

District of Ontario
Division No. 08 - Waterloo
Court No. 35-1472735
Estate No. 31-1472735

**IN THE MATTER OF THE BANKRUPTCY OF
2241926 ONTARIO INC.
OF THE CITY OF CAMBRIDGE, IN THE PROVINCE OF ONTARIO**

TRUSTEE'S PRELIMINARY REPORT TO THE CREDITORS

BACKGROUND

2241926 Ontario Inc. was originally incorporated pursuant to the laws of Ontario on April 10, 2010 as Forefront Automation Inc. ("FAI"). FAI designed and manufactured automated manufacturing and production equipment.

FAI filed a Notice of Intention to Make a Proposal ("NOI") pursuant to S. 50.4 of the Bankruptcy and Insolvency Act ("BIA") on March 10, 2011, and Schonfeld Inc. was appointed Proposal Trustee.

Callidus Capital Corp. is the senior secured creditor of 2241926 (the "Secured Creditor"). Callidus had demanded its loans and issued notice of intention to enforce its security more than 10 days prior to the filing of the NOI. Schonfeld Inc. was appointed Receiver of FAI by Callidus on March 11, 2011. The majority of the realizable assets of FAI were sold by the Receiver on March 13, 2011. The Receiver obtained an appraisal for the assets being sold and obtained PPSA waivers.

FAI did not file a cash flow within the 10 day period as required under the BIA for a debtor filing an NOI, thereby terminating the proposal process. FAI filed articles of amendment to change its name to 2241926 Ontario Inc. effective March 18, 2011, and shall hereafter be referred to as 2241926. 2241926 was therefore deemed to have filed an Assignment in Bankruptcy on March 22, 2011 and Schonfeld Inc. was appointed Trustee in Bankruptcy. None of the assets of 2241926 have vested in the Trustee in Bankruptcy. All assets are being realized on by the Receiver.

There is no expectation of full recovery to Callidus, as first secured creditor, and therefore there is no expectation of any distribution to any of the subordinate secured creditors or the unsecured creditors in the bankruptcy.

ASSETS

Class 1 – Stocks of Merchandise

Nil.

Class II – Plant, Machinery, Equipment and Office Equipment

The majority of the capital assets were sold by the Receiver on March 13, 2011 to an arms-length purchaser. The remaining capital assets were sold at auction of April 7, 2011. All receipts are accounted for by the Receiver.

Class III – Buildings and Real Estate

The bankrupt is a tenant pursuant to a lease at 140 Turnbull Court, Cambridge, Ontario. The Trustee has arranged for occupation for the Receiver to continue through the month of April, 2011 and intends to disclaim the lease at April month end.

Class IV – Books and Records

The books and records necessary for the administration of the proceedings are in the possession of the Receiver and the Trustee has access to same.

Class V – Other Assets – Statement of Affairs

Nil.

INSURANCE

The Receiver is bearing the cost of insurance.

CAUSES OF BANKRUPTCY

1. High overheads and insufficient cash flow led to inability to service/repay debt.

SECTION B

1. Conservatory and Protective Measures

The Trustee has no assets to protect or conserve.

2. Carrying on Business

The Trustee did not carry on the business of the bankrupt.

SECTION C

Legal Proceedings

The Trustee also acts as the Receiver. Fogler Rubinoff LLP was retained by the Trustee to provide an independent legal opinion on the Callidus Security. It was determined that the Callidus Security was valid and enforceable as against the Trustee.

SECTION D – Provable Claims

	Statement of Affairs As at March 22, 2011	Proven to April 11, 2011
Unsecured	\$ 6,383,255.00	\$ 750,917.45
Preferred	\$ 0.00	\$ 0.00
Secured	675,000.00	0.00
Deemed Trust	\$ 0.00	\$ 0.00
TOTAL	\$ 7,058,255.00	\$ 750,917.45

SECTION E – Secured Creditors

Callidus Capital is the first secured creditor pursuant to a General Security Agreement dated October 15, 2010. The amount owing to Callidus at the date of bankruptcy was approximately \$1.4 million. The amounts shown on the statement of affairs takes into account the estimated realizable value of the Callidus Security.

The former employees of 2241926 are considered secured in priority to all secured creditors for amounts owing under Section 81.4 of the Act. Approximate amount \$60,000. These payments are being paid in the receivership and are included on the statement of affairs as fully secured for this amount.

The bankrupt's parent company 2240534 Ontario Inc. (formerly known as Forefront Innovative Technologies Inc.) is a subordinate secured creditor in the amount of \$4.063 million. This amount is considered to be fully unsecured on the statement of affairs.

SECTION F - Anticipated Realization and Projected Distribution

There is no anticipated distribution to the unsecured creditors

SECTION G – Potential Recoveries

Nil.

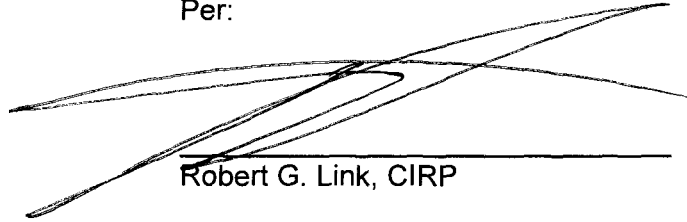
SECTION H – Trustee's Fees

Fees and disbursements of the Trustee in Bankruptcy have been guaranteed by Callidus and will be paid from the estate in accordance with the provisions of the BIA, subject to inspector approval and taxation.

Trustee's Preliminary Report to the Creditors
2241926 Ontario Inc.

DATED AT Toronto, this 11th day of April, 2011.

SCHONFELD INC., Trustee in
Bankruptcy of the Estate of
2241926 Ontario Inc. and not in its
Personal or Corporate Capacity
Per:



A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a cursive name, positioned above a horizontal line.

Robert G. Link, CIRP