RSM Richter Inc.

RSM Richter Inc.
2, Place Alexis Nihon, Suite 1820
Montréal (Québec) H3Z 3C2
Téléphone / Telephone: 514.934.3497
Télécopieur / Facsimile: 514.934.3504
www.rsmrichter.com

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01 - MONTRÉAL
COURT NO. 500-11-036176-093
ESTATE NO.: 41-1194742

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

Therma Blade Inc.

a corporation, duly incorporated according to law and having its head office at:
900 René-Levesque Blvd. East, Suite 600
Québec, Québec G1R 2B5

Debtor

REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION OF THE DEBTOR AND ON THE PROPOSAL (Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*)

The purpose of the Meeting of Creditors is to consider the Proposal filed on July 9, 2009 (hereinafter referred to as the "Proposal") by Therma Blade Inc. (hereinafter referred to as the "Debtor Company" or "TBI").

Pursuant to Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act* (hereinafter referred to as the "Act" or "BIA"), and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Debtor Company and on the Proposal.

We caution the reader that we have neither conducted an audit nor an investigation of the books and records of the Debtor Company. Consequently, we cannot render an opinion as to the accuracy of the information contained herein. The information discussed herein emanates from the books and records of the Debtor Company as well as from discussions with the Management of the Debtor Company.

I INTRODUCTION

On April 21, 2009, TBI filed a notice of intention to make a proposal (hereinafter referred to as the "Notice of Intention") to its creditors and RSM Richter Inc. ("Richter") was appointed Trustee.

On July 9, 2009, the Debtor Company filed a Proposal to its creditors. We have enclosed herewith the Proposal made by the Debtor Company to its creditors, a proof of claim form, a voting form, a proxy, a notice indicating the place and time of the Meeting of the Creditors to address the Proposal as well as a notice of hearing to have the Proposal ratified by the Court in the event that it is accepted by the statutory majority of all classes of Ordinary Creditors.

The following summarizes the relevant information and key elements that may assist the creditors in evaluating the Debtor Company's affairs and the Proposal.

II BACKGROUND OF THE DEBTOR COMPANY

Therma Blade Inc. is a Montreal-based company which invented, developed and is now commercializing a patented heated hockey skate blade ("Thermablade™"), which is an after-market product that can be retro-fitted to all top selling hockey skate boots.

Over the last three years, TBI has invested over $17MM in the development of the Thermablade.

III CAUSE OF INSOLVENCY

Management of the Debtor Company attributes the cause of its financial difficulties to the lack of sales, a direct result of the delay in obtaining a major hockey league approval of the Debtor Company's product. For over a year, TBI has searched for investors, to no avail. On April 21, 2009, the Debtor Company filed a notice of intention to make a proposal to its creditors under paragraph 50.4(1) of the BIA.

IV FINANCIAL INFORMATION

The following financial data was extracted from the Statement of Affairs filed with the Official Receiver on July 2, 2009, the unaudited books and records of the Debtor Company, the audited and unaudited financial statements and from discussions held with Management. This information is submitted solely for discussion purposes and to assist the reader in assessing the current financial position of the Debtor Company.

The Trustee makes no representation or warranty as to the accuracy of this financial information.

In summary, the salient facts are:

A. Results

Therma Blade Inc. Operating results	28-Feb-09 (9 months) Unaudited	30-Jun-08 (12 months) Unaudited	30-Jun-07 (12 months) Audited
Net sales	$ 157,351	$ 162,519	$ -
Gross margin	(3,400)	(53,277)	-
Operating expenses			
General and administrative	887,991	2,701,742	1,662,097
Sales and marketing	507,909	1,928,697	533,227
Research and development	405,749	2,826,300	1,107,200
Amortization, depreciation and other	491,127	221,845	26,511
	2,292,776	7,678,584	3,329,035
Other expenses	682,082	2,097,333	198,376
Net Loss	**$ (2,978,258)**	**$ (9,829,194)**	**$ (3,527,411)**

The above table illustrates the result of the lack of significant sales coupled with significant investments in research and development.

