

CANADA
PROVINCE OF QUEBEC
DIVISION OF MONTREAL
COURT No.: 540-11-042035-127
ESTATE No. : 41-1583581
OFFICE No. : 920367-1000001

SUPERIOR COURT
(Commercial Division)

**IN THE MATTER OF THE
PROPOSAL OF :**

UTEX CORPORATION INC., having its head office
at 4360 Côte-de-Liesse Road, Town of Mount-Royal,
Province of Québec, H4N 2P7

Insolvent Person

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
(Jean-François Nadon, CA, CIRP, person in charge), a
corporation, having its place of business at 1 Place
Ville Marie, suite 3000, in the City and District of
Montréal, Province of Québec, H3B 4T9

Trustee

TRUSTEE'S REPORT ON THE PROPOSAL
[Subsections 50(5) and 50(10)]

The purpose of this report is to inform the creditors with a view to assisting them in evaluating the proposal as filed on May 17, 2012 (“**Proposal**”) by Utex Corporation Inc. (hereinafter referred to as “**UTEX**” or the “**Company**”).

In preparing this report, we have relied upon unaudited financial information, the records of UTEX, financial projections prepared by its management, as well as discussions with UTEX’s management and employees. We have not carried out an audit, review, or other form of assurance on the information provided to us and we express no opinion in respect of such information.

While we reviewed various documents and believe that the information therein provides a fair summary of the transactions as presented to us or as reflected in the documents presented to us, such work does not constitute an audit or verification of such information for accuracy, completeness, or compliance with generally accepted accounting principles. Accordingly, the Trustee expresses no opinion or other form of assurance in respect of such information.

Some of the information used in preparing this report consists of financial projections. We caution the reader that these projections are based upon assumptions about future events and conditions that are not ascertainable, and that the actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.

In the course of our mandate, we have assumed the integrity and truthfulness of the information and explanations presented to us, within the context in which it was presented. To date, nothing has come to our attention which would cause us to question the reasonableness of this assumption.

Finally, we have requested that management bring to our attention any significant matters which were not addressed in the course of our specific inquiries. Accordingly, this report is based solely on the information (financial or otherwise) made available to us.

This report has been prepared for the use of the Company's stakeholders as general information relating to UTEX's operations and the Proposal. Accordingly, the reader is cautioned that this report may not be appropriate for any other purpose. We will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

Unless otherwise stated, monetary amounts contained herein are expressed in Canadian dollars.

A. BACKGROUND

UTEX was established in 1943. The Company is in the business of importing and distributing men's and ladies' outerwear and men's fine clothing to Canadian and U.S. retailers.

In 2005, the apparel import quota system was eliminated, allowing non-wholesalers to import apparel from Asia directly, bypassing vendors such as UTEX.

Retailers that traditionally purchased from wholesalers/importers began to import apparel on their own, attracted by the lower landed costs.

Powerful 100% vertical operations (Zara, H&M, etc.) appeared in Canada and the United States and began to compete with our retail customers, taking market share from them and adding to price pressures. This trend continued and budgets for purchases from wholesalers like UTEX were reduced year after year. Retail customers of UTEX opened their own design and import departments, continuing to reduce their open to buy budgets.

By 2011, the proliferation of direct vertical retail operations, poor economic conditions, unfavorable weather, and excessive increases in costs from Asian suppliers resulted in continued lower demand for product, and a reduction in the margins attained on those diminished sales.

Equity erosion due to a lack of profitability over sequential years lead to financial pressures that were beyond what the Company was able to withstand, ultimately leading to the filing, on January 24, 2012, of a Notice of Intention to Make a Proposal (the "NOI") pursuant to the *Bankruptcy and Insolvency Act* ("BIA").. Samson Bélair/Deloitte & Touche Inc. ("**Deloitte**") consented to act as trustee (the "**Trustee**") under the NOI.

On February 22, 2012, pursuant to subsection 50.4(9) of the BIA, the time for filing a proposal in these proceedings was extended for a period of 45 days (to April 6, 2012) by an order of the Québec Superior Court.

Subsequently, on April 4, 2012, pursuant to subsection 50.4(9) of the BIA, the time for filing a proposal Further was extended for a second period of 45 days (to May 18, 2012) by an order of the Québec Superior Court.

On May 17, 2012, UTEX filed the Proposal with the Trustee.

