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CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
DIVISION NO.: 01-MONTREAL  
COURT NO.: 500-11-037131-097  
ESTATE NO.: 41-341934

SUPERIOR COURT  
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE BANKRUPTCY OF:

**Adaltis Inc.**

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at :

10900 Hamon  
Montreal (Quebec) H3M 3A2

**Bankrupt**

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## TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On July 3, 2009, Adaltis Inc. ("Adaltis" or the "Company" or the "Bankrupt") filed with the Quebec Superior Court ("Court"), a Motion for the issuance of an Initial Order pursuant to the Companies Creditors Arrangement Act ("CCAA"). On the same day, the Court issued the Initial Order providing for a stay of proceedings until August 3, 2009, to allow Adaltis time to reorganize its operations and capital structure and ultimately submit a plan of arrangement to its creditors.

Adaltis was subsequently unable to obtain the financing required to restructure its affairs and did not seek an extension of the stay of proceedings. Consequently, on August 3, 2009, the Company made an assignment in bankruptcy in accordance with Article 49 of the *Bankruptcy and Insolvency Act* and RSM Richter Inc. was appointed Trustee to the Bankruptcy ("Richter" or the "Trustee").

**The information contained in this Report has been prepared from the available books and records of Adaltis. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.**

## I. OVERVIEW

The Company was part of a corporate group (the "Adaltis Group") that developed, manufactured and marketed in- vitro diagnostic ("IVD") systems that test for a broad range of medical conditions and also offers related services such as installation, technical training and support.

The Company's activities were conducted out of its owned facilities located in Montreal, Quebec and consisted of a minimal level of production, some research and development ("R&D") work and, the administration of intellectual property. The majority of the Adaltis Group's production and R&D operations were conducted by its wholly owned subsidiaries located in China and in Italy.

The Adaltis Group had sustained significant losses, on a consolidated basis, exceeding \$150 million since 2004. These losses were caused by insufficient sales to support the operating cost structure, significant marketing and development costs incurred for the commercialization of a new product line, as well as quality and implementation issues related to the transition of certain production in China.

To finance the losses incurred during the aforementioned period, the Adaltis Group, through the parent company Adaltis, had raised in excess of \$98 million in equity and \$48 million in debt financing. The shares of Adaltis were traded on the Toronto Stock Exchange until June 29, 2009, at which time trading was halted.

Adaltis' subsidiaries operating in China and Italy are presently in the process of being liquidated in those jurisdictions. By virtue of their secured interest, some of the Company's creditors may be entitled to the proceeds emanating from the liquidation of Adaltis' foreign subsidiaries, although this is an unlikely scenario in view of the nominal expected realization therefrom. The Trustee has been providing some assistance to the foreign representatives in this regard.

## II. FINANCIAL INFORMATION

The financial information contained in the current section was not audited and is subject to adjustments.

### A) Historical Financial Results

The non-consolidated financial information contained in the current section is derived from the Company's internal financial statements.

A summary of the Bankrupt's financial results (in 000's - unaudited) for the six month period ending June 30, 2009 and for the years ending December 31, 2008 and 2007 is presented hereinafter:

| <b>Adaltis Inc.</b>                          |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| <b>Internal Income Statement - UNAUDITED</b> |                   |                   |                   |
| <b>000's</b>                                 | <b>6 months</b>   | <b>12 months</b>  |                   |
|  | <b>06/30/2009</b> | <b>12/31/2008</b> | <b>12/31/2007</b> |
| Revenues                                     | \$ 772            | \$ 3,403          | \$ 4,420          |
| Cost of Sales and Rental Income              | 279               | 1,085             | 2,050             |
| Gross Margin                                 | 493               | 2,318             | 2,370             |
| Selling and Administrative Expenses          | 852               | 11,979            | 5,380             |
| Research and Development Expenses            | 108               | 546               | 67                |
| <b>Operating Loss</b>                        | <b>(\$467)</b>    | <b>(\$10,208)</b> | <b>(\$3,077)</b>  |

Unconsolidated revenues generated by Adaltis are comprised of a small amount of product sales and of royalties generated as a result of licensing agreements with third parties.