B. Assets

The Debtor's Company books and records reflect the following as at July 2, 2009:

Therma Blade Inc. Assets		Book Value
Cash		$ 44,507
SR&ED receivable		800,000
Inventory		
Finished products	448,418	
Work in process	1,107,081	
Parts / raw material	864,203	2,419,702
Equipment and Intangibles		1,766,000
Deferred development and financing expenses		768,713
Other (prepaid expenses and deposits)		93,143
Total Assets		$ 5,892,065

All assets are pledged in favour of the Secured Creditors. We refer the reader to the Realization Estimate section for the realization value of the assets.

Our comments on the assets are as follows:

1. **Cash**

Cash in bank amounts to $44,507. However, at present, the Debtor Company incurred an equivalent amount of liabilities, leaving no current available funds.

2. **SR&ED**

A recent audit of the SR&ED tax credit by fiscal authorities suggests that the SR&ED tax credit receivable is between $800,000 and $1,000,000.

3. **Inventory**

Inventory consists of finished goods, parts, packaging and marketing displays. Most of the inventory is subject to right of offset and some suppliers have retention rights.

4. **Equipment and Intangibles**

Equipment consists mostly of moulds and other fixtures that are located at different suppliers. Some of the equipment may be subject to suppliers' lien or right of retention. Intangibles include patents, trademarks and designs.

5. **Deferred development and financing expenses**

Deferred development expenses represent amounts invested to develop the Thermablade. Financing expenses have been incurred as part of the different financing TBI has obtained in the past.

6. **Other**

These include prepaid expenses and security deposits.

C. Liabilities

The liabilities summarized hereinafter as at July 2, 2009, are based on Management's representations.

Therma Blade Inc. Liabilities		Book Value
Secured creditors		$ 1,548,993
Unsecured creditors		
Preferred creditors		-
Ordinary creditors		
Trade Creditors	$ 5,131,394	
4$ Debenture Holders	4,000,000	
40$ Debenture Holders	3,890,000	13,021,394
Total Liabilities		$ 14,570,387

The Debtor Company has provided us with a list of creditors. Notices have been sent to all known creditors. At the present date, we are unable to confirm whether the Debtor Company's records are in conformity with those of its creditors. Upon reception of the Proofs of Claim, we shall review them with the representatives of TBI and deal with any discrepancies.

V. SEARCHING FOR INVESTORS AND/OR PURCHASERS

A. Process

Upon the filing of the Notice of Intention, the Debtor Company has mandated RSM Richter Inc. to conduct a formal and open process to seek for investors or alternatively, purchasers for its assets. This mandate included the preparation of the necessary documentation, the identification of potential investors or purchasers and the management of a formal process. The following is a summary of the initiatives that have been undertaken by RSM Richter Inc. with regards to the formal process:

- Research and production, with the help of management, of a list of potential investors / purchasers;
- Preparation of a "Teaser" document;
- Mailing of the "Teaser" to over 300 potential investors / purchasers;
- Set-up of a Virtual Data Room containing all relevant information for potential investors / purchasers;
- Follow-up calls by RSM Richter Inc. and the Debtor Company.

As a result, three potential purchasers signed a Confidentiality Undertaking letter and were provided access to the Virtual Data Room.

Offers had to be submitted by June 2, 2009. Only one offer was received, from a group of investors led by Dhiren Master to purchase substantially all of the assets of the Debtor Company.

The terms and conditions of the Asset Purchase Agreement were ultimately approved by the Board of Directors of TBI on June 30, 2009.

B. Description of the Transaction

The transaction contemplates the purchase of substantially all of the assets of TBI by 1472441 Alberta Ltd. (hereinafter the "Offeror" and the "Transaction").

Excluded from the Transaction are SR&ED tax credits, accounts receivable, cash and bank accounts, QST/GST receivables and deposits ("Other Assets").

The consideration offered is as follows:

- $1,083,139 in cash; and
- Further considerations in debt and equity of 1472441 Alberta Ltd., in quantity sufficient to give effect to the Proposal discussed below.

