

**REPORT OF THE PROPOSED COURT-APPOINTED RECEIVER OF  
MEIKLE GROUP INC. AND MEIKLE AUTOMATION INC.**

**Meyers Norris Penny Limited**

April 29, 2010



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ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

**JAMES BEINGESSNER IN HIS PERSONAL CAPACITY AND AS AGENT FOR THE  
PARTIES LISTED IN APPENDIX "A" HERETO**

**Applicant**

**- and -**

**MEIKLE GROUP INC. AND  
MEIKLE AUTOMATION INC.**

**Respondents**

**REPORT OF MEYERS NORRIS PENNY LIMITED.  
IN ITS CAPACITY AS PROPOSED COURT-APPOINTED RECEIVER  
OF MEIKLE GROUP INC. AND  
MEIKLE AUTOMATION INC.**

**APRIL 29, 2010**

**INTRODUCTION**

1. Meyers Norris Penny Limited ("MNP") understands that on April 28, 2010, Mr. James Beingessner the Applicant and the authorized agent for the parties listed in **Appendix A** hereto (collectively, the "Lending Syndicate") , filed a Notice of Application to the Ontario Superior Court of Justice (the "Court") for two orders that, *inter alia*, appoint MNP as receiver ("Receiver") pursuant to Section 243(1) of the *Bankruptcy and Insolvency Act* (Canada) and Section 101 of the Courts of Justice Act (Ontario) of substantially all of the property, assets and undertaking (the "Subject Property") of each of Meikle Group Inc. ("Meikle Group") and Meikle Automation Inc. ("Meikle Automation" and together with Meikle Group , "Company" ) for the limited purpose of completing a sale ("Transaction") of the Subject Property on a going-concern basis to **Forefront Automation Inc.** (the "Purchaser"). The Receiver will not take possession or control of the Company.
2. MNP is writing this report (the "Report") in its capacity as proposed Receiver and understands the Report is intended to be relied upon in relation to the Application being brought by the Applicant.

3. The purposes of this Report is to provide this Honourable Court with information on the matters noted below:
- i. the Company's background, historical operating results, current financial position (including the nature and composition of its assets and liabilities) and current circumstances;
  - ii. the causes of the Company's financial difficulties and attempts at refinancing its operations (the "Refinancing"), and the recent events leading up to the proposed Transaction;
  - iii. the Transaction contemplated by a prospective Agreement of Purchase and Sale to be entered into by the Receiver and the Purchaser (the "APA"), which APA is included in the Beingessner Affidavit;
  - iv. a preliminary review of the security granted by the Company in favour of each of Bank of Montreal ("**BMO**"), the Lending Syndicate, Greenrock Capital Corporation ("**Greenrock**") and Revmar Inc. ("**Revmar**") (collectively the "**Principal Secured Creditors**");
  - v. realization options for the Subject Property, including the results of a liquidation analysis prepared by MNP;
  - vi. MNP's conclusions regarding the Transaction; and
  - vii. MNP's recommendation that this Honourable Court issue an order(s):
    - appointing MNP as Receiver for the limited purpose of completing the Transaction;
    - approving the APA and providing the Receiver with the authority to execute the APA and complete the Transaction;
    - vesting title to the Subject Property in the Purchaser or as the Purchaser may direct; and
    - approving payment of the Priority Payables (as defined below).
4. In preparing this Report, MNP has relied upon unaudited financial information prepared by the Company's management, the Company's books and records, and discussions with the Company's employees, the Lending Syndicate MNP has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. MNP expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by MNP in preparing this Report.
5. All currency references are in Canadian dollars unless otherwise specified.

## CORPORATE STRUCTURE

6. A copy of Meikle group of companies' ("**Meikle**") corporate organization chart is attached hereto as **Appendix "B"**
7. Meikle consists of Meikle Group, which is a direct or indirect shareholder of the following entities:
  - i. Meikle Automation, an Ontario corporation and the main Canadian operating entity;
  - ii. Meikle Holdings (Mexico) Inc., an Ontario Corporation which serves as a holding company for Calvek S.A. de C.V. ("**Calvek**");
  - iii. Meikle Group Corporation, a Delaware corporation ("**Meikle Corp**"), which is the sole shareholder of each of: (i) Meikle Inc. ("**Meikle De**"), a Delaware corporation; (ii) Meikle Automation Corporation ("**Meikle Automation Corp.**"), a California corporation; (iii) Meikle NY Inc. ("Meikle NY"); a New York corporation; and (iv) Meikle Properties Inc., ("**Meikle Properties**"), a New York corporation; and
  - iv. Meikle Mexico S.A. de C.V., a 51% joint venture in Mexico.

## BACKGROUND

8. Meikle was founded in 1994 as a supplier of automated machinery and related engineering to the automotive industry with its headquarters and manufacturing facilities located in the City of Kitchener, Ontario. Meikle Group and its subsidiaries carry on operations as designers and builders of automated machinery for the automotive, medical and solar energy industries in Canada, Ontario, the states of New York and North Carolina, and in Mexico.
9. In almost all cases, sales contracts are negotiated with customers for each project, including the respective customers providing Meikle Group with advance deposits and on-going milestone payments.
10. In 2006, as a result of the deterioration of the automotive industry, Meikle began to diversify to other markets, namely the medical and solar energy industries. By 2007, Meikle had significantly reduced its output to the automotive sector to 25% of approximately \$42 million annual consolidated revenue (reduced from 80%). In 2007, Meikle penetrated the solar energy industry with automated assembly lines for solar cells, metallization layer solutions, systems for silicon ingots and high vacuum deposition process chambers. By 2009, approximately 65% of Meikle's consolidated annual revenues of approximately \$31 million were derived from the solar energy industry.