General, administrative and sales expenses decreased significantly in 2009 as compared to 2008 as a result of several cost cutting initiatives. In 2008, they had increased significantly as compared to 2007 due to asset write-downs and restructuring accruals.

**B) Statement of Affairs**

The Statement of Affairs as at August 3, 2009 (Bankruptcy date) is derived from the books and records of the Company and Management's best estimates and is summarized as follows:

| <b>Adaltis Inc.</b><br><b>Statement of Affairs</b><br><b>As at August 3, 2009</b> |                        |
|---|------------------------|
| Inventory   | \$ 25,000              |
| Accounts Receivable   | 945,000                |
| Receivables from Subsidiaries   | unknown                |
| Future Royalty Stream   | 1,700,000              |
| Investment in Asset Backed Commercial Paper                                       | 4,750,000              |
| Building  | 850,000                |
| Licenses, Patents and software  | unknown                |
| Shares in Subsidiaries  | unknown                |
| <b>Total Assets</b>   | <b>\$ 8,270,000</b>    |
| Secured Creditors   | \$ 36,058,516          |
| Unsecured Creditors   | 18,760,928             |
| <b>Deficiency</b>   | <b>\$ (46,549,444)</b> |

**i) Assets**

All the assets are pledged in favor of three secured lenders (discussed later). The Trustee has not yet obtained a legal opinion on the validity of the secured lenders' interest.

Summarized below are the Trustee's comments based on its preliminary review of the Bankrupt's assets.

- Inventory consists of a small quantity of raw materials and packaging. The Trustee expects that, at best, a nominal realization will be generated from Inventory.
- The Trustee is presently in the process of analyzing the Company's accounts receivable and negotiating collection terms with the related account debtors. The net realization amount is not known at this point.

- Receivables from Subsidiaries relate to advances made by the Bankrupt to fund its subsidiaries' operations in China and Italy. Those entities are presently in the process of being formally liquidated. The liquidation procedures in those foreign jurisdictions are cumbersome and are still in process. It is unknown whether any amounts will be distributed to the Company, however, we do not believe so..
- The realizable value of the Future Royalty Stream was estimated by management and is based on existing patent licensing agreements entered into with third parties. The Trustee is presently in the process of negotiating with those third parties with the view of monetizing the patent licensing agreements.
- The realizable value of the investment in Asset Backed Commercial Paper was estimated by management. As the market for this asset is limited, the realization value is unknown at this point.
- The Company's building is presently subject to an offer to purchase which if concluded, is expected to yield an approximate net recovery (after payment of commissions and of prior ranking claims) of \$850,000. The purchase offer is subject to the approval of the mortgage creditors and the Inspectors of the bankrupt estate. Thereafter, the Purchaser has to perform its "due-diligence" in order to make the offer binding.
- The Bankrupt owns several patents, some of which are licensed to third parties. Certain patents relate to the Adaltis Group's operations in foreign jurisdictions (China and Italy). The Trustee is presently analyzing the Company's patents to determine their validity as well as the most effective method of realization.
- Shares in Subsidiaries are comprised of Adaltis shareholdings in the foreign operating companies of the Adaltis Group located in China, Italy and Mexico. These entities are either shut-down or in the process of being liquidated. It is most unlikely that any amounts would be distributed as a dividend to Adaltis.
- The Trustee prepared a list of the assets located on the Bankrupt's premises in order to dispose of same.

ii) **Liabilities**

**Secured Creditors (\$36,058,526)**

The table below summarizes the Company's secured creditors as represented on the Statement of Affairs. The Trustee has not yet obtained an independent opinion on the validity and ranking of the secured interests related to these advances.