The offer is conditional on, amongst others, the following:

- The Offeror's ability to raise the cash portion of the Transaction;
- Obtain release and discharge from the Secured Creditors in order that the assets can be sold free and clear;
- Acceptance of the Proposal by the creditors and Court ratification;

The closing of the Transaction is expected to take place on the day following Court ratification of the Proposal or at such other time as may be mutually determined by TBI and the Offeror.

C. 1472441 Alberta Ltd.

Included in Appendix A is the Executive Summary of the business plan of 1472441 Alberta Ltd. that was remitted to the Trustee.

VI. PROPOSAL

We have enclosed herewith extracts of the Proposal. Creditors are advised to read the Proposal for complete details of its terms.

A. Overview of the Proposal

The cash portion generated from the Transaction and proceeds generated from the realization of the Other Assets will be used to pay Secured Creditors, expenses to carry-out the Transaction, Post-filing obligations and Proposal expenses. The Net Proceeds will be distributed to Trade Creditors pursuant to the Proposal. Convertible Promissory Notes and shares of the Offeror issued as part of the Transaction will also be distributed to creditors pursuant to the Proposal.

B. Amounts to be paid to Secured Creditors

The Secured Claims shall be paid in accordance with arrangements existing between the Debtor Company and the holders of Secured Claims or as may be arranged between the Debtor Company and the holders of Secured Claims. For greater certainty, the Debtor Company agrees that nothing contained in the Proposal will in any way affect the rights of the holders of the Secured Claims.

C. Amounts to be paid as a Priority

Amounts owing to Her Majesty in right of Canada or a Province that could be subject to a demand under Section 224 (1.2) of the Income Tax Act, or under any provision of the Canada Pension Plan or of the Employment Insurance Act that refers to subsection 224 (1.2) of the Income Tax Act and provides for the collection of a contribution, as defined in the Canada Pension Plan, or an employee's premium, or employer's premium, as defined in the Employment Insurance Act, and of any related interest, penalties or other amounts, or under any substantially similar provision of provincial legislation (thereafter "Crown Claims"), outstanding at the time of the filing of the notice of intention, will be paid, without interest, in full within six (6) months after Proposal Approval.

Amounts owing to employees and former employees, that they would have been entitled to receive under Section 136(1)(d) of the Act if the employer became bankrupt on the date of Proposal Approval (thereafter "Employee Claims"), will be paid in full immediately after Proposal Approval.

The Proposal Expenses will be paid in priority to all Preferred claims and Ordinary Claims.

The Preferred Claims, without interest, will be paid in full in priority to Ordinary Claims, within sixty (60) days of Proposal Approval.

Post-filing obligations will be paid in full in the ordinary course of business.

D. Ordinary Creditors

1. Trade Creditors

The following shall be paid to the Trade Creditors without any interest or penalty thereon whatsoever, in full and final settlement, release and discharge of all Trade Creditor Claims:

i) the Net Proceeds, payable after the completion of the Transaction and the realization of the Other Assets, subsequent to the determination of the amount of the total Trade Creditor Claims. Interim dividends may be paid from time to time. The amount and timing of interim dividends, if any, and the reserves to be retained, shall be determined by the Trustee, in consultation with the Committee; and

ii) Convertible Promissory Notes of the Offeror in the amount of $2,476,197.

The Net Proceeds and Convertible Promissory Notes shall be distributed by the Trustee to the Trade Creditors, according to the amount of their respective proven Trade Creditor Claims, on a *pro rata* basis.

The Convertible Promissory Notes will have the following characteristics:

5-year unsecured promissory note payable by the Offeror, bearing a simple annual interest rate of 5%, with a right of conversion into Shares of the Offeror at $12.50 per share, rounded down to the nearest whole number of shares, that can be exercised at any time on or before October 31, 2009.

The Shares of the Offeror will be common voting shares.

