

District of Alberta
Division No: 02 - Calgary
Court/Estate No: 25-093976

**IN THE MATTER OF THE BANKRUPTCY OF
ART EVOLUTION INC.**

TRUSTEE'S PRELIMINARY REPORT

BACKGROUND

1. Established in 2007, Art Evolution Inc. (the "Company") manufactured framed, wholesale art. The Company was located in Calgary, Alberta.
2. The Company made an assignment in bankruptcy effective March 2, 2010 and Meyers Norris Penny Limited was appointed Trustee of the Estate (the "Trustee").

CONSERVATORY AND PROTECTIVE MEASURES

3. The Company ceased operations prior to its assignment into bankruptcy. The Trustee made arrangements to vacate the Company's leased premises and store the Company's assets at a third party facility due to the significant costs associated with maintaining the leased premises in relation to the liquidation value of the Company's assets.
4. The Trustee has taken possession of the Company's books and records.

ASSET REALIZATION AND PROJECTED DISTRIBUTION

5. As at the date of bankruptcy the realizable assets of the Company consisted of the following:

	Net Book Value	Estimated to Produce
Description	(Note 1, 2)	
Cash	\$ 3,348	\$ -
Accounts Receivable	95,553	Unknown
Inventory	5,545	Unknown
WIP	5,799	-
Office Equipment and Furniture	9,286	Unknown
	\$ 119,530	\$ -

NOTES:

1. The source of information is the Company's internally prepared, unaudited financial statements as at December 31, 2009. It should be noted that net book value is not necessarily indicative of realizable or liquidation value.
2. The Company's assets are subject to various deemed trust and secured claims.

6. As the aging and uncertainty of the quality of the Company's accounts receivable is unknown and as the Trustee has not obtained an appraisal of the inventory and office equipment and furniture, the Trustee is not able to provide a projected distribution at this time.

SUMMARY OF CLAIMS

7. Below is a summary of claims contained in the Company's Statement of Affairs:

Description	Amount
Secured	\$ 565,001
Preferred	28,000
Unsecured	346,649
	<u>\$ 939,650</u>

8. Below is a summary of proven claims as at 3:00 pm, March 19, 2010:

Description	Amount
Secured	\$ 27,450
Preferred	55,358
Unsecured	304,291
	<u>\$ 387,098</u>

SECURED CREDITORS AND DEEMED TRUST CLAIMS

9. The following creditors appear to have a registered security interest against the assets, property and undertakings of the Company:

Bank of Montreal
 1330859 Alberta Ltd.
 Pockar Management Inc.

10. Claims that may rank in priority to the claims of the secured creditors include claims of former employees under the Wage Earners Protection Program Act ("WEPPA") and of Canada Revenue Agency ("CRA") with respect to unremitted employee source deductions.
11. The Company utilized a payroll service and as such, the Trustee is not anticipating that any deemed trust claims will be filed by either former employees or CRA.

LEGAL

12. The Trustee has not obtained a legal opinion with respect to the validity and enforceability of any registered security interests.

REVIEW OF TRANSFERS AT UNDERVALUE

13. The Trustee is not aware of any transactions that occurred prior to the date of bankruptcy that would constitute a transfer at undervalue or a fraudulent preference as defined by subsections 95 and 96 of the *Bankruptcy and Insolvency Act*.

OTHER

14. In order to indemnify the reasonable costs of the Trustee's administration, a director of the Company, Mr. Keith Oberg, provided the Trustee with a \$30,000 retainer and a third party guarantee.

Dated at Calgary, Alberta this 19th day of March, 2010.

MEYERS NORRIS PENNY LIMITED

In its capacity as Trustee of the Estate of
Art Evolution Inc., a bankrupt
And not in its personal capacity

Katherine Bujold, CIRP
Vice President