

CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF MONTRÉAL  
DIVISION NO.: 01 - Montreal  
COURT NO.: 500-11-040786-119  
ESTATE NO.: 41-1498686

SUPERIOR COURT  
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

True North Hardwood Plywood Inc.

a body politic and corporate, duly incorporated according to law and having its head office at 2 Place Alexis Nihon, Suite 2000, Montréal, Québec and its principal place of business at 4 Boisvert Crescent, Cochrane, Ontario

Debtor

- and -

RSM Richter Inc.

Trustee

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

The purpose of the First Meeting of Creditors is to consider the proposal filed on May 17, 2011 (hereinafter referred to as the "Proposal") by True North Hardwood Plywood Inc. (hereinafter referred to as the "Debtor", "True North" or the "Company").

Pursuant to Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act* (hereinafter referred to as the "Act" or "BIA") and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Debtor and on the Proposal.

**We caution the reader that the information discussed herein emanates from the books and records of the Debtor. However, we have not conducted an audit of these books and records. Consequently, we cannot render an opinion as to the accuracy of the information contained herein.**

## **I. INTRODUCTION**

On May 17, 2011, the Debtor filed with the Trustee, RSM Richter Inc. ("Richter") and the Official Receiver a Proposal to its creditors. On May 18, 2011, Richter proceeded to a mailing to all known creditors wherein we enclosed the Proposal, a proof of claim form, a voting form, a proxy and a notice indicating the place and time of the First Meeting of the Creditors to consider the Proposal.

The following summarizes the relevant information and key elements that may assist the creditors in analyzing the Debtor's affairs and the terms of the Proposal.

Capitalized terms used herein and not otherwise defined have the meaning ascribed to them in the Proposal.

## **II. BACKGROUND OF THE DEBTOR**

True North is a specialty hardwood plywood producer which has been operating out of Cochrane, Ontario, since 2009. True North was created pursuant to a merger of the hardwood plywood operations of its two shareholders, Norbord Industries Inc. and Longlac Wood Industries Inc. (collectively the "Shareholders").

Since its inception, the Debtor has suffered significant financial losses. These losses can be mainly attributed to:

- i) Lackluster sales resulting from the challenging housing market conditions in United States; and
- ii) Underperforming production results due to the age of the plant and equipment.

In the Spring of 2010, in view of curbing these financial losses, the Debtor began the restructuring of its operations and finances based on the following principles:

- i) Material cost reduction initiatives;
- ii) Productivity improvement measures; and
- iii) Focus on profitability and pricing adjustments.

Notwithstanding the steps taken to return to profitability, the continued poor market conditions had a serious negative impact on the restructuring initiatives. Consequently, the Company did not achieve its return to profitability.

### III. MOTHBALLING OF THE COMPANY'S OPERATIONS AND CONCURRENT SALES PROCESS

Due to its inability to return to profitability, True North's financial situation continued to deteriorate. Under these circumstances and in order to protect asset values and give it time to complete a potential sales process, the Company decided to suspend and mothball its operations on November 26, 2010. Since then, it has not restarted its production.

The mothballing process of True North's operations entailed the following:

- Processing the work-in-process into finished goods;
- Selling all of its finished goods;
- Selling all the remaining raw materials;
- Closing the Mississauga Service Center;
- Laying-off most of its workforce;
- Selling various surplus equipment;
- Cancelling non-essential contracts.

At the present time, True North's principal remaining assets are comprised of the manufacturing plant and the production equipment located in Cochrane, Ontario, residual accounts receivable and cash on hand.

Concurrently with the mothballing process, a mandate was given to Richter to find a potential buyer or investor. While the sales process did result in numerous expressions of interest from third parties, it appeared that the majority of the potential buyers were mostly interested in the assets of the Company only on a liquidation basis, as opposed to purchasing the assets or the shares of the Company on a going concern basis.

In December 2010, a group called the Cochrane Crisis Team ("CCT"), made of various constituents including employees of True North and the Cochrane and Area Economic Development Corporation ("CEDC"), expressed its interest in purchasing and operating the Company.

On February 28, 2011, a Letter of Intent ("LOI") was signed between the CCT and the Shareholders of True North. The proposed transaction is conditional upon True North filing a Proposal to its creditors, its approval by the creditors and ratification by the Court. The transaction contemplates the sale of the shares of True North for \$1 to CCT as well as the funding by CCT of an amount of \$250,000 to be included in the "pool" of proceeds to be distributed to the unsecured creditors, after payment of certain other claims and expenses.