2. $4 Debenture Holders (Debentures n[os] 1 to 163)

Each of the $4 Debenture Holders will receive, in full and final settlement of its $4 Debenture Holder Claim, without interest or penalty:

i) one Share of the Offeror per $4 of principal outstanding; and

ii) one Share of the Offeror per $25 of interest owing (as of the date of the Notice of Intention) on the Convertible Debenture(s), rounded down to the nearest whole number of shares.

3. $40 Debenture Holders (Debentures nos 164 to 217)

Each of the $40 Debenture Holders will receive, in full and final settlement of its $40 Debenture Holder Claim, without interest or penalty:

i) one Share of the Offeror per $25 of principal outstanding; and

ii) one Share of the Offeror per $25 of interest owing (as of the date of the Notice of Intention) on the Convertible Debenture(s), rounded down to the nearest whole number of shares.

E. Creditors Committee

The Debtor Company agrees to the formation of a committee of up to three (3) individuals ("Committee") to be named by the Creditors at the Proposal Meeting. The Committee will have the following powers:

- advise the Trustee on matters relating to the administration of the Proposal;
- waive any default in the performance of any provision in the Proposal;
- confirm that the Debtor Company has complied with the terms and conditions of the Proposal;
- and postpone the payment of any dividends to Ordinary Creditors.

VII. VOTING ON THE PROPOSAL

The Proposal shall be deemed to be accepted by the Creditors if, and only if, all classes of Ordinary Creditors vote for the acceptance of the Proposal by a majority in number and two thirds in value of the Ordinary Creditors of each class present, personally or by proxy, at the meeting and voting on the resolution.

VIII. OTHER

The Proposal will constitute a compromise of claims against the present and past directors of the Debtor Company that relate to the obligations of the Debtor Company where the directors are by law liable in their capacity as directors and will operate as a full and complete discharge in favour of such directors with respect to such claims.

IX. REALIZATION ESTIMATE

In the event that the creditors do not accept the Proposal, the Debtor Company will be automatically bankrupt. The assets would then be liquidated. Net proceeds, if any, after realization costs and fees and expenses of the Trustee would be distributed to the creditors in the order provided for under the Act. The following is to inform the creditors on the estimate as to the distribution to creditors under the Proposal in comparison to the estimated distribution under a bankruptcy scenario.

A. Proposal

Pursuant to the Proposal, the following would be distributed:

1. Trade Creditors

a) Cash portion

The cash portion to be distributed to Trade Creditors is estimated as follow:

Therma Blade Inc. Proposal Estimated Distribution to Trade Creditors (cash portion)	
Cash portion from Transaction	$ 1,083,000
Realization of other assets (SR&ED tax credits) (estimated)	800,000
	1,883,000
Less:	
Secured Creditors[1]	(1,186,390)
Amounts to be paid as a priority[2]	(380,000)
Cash dividend available to Trade Creditors (estimated)	$ 316,610
Trade Creditor Claims (estimated)	$ 5,131,394
Estimated percentage of cash distribution to Trade Creditors	**6.17%**

[1] The Secured Claims will be paid in accordance with arrangements existing between TBI and the Secured Creditors or as may be arranged between TBI and the Secured Creditors.

[2] Represents an estimate of Crown Claims, Employee Claims, Proposal Expenses, other Preferred Claims, suppliers with liens or right of retention and Post-filing Obligations.

b) Convertible Promissory Notes portion

Pursuant to the Transaction, Convertible Promissory Notes in the amount of $2,476,197 will be issued by the Offeror to be distributed to Trade Creditors in pro-rata of their Trade Creditor Claim.

Therma Blade Inc. Proposal Estimated Distribution to Trade Creditors (Convertible Promissory Notes portion)	
Convertible Promissory Notes portion of the Transaction	$ 2,476,197
Trade Creditor Claims (estimated)	$ 5,131,394
Estimated percentage of Convertible Promissory Notes distribution to Trade Creditors	**48.26%**

2. $4 Debenture Holders (Debentures n^{os} 1 to 163)

Pursuant to the Transaction, approximately 1,034,540 Shares of the Offeror will be issued and distributed to the $4 Debenture Holders.