11. Meikle currently employs approximately 88 non-unionized employees in Ontario and operates from two leased facilities located in the City of Kitchener, Ontario. The term of the lease agreements for the two locations have expired and the leases continue on a month-to-month basis.
12. For the fiscal years ended December 31, 2008 and 2009, Meikle incurred consolidated losses of \$5.1 million and \$1.9 million respectively. Additional information regarding the Company's historical operating results and current financial position is set out below in paragraphs 32 to 36.
13. BMO has been the Company's senior secured lender since late 2003. BMO has currently authorized three loan facilities - a demand line of credit to a maximum of \$2 million (the "Demand Line"), a demand mortgage (the "Demand Mortgage") with a BMO USA subsidiary in the amount of US\$1.1 million, and an overdraft facility up to \$3.5 million. As at the date of this Report, the Company's indebtedness to BMO totals approximately \$2.1 million, comprising \$1.2 million Demand Line in Canada and a cross guarantee of approximately \$0.9 million on the mortgage of the facility located in Rochester, New York. Since December 2008, Meikle has been operating under a Forbearance Agreement (defined below) with BMO.
14. As set out below in paragraph 37, the Lending Syndicate, Greenrock and Revmar have provided a total of \$3.1 million of secured advances in 2007 and 2009, respectively.
15. Further background information with respect to the Company is set out in the Affidavit of James Beingessner sworn April 29, 2010 (the "**Beingessner Affidavit**").

#### **RECENT EVENTS LEADING TO THE RECEIVER APPOINTMENT APPLICATION**

16. Meikle began to suffer significant operating losses in 2007 and 2008, including as a result of, *inter alia*: (i) a gradual transition away from the automotive industry into the new business sectors; and (ii) the poor state of the economy and of the automotive market in particular.
17. These operating losses increased the strain on Meikle's liquidity and working capital.
18. Due to the Company's continuing losses and other related factors, set out above, Meikle was in default of its obligations to BMO by December 2008. Following discussions with BMO, Meikle and BMO entered into a Forbearance Agreement dated December 24, 2008 (the "**Forbearance Agreement**"). Since entering into the Forbearance Agreement, Meikle has been unable to meet the terms of the Forbearance Agreement, resulting in breaches thereof.

19. On December 22, 2009, counsel for the Lending Syndicate sent a notice of default to Meikle Automation demanding immediate payment of the amount due under the Loan Documents.
20. From the beginning of 2010, Meikle Automation has been unable to service its debts and other obligations as they came due in the ordinary course of business, which has resulted in mounting problems with key stakeholders, including:
  - i. BMO issued letters of demand (the "Demands") and Notices of Intention to Enforce a Security (the "**NITES**"), all dated April 16, 2010, pursuant to Section 244 of the BIA for payment of all amounts owing to BMO. To date Meikle has not responded to the Demands and NITES;
  - ii. as set out in the Beingessner Affidavit, MNP understands that BMO has advised Meikle that it is not prepared to provide any further indulgences to the Company and will not fund the Receiver to continue the Company's operations through a receivership and sale process;
  - iii. the landlord is threatening to distrain against the Company's assets at the two Ontario facilities;
  - iv. Hydro has issued a termination notice dated April 14, 2010 threatening to turn off power to the facilities;
  - v. as set out below in paragraphs 23 and 24, key management and certain employees, including Meikle Automation's Vice President Sales and Marketing, have resigned in the past month due to the uncertainty with the business; and
  - vi. as discussed below in this Report, a number of vendors have stopped supplying product and have issued statements of claim against Meikle, Meikle Group, Meikle Automation and the directors of Meikle.
21. Due to the Company's worsening lack of liquidity, the Company is on cash-in-advance or cash-on-delivery terms with the majority of its suppliers.
22. According to Meikle Automation's most recent work-in-progress ("WIP") report, Meikle Automation does not have the liquidity or other funding to complete the WIP. It is estimated that Meikle Automation currently requires approximately \$3.6 million in cash to complete work resulting in Meikle Automation experiencing nominal or negative cash flows. The majority of outstanding accounts receivable of \$1.6 million is comprised of interim billings on WIP. This will have two major implications. Firstly, customers will not pay for projects that are incomplete, with the result that existing accounts receivable of approximately \$1.6 million will be uncollectable. Secondly, Meikle Automation is rapidly losing its customers' confidence as a result of the Company being unable to complete the WIP on time.

23. On or about April 13, 2010, at Meikle Group's Board of Directors meeting, both the Chief Executive Officer, Andrew Meikle, and the Chief Financial Officer, Jeff Hofman, were asked to resign by the board. Neither Mr. Meikle nor Mr. Hoffman has resigned, nor do they attend at the premises, which puts the management and direction of Meikle in question. In addition, the entire Board of Directors, other than Mr. Randy Fowlie, also agreed to resign, which they did.
24. MNP understands that Mr. Fowlie subsequently resigned from the Board of Directors on April 24, 2010.
25. Currently Mr. Larry Phelan (Chief Operating Officer) is the only senior management person remaining without authority to sign on behalf of, or otherwise bind, the Company.
26. The Company's financial difficulties have become so severe that it has been unable to fund its overhead and payroll, resulting in the Purchaser, the Lending Syndicate, Greenrock and Revmar funding these costs of approximately \$180,000 since April 16, 2010, in order to retain the engineering team and preserve the Company's intellectual property, considered by the Purchaser to be the Company's primary asset.