| <b>Adaltis Inc.</b>                               |                         |                      |
|---|-------------------------|----------------------|
| <b>Summary of Secured Creditors (Unaudited)</b>   |                         |                      |
| <b>As at August 3, 2009</b>                       |                         |                      |
| <b>Name of Creditor</b>                           | <b>Description</b>      | <b>Amount</b>        |
| Victoria Square Ventures                          | DIP Facility            | \$ 1,500,000         |
| Victoria Square Ventures / Clarity China Partners | Bridge Loan             | 3,750,000            |
| Clarity China Partners Lp*/Fmrc                   | 2008 Notes              | 20,600,000           |
| National Bank Of Canada                           | Line of Credit/Mortgage | 10,208,526           |
|   |                         | <b>\$ 36,058,526</b> |

- Amounts under the DIP Facility (\$1,500,000) were advanced during the CCAA period and are secured by a first ranking charge on all assets with the exception of the building and the Investment in Asset Backed Commercial Paper.
- Amounts under the Bridge Loan (\$3,750,000) have been advanced by Victoria Square Ventures and Clarity China Partners on a *pari passu* basis and are secured by a second ranking charge on the Future Royalty Stream and the Shares in the Subsidiaries.
- Amounts advanced under the 2008 Notes (\$20,600,000) are secured by a third ranking charge on the Future Royalty Stream and the Shares in the Subsidiaries.
- Amounts owing to the National Bank of Canada (\$10,208,525) are secured by a first ranking charge on the building and the Investment in the Asset Backed Commercial Paper.

As of the date of this report, the Trustee has not yet received any documentation relating to the secured claims. Once those claims are received and evaluated, the Trustee will be in a position to establish the collocation of amounts to be distributed to the various secured lenders.

- **Preferred creditors**

The books and records of the Company do not indicate any preferred creditors.

- **Unsecured creditors (\$18,760,928)**

According to the Statement of Affairs, the amount due to the unsecured creditors totals \$18,760,928, of which \$15,000,000 are related to debentures issued in 2006. As at the date of the preparation of this report, the Trustee has not received sufficient proofs of claim to validate this amount.

### III. **SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE TRUSTEE**

#### **A) Books and Records**

The Trustee has taken possession of the books and records of the Bankrupt upon its appointment.

#### **B) Measures taken to date by the Trustee**

Since August 3, 2009, the Trustee has undertaken various measures such as:

- Hiring of former employees of Adaltis, on a temporary basis, to assist the Trustee in its functions;
- Opening of a trust bank account;
- Advising the alarm company of the Trustee's appointment;
- Changing the locks and alarm codes and canceling access cards for the building;
- Initiating the inventory-taking of the assets and of the books and records;
- Arranging for the safe disposal of any potentially hazardous materials located on the Bankrupt's premises;
- Communicating with third parties who are in possession of the Bankrupt's property and taking measures to retrieve said property;

- Safeguarding the information contained in the computer system;
- Placing the assets of the bankrupt estate under the Trustee's specialized insurance policy;
- Making arrangements with utilities companies to maintain service as appropriate; and compiling the necessary information from the Bankrupt's payroll records in order to comply with the provisions of the Wage Earners Protection Program Act.

**C) Realization Process**

The Trustee is presently analyzing different asset realization scenarios.

**D) Property of Others**

To date, the Trustee has received one property claim and is in the process of determining its validity.

**E) Reviewable Transactions and Preferential Payments**

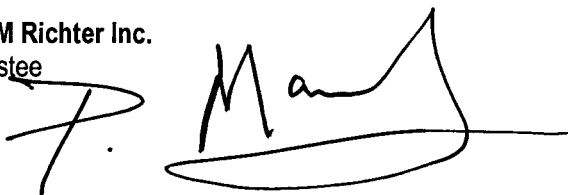
The Trustee is presently performing a review of the Company's books and records to determine any potential preferential payments or any reviewable transactions and will subsequently advise Inspectors.

**IV. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION**

Although the process to liquidate the assets has not commenced, it is the Trustee's opinion that in view of the significant prior ranking secured debt, the Unsecured Creditors cannot anticipate any realization or dividend distribution.

Dated at Montréal, this 25<sup>th</sup> day of August 2009

**RSM Richter Inc.**  
Trustee

A handwritten signature in black ink, appearing to read 'Manel', with a long horizontal flourish underneath.

Philip Manel, CA, CIRP  
Administrator of the Estate