

District of Ontario
Division No. 08 - Waterloo
Court No. 35-123987
Estate No. 35-123987

**IN THE MATTER OF THE BANKRUPTCY OF
2240534 ONTARIO INC.
OF THE CITY OF CAMBRIDGE, IN THE PROVINCE OF ONTARIO**

TRUSTEE'S PRELIMINARY REPORT TO THE CREDITORS

BACKGROUND

2240534 Ontario Inc. was originally incorporated pursuant to the laws of Ontario on April 10, 2010 as Forefront Innovative Technologies Inc. ("FIT").

On April 23, 2010, FIT acquired the assets of OptiSolar Technologies Inc. (the "OST") assets from 31302 Huntwood LLC, to establish a solar panel manufacturing facility in Cambridge, Ontario. On September 3, 2010, FIT sold certain of the OST assets and licensed certain of the OST intellectual property to Nova Solar Holdings Limited ("Nova").

On March 1, 2011, Nova purchased the remaining portion of the OST equipment and facilities, and the intellectual property assets acquired from 31302, for a total of USD \$2.925 million.

Callidus Capital Corp. is the senior secured lender to FIT (the "Secured Calidus"). At the time of March 1, 2011 sale to Nova, Callidus was owed approximately CAD \$4 million. Callidus demanded its loans and issued notice of intention to enforce its security on March 1, 2011.

FIT filed a Notice of Intention to Make a Proposal ("NOI") pursuant to S. 50.4 of the Bankruptcy and Insolvency Act ("BIA") on March 21, 2011, and Schonfeld Inc. was appointed Proposal Trustee. FIT filed articles of amendment to change its name to 2240534 Ontario Inc. effective March 18, 2011, and shall hereafter be referred to as 2240534.

Schonfeld Inc. was appointed Receiver of 2240534 by Callidus on March 22, 2011.

FIT 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. 2240534 was therefore deemed to have filed an Assignment in Bankruptcy on April 1, 2011 and Schonfeld Inc. was appointed Trustee in Bankruptcy.

None of the assets of 2240534 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 remaining capital assets were sold by the Receiver by way of public auction on 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 30 Struck Court, Cambridge, Ontario. The Trustee arranged for occupation of the premises for the Receiver to permit the sale of the remaining assets of the bankrupt. The Trustee turned the premises over to the Landlord on April 15, 2011, and intends to disclaim the lease upon creditor/inspector approval being obtained.

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

The bankrupt is owed \$4.063 million by its subsidiary company 2241926 Ontario Inc. (formerly known as Forefront Automation Inc.). 2241926 is also bankrupt. No amount of this intercompany receivable is considered collectible.

INSURANCE

The Receiver is bearing the cost of insurance.

CAUSES OF BANKRUPTCY

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 April 1, 2011	Proven to April 20, 2011
Unsecured	\$ 6,123,200.65	\$ 2,397,235.00
Preferred	\$ 0.00	\$ 0.00
Secured	252,000.00	200,000.00
Deemed Trust	\$ 0.00	\$ 0.00
TOTAL	\$ 6,375,200.65	\$ 2,597,235.00

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 \$975,000, after accounting for payments made to Callidus from the net proceeds of the Nova sale, and recovery from the Receiver of 2241926 Ontario Inc.

There are two other registered secured creditors:

- i) James Beingessner (as Agent for Lending Consortium) in the amount of \$1,366,369. There is no expected realizable asset value underlying this secured debt, and accordingly it is considered fully unsecured. No opinion has been obtained with respect to the validity and enforceability of this security, except that it is subordinate to the Callidus security.
- ii) Kensington Solar Holding LLP in the amount of \$4.0 million. There is no expected realizable asset value underlying this secured debt, and accordingly it is considered fully unsecured. No opinion has been obtained with respect to the validity and enforceability of this security, except that it is subordinate to the Callidus security.

There has been no opinion obtained as to the relative priorities between the Lending Consortium and Kensington Solar Holdings.

SECTION F – Reviewable Transactions

The Trustee has reviewed to sale of assets by 2240534 to Nova for USD \$2.925 million on March 1, 2011. The Trustee has no basis to believe a higher net price could have been obtained by the Company for these assets. The Trustee notes that each of the secured creditors was required to consent to the sale of assets to Nova as a condition of the sale, and at the date of sale the secured creditors were owed in aggregate approximately \$9.4 million. Other key factors to consider were the high cost of premises rent (approximately \$90,000/month) and other overheads for which no funds were available to pay.

SECTION G - Anticipated Realization and Projected Distribution

There is no anticipated distribution to the unsecured creditors

SECTION H – Potential Recoveries

Nil.

SECTION I – 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.

DATED AT Toronto, as at this 20th day of April, 2011.

SCHONFELD INC., Trustee in
Bankruptcy of the Estate of
2240534 Ontario Inc. and not in its
Personal or Corporate Capacity

Per: 

Robert G. Link, CIRP