#### **URGENCY**

27. Based on the information available, and absent the Company obtaining additional immediate financing to support operations (in particular payroll), the Company will cease operations to the detriment of the Company's stakeholders. To be clear, there is currently no funding for obligations such as wages beyond April 30, 2010.
28. The Company has exhausted all of its resources and to date has continued to operate solely by virtue of further loans provided by the Purchaser, the Lending Syndicate, Greenrock and Revmar.
29. BMO will not provide nor will it consent to Debtor In Possession ("**DIP**") financing.
30. None of the Principal Secured Creditors are willing to fund or support a sale process.

31. Should the contemplated Transaction not be completed, it is likely that, amongst other things:
- i. the Company will cease operations and potentially be bankrupt or otherwise liquidated, resulting in the loss of approximately 88 jobs, including a highly skilled labour force;
  - ii. there would likely not be any realization from the Company's accounts receivable as the current WIP will not be completed by the Company and substantial damages and set-off claims will arise; and
  - iii. BMO will likely suffer a shortfall and the Lending Syndicate, Greenrock and Revmar will receive no recovery.

## FINANCIAL POSITION AND OPERATING RESULTS

### Historical Operating Results

32. The table below reflects Meikle Group's and Meikle Automation's unconsolidated financial performance since 2007. In this regard it is to be noted:

- The 2009 financial information is not yet finalized; and
- As a result of the 2009 results not being finalized, management is unable to prepare a meaningful set of financial statements for the current year to date.

	(\$000s)					
	(Unaudited) <sup>1</sup> Year Ended December 31 <sup>1</sup>			(Unaudited) Year Ended December 31 <sup>1</sup>		
	Meikle Group			Meikle Automation		
	2009	2008	2007	2009	2008	2007
Sales	213	268	338	16,018	11,363	16,061
Gross Margin	173	224	286	4,560	2,768	2,165
Gross Margin percentage	81.0%	84.0%	85.0%	28.0%	24.0%	13.0%
Less: Operating expenses	181	233	302	5,485	6,497	7,190
Other Items	(78)	108	(83)	(521)	652	135
<b>Net Income/(loss), before taxes</b>	<b>(86)</b>	<b>99</b>	<b>(99)</b>	<b>(1,446)</b>	<b>(3,077)</b>	<b>(4,890)</b>

1 – Sourced from Meikle Group and Meikle Automation's internally prepared financial statements, which are unaudited and are not yet finalized.

**Financial Position**

33. Meikle Group and Meikle Automation's balance sheet as at December 31, 2009 is presented below.

	(\$000s)	
	Meikle Group <sup>1</sup>	Meikle Automation <sup>1</sup>
<b>CURRENT ASSETS</b>		
Accounts receivable	-	2,316
Inventory	-	40
Prepaid expenses	(3)	689
Intercompany receivable	3,283	15
Cost and earnings in excess of billings on WIP	-	41
Income taxes recoverable	-	1,165
<i>Total current assets</i>	<u>3,280</u>	<u>4,266</u>
Capital assets (net)	842	-
Intercompany investments	8,587	-
<b>TOTAL ASSETS</b>	<b><u>12,709</u></b>	<b><u>4,266</u></b>
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	-	1,438
Accounts payable and accrued liabilities	-	3,829
Billings in excess of costs and estimated earnings on WIP	-	7,301
Income taxes payable (receivable)	-	-
Intercompany payable	-	3,333
Current portion of long-term debt and capital lease obligations	-	143
<i>Total current liabilities</i>	<u>-</u>	<u>16,044</u>
Loan term debt and capital lease obligations	-	2,420
Non-controlling interest in net assets of subsidiary	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>18,464</u>
<b>TOTAL EQUITY</b>	<u>12,709</u>	<u>(14,198)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>12,709</u></b>	<b><u>4,266</u></b>

1 – Sourced from Meikle Group and Meikle Automation's internally prepared financial statements, which are unaudited and are not yet finalized.



34. The December 31, 2009 balance sheet reflects that:
- i. Meikle Automation is highly leveraged — the book value of Meikle Automation's liabilities is approximately 4.3 times the book value of its assets;
  - ii. Meikle Automation has negative working capital of approximately \$11.8 million; and
  - iii. Meikle Automation has negative book equity totaling approximately \$14.2 million.
35. Meikle Group's Intercompany Receivable and Intercompany Investments are worth little or have no value given the current financial position of Meikle Group and its subsidiaries.
36. MNP understands the following regarding the assets of Meikle Group and Meikle Automation:
- i. Meikle Group's assets include shares in its subsidiary companies and manufacturing equipment; and
  - ii. Meikle Automation's principal assets comprise, a Scientific Research and Experimental Development tax refund for fiscal 2009 for approximately \$1.3 million which is subject to audit by Canada Revenue Agency, accounts receivable and prepaid expenses.