#### IV. FINANCIAL INFORMATION

The following financial information was gathered from the books and records of the Debtor and from discussions held with Management. It is submitted solely to assist the reader in assessing the current financial situation of the Debtor.

The Trustee makes no representations or warranty as to the accuracy of the said financial information.

##### A) Historical Operating Results

The Company's operating results are summarized below:

Operating Results (in \$000's - Unaudited)			
For the year / period ended	February 28, 2011	Dec. 31, 2010 F/S	Dec. 31, 2009 F/S
Sales	\$ 419	\$ 37,103	\$ 48,691
Gross Margin	n/a	\$ (2,836)	\$ (602)
% Gross Margin	n/a	-8%	-1%
<b>Net operating losses</b>	n/a	<b>\$ (6,208)</b>	<b>\$ (2,952)</b>

##### B) Assets

The Company's Statement of Affairs indicated that as at May 17, 2011, its assets were as follows:

Assets As at May 17, 2011 (in 000's - Unaudited)	
Short-term Assets	
Cash	\$ 95
Accounts receivable	278
	<hr/>
	373
Fixed Assets (net book value)	2,837
	<hr/>
<b>Total Assets</b>	<b>\$ 3,210</b>

Accounts receivable (\$278K)

The remaining accounts receivable relate mostly to inventory sold recently or slow-paying customers / doubtful accounts. Management is in the process of collecting these amounts. Formal legal procedures will likely be required to collect some of these accounts. Collection of these accounts receivable is uncertain and will affect the cash on hand available for distribution through the Proposal.

Fixed Assets (\$2,837K)

The breakdown of fixed assets is as follows:

Fixed Assets	
As at May 17, 2011	
Net book value	
(in 000's - Unaudited)	
Vehicles	\$ 35
Machinery and Equipment	1,590
Land, Building	1,212
<b>Total Fixed Assets</b>	<b>\$ 2,837</b>

All the fixed assets are located in Cochrane, Ontario.

**C) LIABILITIES**

As at May 17, 2011, the Company's Statement of Affairs indicates the following:

Liabilities	
As at May 17, 2011	
(in 000's - Unaudited)	
Secured creditors	\$ -
Preferred creditors	NIL
Unsecured creditors	2,983
<b>Total Liabilities</b>	<b>\$ 2,983</b>

**(i) Preferred Creditors (Nil)**

Based upon the terms and conditions of the Proposal, all employees' claims that qualify under section 60(1.3)(a) of the BIA and all preferred claims will be paid in full in priority of all unsecured claims.

As part of CCT's LOI, the landlord of True North's veneer warehouse (related to the City of Cochrane) must waive its right to file a claim in the Proposal. Part of its claim would have been preferred. Thus, this arrangement represents potential savings of approximately \$145,000.

At this time, there are no known preferred creditors.

(ii) **Unsecured Creditors (\$2,983K)**

As at May 17, 2011, the records of the Company showed that the amount owed to unsecured creditors totals approximately \$2,983K, which includes \$1,573K to its employees for unpaid termination pay. The balance of \$1,410K is due to various trade suppliers.

The Debtor has not yet completed the updating of its records. Thus, at the present time, we cannot comment as to the accuracy of the quantum of the unsecured creditors' claims. It will be validated upon the filing by creditors of their proofs of claim.

**V. PROPOSAL TO CREDITORS**

As previously mentioned, on May 17, 2011, the Company filed a Proposal to its creditors.

***Creditors are advised to read the text of the Proposal as well as associated definitions.***

In summary, the salient facts are:

The funds available for distribution to the creditors under the Proposal (the "Basket Amount") are comprised of the Debtor's cash on hand, including the amount of \$250,000 funded by the Cochrane Crisis Team upon the approval of the Proposal. The Trustee shall pay the dividends in accordance with the terms of the Proposal.

- The amounts that employees would be qualified to receive under section 60(1.3)(a) of the BIA shall be paid in full in the normal course of business, before payment to the unsecured creditors;
- The Proposal Expenses, including all professional fees will be paid in full, as they become due, in priority to all Preferred Claims, Crown Claims and Unsecured claims;

- The Crown's Claims, if any, shall be paid in full, without interest, within six months of the approval as defined in the Proposal;
- The Preferred Claims, if any, shall be paid, without interest in full, in priority to all Unsecured Claims;
- In complete satisfaction and discharge of all Unsecured Claims, the unsecured creditors shall receive a pro-rata share of the Basket Amount, after payment of the Proposal Expenses, the Secured Claims, the Employee Claims, the Preferred Claims and the Crown Claims, if any. A first distribution will be made within fifteen (15) days from the Approval by the Court of the Proposal and a second distribution will be made no later than three months from the Approval. A further distribution could be made at any time thereafter, if and when the Trustee finds it advisable.

