

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,

R.S.C. 1985, c. C-36, as amended

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, R.S.B.C 2002 c. 57

AND

IN THE MATTER OF ASCALADE COMMUNICATIONS INC. and

ASCALADE TECHNOLOGIES INC.

MONITOR'S 2nd REPORT TO THE CREDITORS

Introduction

Ascalade Communications Inc. ("ACI") and Ascalade Technologies Inc. ("ATI"), both corporate entities (collectively the "Petitioners") filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act* ("CCAA") on March 3, 2008. A Court Order was granted on that same day staying creditors from taking or continuing any proceedings against the Petitioners, thus permitting the Petitioners to remain in control of their assets and to continue carrying on business during the restructuring period.

On April 2, 2008, a further Court Order was granted which continued to stay creditors from taking or continuing any proceedings against the Petitioners until June 4, 2008. This further Court Order was to allow the Petitioners sufficient time to prepare its Plan of Arrangement ("Plan") to its creditors. During this period the Petitioners were in discussions with a limited group of purchasers who had expressed an interest in parts of the business of ACI. However, these discussions did not materialize into a sale of the business. On May 14, 2008, the Petitioners filed its Plan with the Court. The Plan called for an orderly windup of Petitioners operations and realization on all of its assets.

On June 17, 2008 a meeting of the Petitioners' creditors was held to vote on the Petitioners Plan. At the meeting, the creditors voted unanimously in favour of the Plan and the Monitor proceeded to obtain Court approval of the Plan on June 24, 2008. A copy of the sanctioning order can be obtained from the Monitors website at <http://www.deloitte.com/ca/ascalade>.

This report is to provide the Petitioners' creditors with an update on the restructuring progress since the meeting of creditors. The areas which will be addressed are:

1. asset realization process;
2. claims filed with the Monitor;
3. the Petitioners' Statement of Receipts and Disbursements; and
4. distribution to the creditors.

Asset Realization Process

The asset realization process for the Petitioners continues with the most significant asset of the Petitioners being a HK\$377.2 million account receivable from Ascalade Communications Limited ("ACL") in Hong Kong. Certain miscellaneous assets remain, patent applications and an interest that the Petitioners held in a Spanish entity, however limited interest has been expressed for these assets on terms which are acceptable to the Petitioners. The Petitioners do not anticipate any sizable realization to occur for these assets.

As previously advised the Petitioners Plan is similar to the Scheme of Arrangement ("Scheme") which was filed by ACL in Hong Kong. Both the Petitioners' and ACL's Plan call for an orderly winding-up of their operations. The Petitioners have filed their claims with the Scheme Administrator in Hong Kong and their claims have been accepted at HK\$377.2 million.

When the Scheme was filed it was estimated that the return to the creditors of ACL would be approximately 37¢ for each dollar filed. This estimate was subject to change and was dependent on ACL's ability to realize upon its assets, including the factory, equipment and inventory in People's Republic of China ("PRC"). The estimate was also dependent on the number and dollar amount of creditors claims filed and accepted under the Scheme.

ACL's assets in PRC and Hong Kong have been realized upon under the review of the Scheme Administrator and a creditors' committee which were appointed at the Scheme meeting. The majority of ACL's movable assets have been realized; however the factory in PRC has yet to sell. We understand that there are ongoing discussions with two interested parties and one of those parties has now executed a Letter of Intent ("LOI") with respect to the purchase of the factory. The factory is the largest asset of the Ascalade group ("Group") and accordingly the amount ultimately realized from the sale of the factory will determine the funds available for the various creditors of the Group.

While an LOI has been received the proposed purchase price is significantly lower than ACL and the Scheme Administrator had anticipated as a result of the economic downturn which is occurring in PRC and in fact globally. A broad marketing campaign was undertaken by CB Richard Ellis, an international real estate marketing firm, over a three month period to advertise the availability of the factory and to determine interest. The response received from the marketing of the property was that demand for this type of property in this location is low as a result of shrinking demand from major importers, price increases for raw materials, rising labour costs, the appreciation of the RMB and increased difficulty in obtaining debt financing. It has been reported that approximately 14,000 factories have closed in Guangdong this year, which is where the factory is located.

Given it is anticipated that the realization from the factory will be significantly lower than anticipated, the distribution from ACL to its creditors will not be 37¢ for each dollar filed. However, the Petitioners still anticipate that the creditors of the Petitioners will receive full payment for the claims which have been filed.