**CREDITORS**

37. The following is a table which summarizes the parties which have registered against Meikle Group and Meikle Automation under the Ontario Personal Property Security System ("OPSS") as at April 21, 2010 together with the approximate amounts that they are owed to April 21, 2010 based upon the Company's records:

<b>PARTY</b>	<b>OPSS Registration Date</b>	<b>DEBT</b>	<b>COLLATERAL</b>
Bank of Montreal	Nov-13-2003	\$1,209,000 plus interest from April 14, 2010 and recovery costs	Inventory, Equipment, Accounts, Other, Motor Vehicle Included
Jim Beingessner (the Lending Syndicate)	Nov-9-2007	\$2,645,000 plus interest from April 26, 2010 and recovery costs	Inventory, Equipment, Accounts, Other, Motor Vehicle Included
Greenrock Capital Corporation and Revmar Inc.	Oct-28-2009	\$500,000 plus interest and recovery costs	Inventory, Equipment, Accounts, Other, Motor Vehicle Included

**Claims that Rank or May Rank in Priority to all Secured Creditors**

38. Based on the Company's books and records as at April 23, 2010 and assuming that the Purchaser, Lending Syndicate, Greenrock and Revmar are funding payroll due up to and including April 30, 2010, potential "priority payables" in a receivership scenario total approximately \$387,000 and are comprised of the following (collectively, the "**Priority Payables**").

<b>Description</b>	<b>(\$000s)</b> <b>Priority Payable</b>
Vacation pay	238
Unremitted source deductions	85
Payroll due May 3, 2010	53
GST obligations	11
<b>Total</b>	<b>387</b>

**Other Secured Parties**

39. MNP understands that in addition to the Principal Secured Creditors noted in paragraph 37 above, there are various other secured parties who have registered security interests under the OPPSS against Meikle Automation as summarized in the table below.

<b>Secured Party</b>	<b>Collateral</b>
General Motors Acceptance Corporation of Canada Limited (" <b>GMAC</b> ")	2005 GMC Sierra
Strech Inc.	1.2ML & 2.0ML ESR vacuum tube assembly pack Automation proposal #05543E, Inc. all materials and inventory
Roth & Rau AG	Project Specific re: buyer's purchase orders numbered 200708/05 and EB-07-002990
BMW Canada Inc.	2005 Volvo XC90 Utility 4D 2
BMW Canada Inc.	2004 BMW 530i
BMW Canada Inc.	2004 BMW M3
Volvo Car Financial Services Canada	2005 Volvo V70
Toyota Credit Canada Inc.	2005 Pontiac
Toyota Credit Canada Inc.	2005 Pontiac
Toyota Credit Canada Inc.	2006 Pontiac
Hanwha International LLC	5 Meikle GM Daewoo X-24 Clutch stacker Machines inc. materials and inventory
Fanuc Robotics Canada, Ltd	Two (20 Fanuc Robotics LR Mate Model Robots, one (1) Fanuc Robotics M-6 Model, Robot and one (1) Fanuc Robotics M-16 Model Robot Inc. Robot Arms, Controllers, spare Parts

**Unsecured Creditors**

40. According to Meikle Automation's books and records, Meikle Automation's indebtedness to its unsecured creditors as at April 18, 2010, was approximately \$3.4 million, the majority of which is owing to trade suppliers. As illustrated in the following table, the Company's trade obligations are significantly aged; approximately 81% of these obligations are aged greater than 90 days.

	<b>Current</b>	<b>Over 30 days</b>	<b>Over 60 days</b>	<b>Over 90 days</b>	<b>Total</b>
Accounts Payable (\$000s)	107	371	167	2,717	3,362
Accounts payable (%)	3.0%	11.0%	5.0%	81.0%	100.0%

41. As at April 18, 2009, amounts owed by Meikle Automation to its five (5) largest unsecured creditors were as follows:

<b>Creditor</b>	<b>Amount (\$000s)</b>
Beckhoff Automation LLC	536
ABB Automation	440
Bosch Rexroth	205
Gowling Lafleur Henderson LLP	196
PricewaterhouseCoopers	130
	1,507
All Others	1,856
<b>Total</b>	<b>3,363</b>

42. MNP has been advised that the Company is either on cash-in-advance or on cash-on-delivery terms with the majority of its vendors.

43. Additionally, a number of the Company's suppliers, including but not limited to ABB Automation and Bosh Rexroth, have filed a Statement of Claim against the Company, and certain of its former directors seeking damages of for non-payment of the Company's obligations owing to these suppliers, plus interest and costs.

## REFINANCING

44. As set out in the Beingessner's Affidavit, Meikle has been trying for approximately two years to raise capital without success. A number of formal and informal attempts have been made to secure new equity in order to stabilize Meikle's balance sheet.
45. Included in the efforts to raise capital and/or financing are the following:
  - iii. In June 2008, Calotto Capital Inc. ("**Calotto**"), a Capital Pool Company ("**CPC**") listed on the TSX-V, was going to purchase a stake in Meikle in a reverse takeover. The transaction was contingent on Meikle being able to raise \$3 million. The TSX listing requirements required the additional capital to ensure Meikle had positive working capital. A preliminary prospectus was filed on July 18, 2008. They were unable to raise the additional capital and as a result the transaction was terminated in November 2008; and
  - iv. In January 2010, Meikle created and circulated a Confidential Information Memorandum ("**CIM**") for a proposed \$4 million financing through a convertible debenture. After approximately four months, there had been no interest in either the financing or propositions to purchase Meikle.