B. SUMMARY OF THE PROPOSAL

The following is a brief synopsis intended to assist the Reader. Please refer to the Proposal itself for a complete and detailed description of the measures that would result from the approval of the Proposal by the Creditors and the Court.

The Proposal essentially provides for the following:

All sums payable under the Proposal shall be paid through Deloitte, who shall issue the dividend in accordance with the terms of the Proposal.

UTEX proposes to pay a total amount of \$750,000 for distribution to the Preferred Creditors and then the Unsecured Creditors in full and final settlement of their claims against UTEX.

The fund will be distributed by the Trustee as follows:

- (a) firstly, an amount equal to UTEX's Preferred Claims of the Preferred Creditors that have filed a proof of claim, to be paid in full;
- (b) the balance, to be paid to each of UTEX's Unsecured Creditors that have filed a proof of claim, in full and final settlement of its unsecured Claims, without interest, as follows:
 - (1) the lesser of: (i) the amount of the Proven Claim of such Unsecured Creditor and (ii) C\$1,000.00 (the "**First Level Distribution**") shall be received within sixty (60) days after the Court approval;
 - (2) an amount equal to such Unsecured Creditor's pro rata share, based on the remaining amount of its Proven Claim, of any amount remaining from the \$750,000 after the distribution of all of the First Level Distribution amounts, and subject to paragraph c) below, to all Unsecured Creditors ("**Second Level Distribution**"). The Second Level Distribution will be paid by the Trustee as follows:
 - (i) 70% of the Second Level Distribution, 60 days after the Court approval;
 - (ii) the balance of 30% of the Second Level Distribution, 120 days after the Court approval.
- (c) the distribution referred to in a) and b) above shall be net of any amount to be set aside by the Trustee while Claims are being determined, litigated or for any disputed Claim. The Trustee shall use its best judgment in the determination of any amount which should be set aside, and for which period.

The Proposal includes provisions for the compromise of claims against the Trustee and against the managers, employees, agents, legal counsel and directors of the Company. This compromise of claims is similar to compromises included in other proposals made under the BIA.

No claim for transfers at undervalue or preferences have been found.

C. FINANCIAL POSITION

The following table provides a brief summary of the statement of earnings of UTEX for the year ended December 31, 2011.

	\$ (unaudited)
Sales	19,966,076
Cost of sales and operating expenses	21,417,984
Gross margin	(1,451,908)
Amortization	27,220
Interest and other financial charges	432,728
Loss before income taxes	(1,911,856)
Incomes taxes	-
Net loss	(1,911,856)

The Net Loss for the year ended December 31, 2011 of \$1,911,856 does not take into account the loss of \$4,800,000 related to advances to American Utex International, a subsidiary company of UTEX. Attached hereto as Appendix A is the non-consolidated statement of operations and retained earnings for the year ended December 31, 2011.

D. CURRENT OPERATIONS

UTEX continued its operations after the NOI. From January 22 to May 6, 2012, UTEX produced a positive cash flow of \$3,441,541. For detailed more information, please refer to the Actual cash flow statement attached hereto as Appendix B. This is the result of very serious efforts of Utex to collect its receivables and improve the recovery of its inventory.

As per management, UTEX's cash flows for the period beginning May 7 to July 28, 2012 will generate sufficient funds to allow them to honor the terms of the Proposal. Attached hereto, as Appendix C, is the cash flow for the period from May 7 to July 28, 2012.

E. CONDUCT OF THE DEBTOR

Since the filing of the NOI, UTEX has devoted a lot of time and energy in maximizing value for its stakeholders, by aggressively collecting accounts receivable, selling off inventory to maximize value and redirecting orders to suppliers in a view of reducing accounts payable amounts. As a result of these efforts, Canadian Imperial Bank of Commerce (hereinafter referred to as "**CIBC**"), UTEX's secured creditor, has been paid in full, which would not have been the case in a forced liquidation of the Company and accordingly a Proposal would not have been possible.

Pursuant to the BIA, all amounts due to creditors dated on or before the filing of the NOI were deemed to be stayed. On January 23, 2012, UTEX laid off 26 employees. At that time, an amount totaling \$143,613 was accrued for unpaid vacation to these employees ("**Vacation Payment**"). Such Vacation Payment became due upon the actual day of termination. Between the date of the filing of the NOI and the filing of the Proposal, UTEX paid all the vacation due as at January 23, 2012 and those accruing thereafter.

