

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 20-BEDFORD
COURT NO.: 460-11-000938-046
ESTATE NO.: 42-043090

SUPERIOR COURT
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE BANKRUPTCY OF:

177841 Canada Inc.
(formerly known 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

Bankrupt

Trustee's Report Relating to the Affairs of 177841 Canada Inc.

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 "Holding Proposal" ("Proposal") to its creditors.

At the first Meeting of Creditors, held on August 25, 2004, a resolution was unanimously passed adjourning the meeting to December 1, 2004. On December 1, 2004, the meeting was adjourned to January 20, 2005. On January 20, 2005, the meeting was adjourned to March 24, 2005. On March 24, 2005, the meeting was adjourned to September 22, 2005. At the September 22, 2005 meeting, the meeting was ultimately adjourned to December 1, 2005.

At the meeting held on December 1, 2005, the creditors rejected the Proposal, as submitted, and, as such, the Debtor was declared bankrupt.

The financial situation of the Company has been reviewed in the Trustee's various Reports dated August 17, 2004; December 1, 2004; January 18, 2005; March 23, 2005, September 22, 2005 and December 1, 2005. Nevertheless, 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.)

Pursuant to the Court Order rendered on November 18, 2004, on November 30, 2004, the operating assets of the Company were sold to 4237803 Canada Inc. (the "Purchaser") for \$6,200,000. An initial payment of \$2,200,000 was received by 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"), as secured lender, 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 the Company'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")

Pursuant to the Court Order rendered on November 18, 2004, 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. The net benefit to the Company of US\$506,434, was used to pay the fees of the Hong Kong advisors, RSM Nelson Wheeler (US\$150,000) and Jones Day (US\$40,000), for professional services rendered in conjunction with the sale transaction, and the balance remitted to BMO, the secured lender.

2. STATEMENT OF RECEIPTS AND DISBURSEMENTS

The combined Statement of Receipts and Disbursements of both the Interim Receiver and the Trustee, for the period ended December 1, 2005 is detailed as follows:

Receipts	
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	60,000
Glenoit Fabrics (HG) Corporation deposit	100,000
	<u>8,046,540</u>
Collection of accounts receivable	3,203,853
Income tax refund	444,291
GST and QST refund	620,149
Other	35,585
Total receipts	<u><u>12,350,417</u></u>
Disbursements	
Post-filing operating expenses	1,174,215
Collection fees (accounts receivable)	162,109
Trustee's and Interim Receiver's remuneration	424,792
Legal fees and costs	367,429
Remittances pursuant to GSTZ sale agreement	287,935
Settlement of landlord claim	35,576
GST & QST	12,289
Total disbursements before remittances to secured lender	<u><u>2,464,346</u></u>
Excess of receipts over disbursements	9,886,072
Remittances to BMO Bank of Montreal (secured lender)	(9,304,232)
Funds on hand, end of period	<u><u>\$ 581,840</u></u>

Note: All amounts are in Canadian dollars (transactions in American dollars have been converted at 1.1820).

3. REMAINING ASSETS TO BE REALIZED UPON

3.1. Trade Receivables

As at December 1, 2005, the residual gross accounts receivable amount to approximately \$180,000, which we estimate to have a maximum net realizable value of \$5,000.

3.2. Income Taxes Receivable

The Company has filed income tax returns for the fiscal year ended December 31, 2004, and is claiming refunds totaling approximately \$153,000, including:

- A refund of the over-installments of \$21,000 relating to fiscal 2004; and
- The recovery of income taxes relating to previous years of \$132,000.

The actual amounts to be collected will only be confirmed once the tax assessments are issued. For purposes of this report, **we have estimated that the realization value may be between \$75,000 and \$153,000.**

4. LIABILITIES

4.1. Bank Indebtedness

The BMO bank indebtedness has been repaid in its entirety, effective March 10, 2005, from the various sale proceeds, as discussed in sections 1 and 2 above.

4.2. Related Party Liabilities

Certain amounts are being claimed by related parties as follows:

	Pre-February 4, 2004			Post-February 4, 2004		
	US\$	Euro	C\$ (conv.)	US\$	Euro	C\$ (conv.)
<u>Related-Party Liabilities</u>						
Girmes GmbH	\$ -	€ 233,078 (1)	\$ 372,900	\$ - (2)		\$ -
J.L. de Ball America Inc.	1,076,300 (1)	-	1,431,500	(2)	-	-
Asheville Velour Inc.	534,067	-	710,300	-	-	-
	<u>\$ 1,610,367</u>	<u>€ 233,078</u>	<u>\$ 2,514,700</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

Note 1 As per proof of claim filed.

Note 2 We have not received any supporting documentation from J.L. de Ball America Inc. and/or Girmes GmbH for any amounts that may be owed.

4.3. Third Party Creditors

Third Party Creditors' claims can be summarized as follows:

	Pre-Feb 4, 2004	Post-Feb 4, 2004	TOTAL
	C\$ (conv.)	C\$ (conv.)	C\$ (conv.)
<u>Third-Party Liabilities</u>			
Employee Claims	54,129 (1)	203,535 (2)	\$ 257,664
Grievance	-	3,400	3,400
Commissions	6,100	14,900	21,000
Trade Payables and others	1,687,895 (1)	91,050	1,778,945
	<u>\$ 1,748,124</u>	<u>\$ 312,885</u>	<u>\$ 2,061,009</u>

Note 1 Per proofs of claims filed.

Note 2 The Commission des normes du travail have filed claims totaling approximately \$50,000 relating to amounts owed to employees that were terminated by the Company pursuant the sale concluded on November 30, 2004 (refer to paragraph 1.1).

4.4. Total Liabilities

Based on the information submitted to the Trustee, the Company's liabilities, as at the date of bankruptcy, can be summarized as follows:

	<u>Pre-Feb 4, 2004</u> C\$ (conv.)	<u>Post-Feb 4, 2004</u> C\$ (conv.)	<u>TOTAL</u> C\$ (conv.)
Related Party Liabilities	\$ 2,514,700 (1)	(2)	\$ 2,514,700
Third-Party Liabilities	<u>1,748,124</u>	<u>312,885</u>	<u>2,061,009</u>
	<u>\$ 4,262,824</u>	<u>\$ 312,885</u>	<u>\$ 4,575,709</u>

Note 1 As per proof of claim filed.

Note 2 We have not received any supporting documentation from J.L. de Ball America Inc. and/or GirmesGmbH for any amounts that may be owed.

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:

	<u>Range (C\$)</u>	
	Low	High
<u>Estimated value</u>		
- Cash on hand		
- RSM Richter Inc. Trust account	\$ 581,840	\$ 581,840
- Recovery of income taxes (as filed)		
- Carryback of losses (estimated recovery)	75,000	132,000
- Refund of overpayment of installments	-	21,000
- Collection of residual trade receivables	<u>-</u>	<u>5,000</u>
Estimated gross realization (before professional fees)	<u>\$ 656,840</u>	<u>\$ 739,840</u>

The funds generated (net of ongoing professional fees) from the realization of the Company's residual assets represent the only monies that will be distributed in this bankruptcy matter.

6. DISTRIBUTION TO CREDITORS

The Trustee must finalize pending matters before proceeding to a dividend distribution to the creditors. In this regard, the Trustee, as may be required from time to time, will deal with the Estate's inspector to obtain instructions and the required authorizations.

DATED AT MONTREAL, this 2nd day of December 2005.

RSM Richter Inc.
Trustee