## REALIZATION OPTIONS

46. In a going-concern sale scenario, initiating a marketing process would carry significant inherent costs and risks to the Receiver and the estate, including:
  - i. The lack of interim funding for the cash-flow shortfalls, as each of the Principal Secured Creditors has indicated that it would not agree to provide DIP financing nor consent to such financing in priority to its secured interests;
  - ii. Employees seeking alternative employment or requiring significant retention bonuses;
  - iii. Customers refusing to pay accounts receivable and asserting damages and set off claims;
  - iv. Customers ceasing to do business with Meikle Automation and finding alternative sources of supply given the uncertainty surrounding the Company, thereby eroding the revenues and value of Meikle's business;
  - v. Product quality and long-term product liability insurance concerns associated with continuing the business; and
  - vi. Significant professional fees likely to be incurred in continuing the business and pursuing a court-supervised sale process, to the detriment of all stakeholders.
47. In light of the factors highlighted above, including but not limited to the Company's prior attempts to raise financing, should the contemplated Transaction not be completed, the Receiver would have no alternative other than to shutdown and liquidate the Company.

## TRANSACTION

48. The Purchaser has proposed the purchase of the Company's Subject Property on the terms as set out in the APA, which contemplates the appointment of MNP as Receiver of Meikle and the granting of an approval and vesting order authorizing MNP to enter into the APA and to sell the Subject Property to the Purchaser. As set out in the Beingessner Affidavit, the Purchase Price (as defined in the APA) is \$4,088,722, subject to potential adjustments.
49. The APA contemplates that the Purchase Price will be satisfied by the payment of \$1,715,000 to MNP or as directed by MNP, and the assumption of certain liabilities (discussed below). The cash portion of the Purchase Price is intended to be sufficient to enable MNP to satisfy: (i) BMO's claims in respect of amounts outstanding under the Demand Line; and (ii) payment of all Priority Payables.
50. A number of the provisions of the APA address payment of the Priority Payables. Pursuant to Sections 4.01(2) and 6.01(2), the Receiver is obliged to pay all Priority Payables as promptly as possible following closing of the Transaction. However, the obligation to pay Priority Payables other than those that relate to employee claims is limited in that they must only be satisfied to the extent that the proceeds of the Purchase Price received by the Receiver are available following payment (i) amounts owing to BMO as required by the APA, (ii) the Initial Fee Amount and (iii) the Priority Payables relating to employee claims.
51. The APA also contains covenants by the Purchaser: (i) in Section 4.02(7), to pay the Initial Fee Amount on the closing of the Transaction (as defined in the APA, and being \$75,000 to be applied to the fees and disbursements of the Receiver and its counsel); (ii) in Section 4.02(5), to pay any further reasonable fees and disbursements of the Receiver and its counsel in connection with preparation for the Appointment Order, the APA and the Transaction; and (iii) in Section 4.02(6), to pay to the Receiver the amount required in order to pay all Priority Payables as required by Section 4.01(2) of the APA (namely, Priority Payables other than those relating to employee claims), to the extent that the amounts paid to the Receiver are less than the aggregate amount of the Priority Payables, the Initial Fee Amount and the amount to be paid to BMO under the APA. MNP notes that Article 5 of the APA contains a condition precedent to closing that the Purchaser be satisfied that the Priority Payables do not exceed \$400,000.
52. The remaining portion of the Purchase Price will be satisfied by the assumption of certain of the

Company's existing indebtedness by the Purchaser. Specifically, the assumed indebtedness includes:

- i. \$1,893,546 of the principal amount owing by Meikle Group to the Lending Syndicate;
- ii. \$109,229 of the principal amount owing by Meikle Group to Greenrock;
- iii. \$109,229 of the principal amount owing by Meikle Group to Revmar; and
- iv. \$261,718 of the indebtedness owing by Meikle to Forefront.

53. Pursuant to Section 3.05 of the APA, the Purchaser acknowledges that the proposed Transaction is on an 'as is, where is' basis. Additionally, the Purchaser will provide a standard indemnity to MNP in connection with the APA and the assumption of the liabilities noted above.
54. Certain of the Company's assets are excluded from the Subject Property and are not being conveyed to the Purchaser pursuant to the APA. These "Excluded Assets" (as defined in the APA) are identified on Schedule A to the APA. Included in the Excluded Assets are leased or financed motor vehicles and other assets specifically identified or described on PPSA registrations filed by the other secured creditors of Meikle, with the exception of the vehicle lease by Meikle from GMAC, subject to GMAC's consent. Because these assets are excluded from the Subject Property, the secured creditors with claims thereto will not be prejudiced by the Proposed Transaction.
55. The Receiver understands that a distribution order will be sought for the payment of the BMO Indebtedness (as defined in the APA).

#### **FUNDING OF THE RECEIVERSHIP**

56. Pursuant to the terms of the APA, the Purchaser will be funding the costs of the proposed Receiver and its counsel in connection with the receivership and the completion of the Transaction. Specifically, in Section 4.02(5) of the APA, the Purchaser covenants to pay the reasonable fees and expenses of MNP, including the reasonable fees and expenses of MNP's counsel. Additionally, under Section 4.02(7), the Purchaser covenants to pay an amount of \$75,000 (the "**Initial Fee Amount**") to MNP on closing of the Transaction as a partial payment of the amounts payable under Section 4.02(5).
57. The Receiver received an indemnity for its fees and disbursements and those of its counsel from Kensington Capital Partners Limited, a party to the Transaction as described in the Beingessner Affidavit.

