

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
No.: 500-11-033234-085

**SUPERIOR COURT
Commercial Division
(Bankruptcy and Insolvency)**

**IN THE MATTER OF *THE COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. (1985), c. C-36 WITH
RESPECT TO:**

SHERMAG INC., a legal person constituted under the Companies Act (Québec), having its domicile at 2171 King Street West, in the City of Sherbrooke and District of Saint-François, Province of Québec, J1J 2G1

- and -

JAYMAR FURNITURE CORP., a legal person constituted under the laws of Nova Scotia and continued under the laws of Canada, having its domicile at 75 Jaymar Street, in the City and District of Terrebonne, Province of Québec, J6W 1M5

- and -

SCIERIE MONTAUBAN INC., a legal person constituted under the laws of Canada, having its domicile at 100 Route du Lac George, in the City of Notre-Dame-de-Montauban and District of Saint-Maurice, Province of Québec, G0X 1W0

- and -

MÉGABOIS (1989) INC., a legal person constituted under the Companies Act (Québec), having its domicile at 2171 King Street West, in the City of Sherbrooke and District of Saint-François, Province of Québec, J1J 2G1

- and -

SHERMAG CORPORATION, a legal person constituted under the laws of the State of Delaware, having its chief executive office at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, State of Delaware, 19801, U.S.A.

-and-

JAYMAR SALES CORPORATION, a legal person constituted under the laws of the State of Nevada, having its chief executive office at Incorp Services, Inc., 3155 East Patrick Lane, Suite 1, in the City of Las Vegas, State of Nevada, 89120-3481, U.S.A.

Debtors/Petitioners

-and-

RSM RICHTER INC., a duly incorporated legal person having its principal place of business at 2 Place Alexis-Nihon, in the city and district of Montreal, H3Z 3C2

Monitor

**SIXTH REPORT OF THE MONITOR
(JULY 10, 2009)**

INITIAL ORDER

1. On May 5, 2008, Shermag Inc. and its affiliates (hereinafter referred to as "Petitioners" or "Shermag") filed a Motion before the Québec Superior Court asking for the issuance of an Initial Order in accordance with the provisions of the *Companies' Creditors Arrangement Act*, R.S.C. (1985), c. 36 ("CCAA"). In this regard, the Honourable Robert Mongeon, J.S.C., rendered the order in question and appointed RSM Richter Inc. as Monitor ("RSM" or "Monitor") and set a Stay Termination Date of June 4, 2008.

OTHER PROCEEDINGS

2. On June 4, 2008, Shermag was granted an extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement, as provided for in the Initial Order, until September 8, 2008.
3. On July 16, 2008, Petitioners filed a Petition to Establish a Claims and Meetings Process ("Claims Process") which was granted by the Court. The Claims Process set the bar date for the filing of Proofs of Claim or Notices of Dispute with the Monitor to September 5, 2008 at 5:00 p.m.

4. On July 31, 2008, the Court rendered an Order Approving Various Agreements regarding its financing, and authorizing Geosam Investment Limited ("Geosam") to replace Wachovia Capital Finance Corporation ("Wachovia") as secured lender.
5. On September 8, 2008, Shermag was granted an extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement until December 10, 2008.
6. On November 4, 2008, the Court approved the liquidation process to sell, by way of an auction, Shermag' surplus machinery and equipment.
7. On December 5, 2008, Shermag was granted an extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement until April 4, 2009.
8. On January 13, 2009, the US Court rendered an order pursuant to *Chapter 15 of the United States Bankruptcy Code* (US Order) recognizing the Canadian proceedings as foreign main proceedings, enforcing the Claims Process and establishing the US bar date as February 27, 2009 at 5:00 p.m.
9. On February 26, 2009, the Court authorized Shermag to enter into a second key employee retention bonus plan.
10. On March 26, 2009, the Court dismissed Shermag's motion for the reorganization of its share capital ("Reorganization Motion").
11. On April 4, 2009, Shermag was granted an extension of the Stay Termination Date and of the delay for filing a Plan of Arrangement until July 13, 2009.
12. On June 4, 2009, the Court granted an Order authorizing the sale of a real property and related vesting order as well as an Order authorizing a Call for Tenders Process. ("Call for Tenders Process").
13. On July 10, 2009, Shermag filed a Fifth Motion to the Court for an Order seeking an extension of the Stay Termination Date and of the delay to file a Plan of Arrangement to July 24, 2009, and seeking other requested reliefs.

