

CANADA  
PROVINCE OF QUÉBEC

DISTRICT OF MONTRÉAL  
NO DE COUR : 500-11-031970-078

SUPERIOR COURT  
(COMMERCIAL DIVISION)

(Sitting as Court designated pursuant to the  
*Companies' Creditors Arrangement Act, R.S.C.*  
*1985, c. C-36, as amended*)

IN THE MATTER OF THE COMPANIES  
CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.  
C-36, as amended:

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Positron Technologies Inc., a legal person duly  
constituted, having its place of business at:

18107, Trans-Canada Highway, Kirkland, province of  
Quebec H9J 3K1

Petitioner

– and –

RSM RICHTER INC.

Monitor

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SECOND REPORT OF THE DESIGNATED MONITOR  
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS

INTRODUCTION

1. On November 28, 2007, Positron Technologies Inc. (the "Petitioner" or "PTI") filed with the Quebec Superior Court, a Motion for the Issuance of an Initial Order pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA"). On that same date, the Honourable Justice Christiane Alary, j.c.s., issued an initial order (the "Initial Order"), *inter alia* appointing RSM Richter Inc. as monitor (the "Monitor").
2. On December 20, 2007, the Petitioner filed a Motion for Extension of Delay to File a Plan of Arrangement and for Extension of the Stay Order as Provided in the Initial Order, until January 25, 2008 (the "Motion"). On that same date, the Honourable Justice Christiane Alary, j.c.s. granted the Motion.

3. On January 25, 2008, the Petitioner is filing a Motion for the further Extension of Delay to file a Plan of Arrangement and the Extension of the Stay Order as provided for in the Initial Order, until April 9, 2008.
4. This Second Report of the Monitor is to inform the Court of the following:
  - General Corporate Information
  - Sale of Assets
  - PTI's affairs
  - Cash Flow Projections
  - Monitor's administration
  - Request for Extension
  - Monitor's Recommendation
5. We inform the Court that the Monitor has not conducted an audit of the books and records. The information, discussed in the present report, emanates from the Petitioner's books and records that have been made available to the Monitor.

#### **GENERAL CORPORATE INFORMATION**

6. The Petitioner was incorporated under the Companies' Act (Quebec). PTI was originally a division of *Positron Inc.* and became an independent company in 2002. The capital stock of PTI is held by *Positron Inc.* (98%) and *Fonds de solidarité des travailleurs du Québec F.T.Q.* (2%).
7. PTI's head office and principal place of business was previously located at 18107 Trans-Canada Highway, Kirkland, Quebec. Pursuant to the sale of its assets, PTI's head office has been maintained at the same address.
8. We refer you to the Petitioner's Motion for the issuance of an Initial Order, dated November 28, 2007 for a more comprehensive description of PTI's corporate structure, background and operations.

## **SALE OF ASSETS**

9. On December 7, 2007, the Petitioner and the Monitor received from Triton Technologies Inc. ("Triton") an offer to purchase all of PTI's assets (the "Offer").
10. The terms and conditions of the Offer were presented in the Motion filed by the Petitioner on December 10, 2007, seeking authorization of the Court to sell its assets to Triton (the "Transaction"), as well as further discussed in the Report of the Monitor submitted to the Court on the same day.
11. On December 10, 2007, the Honourable Justice Christiane Alary, j.c.s. granted the Order authorizing the sale of the assets of the Petitioner to Triton (the "Sale Order").
12. The Transaction was completed December 21, 2007.
13. On December 21, 2007, the Monitor issued the Certificate confirming the completion of the Transaction (refer to Exhibit "A", attached hereto).
14. As provided for in the Sale Order, the initial proceeds of the sale were remitted to the Monitor who, as authorized by the Court, distributed the sale proceeds resulting from the transaction among the Petitioner's secured creditors in accordance with their rank in satisfaction of all priorities and hypothecary interest.
15. The initial distribution made by the Monitor is detailed in Exhibit "B", attached hereto.

## **PTI'S AFFAIRS**

16. Pursuant to the Initial Order, the Petitioner, under direction of the Court-appointed CRO, Mr. Dominic Deveaux, had continued its operations until the closing of the Transaction on December 21, 2007, at which time PTI ceased to have any further commercial activities.
17. Since the completion of the Transaction, PTI in collaboration with Triton, has been finalizing the payment of expenses, charges and purchases for the period of December 1, 2007 to December 21, 2007.

18. PTI, with the assistance of Triton, is currently updating its books and records for the period ended December 21, 2007, as well as finalizing its accounts payable list as of November 28, 2007, being the date of the Initial Order.
19. The Petitioner is continuing to seek advice from its attorneys and the Monitor in dealing with the finalization of various matters relating to the termination of its operations.
20. PTI intends to submit a Plan of Arrangement to its creditors once all the issues relating to priority and secured claims have been dealt with.

