

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
DIVISION NO: 01-MONTRÉAL  
COURT NO : 500-11-039827-106  
ESTATE NO: 41-1428695

**SUPERIOR COURT**  
(Commercial Division)

**IN THE MATTER OF THE BANKRUPTCY OF :**

**Patella Manufacturing Inc.**

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

161 avenue Stirling  
Lasalle, Quebec H8R 3P3

**Bankrupt**

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## TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On November 3, 2010, pursuant to a motion filed by HSBC Bank Canada ("HSBC"), the primary secured lender, the Quebec Superior Court appointed RSM Richter Inc ("Richter") Receiver to the assets of Patella Manufacturing Inc. ("Patella" or "Company" or "Bankrupt"). Just prior to the Receivership, due to financial constraints, the operations of the Company had ceased.

On November 10, 2010, Richter in its quality as Receiver of Patella, caused Patella to file an assignment in Bankruptcy under section 49 of the *Bankruptcy and Insolvency Act* ("BIA") and Richter was duly appointed Trustee of the Bankrupt.

The fees and disbursements of Richter in its capacity as Trustee and Receiver are guaranteed by the secured creditor, HSBC.

**The information contained in this Report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity of exactness or the reliability of the information contained herein.**

## I. BACKGROUND INFORMATION

Patella operations consisted of the manufacturing and installation of architectural woodworking. In addition, the Company acted as a project manager for certain construction contracts in Toronto and Montreal. The Company's manufacturing activities were located at 161 Stirling Avenue, Lasalle, Quebec. The Company commenced operations in the 1960's. At the time of the bankruptcy, Mr. Eric Perlinger was the president of the Company and the shares of the Company are held by 3476600 Canada Inc. (on November 15, 2010, 3476600 Canada Inc. was petitioned into bankruptcy by HSBC with Richter acting as Trustee).

During the last two years the Company incurred significant losses of approximately \$1.1 million in 2009 and an estimated loss of approximately \$5.3 million in 2010. Given these losses the Company's financial position rapidly eroded and was unable to meet its obligations as they became due.

## II. STATEMENT OF AFFAIRS

The Statement of Affairs was prepared by the Trustee based on the unaudited books and records. The Statement of Affairs is normally attested by a Director of the bankrupt, however was filed without a Director's signature as the Receiver filed an assignment in Bankruptcy and signed the Statement of Affairs in its capacity as Receiver. We have asked Mr. Eric Perlinger to review the Statement of Affairs and advise us whether there are any material required changes thereto.

<b>Patella Manufacturing Inc.</b> <b>Statement of Affairs as at November 10, 2010</b> <b>(Unaudited)</b>	
<b>Liabilities</b>	
Secured creditors	\$6,998,152
Preferred creditors	500,000
Unsecured creditors	<u>7,500,827</u>
Total liabilities	<u>14,998,979</u>
<b>Assets</b>	
Inventory	50,000
Accounts receivable (net)	1,574,738
Machinery and equipment	833,174
Office furniture and equipment	20,351
Vehicles	<u>33,889</u>
Total assets	<u>2,512,152</u>
<b>Deficiency</b>	<b><u>\$(12,486,827)</u></b>

## A. Assets

The following are our comments in respect of Patella's principal assets:

### i) Inventory (\$50,000) - Pledged

The inventory is located in the Lasalle premises and consists of work-in-process and raw materials. The Trustee is in the process of completing an inventory count in order to commence a sale process. The estimated realization value of this inventory is, however, expected to be nominal.

### ii) Accounts Receivable (\$1,574,738) - Pledged

As per the Company's books and records, the gross accounts receivable, including intercompany accounts, total approximately \$14.1 million. However, the net book value of the accounts receivable is approximately \$1.5 million after reducing the gross accounts receivable relating to intercompany advances to its US subsidiaries (\$8.9 million) and lien offsets. In addition, there is a large portion of the gross accounts receivable that relates to work-in-progress for jobs that are not complete. It is unlikely that any substantial collections will be received for contracts that are not finished. **The Trustee does not intend to continue operations nor to complete the contracts.** The Trustee is nonetheless in the process of attempting to collect the receivables.