MONITOR'S REPORT

14. The Monitor hereby submits to Court its Sixth Report in connection with the Petitioners' CCAA proceedings.
 15. The purpose of this Sixth Report of the Monitor is to inform this Honourable Court on the following:
 - A. Call For Tenders Process
 - B. Financial Results
 - C. Cash-flow Projections
 - D. Extension of the Forbearance Agreement
 - E. Actions Taken by the Monitor
 - F. Monitor's Recommendation.
 16. The Court should be made aware that the information contained herein has not been the subject of a formal audit by the Monitor and comes from the unaudited books and records of the Petitioners made available to the Monitor as well as from conversations with the management of the Petitioners. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy and completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report.
- A) CALL FOR TENDERS PROCESS**
17. Pursuant to the judgment dismissing the Reorganization Motion, Shermag with the help of the Monitor and Geosam, analyzed the various options available to them which would allow the continuation of their business and maximize the return to all stakeholders.

18. The Call for Tenders Process authorized by the Court on June 4, 2009 provided for the following timetable:

<u>Steps</u>	<u>Description</u>	<u>Deadline</u>
1.	Execution of the confidentiality and the non-disclosure agreement by the interested parties	June 26, 2009
2.	End of the due diligence period and access to the virtual data room	July 10, 2009
3.	Filing of the offers	July 10, 2009
4.	Opening of the offers	July 10, 2009
5.	Clarification and improvement of the offers, if needed	July 17, 2009
6.	Approbation of the offers by the Petitioners	July 17, 2009
7.	Approval by the Court of the various offers accepted	July 24, 2009

19. The Call for Tenders Process sought offers for Shermag's operating assets which were divided into three (3) categories:
- i) The Shermag core business of importing and distributing furniture product, to be sold "as a going concern" through an asset transaction;
 - ii) The Jaymar core business which is a wholly-owned subsidiary of Shermag, to be sold "as a going concern" through an asset or a share transaction;
 - iii) The non-core assets owned by Shermag, which include eleven (11) land and facilities, finished inventory, raw material, work in process as well as machinery and equipment are divided in individual lots and can be sold separately.
20. The Call for Tenders Process has been managed by the Monitor, which actions can be summarized as follows:
- i) A teaser was sent by mail and e-mail to 309 potential buyers in North America. These potential buyers are either competitors of Shermag or equity investment firms already active in the furniture business.

- ii) Newspaper Notices were published in the Saturday June 6, 2009 edition of the Montreal Gazette and La Presse, the Globe and Mail and the New Brunswick Telegraph Journal.
 - iii) Follow up calls with potential buyers were made regularly.
 - iv) 43 confidentiality agreements were signed with interested parties who were given access to a virtual data room.
 - v) Visits of the premises, inspection of assets and meetings with management were coordinated.
21. On Friday July 10, 2009, the Monitor opened the offers received at noon in the presence of the management of Shermag, the independent Board members as well as the Petitioners' legal advisor. The offers received are presently being reviewed and analyzed by the Monitor.

B) FINANCIAL RESULTS

- i) **Financial Results for period March 29, 2009 to July 4, 2009**
22. Attached hereto as **Schedule A** to our report, is the comparative cash flow statement for the period March 29, 2009 to July 4, 2009.
23. The Total Bank indebtedness (amounts owed to Geosam) is lower than projected by \$874,000 (\$12,773,000 actual compared to a budget of \$13,647,000) which can be explained as follows:
- i) Net operating cash flow generated a lower cash deficit of \$1,853,000 compared to the forecasted deficit of \$2,844,000 due mainly to postponement of inventory purchases;
 - ii) Proceeds from the inventory and equipment liquidation sales have been lower than expected by \$333,000.
 - iii) Disbursements relating to the professional fees of the Monitor and Shermag's legal advisors (Restructuring Costs) are lower than projected by \$656,000.
 - iv) Financing expenditures are higher than projected by \$588,000.
24. The July 4th, 2009 post-filing liabilities are estimated to approximate \$4,700,000, including outstanding professional fees relating to the restructuring process of approximately \$600,000.

