

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:

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

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

Petitioner

– and –

RSM RICHTER INC.

Monitor

**FIRST 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 is filing 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.
3. This first report of the Monitor is to inform the Court of the following:
 - General Corporate Information

- Events Leading to the CCAA
 - Sale of Assets
 - On-going Operations
 - Cash Flow Projections
 - Activities of the Monitor
 - Request for an Extension
 - Monitor's Recommendation
4. 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, as well as from discussions with its management.
5. The cash flow projections appended to this Report were prepared by PTI's management and are based on underlying financial assumptions. As the cash flow projections relate to future events, which the Petitioner may not control, variances may occur, which may be material.

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 is located at 18107 Trans-Canada Highway, Kirkland (Montréal), Quebec.
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.
9. PTI is a contract manufacturer of high technology electronic devices. PTI's customers develop new products and delegate the manufacturing of same to PTI.
10. PTI promotes full service turnkey production ("box build") including purchasing, manufacturing, testing, packaging, direct order fulfillment, after sales services and repairs.

11. As at the end of its last completed fiscal year, on March 31, 2007, PTI employed 432 persons, but this number has since been brought down to 250 in the context of their operation restructuring process.

EVENTS LEADING TO CCAA

12. In 2004, PTI embarked on an ambitious plan to take advantage of the growing market as a contract manufacturer for developers of high-tech electronic devices. To achieve the goals set forth in the 2004 Plan, significant relocation and equipment investments were made in early 2005, at a time when PTI had a limited number of customers.
13. By June 2005, such investments resulted in the need for significant financial support, which was obtained by PTI in the conversion of advances made to PTI by Positron Inc. in an amount of \$8,700,000 into Class A Common Shares, a share injection by Fonds FTQ of \$8,000,000 and the issuance to Quorum of \$2,000,000 secured convertible debentures.
14. Despite the 2005 financing, PTI posted a loss of \$5,445,000 for the year ending March 31, 2006, which was largely attributed to a decrease in sales coupled with an increase in fixed costs.
15. Although PTI raised the funds necessary to meet its capital needs (on or around April 30, 2007, PTI raised \$3,000,000 pursuant to the convertible debentures issued), PTI's financial situation did not improve due to its continued poor financial performance.
16. PTI's poor results were primarily attributable to :
 - a) The rapid growth of PTI's business;
 - b) A slowing down in the orders and payments of customers for products manufactured for their account;
 - c) PTI's difficulties in managing its inventory level and the timely coordination of its supply chain;
 - d) The decline in the value of the U.S. dollar, as most of PTI's customers are located outside of Canada and as many of PTI's contracts refer to U.S. currency; and
 - e) The loss of important clients, some of which have been experiencing financial difficulties, and the resulting write-off of important receivables and inventories.

17. On November 28, 2007, PTI's Board of Directors resolved to file for protection under CCAA in order to provide a framework to seek one or more strategic buyers to acquire all or part of the business/assets on a going concern basis.

SALE OF ASSETS

18. 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**").
19. 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, as well as further discussed in the Report of the Monitor submitted to the Court on the same day.
20. 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.
21. The closing of the sale transaction is scheduled for December 21, 2007.
22. The Monitor is not aware of any important matter that could jeopardize the closing of the sale transaction.

ON-GOING OPERATIONS

23. Since the filing for CCAA, the Petitioner, under direction of the Court-appointed CRO, Mr. Dominic Deveaux, has continued its operations.
24. Mr. Deveaux is taking the necessary steps and measures to continue PTI's business until the closing of the sale transaction with Triton.
25. Since November 28, 2007, date of the Initial Order, PTI has been paying its employees, suppliers and service providers on a timely basis.

CASH FLOW PROJECTIONS

26. Under the terms of the Offer, Triton has assumed the financial risk relating to the on-going business of PTI as of December 1, 2007. In this regard, Triton has been making the appropriate arrangements with suppliers to maintain the supply chain.
27. In conjunction with its Motion for the granting of the Initial Order, the Petitioner filed with the Court (as Exhibit "R-7" to the Motion), a Projected Cash Flow statement for the period of November 25, 2007 to February 2, 2008.
28. The actual cash flow results for the period of November 25, 2007 to December 15, 2007 are submitted as Exhibit "A". These results reflect that PTI is paying, on a timely basis, its employees and current suppliers.
29. We are not aware of any unusual and/or unbudgeted important expenses that have occurred since November 28, 2007, nor any important unpaid accounts.
30. The Revised Cash Flow Projections for the period from December 21, 2007 to January 25, 2008, are submitted as Exhibit "B".
31. The underlying assumption relating to the Revised Cash Flow Projections reflect the fact that, pursuant to the closing of the sale transaction with Triton, scheduled for December 21, 2007, PTI will no longer maintain any operations. The only activities will be those related to the winding-down of its corporate affairs and the dealings with its creditors. Therefore, the on-going expenses will be nominal.
32. The Petitioner will be dealing with and seeking advice from its professionals and the Monitor with the objective of submitting a Plan of arrangement to its creditors.
33. The proceeds from the sale of assets to Triton will initially be used to reimburse the amounts owed to PTI's secured lenders. The residual funds, subject to the Administration Charge and D&O Charge, will be ultimately distributed to PTI's creditors in conjunction with the terms of the Plan of arrangement to be made.

ACTIVITIES OF THE MONITOR

34. On December 7, 2007, in accordance with paragraph 24 (a) of the Initial Order, the Monitor sent to all of the Petitioner's known creditors, a notice advising them of the granting of the Initial Order, a copy of the Initial Order and a list of creditors. A copy of the mailing was also posted on our website.
35. The Monitor has attended numerous meetings and conference calls with the Petitioner's CRO and management to be kept apprised of important matters relating to the affairs of PTI.
36. The Monitor was kept informed of the negotiations with certain suppliers to secure the requisite supply of components and the continued deliveries to PTI's customers.
37. The Monitor had various discussions with the Petitioner's CRO and the Royal Bank of Canada's ("**RBC Bank**") legal counsel to apprise them of matters relating to on-going business as well as dealings with Triton relating to the sale of assets.
38. The Monitor has responded to numerous queries from the Petitioner's suppliers, employees and creditors relating to its affairs.
39. The Monitor has monitored PTI's use of its banking facility with RBC Bank.
40. The Monitor has participated in various meetings and discussions to deal with the finalization of matters relating to the sale of assets to Triton.

REQUEST FOR EXTENSION

41. 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) Until the closing of the sale transaction to Triton, it is premature for the Petitioner to devise a Plan of arrangement and submit same to its creditors.

- b) 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.
- c) The Petitioner's CRO and management have and continue to act in good faith, with due diligence and have been cooperating with all stakeholders involved in this process, including but not limited to the Monitor, PTI's secured lenders as well as other creditors.


MONITOR'S RECOMMENDATION

42. The Monitor recommends that the Court grant the Petitioner an extension of the Initial Order until January 25, 2008 for the following principal reasons:

- a) The Petitioner has and continues to act in good faith and with diligence;
- b) The Petitioner has not prejudiced its creditors, as it has paid, on a timely basis, on-going expenses and liabilities since the date of filing;
- c) The Petitioner needs additional time in order to close the sale transaction with Triton scheduled for December 21, 2007;
- d) The Petitioner needs additional time to determine the terms of the Plan of arrangement to be made to its creditors.

DATED AT MONTREAL, this 19th day of December, 2007.

RSM RICHTER INC.
Court-Appointed Monitor


Per: Yves Vincent, FCA, CIRP