## VI. ESTIMATED DISTRIBUTION TO UNSECURED CREDITORS

If the unsecured creditors reject the Proposal, the Company will automatically be deemed to have filed an assignment in bankruptcy. Thereafter, the assets of the Company will be liquidated and the net proceeds will be distributed by the Trustee to the creditors based on the provisions of the BIA.

The analysis below was prepared with a view to compare the distribution to unsecured creditors in a Proposal versus the distribution in a Bankruptcy scenario.

Estimated distribution to unsecured creditors (in 000's)									
	Book value		Proposal scenario			Bankruptcy scenario			
			Low	High	Low	High			
Estimated remaining assets									
Cash	\$ 95	100%	\$ 95	100%	\$ 95	100%	\$ 95	100%	\$ 95
Accounts receivable	278	15%	42	30%	83	5%	14	10%	28
Sale of shares / fixed assets (Note)	2,837		250		250		-		25
			387		428		109		148
Less: realization costs			(200)		(150)		(225)		(175)
<b>Estimated net proceeds for distribution</b>			<b>187</b>		<b>278</b>		<b>(116)</b>		<b>(27)</b>
Less: distribution to preferred creditors			N/A		N/A		-		-
<b>Estimated net proceeds for distribution to ordinary creditors</b>	<b>A</b>		<b>\$ 187</b>		<b>\$ 278</b>		<b>\$ -</b>		<b>\$ -</b>
Estimated ordinary creditors	<b>B</b>		\$ 2,983		\$ 2,983		\$ 2,983		\$ 2,983
<b>Estimated percentage of distribution to ordinary creditors (A/B)</b>			<b>6%</b>		<b>9%</b>		<b>0%</b>		<b>0%</b>

**Note:** True North's assets have been inspected by liquidators. It was concluded that potential environmental problems could nullify any value resulting from the sale of assets made in a bankruptcy scenario.

It should be noted that the estimated net proceeds for distribution to unsecured creditors in a Proposal scenario are highly dependent on the collection of the remaining accounts receivable and the related realization costs, which cannot be projected with certainty.

### **Other considerations**

The following are additional elements to be considered in the event of a bankruptcy:

(i) **Inopposability of some transactions**

By the Approval of the Proposal, all the creditors waive their remedies provided by sections 38 and 95 to 101 of the Act (and any similar provisions of any applicable laws). These remedies relate to the recovery of certain amounts under preferences and transfer at undervalue.

Since these remedies would be available in the event of a bankruptcy of the Debtor, we have performed a summary analysis of various transactions involving the Debtor, non-related third parties and related parties over the 3 months and 12 months respectively prior to the filing of the Proposal.

In summary, our review revealed the following:

#### **Non-related Third Parties**

The Debtor advised us that starting September 2010, due to financial constraints, it was unable to make certain payments to suppliers in accordance with prior business practices. After the commencement of its wind-down process, True North dealt with most of its suppliers on a COD basis only. We have not noted that any creditors received payments outside these terms.

#### **Related Parties**

True North's operations and management were supported in part by its Shareholders. In this regard, it has paid both Norbord Industries Inc. and Longlac Wood Industries Inc. for various services rendered such as salaries paid directly by the Shareholders, use of the IT system, human resource services and others.

(ii) **Resuming of True North's activities**

Acceptance of the Proposal would avoid a bankruptcy and benefit the following constituents:

- A number of employees will be re-hired by the potential purchaser;
- Merchandise suppliers and service providers will have a going concern entity with which to continue doing business;
- The town of Cochrane will keep one of its most important employer and economic player.



(iii) **Distribution to the creditors**

Acceptance of the Proposal will most likely result in an earlier distribution to creditors than in a Bankruptcy. Moreover, in a Proposal scenario, the estimated realization value should be higher and the realization costs lower than in a bankruptcy scenario.

**VII. CONCLUSION**

As mentioned in this report, the Proposal should result in a more favorable distribution for the unsecured creditors than would a bankruptcy. Moreover, certain employees of True North will have an opportunity to keep their job. Also, keeping the plant active will have a favorable impact on the related suppliers and the economy of the region. For these reasons, we are in the opinion that the Proposal represents the most advantageous option for its creditors.

Dated at Montréal, Province of Quebec, this 18<sup>th</sup> day of May 2011.

**RSM Richter Inc.**

Trustee



Paul Lafrenière, CA, CIRP  
Administrator