ii) Financial Results for period April 27, 2008 to July 4, 2009

25. Attached hereto as **Schedule B** to our report, is the financial results, on a cash basis, since the issuance of the Initial Order:

- Collection of Accounts Receivable generated \$59,621,000
- Operation costs have been \$59,809,000
- Liquidation of surplus assets have generated \$9,579,000
- Amounts owed to the secured lender Geosam have been reduced from \$15,748,000 to \$12,773,000.

C) CASH FLOW PROJECTIONS

i) Cash flow projections for the period July 4, 2009 to July 24, 2009

26. Attached hereto as **Schedule C** to our report, are the daily cash flow projections, compiled by Shermag's management, for the period July 13, 2009 to July 24, 2009 which can be summarized as follows:

- i) Net cash flow for the two week period should amount to a surplus of approximately \$1,360,000.
- ii) The cash flow assumes payments of certain fees in arrears for restructuring professionals;
- iii) Projected indebtedness to Geosam is expected to decrease to \$11.5 million during the Period.

27. During this reference period, the value of the post-filing liabilities is assumed to remain at the same level.

28. The secured lender has reviewed and approved the Petitioners the above mentioned cash flow projections.

29. The Petitioners' projections depend on future events, which are beyond the control of the parties involved, the actual results will differ and such differences may be substantial.

D) EXTENSION OF FORBEARANCE AGREEMENT

30. As a result of the Order granted on July 30, 2008, approving various agreements, Geosam had entered into an assignment agreement with Wachovia, the former secured lender. Geosam has amended and extended the previous Forbearance Agreement which expired on July 3, 2009.
31. The Forbearance Agreement has been extended to July 24, 2009.
32. Although, Geosam has already issued the 60-day notice to enforce its securities pursuant to the *Code civil du Quebec*, which notice period is now expired, Geosam has agreed to postpone exercising its rights and recourses pending the outcome of the Call for Tenders Process.

E) ACTIONS TAKEN BY THE MONITOR

33. Since the last report filed by the Monitor, dated April 2, 2009, the actions taken by the Monitor can be summarized as follows:
 - i) Obtained and reviewed the Petitioners' cash flow results;
 - ii) Discuss and reviews of the Petitioners' post-filing liabilities;
 - iii) Analyze with management Shermag's current financing requirements;
 - iv) Dealing with issues relating to the Claims Process and other creditors issues;
 - v) Managing the Call for Tender Process and dealing with interested parties relating thereto.
34. The Monitor has also been participating in discussions with Shermag's management and independent Board members with matters relating to the filing of a Plan of Arrangement

F) MONITOR'S RECOMMENDATION

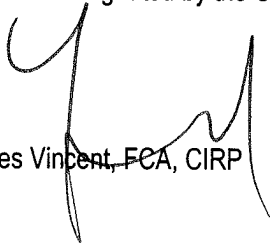
35. The Monitor is of the opinion that the Fifth Motion for an Order Extending the Stay Period filed by Shermag, to obtain a further delay until July 24, 2009, is reasonable for the following reasons:

- i) The delay requested is essential to allow Shermag and the Monitor to complete the Call for Tenders Process, which results should be in the best interests of all stakeholders;
- ii) Shermag continues to act diligently, in good faith and in the best interest of all involved, including its creditors;
- iii) The Company's principal secured lender (Geosam) supports the Petitioners' request submitted to the Court;

Dated at Montreal, this 10th day of July, 2009.

RSM Richter Inc.
Monitor designated by the Court

Yves Vincent, FCA, CIRP

A handwritten signature in black ink, appearing to be 'Yves Vincent', written over the printed name.