It is arguable that only the amount determined under subsection 81.3(1) of the BIA (\$2,000) should have been paid as priority claims under subsection 136(1) of the BIA under the Proposal.

In the event the Proposal is accepted, the Vacation Payment would have no impact on other creditors because the Proposal already took into account the Vacation Payment, should such Vacation Payment had not been made, then an additional amount of \$47,561 would have to be added as Preferred Creditors to the Proposal.

If the Proposal is rejected by the creditors, the difference between the vacation payment made by UTEX and the priority claims amount under subsection 136(1) might be considered as a preference.

F. PREVIOUS DEALINGS WITH UTEX

Deloitte & Touche LLP has not provided any significant services to the Company over the past two years and has not acted in the capacity of an auditor or an accountant.

On November 8, 2011, Deloitte has been mandated by the CIBC to act as a consultant to analyze the financial position of UTEX.

On January 23, 2012, UTEX, with the consent of the CIBC, has engaged Deloitte to act as Trustee to the NOI.

Deloitte holds a \$60,000 deposit. The deposit will be held against the final invoice for this engagement. Any unused amount will be refunded to UTEX.

G. UNAUDITED FINANCIAL SITUATION

UTEX's assets as at May 17, 2012 are summarized as follows:

G.1 ASSETS

Assets	Book value (\$)	Net book value (\$)	Realization value estimated by the Trustee in the context of a bankruptcy (\$)
Inventory	200,000	200,000	20,000
Accounts receivable	784,000	544,000	108,800
Advances to American Utex International (subsidiary company of UTEX)	4,800,000	-	-
Other assets	6,000	6,000	600
Total	5,790,000	750,000	129,400

Note 1 *It is estimated that inventory will be liquidated at 10% of its value in the context of a bankruptcy.*

Note 2 *It is estimated that accounts receivable will be liquidated at 20% of their value in the context of a bankruptcy.*

Note 3 *Other assets include furniture and a vehicle. It is estimated that the other assets will be liquidated at 10% of their value in the context of a proposal.*

Note 4 *The estimation of the realization value does not take into account any liquidation costs that the Trustee would have to pay to sell the assets.*

Advances to American Utex International will not be collected by UTEX because, as per management, the proceeds of the sale of inventory and the collection of accounts receivable will not be sufficient to pay in full American Utex International's accounts payable. The advances have been going on for some years to fund current operational expenses of a subsidiary relating to employees and operating costs, which include accounting reallocation of the parent company.

All assets as at the date of the filing of the Proposal are subject to a lien in favor of the CIBC. Moreover, many pieces of equipment are subject to leasing agreements.

G.2 LIABILITIES

G.2.1 Secured Creditors

As at the date of the Proposal, no amount is due to CIBC.

G.2.2 Preferred Creditors

According to the statement of affairs as at the date of the Proposal, no amount is due to Preferred Creditors. The Trustee has yet to receive a proof of claim that could be categorized as a Preferred Creditor.

G.2.3 Unsecured Creditors

According to the statement of affairs as at the date of the Proposal, total Unsecured Creditors are estimated at \$5,209,425, and are mainly comprised of sums owed to suppliers, employees and the landlord.

H. ANALYSIS OF THE PROPOSAL

In order to appraise the value of the Proposal presented, the Trustee prepared a comparative analysis of estimated payouts to unsecured creditors in general in the context of a bankruptcy, as opposed to that of a proposal.

	Bankruptcy	Proposal
Estimated realization value of assets	\$129,400	N/A
Payment to secured creditors	nil	nil
Payment to preferred creditors	nil	nil
Potential payment to unsecured creditors	\$129,400	\$750,000
Value of unsecured claims	\$5,209,425	\$5,209,425
Estimated dividend for unsecured creditors (as a percentage)	2.5%	14.4%

Assumptions:

- Refer to section **C.1 Assets** for the Trustee's estimate as to the realization value of the assets.
- An amount of \$750,000 is payable to the Unsecured Creditors.
- The levy payable to the Superintendent of Bankruptcy has not been deducted from the estimated dividend.
- All debts declared by UTEX are assumed to be valid.

Any amounts claimed by a Secured or Preferred Creditor will impact the estimated amount of dividend available for Secured Creditors.

I. RECOMMENDATION

Considering the estimated realization value of assets is much lower than the Proposal, the Unsecured Creditors cannot hope to receive a higher dividend if the Proposal is rejected and, consequently, UTEX is deemed bankrupt.