### **CASH FLOW PROJECTIONS**

21. Various cash flow projections have been submitted to the Court relating to the Company's affairs for the period November 25, 2007 to January 25, 2008 (refer to Exhibit "R-7" of the Initial Motion and Exhibit "B" of the Monitor's First Report).
22. Throughout the period of November 28 to December 21, 2007, PTI continued to pay, on a timely basis, its employees, service providers and suppliers.
23. Under the terms of the Offer, Triton had assumed the financial risk relating to the on-going business of PTI as of December 1, 2007. In this regard, the Transaction provided for the remittance to the Monitor of an amount of \$849,281 representing the estimated funds required to cover the payment of expenses relating to PTI's operations for the period of December 1 to December 21, 2007.
24. In addition, Triton made specific arrangements with PTI's major suppliers and committed to the payment of orders relating to services and/or to product deliveries, issued between December 1 and December 21, 2007, which would only be received after December 21, 2007.
25. We are not aware of any unusual and/or unbudgeted expenses, incurred since November 28, 2007, that are in dispute, nor of any important unpaid accounts.
26. A Statement of receipts and disbursements is submitted for the period ended December 15, 2007 (refer to Exhibit "C", attached hereto).

27. Our review of the information supporting the results shown in Exhibit "C" did not reveal any unusual or unexpected transactions.
28. As shown on Exhibit "C", as at December 15, 2007, the RBC's indebtedness was \$5,258,328. The actual amounts remitted to RBC to reimburse bank advances, as at December 21, 2007, totalled \$6,138,934.
29. The proceeds from the Transaction were initially remitted to the secured lenders, as detailed in Exhibit "B". The funds presently on deposit and remaining proceeds to be collected, subject to the Administration Charge and D&O Charge as well as the secured creditor's rights and priorities, will ultimately be distributed to PTI's creditors in conjunction with the terms of the Plan of arrangement to be submitted.
30. New cash flow projections for the period of January 26, 2008 to April 9, 2008 are submitted as Exhibit "D". Pursuant to the Transaction with Triton, PTI's only activities relate to the winding-down of its corporate affairs and its dealings with the creditors. The on-going expenses relate to professional services rendered by the attorneys and the Monitor .

#### **MONITOR'S ADMINISTRATION**

31. As previously discussed, pursuant to the completion of the transaction on December 21, 2007, the Monitor collected the sale proceeds and distributed them to PTI's secured creditors in accordance with their rank in satisfaction of all priorities and hypothecary interest.
32. The Monitor presently has funds on deposit in its trust account, which are being invested to earn interest, as shown on Exhibit "B" and Exhibit "D" attached hereto.
33. The Monitor has been responding to the on-going queries of PTI's various stakeholders and creditors.
34. The Monitor is dealing with the representatives of Triton to finalize the payment of invoices for services and products provided during the period of December 1 to December 21, 2007.
35. The Monitor is reviewing and dealing with pending matters with PTI's attorneys, Messrs. Fasken Martineau Walker and the Monitor's attorneys, Messrs. McCarthy Tetrault;

36. In addition, the Monitor will be managing the collocation of creditors' claims in accordance with a "Claims Process" to be sanctioned by the Court.

#### **REQUEST FOR EXTENSION**

37. The Petitioner's request to the Court for an extension to file a Plan of arrangement is reasonable for, amongst others, the following reasons:
- a) To date, the Petitioner has been paying for any and all approved goods and services received subsequent to the date of the Initial Order. Any outstanding amounts are minimal and should be paid as invoices are submitted.
  - b) The Petitioner is winding down its affairs and continues to act in good faith and is cooperating with all stakeholders involved in this process, including but not limited to the Monitor, PTI's secured creditors as well as other creditors.
  - c) The Petitioner requested more time to resolve matters relating to priority and secured claims, which, once resolved, will enable it to determine with greater certainty the terms of the Plan of Arrangement to be submitted to its creditors.

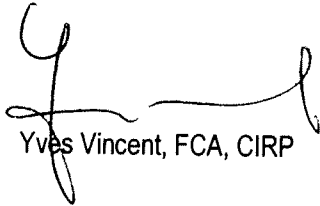
#### **MONITOR'S RECOMMENDATION**

38. The Monitor recommends that the Court grant the Petitioner an extension of the Initial Order until April 9, 2008 for the following principal reasons:
- a) The Petitioner has and continues to act in good faith and with diligence;
  - b) The Petitioner's behaviour has not prejudiced its creditors;

- c) The Petitioner needs additional time to determine the terms of the Plan of arrangement to be made to its creditors;
- d) The Petitioner and the Monitor will use this additional time to complete a Claims Process.

