

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 REPORT ON THE PLAN

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. On May 14, 2008, the Petitioners filed its Plan with the Court. The Plan calls for an orderly windup of Petitioners operations and realization on all of its assets.

Background

ACI is a company incorporated in British Columbia and is a public company listed on the Toronto Stock Exchange. ACI is responsible for the corporate head office functions and is the holding company for the shares of its subsidiaries, ATI and Ascalade Communications Holding Limited ("ACHL"), (collectively, ACI, ATI, ACHL and all subsidiaries referred to as the "the Group").

ATI is a company incorporated under the federal laws of Canada, and was responsible for the design and development activities of the Group.

ACHL, is a company incorporated in the British Virgin Islands. Its subsidiaries are the manufacturing and sales entities of the Group. ACHL and its subsidiaries had sales and distribution offices in Hong Kong and Hertfordshire, United Kingdom, and a manufacturing facility in Qingyuan, the People's Republic of China ("PRC").

The Group designed, developed and manufactured digital wireless communication products and worked with consumer branded distributors, telecommunication companies, and technology partners to deliver digital communication products to the end consumer. The Group's products included digital cordless phones, Voice over Internet Protocol ("VoIP") products, digital wireless conference phones and digital wireless baby monitors. The Group is vertically integrated, from product design and development to final production. These products were distributed under leading brands and have been available through leading retail stores.

The decline of the Group's business has been taking place over the past two years with increasing issues arising over the past year. The following factors contributed to the Group's decline:

- a shift in focus from cordless phones to VoIP phones which did not generate the projected sales or result in the anticipated higher profit margins;
- a significant investment in a 500,000 square foot factory in PRC to increase the Group's capacity and its ability to manufacture VoIP phones;
- labour shortages in PRC as a result of significant wage inflation and fierce competition for labour in the region of the factory;
- higher manufacturing costs due to the rise in the Chinese currency and higher engineering, design and overhead costs as a result of the rise in the Canadian currency; and
- significant excess capacity at the factory in PRC.

As a result of these operational matters the Group has been losing money and was unable to continue operations in the normal course.

Restructuring Progress

At the time of the filing of the initial CCAA Petition, the Petitioners had hoped to be able to restructure their business by implementing significant cost reduction strategies and by rationalizing the business operations which were not profitable. The Petitioners had hoped to be able to locate a business partner or a party who was interested in purchasing the Group or significant aspects of the Group. After aggressively marketing the Group for sale, with assistance from the CCAA Monitor, Deloitte & Touche Inc. ("the Monitor"), it was determined that there were no parties interested in purchasing the business in whole or any of its entities. As a result, the Petitioners determined it was necessary to proceed with an orderly windup of its operations, in order to reduce costs and to maximize the value to all of its stakeholders.

As part of the restructuring, the Petitioners have proceeded to realize on their assets through the sale of their land and building in Richmond, BC and through the sale of various product lines. The Group has taken steps to reduce their operating costs which have included giving notice and terminating the majority of employees and winding up the operations in Canada, Hong Kong, PRC and the United Kingdom.

Ascalade Communications Limited ("ACL"), a Hong Kong subsidiary of ACHL, filed a Scheme of Arrangement ("Scheme"), *under section 166 of the Companies Ordinance (Cap. 32) of Hong Kong as*

amended from time to time, to its creditors on March 14, 2008. On May 2, 2008 a Scheme Meeting was held in Hong Kong, where 94.7% of the creditors of ACL voted to accept the Scheme. The Scheme calls for the orderly winding-up of ACL and the sale of the Group's assets in PRC. The creditors of ACL who prove their claims under the Scheme, will receive a pro-rata distribution of ACL's realization on its assets. The Scheme was approved by the Hong Kong Court on May 13, 2008.

The Plan

On May 14, 2008, the Petitioners filed their Plan with the Court. The Plan is similar to the Scheme which was filed by ACL in Hong Kong, as the Petitioners' Plan calls for an orderly winding-up of their operations. The Petitioners are owed approximately US \$48 million from ACL and they have filed a claim in this amount in the Scheme. The Scheme Administrator has estimated that the return to creditors of ACL will be approximately 37¢ for each dollar filed. This estimate is subject to change and is dependent on ACL's ability to realize upon its assets, including the factory, equipment and inventory in PRC. The estimate is also dependent on the number of creditors claims filed and accepted under the Scheme. Should this realization be achieved, and depending on the outcome of the adjudication of any disputed or contingent claims under the Plan, it is expected that the Petitioners will receive sufficient funds from the Scheme to pay its creditor's in full. Management of the Group will need to continue to work diligently, in all regions where the Group has operated, to maximize the realizations from all of the Group's assets in order to maximize the realization for all stakeholders

Through an orderly wind-up of the Group's assets, the Petitioners expect to achieve a greater recovery for their stakeholders than would result should the Petitioners be adjudged bankrupt. The assets in PRC and Hong Kong will be realized under the review of the Scheme Administrator and a creditors' committee which was appointed at the Scheme meeting.

The Petitioners' Plan contemplates two classes of creditors; preferred and unsecured. The Petitioners are seeking to provide their 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 claim.

The preferred claims would be paid immediately upon Court approval of the Plan. The Petitioners estimate the total preferred claim will be approximately \$150,000. Distribution would occur to the unsecured claims upon the Petitioners realizing full proceeds of its pro-rata distribution under the Scheme.

In order to participate in the Plan, the creditors must complete the attached Proof of Claim form and include the documentation required to support the claim. The Monitor must receive the Proof of Claim form no later than the **Claims Bar Date of June 16, 2008.**

A Meeting of Creditors ("Meeting") will be held to consider and Vote on the Plan. To be entitled to Vote at the Meeting a Proof of Claim form, and as necessary a Proxy, must be submitted prior to the commencement of the Meeting. The Meeting will be held on **Tuesday, June 17, 2008 at 3:00 pm** at:

Deloitte & Touche Inc.
2800 – 1055 Dunsmuir Street
Vancouver, BC

If you cannot attend the Meeting, we encourage you to complete and submit not only the Proof of Claim form, but also the Proxy and the Voting Letter. All documents must be submitted to the Monitor prior to the commencement of the Meeting. The forms are to be submitted to:

Deloitte & Touche Inc., Court Appointed Monitor of
Ascalade Communications Inc. & Ascalade Technologies Inc.
PO Box 49279, Four Bentall Centre
2800-1055 Dunsmuir Street
Vancouver, BC, Canada
V7X 1P4

Fax: (604) 899-8449
Att : Rob Abenante

Should you have any questions regarding completion of the forms, please contact Mr. Rob Abenante of Deloitte & Touche Inc. at (604) 640-3115.

Monitor's Recommendation

In the opinion of the Monitor, the Petitioners have acted and continue to act in good faith and with due diligence. The Monitor believes the Petitioners' Plan is in the best interest of all of the Petitioners' stakeholders and recommends the creditors accept the Petitioners' Plan.

Dated at Vancouver, BC this 20th day of May, 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.