In addition, the Unsecured Creditors will receive their dividend much sooner under the Proposal than in a bankruptcy scenario.

If the Proposal is accepted by the creditors, the dividend payment will be made in accordance with the terms of the Proposal.

In conclusion, **the Trustee recommends the approval of the Proposal by the creditors.**

Any creditors wishing to vote prior to the First meeting of creditors may complete the voting and claim forms included with the Notice of proposal to creditors, and forward them to the Trustee by mail or by fax.

DATED AT MONTREAL, this 28th day of
May, 2012.

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
Trustee acting *in re*: the proposal of
Utex Corporation Inc.



Jean François Nadon, CA, CIRP

Appendix A

Utex Corporation - Corporation Utex

Non-Consolidated Statement of Operations and Retained Earnings For the Year Ended December 31, 2011

	2011	2010
Sales	\$ 19,966,076	\$ 24,720,334
Cost of Sales and operating expenses excluding the following:	21,341,694	23,902,765
Amortization	27,220	75,633
Interest and other financial charges	432,728	826,882
Foreign exchange	76,290	(171,282)
Total cost of sales and operating expenses	21,877,932	24,633,998
Loss Before Income Taxes	(1,911,856)	86,336
Income taxes	0	0
Net Loss	(1,911,856)	86,336
Retained Earnings - Beginning of Year	9,424,248	9,337,912
Dividends	(207,000)	0
Retained Earnings - End of Year	\$ 7,305,392	\$ 9,424,248

Appendix B

Utex Corporation Inc.
Actual vs budgeted cash flow
For the period from January 22, 2012 to May 6, 2012
Unaudited

Receipts	Budget	Actual	Favorable	
	(\$)	(\$)	(Unfavorable)	
	<u> </u>	<u> </u>	<u> </u>	
Accounts receivable and sales	6 281 782	7 790 455	1 508 673	
	6 281 782	7 790 455	1 508 673	(Note 1)
Disbursements				
Accounts payable	461 000	452 200	8 800	
Finished goods purchases	300 200	242 000	58 200	(Note 2)
Duty, logistics and distribution	581 075	592 000	(10 925)	(Note 2)
Royalties and advertising	149 911	51 000	98 911	(Note 3)
Sales commission	227 876	256 000	(28 124)	(Note 3)
Payroll	1 050 828	1 097 000	(46 172)	(Note 3)
Utilities	80 000	59 500	20 500	(Note 4)
Rent and leases	420 000	420 000	-	
GST/QST	382 710	447 000	(64 290)	(Note 1)
Insurance	116 000	121 000	(5 000)	
Bank interest and fees	117 712	76 065	41 647	(Note 4)
Professional fees	555 000	428 000	127 000	(Note 4)
Other expenses	190 000	107 149	82 851	(Note 4)
	<u>4 632 312</u>	<u>4 348 914</u>	<u>283 398</u>	
Projected bank balance variation	1 649 470	3 441 541	1 792 071	
Bank balance - beginning	<u>(3 334 046)</u>	<u>(3 334 046)</u>	<u>-</u>	
Bank balance - ending	<u>(1 684 576)</u>	<u>107 495</u>	<u>1 792 071</u>	

Note 1:

The difference between the budgeted vs actual Accounts receivable is mainly due to the fact that clients are paying quicker than expected and sales are higher than projected. Gst/Qst being higher is related to higher sales.

Note 2:

The difference between budget vs actual Finished Goods and duty logistics and distributin is due to the fact that the purchases came in lower than budget.

Note 3:

The difference between budget vs actual Sales commission, Royalties and Payroll is due to the fact that the sales are higher than budgeted.

Note 4:

The difference between utilities, insurance, prof fees, interest and other is all due to timing.

