

CANADA  
Province of Ontario

COURT NO. 31-1060132  
ESTATE NO. 31-1060132

**TRUSTEE'S PRELIMINARY REPORT**

IN THE MATTER OF THE BANKRUPTCY OF  
**THE LEATHER RANCH LIMITED**  
WITH ITS HEAD OFFICE IN THE CITY OF TORONTO,  
IN THE PROVINCE OF ONTARIO

On April 17, 2008, The Leather Ranch Limited (the "Company") filed an Assignment pursuant to the *Bankruptcy and Insolvency Act* and Shiner Kideckel Zweig Inc. was appointed the Trustee. Subsequently, on the same day, 6957307 Canada Inc. was appointed Receiver and Manager of the Company (the "Receiver") by Marcel Adam ("Adam"), a secured creditor, pursuant to, *inter alia*, General Security Agreements dated May 12, 2006 and July 27, 2006.

The Company was incorporated in 1973 and initially operated three retail stores in Toronto and a manufacturing plant under the trade name of Adam & Eve Unisex which was subsequently changed to The Leather Ranch. The Company began to expand and in 2002 there were twenty-one stores operating across Canada. At the time of its bankruptcy there were only eight stores remaining. The Company's head office was located in Toronto and distributed its products from its warehouse and manufacturing plant in Toronto.

The Trustee understands that the bankruptcy was the result of declining sales and reduced margins.

On April 18, 2008, the Notice to Creditors advising of the Bankruptcy and of the First Meeting of Creditors, a list of Creditors, and a Proof of Claim form, along with proxy, were sent to all known creditors of the Company. The Notice of Bankruptcy was published in the April 30, 2008, edition of the Globe & Mail newspaper.

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, the exactness or the reliability of the information contained herein.

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## **ASSETS**

The realizable value of assets of the Company according to its Statement of Affairs can be summarized as follows (the "Assets"):

- Inventory \$600,000;
- Deposits in Financial Institutions \$125,000;
- Store fixtures \$20,000;
- Office furniture and computer equipment \$3,000;
- Machinery and plant equipment \$12,000;
- Vehicles \$9,000; and
- Antiques \$13,000.

On April 17, 2008, subsequent to the Company's bankruptcy, the Receiver took possession of the Company's Assets.

## **Books and Records**

The Trustee has in its possession certain records of the Company. The following is a summary of key financial data from the Company's audited financial statements for the fiscal year ending April 30, 2005 and 2006 and the Company's internal financial statement for fiscal year ending April 30, 2007:

	Year ending <u>April 30, 2007</u>	Year ending <u>April 30, 2006</u>	Year ending <u>April 30, 2005</u>
Revenue	\$ 6,792,205	\$ 8,186,195	\$ 8,829,208
Gross Margin	3,380,464	4,641,748	5,072,614
Net income/(loss)	(1,043,959)	(565,132)	(231,987)

## **Conservatory and Protective Measures**

The Trustee did not take possession of the Company's assets. The Trustee is occupying the Company's leased premises and has entered into an occupation agreement with the Receiver. To date, the Trustee disclaimed the lease of the Victoria store. We understand that this was an unprofitable location and the lease had expires October 31, 2008.

## **LEGAL PROCEEDINGS**

Shiner Kideckel Zweig Inc. requested the law firm of Jaffe & Peritz LLP ("Jaffe") to provide an opinion on the validity of the security agreement of Adam. Jaffe has provided a written opinion that the security of Adam is valid and enforceable against the Trustee.

No other legal procedures have been initiated by the Trustee prior to the First Meeting of Creditors.

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**PROVABLE CLAIMS**

	<u>Statement of Affairs</u>	<u>Total Claims Filed to Date</u>
Secured	\$ 782,000	\$ --
Preferred	22,295	43,792
Unsecured	<u>710,497</u>	<u>219,768</u>
	<u>\$ 1,514,792</u>	<u>\$ 263,560</u>

**SECURED CREDITOR**

Marcel Adam	<u>\$ 1,113,115</u>	General security agreement
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As noted above, the Trustee has obtained a legal opinion of the validity of the Security held by Adam.

Given the quantum of the secured creditor's debt the total realizations from the sale of Assets will not be sufficient to repay the secured creditor in full.

**ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION**

There will be no funds available for the unsecured creditors.

**REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS**

The Trustee is not aware of any reviewable transactions or preference payments.

**OTHER MATTERS**

The Trustee's fees and expenses to perform its statutory duties have been guaranteed by Adam.

Dated: May 8, 2008

*Shiner Kideckel Zweig Inc.*  
Trustee