Based upon the realizations to date in Hong Kong and PRC, the Scheme Administrator proposed to the Scheme's creditors' committee that an interim distribution be made to the proven creditors of ACL. This distribution was approved by the Scheme's creditors' committee and has resulted in the proven creditors of ACL receiving an interim dividend of 5.8% of their proven claims. This has resulted in the Petitioners receiving approximately HK\$22.5 million which converts to approximately Cdn\$3.4 million. We have been advised that an additional distribution will be made to the proven creditors upon ACL and the Scheme Administrator completing the realization on the remaining assets of ACL. However, the timing and amount of this distribution is unknown at this time and accordingly the timing for a further distribution from the Petitioners is also unknown.

Claims Filed with the Monitor

The Petitioners' Plan contemplated two classes of creditors; Preferred (Class 1) and Unsecured (Class 2). Class 1 was created to provide the Petitioners' employees with a priority over the unsecured creditors up to the sum of \$2,000, which is the amount which would be provable in bankruptcy as a preferred claim under the *Bankruptcy and Insolvency Act*, S.136(1)(d). Any remaining amounts owed to the employees would be provable as an Unsecured, Class 2, claim.

Pursuant to the terms of the Plan, upon Court approval being obtained on June 26, 2008, a distribution was made to the proven Class 1 creditors. This distribution occurred on July 9, 2008. The Monitor, on behalf of the Petitioners, paid a total of \$176,034.35 on behalf of the Class 1 creditors.

The following table provides a summary of the claims filed, disallowed and proven in the Petitioners' CCAA proceedings.

	<u>Class 1</u>	<u>Class 2</u>
Total Claims Filed	94	107
Total Value of Claims Filed	\$ 176,034	\$14,487,896
Number of Claims Disallowed in Whole or In Part	n/a	23
Value of Claims Disallowed in Whole or In Part	\$ -	\$ 5,308,394
Total Proven Claims	94	98
Total Value of Proven Claims	\$ 176,034	\$ 8,605,311

Interim Statement of Receipts and Disbursements

The following table provides a summary of the Petitioners receipts and disbursements since the commencement of the CCAA proceedings.

Interim Statement of Receipts and Disbursements	
As at November 3, 2008	
<i>('000's)</i>	
Opening Cash	\$ 4,647
Receipts	
Sale of Assets	\$ 8,170
Interest Earned	102
Miscellaneous Income	60
Foreign Currency Gain	31
Distribution from ACL Scheme	3,380
Funds Held in Trust for ACL	246
Total Receipts	\$ 11,989
Disbursements	
Payroll/Director Fees	\$ 1,318
Key Employee Retention Plan	1,461
Operating Costs	312
Professional Fees	
CCAA Professional Fee Retainers	\$ 250
CCAA Monitor	737
Fees Allocated to Hong Kong Scheme	(295)
Accountants	179
Legal Counsel (Company & Monitor)	450
Total	\$ 1,321
Banking Facilities Repayments	3,675
Building Closing Costs	121
Dividend to Class 1 Creditors	176
Total Disbursements	\$ 8,383
Total Funds on Hand	\$ 8,252

Distribution to the Creditors

As previously indicated a distribution occurred on July 9, 2008 to the Petitioners proven Class 1 creditors. The Plan did not provide a time for a distribution to the proven Class 2 creditors, as it was to be dependent upon the Petitioners realizing full proceeds of its pro-rata distribution under the Scheme.

Including the receipt of the 5.8% interim dividend distribution from the Scheme Administrator, the Petitioners currently have approximately \$8.2 million. The CCAA administration has not yet been completed and funds need to be held to cover ongoing administration, directors' fees and costs, entitlements under the key employee retention plan (KERP), director's charge and administration charge pursuant to the Initial Court Order and applicable tax filings. The Monitor is at this time distributing an interim dividend to the proven Class 2 creditor's equivalent to 80% for each proven dollar.

There are two creditors that have filed claims against ACL, and which are currently being adjudicated in Hong Kong, who also have a guarantee for their outstanding debt from ACI. The proven claims of these two creditors, when admitted, must first be paid from proceeds generated from the sale of assets in ACL. Any shortfall on their claim would be claimable under the guarantee they hold from ACI. The Monitor has held the pro-rata distribution amount under this interim distribution pending the final realization and payments made by ACL to its creditors.

In addition, there is one creditor who has a contingent claim against ACI in Canada. The claim needs to be proven to be allowed for distribution purposes. In order to permit this interim dividend to be completed, the Petitioners and the Monitor entered into a settlement agreement that calls for a holdback of a certain sum of money in a segregated trust account pending final assessment of their claim, if any.

The final distribution will be made upon the conclusion of the asset realization in ACL. This distribution will be made subsequent to the final distribution from the Scheme Administrator of ACL in Hong Kong.

Dated at Vancouver, BC this 25th day of November, 2008

Deloitte & Touche Inc.

DELOITTE & TOUCHE INC.

In its capacity as Court Appointed Monitor of
Ascalade Communications Inc. and
Ascalade Technologies Inc.
and not in its personal capacity.