DATED AT MONTREAL, this 24<sup>th</sup> day of January, 2008.

RSM RICHTER INC.  
Court-Appointed Monitor

A handwritten signature in black ink, appearing to be 'Yves Vincent', written in a cursive style.

Per: Yves Vincent, FCA, CIRP

**EXHIBIT A**



CANADA

PROVINCE OF QUEBEC  
DISTRICT OF MONTREAL

SUPERIOR COURT  
(Commercial Division)

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No.: 500-11-031970-078

In the matter of the *Companies Creditors  
Arrangement Act*, R.S.C. 1985, c. C-36, as  
amended:

POSITRON TECHNOLOGIES INC.

Petitioner

and

RSM RICHTER INC.

Monitor

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**MONITOR'S CERTIFICATE**

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**WHEREAS** on December 10, 2007, the Court authorized Positron Technologies Inc. to accept the offer of Triton Electronique Inc. to purchase all the assets of Positron Technologies Inc. (the "Offer").

**WHEREAS** Triton Electronique Inc. assigned to Triton Electronik Québec Inc. its right, title and interest in the Offer.

**WHEREAS** on December 21, 2007, Triton Electronik Quebec Inc. purchased all the assets of Positron Technologies Inc.

**THEREFORE I, Yves Vincent**, duly authorized representative of RSM Richter Inc., in its capacity as Monitor of Positron Technologies Inc., hereby certify that the transaction authorized by this Court on December 10, 2007 has been completed in accordance with the terms of the Offer.

Signed at Montreal, Quebec, this 21<sup>st</sup> day of December 2007

  
\_\_\_\_\_  
Yves Vincent

No. 500-11-031970-078  
SUPERIOR COURT (COMMERCIAL  
DIVISION)  
PROVINCE OF QUEBEC  
DISTRICT OF MONTREAL

**In the matter of the *Companies*  
*Creditors Arrangement Act*, R.S.C. 1985,  
c. C-36, as amended:**

**POSITRON TECHNOLOGIES INC.**

**Petitioner**  
and

**RSM RICHTER INC.**

**Monitor**

**MONITOR CERTIFICATE**

**ORIGINAL**

Me Alain N. Tardif  
Tel: (514) 397-4274  
Our file: 141185-397471

BC0847

**McCarthy Tétrault LLP**

Avocats • Agents de brevets et marques de commerce  
Barristers & Solicitors • Patent & Trade-mark Agents

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Montréal (Québec) H3B 0A2  
Tel.: 514 397-4100  
Fax: 514 875-6246

**EXHIBIT B**

# RSM! Richter Inc.

## Positron Technologies Inc. Sale of Assets Completed on December 21, 2007

### Sale Transaction (1)

Proceeds from sale	\$11,625,239.00
Advance of funds (2)	<u>849,281.00</u>
	12,474,520.00

### Provision

Estimated Post-filing liabilities (2)	(849,281.00)
Administrative charge	(250,000.00)
Director's charge	(525,000.00)
Other potential priority charges	<u>(1,000,000.00)</u>
	<u>(2,624,201.00)</u>
Net available funds	<u>9,850,239.00</u>

### Remittances

Bank indebtedness (operating credit)	
RBC Royal Bank	<u>(6,138,933.66)</u>
Debenture holders (secured) (3)	
- Quorum Investment Pool Limited Partnership – Debenture of \$1 million	(742,261.07)
- Positron Inc. – Debenture of \$1 million	(742,261.07)
- Aaron Fish – Debenture of \$1 million	<u>(742,261.07)</u>
	<u>(2,226,783.21)</u>
<b>Net funds on hand (1) (3)</b>	<b><u>\$ 1,484,522.14</u></b>

- (1) The sale transaction provides for a balance of sale of \$2,500,000, secured by a hypothec, to be paid in three installments no later than December 1, 2008.
- (2) Under the terms of the sale transaction, Triton is responsible for the payment of the operating expenses from December 1, 2007 to December 21, 2007.
- (3) The debenture holders have claimed secured rights for debentures totaling \$5,000,000. The balance owing will be paid from funds available subject to the validation of the security held by the debenture holders.