3. $40 Debenture Holders (Debentures n^{os} 164 to 217)

Pursuant to the Transaction, approximately 176,419 Shares of the Offeror will be issued and distributed to the $40 Debenture Holders.

We did not conduct nor obtained a valuation of the Shares of the Offeror.

The issuance of the Convertible Promissory Notes and Shares of the Offeror (collectively, the "Securities") and their distribution by the Trustee further to the Proposal will be made pursuant to a Prospectus and Registration Exemption available under Canadian Securities Law.

Subsequent transfer of the Securities is subject to certain restrictions under Canadian Securities Law.

The Ordinary Creditors are urged to consult with their legal counsel before making any such transfer.

B. Bankruptcy

In a bankruptcy scenario, based on the values reported in the Statement of Affairs, we estimate that the distribution would be as follows:

Therma Blade Inc. Bankruptcy Estimated Distribution				
		Book Value		Estimated Realization Value
Cash	$	44,507	$	-
SR&ED receivable		800,000		800,000
Inventory				
Finished products		448,418		100,000
Work in process		1,107,081		-
Parts / raw material		864,203		-
Other (prepaid expenses and deposits)		93,143		-
Equipment and intangibles		1,766,000		-
Deferred development and financing expenses		768,713		-
	$	5,892,065		900,000
Professional fees and realization costs				(200,000)
Estimated net proceeds available for distribution				700,000
Secured claims[1]				1,548,993
Projected deficit			**$**	**(848,993)**
Distribution to preferred and unsecured creditors			**$**	**NIL**

[1] As per the Statement of Affairs filed on July 2, 2009

The above analysis indicates that the estimated realization values of the Debtor's assets are not sufficient to reimburse in full the Secured Creditors' claims.

X. CONCLUSION

The sale of assets to the Offeror is conditional on future events that the Debtor Company does not control. The Trustee has not yet received the confirmation that the Offeror has raised the funds necessary to close the Transaction. However, the Offerer intends to provide this information before the Meeting of Creditors and the Trustee will inform the Creditors at the Meeting of Creditors.

Provided that the Transaction is completed, it is estimated that the Proposal would provide the Trade Creditors with a cash dividend of approximately 6.17% and Convertible Promissory Notes in the amount of $2,476,197 representing 48.26% of Trade Creditor Claims and would provide the Debenture Holders with a participation in the equity of the Offeror, compared to a dividend of nil for Trade Creditors and Debenture Holders in the event of a bankruptcy. After having estimated the amount that may be available for the creditors in the context of a bankruptcy, we are in the opinion that the present Proposal is more advantageous to the creditors.

For these reasons, the Trustee recommends the approval of the Proposal.

DATED at Montréal, Province of Québec, this 9th day of July, 2009.

RSM Richter Inc.
Trustee

Benoit Gingues, CA, CIRP
Administrator

APPENDIX A

Executive Summary for 1472441 Alberta Ltd.

1472441 Alberta Ltd. the "Corporation" is a Canadian Controlled Private Corporation ("CCPC") created pursuant to the *Business Corporations Act* (Alberta) by Articles of Incorporation on June 2, 2009.

I. Our Business

At present, the sole business of the Corporation is its intention to acquire substantially all of the assets of Therma Blade Inc. ("TBI") and to carry on the business of TBI as it was prior to its application to make a proposal pursuant to the Bankruptcy and Insolvency Act (Canada)("Proposal"). Thereafter, the Corporation intends to seek National Hockey League ("NHL") approval of its major product, a heated ice skating blade (the "Product") and to continue to manufacture and market the Product under the "Thermablade" trademark.

The Product is a heated skate blade. The skate blade is heated by a heating wire that is powered by a re-chargeable polythium-ion battery. The heated skate blades give superior performance to regular blades. 40 NHL players tried the Product in the summer of 2008, 39 of these 40 players preferred the Product over their regular blades and wanted to switch to the Product for the 2008/09 NHL season. There is a video clip located at http://www.youtube.com/watch?v=wM5MOvc3Oks which has these players' comments regarding the Product.

