already done so. Just return the Voting Letter in that case.**

We would caution the reader that we have not conducted an audit or an investigation of the books and records of the Company and, consequently, we cannot render an opinion with respect to the accuracy of the information contained herein. The information discussed herein emanates from the books and records made available to us, as well as from discussions with the Management of the Company.

1. BACKGROUND OF THE COMPANY

J. SCHRETER INC. is a Canadian corporation which was originally constituted in 1928, and which is engaged in the retail sale of clothes in two (2) stores. Management of the Company has advised us that the financial difficulties resulted from the opening of its second store, in the West Island, which store did not bring the expected profit; combined with inventory problems and a major reduction of business in the St. Laurent Boulevard store caused by the lengthy construction by the City of Montreal that made the street impossible to attract customers. All this lead J. SCHRETER INC. to a Net Loss of \$672,000 for the year ended December 31, 2007 including write-downs to inventory and fixed assets. The Company is now reorienting its business through closing its store in the West Island, and re-managing its inventory strategy. It is intended that due to the downsizing of operations, solely Steve Schreter will remain as shareholder and his brother, Joey Schreter, will leave the business and no longer be a shareholder.

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

Since the filing of the Notice of Intention by the Company on February 13, 2008, the Company has been operating in the normal course of business, with the cooperation of its major secured creditor, Bank of Montreal ("BMO"), while closing its West Island Store so as to concentrate operations in the original store on St. Laurent Boulevard.

The Company has come to terms with the Landlord of the West Island store concerning the premises situated at Complexe Pointe-Claire which premises were vacated in February 2008, after the lease was disclaimed. The Company has also met with representatives of SICA and J.SCHRETER INC's major unsecured creditor, The North Face (Canada) Inc. whose input has been instrumental to maximizing the Company's offer, as reflected in this Proposal, to its creditors.

3. FINANCIAL INFORMATION

The financial information relating to the assets and liabilities as of March 14, 2008 is submitted solely for discussion purposes and to assist the reader in assessing the present financial position of the Company. As not all of the books and records of the Company are up-to-date, certain of the information presented herein represents Management's best estimate of book values, at this date. The Trustee makes no representations or warranty as to the accuracy of said financial information.

A. ASSETS

The following is a succinct summary of the Company's assets:

i) Accounts Receivable

The book value of J. SCHRETER INC.'s accounts receivable total approximately \$20,000. It emanates from accumulated amounts due from retail customers.

We understand that the accounts receivable of the Company are pledged by a first ranking hypothec in favour of BMO.

ii) Inventories

As at the date of the filing of the Proposal, the Company's books and records reflect inventories having a carrying value of \$401,500, being comprised of clothing and apparel for men, boys, and women.

We understand that the inventory is held as security by BMO.

iii) Furniture and Fixtures ("Fixed Assets")

The Company's store and office furniture and fixtures have a book value of \$39,850 after writing-off the Pointe Claire store assets, the majority of which are leasehold improvements.

According to a printout of the RDPRM, BMO does not have security over these assets.

In the event of a bankruptcy, it is certain that the liquidation values of the various categories of assets will be for far less than the above "book" values. The Trustee is of the opinion that the liquidation value of the assets subject to the security of BMO would be less than its outstanding advances and the Fixed Assets (which are not subject to BMO's hypothec) would have nominal value.

B. LIABILITIES

The allocation of J. SCHRETER INC.'s indebtedness, as at February 13, 2008, between secured and unsecured creditors is estimated as follows:

i) Secured Creditors

The Company is indebted to BMO for approximately \$467,881, secured in first rank by the Company's receivables and inventory. Should a bankruptcy take place, the Trustee will then engage legal counsel to obtain an opinion thereon.

ii) Preferred Creditors

The Company's Statement of Affairs indicated it owes its Landlords \$24,197, for arrears of rent for the entire month of February 2008. Since the Notice of Intention was filed mid-month, it subsequently paid the one-half portion which was due for the period post-filing. We are awaiting the receipt of Proof of Claims, which have previously been mailed, to determine whether there exist any other preferred claims.

iii) Unsecured Ordinary Creditors

The Company has provided us with a listing of its unsecured ordinary creditors totalling approximately \$1,419,552, which includes \$1,064,237 owing to related parties. However, should the Proposal be accepted by the creditors and approved by the Court, the related parties have agreed to waive and defer their unsecured claims until all other creditors have been paid in accordance with the terms of the Proposal, except for \$3,000 per month to be paid to shareholders in lieu of partial salaries. In the event the creditors reject the Proposal, resulting in a bankruptcy, the related parties would be entitled to share prorata in any dividend distribution to the ordinary creditors. However, as mentioned above, it is doubtful that any residual funds will be available after repayment of BMO.