Appendix C

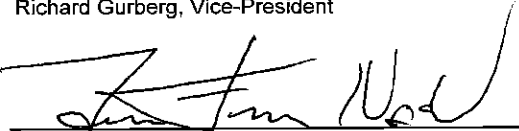
Utex Corporation

Cash flow projection for the period from May 7 to July 28, 2012
 Period ending at

	Projected 2012-05-30 \$	Projected 2012-06-30 \$	Projected 2012-07-28 \$	Projected Total \$
Receipts				
Accounts receivable collection and sales of assets	989 800	218 000	130 000	1 337 800
	989 800	218 000	130 000	1 337 800
Disbursements				
Logistics & distribution (US + Canada non-payroll)	11 600	-	-	11 600
Royalties and advertising	-	30 000	-	30 000
Sales commission	60 000	15 000	-	75 000
Payroll - warehouse	9 582	-	-	9 582
Payroll - selling, general & admin.	231 217	54 451	48 013	333 681
Payroll - US selling and distribution	-	-	-	-
Utilities (telephone, heat, electricity)	20 000	-	10 000	30 000
Rent, leases, etc.	50 000	50 000	10 000	110 000
GST/QST payments	60 000	42 900	-	102 900
Insurance	3 000	5 000	5 000	13 000
Bank interest and fees	8 000	8 000	-	16 000
Professional fees	82 000	55 000	10 000	147 000
Other expenses	26 000	16 000	8 000	50 000
	561 399	276 351	91 013	928 763
Cash-flow variation	428 401	(58 351)	38 987	409 037
Cash balance at Beginning (2012/05/07)	107 495	535 896	742 545	107 495
Cancellation of letter of guarantee	-	265 000	-	265 000
Cash balance at End	535 896	742 545	781 532	781 532

This statement of projected cash flow of "UTEX CORPORATION" is prepared in accordance with paragraph 50.4(2)(a) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report.


 UTEX CORPORATION
 Richard Gurberg, Vice-President


 Samson Bélair/Deloitte & Touche Inc., Trustee
 By: Jean-François Nadon, CA, CIRP

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION OF MONTREAL
COURT No.: 500-11-042035-127
ESTATE No.: 41-1583581
OFFICE No.: 920367-1000001

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF THE NOTICE
OF INTENTION TO MAKE
PROPOSAL OF:**

UTEX CORPORATION, a legal person, duly
incorporated according to law, having its head office
and principal place of business at 4360 Cote-de-Liesse
RD, Mont-Royal, Quebec, H4N 2P7

Insolvent person

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
(Jean-François Nadon, CA, CIRP, responsible) having a
place of business at 1 Place Ville-Marie, Suite 3000,
Montreal, Quebec H3B 4T9

Trustee

REPORT ON CASH FLOW STATEMENT BY THE PERSON MAKING THE PROPOSAL
(Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

The management of Utex Corporation has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent person, as of the 17th day of May 2012, consisting of the period beginning on May 7, 2012 and ending on July 28, 2012.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in Notes to the Projected Cash-Flow Statement.

Since the projections is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose for the creditors, using a set of probable and hypothetical assumptions set out in Notes. Consequently, readers are cautioned that it may not be appropriate for other purposes.

DATED AT MONTREAL, this 17th day of
May 2012.

UTEX CORPORATION


Richard Gurberg, Vice-President

CANADA
PROVINCE OF QUEBEC
DIVISION OF MONTREAL
COURT NO.: 500-11-042035-127
ESTATE NO.: 41-1583581
OFFICE NO.: 920367-1000001

SUPERIOR COURT
(Commercial division)

**IN THE MATTER OF THE NOTICE
OF INTENTION TO MAKE
A PROPOSAL OF:**

UTEX CORPORATION, a legal person, duly
incorporated according to law, having its head
office and principal place of business at 4360
Côte-de-Liesse RD, Mont-Royal, Québec,
H4N 2P7

INSOLVENT PERSON

- and -

**SAMSON BÉLAIR/DELOITTE & TOUCHE
INC.** (Jean-François Nadon, CA, CIRP,
responsible) having a place of business at 1 Place
Ville-Marie, Suite 3000, Montréal, Québec,
H3B 4T9

TRUSTEE

TRUSTEE'S REPORT ON CASH-FLOW STATEMENT
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

The attached statement of projected cash-flow of Utex Corporation, as of the 17th day of May 2012, consisting of the period beginning on May 7, 2012 and ending on July 28, 2012, has been prepared by the management of the insolvent person using the probable and hypothetical assumptions set out in Note 1.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the hypothetical assumptions are not consistent with the purpose of the projection;
- b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

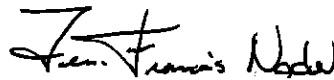
The projection has been prepared solely for the creditors, and readers are cautioned that it may not be appropriate for other purposes.

DATED AT MONTREAL, this 17th day of May 2012.

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.

Trustee *in re*: the Notice of Intention to Make a Proposal of

UTEX CORPORATION



Jean-François Nadon, CA, CIRP