

CANADA
PROVINCE OF QUÉBEC
N^o DIVISION : 01-MONTRÉAL
COURT No : 500-11-039197-104
FILE No : 41-342535

SUPERIOR COURT
« Commercial Division »

IN THE MATTER OF THE BANKRUPTCY OF :

OUTIL & MATRICE HARRINGTON INC.,
legal person and constituted according to the
Canada Business Corporations Act, having a
place of business at 5, Place Ville-Marie,
Suite 1203, Montreal, Québec, H3B 2G2

Debtor company

-et-

LE GROUPE FULLER LANDAU INC.

Trustee

TRUSTEE'S REPORT TO THE CREDITORS ON HIS PRELIMINARY ADMINISTRATION

1. HISTORY

Outil et Matrice Harrington Inc. ("Harrington") exists since 1914. The majority of its shares were acquired in 1989 by 170936 Canada Inc., a company administered by Mr. Theodor Zaharia, Harrington's president. 140610 Canada Inc., a company administered by M. Jean-Claude Arpin, owns the balance of Harrington's shares.

Harrington manufactured components for the automobile and aeronautical industries. Its financial problems are related to these industries' difficulties. Harrington also developed and manufactured high precision machinery in the manufacturing sector, but this was not its core business.

On June 2010, after many defaults on payments and other requirements relating to the loan agreements, the Caisse Desjardins Charles-Lemoyne ("Caisse") recalled her loans and sent an Advance Notice to Enforce a Security, pursuant to section 244(1) of Bankruptcy and Insolvency Act ("BIA"). During the 10 day notice period, the Caisse extended loans to allow Harrington to meet certain obligations like payroll. A turnaround plan was being discussed. At the expiration of the 10 day delay, on June 22, 2010, since the Caisse still hadn't agreed to further advance funds, Harrington had to cease its operations and layoff its employees.

To allow management enough time to formulate a restructuring plan, the Company filed, on June 28, 2010, a "Notice of Intention" to file a proposal in virtue of Section 50.4(1) of BIA. On July 7, 2010, a projected cash flow was filed in virtue of Section 50(6) and 50.4(2) of the BIA with the Official Receiver. Upon the filing of the Notice of Intention there were 172 creditors excluding employees who were approximately one hundred.

The Caisse maintained its loans to Harrington during its Notice of Intention but under the condition that Groupe Fuller Landau Inc. be appointed Interim Receiver. The Court approved this appointment on June 29, 2010. Certain limited and targeted operations were resumed and a turnaround plan was being worked on.

A first extension of time for filing a proposal (to September 20, 2010), in virtue of Section 50.4(9) of the BIA, was approved by the Court on July 26, 2010. A second extension (to October 25, 2010) was obtained on September 8, 2010. During these extensions, the Company tried to attract investors and negotiate agreements to re-launch the operations, but in vain.

Finally, being unable to file a viable proposal to its creditors, the Trustee advised the Official Receiver on October 26, 2010 in virtue of Section 50.4 (8) (b) of the BIA rendering the bankruptcy of Harrington effective.

2. STATEMENT OF AFFAIRS

2.1. ASSETS

The statement of affairs of Harrington lists the following assets:

| | |
|---|--------------------|
| 2.1.1. Accounts Receivable | \$ 382,709 |
| 2.1.2. Machinery and equipment | \$1,350,000 |
| 2.1.3. Inventory | \$ 130,000 |
| 2.1.4. Research and development credits | <u>\$ Unkown</u> |
| Total | <u>\$1,862,709</u> |

The trustee retained the services of Gestion JPM to make an inventory of the assets of Harrington.

2.1.1. *Accounts receivable (pledged)*

The accounts receivable represent sales invoiced to clients before and during the Notice of intention. They are pledged to the Caisse.

2.1.2. *Inventory (pledged)*

The inventory is pledged to the Caisse in virtue of a moveable hypothec.

2.1.3. *Machinery and equipment (pledged)*

The machinery and equipment is pledge to the Caisse, Investissement Quebec, HSBC and certain leasing companies (MCAP Leasing, Lange Laden and Lift Capital) in virtue of hypothecs.

2.1.4. *Research and development credits (pledged)*

Research and development credits are pledged to the Caisse.

2.2. LIABILITIES

2.2.1. *Caisse Desjardins Charles-Lemoyne, Régie des Rentes du Québec and employees*

All of the assets are pledged to creditors in virtue of various hypothecs. The trustee has retained the services of Me. Renaud Lanthier of the legal firm Bernard Brassard to provide a legal opinion on the validity of the secured claims.

The secured claims listed in the statement of affairs total \$9,862,755 for the Caisse, \$2,300,000 for Investissement Québec and \$249,673 for the Régie des Rentes du Québec, in virtue of Section 81.5 of the BIA.

The secured claims for employees under the Wage Protection Program and in virtue of Section 81.3 of the BIA, is estimated at \$61,471.

At the date of this report, the Trustee had received the following secured claims:

- The Caisse claiming \$9,822,136 of which \$6,822,136 is secured;
- The Régie des Rentes du Québec claiming \$2,373,870 of which \$249,673 is secured.

2.2.2. Federal and provincial governments

On the statement of affairs, no amount is showing as being owed to Revenue Canada and to the Ministère du Revenu du Québec as deductions at source deducted from the employees' pay but not remitted by the debtor company. At the date of this report, no deemed trust claims were received.

2.2.3. Property of others

At the date of this report, the trustee had received one property claims from MCAP Leasing Inc. for a Nakamura-Tone CNC Turning machine and a S9 Double-End "C" machine.

2.2.4. Privileged creditors

At the date of this report, the trustee had not received any privileged claims.

2.2.5. Unsecured creditors

The total unsecured claims as per the Statement of Affairs amounted to \$14,019,578. At the date of this report the trustee has not received sufficient claims to determine if this amount would vary.

3. CONSERVATORY MEASURES

Since the filing of the assignment in bankruptcy, the trustee has performed the following conservatory measures:

- Inventory taking and control by Gestion JPM;
- Changing of locks and alarm codes;
- Verification of the ventilation and heating system;
- Taking of Insurance on assets;
- Guarantee of services with Bell, ADT, Hydro Quebec and Gaz Metro;
- Opening a trust account with the Royal Bank of Canada;

4. OTHER INFORMATION

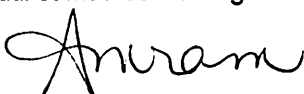
The trustee will proceed to a brief analysis of the books and accounting records of the debtor company in order to determine the existence, if any, of preferential payments and/or revisable transactions. The trustee, with the help of the inspectors appointed, will determine the liquidation process of the assets.

5. ANTICIPATED REALIZATION

Based on the foregoing, the trustee does not anticipate any distribution to the preferred or unsecured creditors.

DATED AT MONTREAL, NOVEMBER 15, 2010

Trustee to the estate of
Outil et Matrice Harrington Inc.



Per : Karina Amram, CA, CIRP
Designated administrator