Voting letters have been forwarded, together with this report, to all creditors and, as at the present date, we are unable to comment on whether creditors are favourable to the present Proposal. Additionally, creditors do have a right to vote at the forthcoming Meeting. With regard to the quantum of ordinary creditors who are to share in the residual amount of the Settlement Fund and the Settlement Fund - Additional, it is still premature to definitively determine its totality. We had forwarded to all creditors on February 19, 2008 Proof of Claims for their completion and return to us. As Proof of Claims are received, we shall enter the amounts claimed by the specific creditors and, prior to paying any dividend distribution, we shall reconcile any material differences. We shall also report to the creditors, at the time of the upcoming Meeting, the total claims filed as of that date. This shall give you a better idea of the estimated prorata distribution which may be available to the unsecured creditors. Our best "guestimate" as of the present date, is in the range of 30% from the Settlement Fund (as calculated hereinafter) to a maximum of 50% from the Settlement Fund - Additional, as per the Proposal. As mentioned above, a more accurate estimate shall be provided at the Meeting of Creditors.

Settlement Fund	\$120,000	Ordinary claims	\$1,419,552	
Less: Preferred claims - unpaid rent	<u>\$12,099</u>	Less: Related Parties	<u>(\$1,064,238)</u>	
Net Settlement Fund	<u>\$107,901</u>	Net Ordinary Claims	<u>\$355,315</u>	
		Percentage of dividend from Settlement Fund	<table border="1"><tr><td>30.37%</td></tr></table>	30.37%
30.37%				

4. REVIEWABLE TRANSACTIONS

As of the date of this Report, the Trustee has not completed its review of transactions within the meaning of Sections 91 to 101 of the Act. The Trustee shall report its findings at the First Meeting of Creditors. Conditionally upon approval of the Proposal, the statutory terms of Sections 91 to 101 of the Act, and similar *Civil Code of Quebec* provisions, shall not apply pursuant to Section 101.1 of the Act.

5. LIQUIDATION VALUE OF ASSETS AND ESTIMATED DIVIDEND IN A BANKRUPTCY

The Trustee has not obtained an independent appraisal of the assets of the Company as of this date. However, based upon Management's representations as to the assets and the Trustee's experience, **we do not foresee any dividend** to the ordinary creditors in the event of a bankruptcy. In particular, we take note that substantially all the assets are secured in favour of BMO and there will be significant diminution in values arising from a forced liquidation, costs of a bankruptcy, and the preferred claims. Moreover, in a bankruptcy scenario, the related parties' claims shall rank *pari passu* with all ordinary creditors.

As mentioned above, subject to the validity of BMO's security, after costs of a bankruptcy/liquidation, no dividend is envisaged for any of the Company's Preferred and Ordinary creditors, even assuming that full "book" value can be realized.

6. CONCLUSION AND RECOMMENDATION

J. SCHRETER INC. is a long-established family business. Its current owners, Steve and Joey, wish to minimize the negative impact upon the Company's creditors and associated loss of goodwill.

The acceptance of the present Proposal and consequential continuity operations will allow J. SCHRETER INC. to implement significant measures with a view to returning to profitability.

However, in the event that the creditors reject the Proposal, an automatic bankruptcy will ensue. In such case, we do not envisage there to be any dividend to its creditors.

Accordingly, the Trustee therefore recommends that the creditors accept the Proposal and allow J. SCHRETER INC., to continue its business dealings.

DATED AT MONTRÉAL, this 20th day of March 2008.

RSM Richter Inc.
Trustee

The image shows two handwritten signatures in black ink. The signature on the left is a stylized 'P' followed by a horizontal line. The signature on the right is a more complex, cursive signature that appears to be 'Manel'.

Philip Manel, CA, CPA
Administrator