**EXHIBIT C**

**POSITRON TECHNOLOGIES INC.**

**Statement of receipts and disbursements**

For the period of November 25, 2007 to December 15, 2007

ORIGINAL PROJECTION	ACTUAL	VARIATION (\$)	VARIATION (%)	Notes
November 25 @ December 15, 2007				

**CASH RECEIPTS**

RECEIPTS OF PROJECTED SALES	-	-	-	
PROJECTED AR RECEIPTS US & CDN	3,384,394	-	(3,384,394)	
SHRINKAGE EFFECT	(200,000)	-	200,000	
ACTUAL AR RECEIPTS US & CDN	-	3,204,815	3,204,815	
SR TELECOM SETTLEMENT - Inventory sale	-	-	-	
CASH ADVANCE AND OTHERS	-	202,228	202,228	1
AP PAID TROUGH RECEIPTS	(427,091)	(134,566)	292,525	-68% 2
GST - QST	-	295	295	
OTHERS	-	-	-	
<b>Total receipts</b>	<b>2,757,303</b>	<b>3,272,772</b>	<b>515,469</b>	<b>19%</b> 3

**CASH DISBURSEMENTS**

Provision for payment agreements with suppliers	-	-	-	
Provision for professional fees	225,000	-	(225,000)	
Other provision payments to suppliers	433,236	-	(433,236)	
Cleared cheques to suppliers	-	893,451	893,451	
Outstanding cheques to suppliers	733,480	288,216	(445,264)	-61%
Offset of outstanding cheques to suppliers	-	(288,216)	(288,216)	
GST - QST payments	-	-	-	
Payroll & fringe benefits	833,292	738,658	(94,634)	-11%
Rental, heat & power	125,555	107,312	(18,243)	-15%
Debt service	103,564	-	(103,564)	
Provision for unforeseen events	300,000	-	(300,000)	
<b>Total disbursements</b>	<b>2,754,127</b>	<b>1,739,421</b>	<b>(1,014,706)</b>	<b>-37%</b> 4

<b>Total increase (decrease) in cash position</b>	<b>3,176</b>	<b>1,533,351</b>	<b>1,530,175</b>	<b>48179%</b>
<b>Opening bank indebtedness</b>	<b>(6,791,679)</b>	<b>(6,791,679)</b>	<b>-</b>	<b>0%</b>
<b>Closing bank indebtedness</b>	<b>(6,788,503)</b>	<b>(5,258,328)</b>	<b>1,530,175</b>	<b>-23%</b>

1. This amount of \$202K is a dividend received from Avestor's bankruptcy. This amount was expected only in a future period.
  2. On the possible \$427K of netting the suppliers could use against PTI's accounts receivable over this period, only \$134K was actually netted.
  3. Over the period, receipts were 19% or \$515K greater than expected. The variance is explained by note 1 and 2 here above.
  4. Disbursements are down 37% or \$1.02M when comparing actual against projections. Most of the difference is due to lower disbursements to suppliers than expected. This is because checks were either stopped or canceled the day of the filing (approximately \$500K).
- The remaining difference is due to lower disbursements relating to provision for unforeseen events, for which a provision of \$300K was projected over the period. Also, projected payments of \$103K for debt service were suspended. Finally, payroll is \$100K lower than expected because of voluntary departures and decrease in overtime costs.

EXHIBIT D

# RSM! Richter Inc.

## Positron Technologies Inc. Statement of Receipts and Disbursements for the Period of January 26, 2008 to April 9, 2008

### Funds on Hand

#### Funds on deposit with Monitor (1)

- |                                   |              |
|-----------------------------------|--------------|
| • D & O Charge                    | \$525,000.00 |
| • Administrative Charge           | 250,000.00   |
| • Potential Priority Charges      | 1,000,000.00 |
| • Funds subject to Secured Claims | 1,484,522.00 |

#### Funds advanced by Triton (2)

<u>849,281.00</u>
<u>4,108,803.00</u>

### Receipts

- |   |                           |
|---|---------------------------|
| • Collection of first installment of balance sale (3) | 1,000,000.00              |
| • Interest  | <u>(to be determined)</u> |
|   | <u>1,000,000.00</u>       |

### Disbursements

- |  |                     |
|--|---------------------|
| • Expenses relating to the period of December 1 to December 21, 2007 (2) | 849,281.00          |
| • Professional Fees (estimate)   | <u>250,000.00</u>   |
|  | <u>1,099,281.00</u> |

#### Funds on hand as at April 9, 2008

**\$ 4,009,522.00**

- (1) Pursuant to the sale transaction, the Monitor distributed the sale proceeds available to the secured creditors, subject to the provisions relating to priority charges and the validation of the secured creditors' rights.
- (2) Under the terms of the sale transaction, Triton is responsible for the payment of operating expenses for the period of December 1 to December 21, 2007.
- (3) The sale transaction provides for a balance of sale of \$2,500,000, secured by a hypothec, to be paid in three installments no later than December 1, 2008.