## SECURITY REVIEW

58. Each of the Principal Secured Creditors has registered its security against the Company pursuant to the *Personal Property Security Act* (Ontario).
59. The documentation supporting the security held by the Principal Secured Creditors is presently being reviewed by counsel to the Receiver. It is anticipated that the results of this review will be available on the hearing of the Application.
60. The Receiver is not aware of any prior-ranking obligations against the Company, save for: (i) the Priority Payables; (ii) certain purchase money security interests ("PMSI's") that are not affected by the Transaction, as the assets to which such PMSI's relate are not Purchased Assets and are expressly excluded in the APA; and (iii) with respect to the Lending Syndicate, Greenrock and Revmar only (but not BMO) Roth & Rau,
61. According to Mr. Larry Phelan, Roth & Rau's security interest relates to obligations owed by the Company with respect to completion of two separate projects that began in or about 2007 (being project specific matters that were restricted to buyer's purchase orders numbered 200708/05 and EB-07-002990, and with the security interests in favour of Roth & Rau being restricted to the specific goods being made under those purchase orders and related assets). The first project, an Ontario project has apparently been completed and the equipment was installed in Roth & Rau's facility in Spain in 2008. With regards to the second project, a Rochester New York plant project, Mr. Phelan understands that this project is currently incomplete but is not aware of the status of that project. He is not aware of any demands being issued by Roth & Rau or of any related litigation with respect to the alleged non-performance of the Company's obligations. The cash component of the Purchase Price is such that there would not be a recovery for Roth & Rau in the event that it did, in fact, have a present claim against the Company (i.e. there is enough cash only to address Priority Payables, the costs of the receivership and the claim of BMO, which has a PPSA registration prior in time to the PPSA registration in favour of Roth & Rau). Further, as a New York project, it is not believed that there would be any goods or related assets subject to Roth's security that would be located in Canada so as to constitute purchased assets.

## **LIQUIDATION ANALYSIS**

62. An analysis of the estimated realizable values of the Subject Property in liquidation has been prepared by MNP. A copy of the analysis is attached as **Appendix "C"**.
63. The liquidation analysis reflects that the Principal Secured Creditors would incur a shortfall on their advances to the Company should the Company's business and assets be liquidated. Detailed assumptions to the liquidation analysis are provided in the appendix.

## **BMO SUPPORT FOR THE TRANSACTION**

64. Absent the immediate completion of the Transaction, BMO is likely to incur a shortfall on its advances to the Company — there is a prospect that BMO will incur a shortfall notwithstanding completion of the Transaction. BMO has advised that it is prepared to support the Transaction provided that it is completed expeditiously.

## **THE LENDING SYNDICATE, GREENROCK AND REVMAR SUPPORT FOR THE TRANSACTION**

65. MNP has been advised that the Lending Syndicate, Greenrock and Revmar support the Transaction.

## **CONCLUSION AND RECOMMENDATIONS**

66. MNP as the proposed Receiver, recommends that this Honourable Court issue an order(s) that:
- i. appoints MNP as Receiver for the limited purpose of completing the Transaction;
  - ii. approves the APA and provides the Receiver with the authority to execute the APA and complete the Transaction;
  - iii. vests title to the Subject Property in the Purchaser; and
  - iv. approves payment of the Priority Payables.
67. The Receiver's recommends approval of the Transaction for the following reasons:
- i. It is the only viable alternative to a forced liquidation in the circumstances, which is expected in the event that the Transaction is not approved. There is no plausible scenario that offers a greater recovery to creditors or a better outcome for stakeholders such as employees, suppliers and customers;
  - ii. as indicated under the Liquidation Analysis, in the event of a forced liquidation of the Subject Property, the estimated realization before distributions is significantly less than the Purchase Price. In particular, recoveries from accounts receivable, proprietary software and intellectual property would be severely impacted, with little or no recoverable value because of the factors cited earlier in this report;

- iii. in a liquidation scenario, it is anticipated that the Principal Secured Creditors could suffer a significant shortfall and there would be no recoveries for Meikle Automation and Meikle Group's other creditors, secured and unsecured;
- iv. the Principal Secured Creditors, including BMO, are the only parties with an economic interest in the Subject Property and these parties support the Transaction;
- v. a forced liquidation would result in the loss of approximately 88 jobs. The majority of these jobs would be preserved if the Transaction is approved and these employees would likely recover wages and vacation pay due to them in excess of the employees' maximum recoveries under *Wage Earner Protection Program Act*; and
- vi. given the past efforts of Meikle to raise additional equity or funding for its operations, the Receiver believes that the market has been adequately canvassed and that the lack of support by the Principal Secured Creditors for a sale process is reasonable.

All of which is respectfully submitted this 29<sup>th</sup> day of April, 2010.



**MEYERS NORRIS PENNY LIMITED**

In its capacity as the Proposed Court Appointed Receiver of  
Meikle Group Inc. and Meikle Automation Inc.