### iii) Machinery and Equipment (\$833,174) and Office Furniture (\$20,531) - Pledged

The Trustee is in the process of producing a detailed list of the Company's machinery and equipment and office furniture. The net book value of the machinery and equipment is approximately \$833k and the office furniture is \$21k. A formal sale process is being initiated to receive offers to purchase these assets and the inventory.

### iv) Vehicles (\$33,889) - Pledged

The Company owned/leased various vehicles. The Trustee is in the process of determining if there is any equity in these vehicles. The net book value of these vehicles amounts to approximately \$34k.

**B. Liabilities**

The exact amount of the liabilities which existed as at November 10, 2010 will only be determined once the Proof of Claims are submitted by the creditors and have been compiled, analyzed and accepted by the Trustee. The Statement of Affairs reflects the following:

<b>Description</b>	<b>Amount</b>
Secured creditors	\$ 6,998,152
Preferred creditors	500,000
Unsecured creditors	<u>7,500,827</u>
	<u>\$14,998,979</u>

**i) Secured Creditors**

The Company's primary secured lender is HSBC which is owed approximately \$6.1 million. HSBC holds security on all the accounts receivable and inventory and certain of the equipment. In addition, GE Capital ("GE") which is owed approximately \$900k, holds security on various fixed assets.

The Trustee is relying upon each of the above lenders' legal counsel to verify the validity of the other's security and an exact determination of the specific equipment which falls under either HSBC or GE security.

**ii) Preferred Creditors**

The Company has estimated that the total unpaid salaries and vacation pay amounts to approximately \$500,000. Certain of these unpaid salaries and vacation pay may result in a super-priority under S. 81.3 of the BIA. The Trustee is unaware of any amounts owing to the government authorities which would be considered a priority. Notice has been sent to possible preferred creditors and the ultimate amount of this category of claims will only be subsequently determined.

**ii) Unsecured Creditors**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$7.5 million.

As of the date of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to the ordinary unsecured creditors.

**III. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE TRUSTEE**

**A. Books and Records**

On November 3, 2010, Richter took possession of the books and records of the Company.

**B. Security and Protective Measures**

Since our appointment, the Trustee has taken the following security and protective measures:

- Changing the locks and control of access to the Company's premises;
- Presence of security guards and representatives of RSM on site;
- Change of alarm codes in favor of RSM representatives;
- Secure all books and records of the Company;
- Back-up all computerized data;
- Ensure all assets are properly insured;
- Opening up of a Trust bank account;
- Physical count of the assets located at the Company's Lasalle premises.

**C. Reviewable Transactions and Preferential Payments**

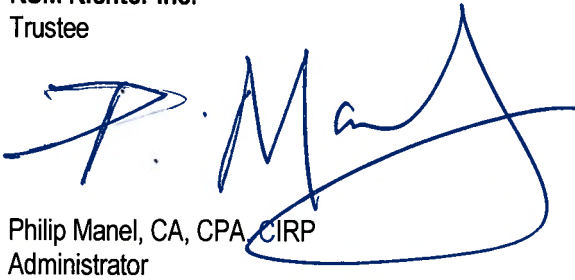
The Trustee is presently performing a review of the payments to creditors in the last three months and twelve months (with respect to related parties) preceding the date of the bankruptcy. We will advise the Inspectors to the bankruptcy of any relevant findings upon completion of the review.

**IV. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION**

All the assets of the Company are either subject to HSBC or GE security. As of the date hereof, there appears to be a significant deficit/shortfall to these lenders. As such, it is the Trustee's view that no dividends will be available to the preferred and ordinary creditors.

DATED AT MONTREAL, this 22<sup>nd</sup> day of November 2010.

**RSM Richter Inc.**  
Trustee

A handwritten signature in blue ink, appearing to read "P. Manel", with a large, sweeping flourish underneath the name.

Philip Manel, CA, CPA, CIRP  
Administrator