The Corporation's management team will be Jake Chadwick (CFO and acting President), Michael Chiasson (VP Marketing & Sales in charge of AHL/NHL testing), Benoit Talbot (VP Development & Production). The team will be led by Dhiren Master as Chief Executive Officer.

The Corporation's Board of Directors (the "Interim Board") will consist of Dhiren Master, Terry O'Flynn, and Joe Martini. This Board may change as independent Board members are found. We are actively looking for professional Board members with relevant experience and ideally with public company experience.

II. Strategy & Plan Overview

The Corporation's long term objective is to change and improve ice skating sports, in particular ice hockey, by introducing the world's first electronic skate blade.

The Corporation is of the view that the initial strategy pursued by TBI had two fundamental incorrect assumptions. The first assumption was that NHL approval for the Product would happen quickly. The second assumption was that although NHL approval was important, it was not critical to have NHL approval to achieve sales to get to break-even and generate positive cash flow. The corporation's management and Board recognize that the NHL approval process is neither quick nor certain, and that it may never be obtained. The Corporation will have to follow the protocol and the process that is set by the NHL, respect them and not try and coerce them into making a quick decision.

More specifically its objectives are to:

- receive American Hockey League ("AHL") and National Hockey League ("NHL") approval;
- complete the development, design and commercialization phases;
- manufacture and distribute the Product to leading retailers in Canada, the United States, Europe and Russia;
- effectively promote and market the advantages that the Product offers the end user; and
- work with marketing and advertising agencies to market the Product's image and products to all levels of ice hockey participants.

Key business activities planned are:

1. Proposal acceptance by the creditors and Court approval;
2. Concluding the Purchase Agreement with TBI;
3. Continue discussions and testing protocol with AHL;
4. Support 50+ AHL players during the 2009/10 season with the Product;
5. Meet with and sign off with AHL and NHL on testing requirements (early 2010);
6. Identify 200+ NHL (Spring 2010/Summer 2010) for summer testing;
7. Support NHL summer play;
8. Get NHL official approval (October 2010) with 200+ NHL players wearing the Product at the start of the 2010 season;
9. Continue to look for opportunities that can create positive cash flow (i.e. internet sales, men's hockey leagues etc.) with minimal resources;
10. Seek potential liquidity strategies for shareholders;

There are a number of critical and short term milestones that will enable the of the Corporation's Board of Directors to monitor and check the progress of the management team. The proposed management team (Jake Chadwick (CFO), Michael Chiasson (VP Marketing & Sales) and Benoit Talbot (VP Development & Production)) already have the contacts and the relationships with key AHL/NHL members to have a reasonable likelihood of successfully executing this plan.

III. Financing and Structure

In the short term the Corporation will raise funds through an Offering Memorandum ("OM") from the 350+ former investors in Therma Blade Inc., who are being given an opportunity on a preferential basis, for paid up shareholders, to maintain a similar shareholding in the Corporation as they had before.

The Corporation's management plan is to approach a number of financial institutions for additional financing. The aim is to find at least two institutions that would invest approximately $1.5milllion each on an equity basis. The total funds that are being planned to be raised over the next 3-9 months are between $1.1million and $4.3million.

At some point, management of the Corporation anticipates that it will have to raise significant funds to be fully capitalized. Strategies to achieve this funding include private placements, debt financing or a prospectus offering.

The Corporation will initially consist of all Class A common voting shares, and there will be no shareholder that will have majority control. The largest shareholder currently is Dhiren J Master who has 100,000 Class A shares. The total planned equity structure is shown below:

The Corporation Number of Common Voting Class A Shares

	Minimum	Maximum
Shares Pre "OM"	100,031	100,031
New Shares ("OM")	1,286,056	2,110,334
TBI Debenture Holders	1,217,320	1,217,320
TBI Trade Creditors	-	200,000
Total	**2,603,407**	**3,627,685**