Ilan Kibel

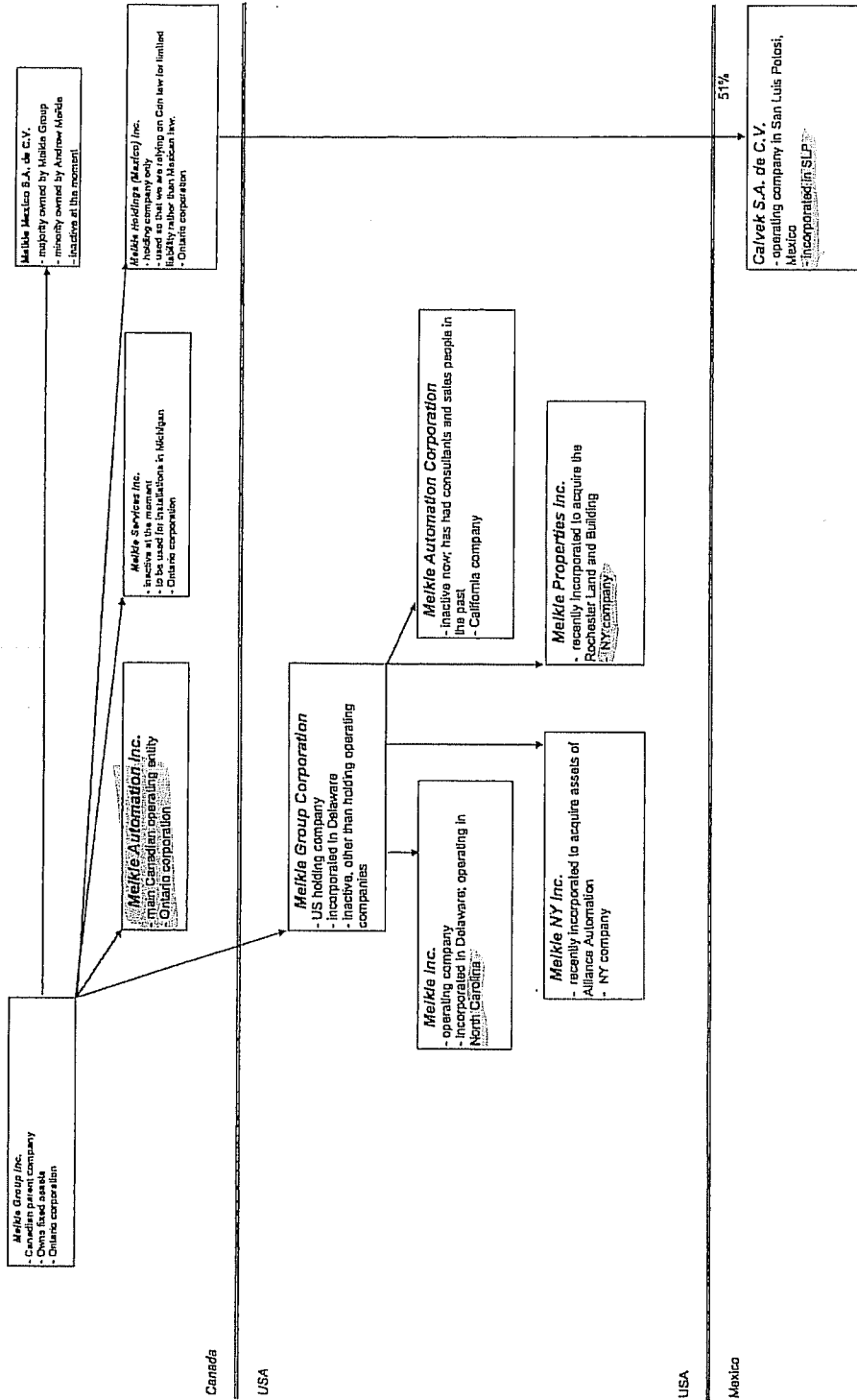
APPENDIX "A"

MEIKLE GROUP INC: LENDING SYNDICATE

LENDER	REPRESENTATIVE
W.S. Carter Holdings Limited Tullis Estates Ltd. The Cloverleaf Foundation Piety Ridge Holdings Inc. Calico Investments William's Family Trust Bielak Family Trust <b>Carter Group</b>	Bill Carter Wil Carter Anne Carter Anne Carter Roberta Beilak Bill Carter Roberta Beilak
<b>Blair Tech Investments Ltd.</b>	<b>John Pollock</b>
Jim Beingessner Butterscotch Ltd. <b>Beingessner Group</b>	<b>Jim Beingessner</b>
<b>Paul Motz</b>	<b>Paul Motz</b> Al Beaupre
<b>Larry Williamson</b>	<b>Larry Williamson</b>
<b>Randy Adams</b>	<b>Randy Adams</b>
Epicenter Inc. (Hradecky) 1734689 Ontario Inc. (Jakowlew) Sandra Reid Carl Young The Wright Family Trust <b>Smaller Investors</b>	Julien Hradecky Martha Jakowlew Sandra Reid Carl Young Glen Wright

Appendix B

Meikie Group of Companies  
Corporate Structure



Calveix, Calveix, Legend  
Holding Companies  
Operating Companies  
Currently Inactive Companies

All ownership holdings are 100% except for the holding of Calveix S.A. de C.V. which is a 51% ownership. Local management owns the remaining 49%.

## LIQUIDATION ANALYSIS

## MEIKLE AUTOMATION INC. AND MEIKLE GROUP INC.

The following table summarizes the estimated realizable value of assets owned by Meikle Automation Inc. and Meikle Group Inc. as at April 2010.

	Notes	(\$000s) Estimated Realization
<b>Meikle Automation Inc.</b>		
Accounts receivable	1	-
Inventory	2	-
Prepaid expenses	3	-
WIP	4	-
Income taxes recoverable - SRED	5	1,170
Patents, proprietary software and Intellectual property	6	-
		1,170
<b>Meikle Group Inc.</b>		
Intercompany receivable	7	-
Capital assets (net)	8	109
Intercompany investments	7	unknown
		109
		1,279
<b>Liabilities which rank ahead of Secured Creditors</b>		
Vacation pay		238
Payroll		53
Unpaid source deductions		85
GST		11
		387
Realization before distributions		892
<b>Secured Creditors</b>		
Bank of Montreal		1,220
Lending Syndicate (excluding interest and costs)		2,700
Greenrock and Revmar (excluding interest and costs)		500
		4,420
<b>Shortfall before professional fees and disbursements</b>		<b>(3,528)</b>

## 1. ACCOUNTS RECEIVABLE

Based on the Meikle Automation's aged accounts receivable listing as at April 18, 2010, Meikle Automation is owed approximately \$1.6 million from its customers as summarized in the following table:

	Current	31-60 days	61 – 90 days	91 and over	Total
Accounts receivable (\$000s)	41	639	238	654	1,572
Accounts receivable (%)	3.0%	41.0%	15.0%	42.0%	100.0%

Approximately 57% of Meikle Automation's accounts receivable balance is over 60 days old.

The majority of Meikle Automation's accounts receivable represents work in process progress billings. As a result these receivables have no value unless the entire project for each customer is completed.

The following table summarizes Meikle Automation's top five Customers:

Customer	Current	31-60 days	61 – 90 days	91 and over	Total
Camtac	1	584	0	2	587
Mark IV Air Intake Systems Corp.	0	0	0	263	263
Q-Cells Malaysia SDN BHD	0	0	0	272	272
Roth & Rau AG	(10)	(15)	121	0	96
Tenaris Prudential	0	0	75	0	75
	(9)	569	196	537	1,293
Other	50	70	42	117	279
<b>Total</b>	<b>41</b>	<b>639</b>	<b>238</b>	<b>654</b>	<b>1,572</b>

Meikle Automation's top five customers represents approximately 82% of its total outstanding account receivable balance.

Based on discussions with Mr. Larry Phelan (Chief Operating Officer), Mr. Andrew Stribling (VP Sales) and Mr. Shawn Smith (VP Marketing and Sales – resigned April 16, 2010) ("Management") the following summarizes the collectability of the accounts receivable balances.

### Camtac

The amount owed by Camtac represents work in process progress billings, therefore should Meikle Automation not complete the project the entire amount would not be collectable.

### Mark IV Air Intake systems Corp. ("Mark IV")

This amount represents work in process for projects that Mark IV has cancelled. As a result Management does not believe this amount will be collected.

**Q-Cells Malaysia SDN BHD (“Q-Cells”)**

The amount owed by Q-Cells represents progress billings for the final four pieces of equipment that are still located at Meikle Automation's premises. According to Management Q-Cells has cancelled this order and therefore Management does not believe that the outstanding balance will be collected. In addition, Management stated that Q-Cells is demanding a full refund of the amount paid to Meikle Automation of approximately 6.2 million Euros.

**Roth & Rau (“Roth”)**

The amount owing represents charges on a service contract. Management does not believe that these amounts will be collectable in a liquidation scenario.

**Tenaris Prudential**

Management stated that Tenaris has cancelled this contract as the initial quotation on this project has doubled as a result of changes in specifications. Management does not believe that this balance is collectable.

**2. INVENTORY**

The Company has a small quantity of virgin raw material with nominal realizable value.

**3. PREPAID EXPENSES**

Prepaid expenses include amounts paid as deposits to various utility companies, with the majority representing prepayments and deposits to Meikle Automation's operational vendors. As Meikle Automation has a large outstanding accounts payable balances owing to its vendors, Management does not believe that any of the Prepaid Expenses are recoverable

**4. WIP**

Based on Meikle Automation's April 21, 2010 work in progress reports, Meikle Automation has projects requiring approximately \$3.3 million in cash to complete resulting in nominal or negative cash flows. Based on this Management does not believe there is any value in these projects in a liquidation scenario.

**5. INCOME TAXES RECOVERABLE**

Meikle Automation has filed a Scientific Research and Economic Development (“SRED”) tax claim for 2009 of approximately \$1.3 million. This tax claim is subject to audit by Canada Revenue Agency (“CRA”), who has requested a financial audit. We estimate the SRED tax claim recovery to be approximately 90% of the \$1.3 million. In addition, any SRED refund is subject to reduction for unpaid source deductions, GST and other amounts owing by Meikle Automation to CRA.

**6. PATENTS, PROPRIETARY SOFTWARE AND INTELLECTUAL PROPERTY**

According to Management, Meikle Automation has a number of patents none of which are currently being used. In addition, Meikle Automation developed proprietary software used in their manufacturing process.

**7. INTERCOMPANY RECEIVABLE AND INTERCOMPANY INVESTMENTS**

Due to the current financial status of the Meikle Group, including some of the subsidiaries being inactive, Management does not believe there to be any value to the intercompany receivable.

We have not received sufficient information on the investments in subsidiary companies. Management does not believe there is any significant value. The contemplated agreement of purchase and sale does not include this asset.

**8. CAPITAL ASSETS**

The capital assets, which comprise various machinery and equipment ("Operating Assets") are used by Meikle Automation in its manufacturing plants.

MNP arranged for two separate appraisals by Asset Appraisal Corporation ("AAC") and Benaco Sales Ltd. ("Benaco") on the Operating Assets located at the two Meikle Automation facilities in Kitchener, Ontario. Based on a forced liquidation basis AAC projects a gross recovery of \$240,000 and Benaco estimates a gross recovery of between \$210,000 and \$217,000.

Based on the above gross forced liquidation appraisals the average estimated realization for the Operating Assets is approximately \$225,000 before liquidation expenses. Liquidation expenses are estimated at 25% of \$225,000 plus 1.5 months' rent at the two plants estimated at \$60,000 for a total of approximately \$116,000. Projected net realization is \$109,000.