

District of Ontario
Division No. 09 – Toronto
Court No. 31- 1559365
Estate No. 31- 1559365

**IN THE MATTER OF THE BANKRUPTCY OF
ELECTRIC~SPIN CORPORATION
OF THE CITY OF WOODBRIDGE, IN THE PROVINCE OF ONTARIO**

TRUSTEE'S PRELIMINARY REPORT TO THE CREDITORS

BACKGROUND

The company was incorporated pursuant to the laws of Canada on July 9, 2003 as Electric~Spin Inc., and on November 18, 2005 filed articles of amendment and changed its name to Electric~Spin Corporation ("ESC").

On October 5, 2007, Park Avenue Investment Corporation ("Park Avenue"), a capital pool company listed on the TSX Venture Exchange, completed its Qualifying Transaction by way of a share exchange pursuant to which Park Avenue acquired all of the issued and outstanding shares of ESC. Subsequent to completion of the Qualifying Transaction, Park Avenue changed its name to Electric-Spin Ltd. ("ESL").

ESL is the parent company of ESC and was publicly traded on the TSX Venture exchange. The intent was for ESL to raise capital in the range of \$2 - \$3 million, and leverage the investment that had been made in infrastructure and product development into a global concern.

ESC is engaged in the manufacture and distribution of sports simulation products including "Golf Launchpad", a peripheral that allows individuals to use their own golf clubs to play golf video games on personal computers and game consoles. ESC served customers in the United States, the European Union, Australia, and Canada.

ESC's parent was unable to raise the required capital due to the global economic crisis which occurred subsequent to the Qualifying Transaction. Efforts to grow ESC in the absence of such capital were ultimately unsuccessful. These efforts included co-founders Anees Munshi (CEO) and Alnoor Ebrahim (CFO) not taking any salary since mid-2008.

ESC filed an assignment in bankruptcy with the office of the Official Receiver on November 9, 2011 and Schonfeld Inc. was named as Trustee in Bankruptcy.

ASSETS

Class 1 – Stocks of Merchandise

ESC has a modest amount of inventory (games, launchpad consoles) located in a third party warehouse in South Carolina, USA and a warehouse in Mississauga, Ontario. The estimated value of the remaining inventory is less than \$5,000. Inventory may be subject to a security interest.

Class II – Plant, Machinery, Equipment and Office Equipment

ESC has a modest amount of fixed assets consisting of computers and office equipment. The Trustee will be obtaining an appraisal for the assets. Equipment may be subject to a security interest.

Class III – Buildings and Real Estate

Nil. ESC operates from leased premises in Woodbridge, Ontario. Trustee has continued occupation for purpose of asset protection and preservation, pending determination of course of action to realize upon ESC assets.

Class IV – Books and Records

The books and records necessary for the administration of the proceedings are in the possession or control of the Trustee.

Class V – Other Assets – Statement of Affairs

- i) Cash in Bank – approximately \$12,000 has been realized from deposit account at Royal Bank of Canada by the Trustee, to be used first for fees and expenses of administering the bankrupt estate (ie. Trustee and legal fees, rent, insurance, appraisals, advertising of assets, and all other necessary expenses).
- ii) Accounts Receivable – estimated at \$6,000; collectability to be assessed further. Accounts receivable may be subject to a security interest.
- iii) Intellectual Property – consists of domain names, unregistered trademarks, launchpad design patent, customer list, prototypes. Intellectual Property may be subject to a security interest.

INSURANCE

ESC's policy reported to expire on November 30, 2011. Trustee may need to extend coverage pending realization of assets and continued occupation of premises.

CAUSES OF BANKRUPTCY

Parent company unable to raise capital during economic downturn to take advantage of infrastructure and investment that had been made in product development in ESC.

SECTION B

1. Conservatory and Protective Measures

The Trustee took possession of the assets located at company premises.

2. Carrying on Business

The Trustee did not carry on the business of the bankrupt.

SECTION C

Legal Proceedings

The Trustee will need to retain legal counsel at the appropriate time, as necessary to obtain legal opinion(s) as to security interests and relative priorities pertaining thereto, and to deal with any legal issues which arise with respect to any disputed claims.

SECTION D – Provable Claims

Up to November 24, 2011, the following claims have been filed and admitted by the Trustee:

	Statement of Affairs As at November 9, 2011	Proven to November 24, 2011
Unsecured	\$ 2,285,706.79	\$ 349,928.56
Preferred	\$ 0.00	\$ 0.00
Secured	\$ 57,000.00	0.00
TOTAL	\$ 2,342,706.79	\$ 349,928.56

SECTION E – Secured Creditors

Name of Creditor: Electric~Spin Partners LLC
Amount: \$150,000 USD plus interest
Security: Promissory Note registered at PPSA Nov 19, 2008. Appears to have first charge on inventory and accounts receivable.

Name of Creditor: Anees Munshi, Alnoor Ebrahim, Anwar Matin
Amount: \$75,000 CAD plus interest
Security: Promissory Note registered at PPSA November 25, 2008 and re-perfected on February 26, 2010. Indicates first charge on all equipment and other assets and a subordinate charge on inventory and accounts receivable.

SECTION F – Reviewable Transactions and Preference Payments

The Trustee has completed a preliminary review of the Company's books and records for reviewable transactions, settlements, and preference payments. At this time, there does not appear to be any preferences or reviewable transactions that would be actionable by the estate.

SECTION G - Anticipated Realization and Projected Distribution

It is expected that recoveries from the realization of inventory, equipment, accounts receivable and intellectual property will be less than the amount owed to the secured creditors. Therefore it is likely that any distribution to the unsecured creditors will depend upon the success of the company's Ontario Interactive Digital Media Tax Credit claims ("OIDMTC Claims") described below, subject to the costs of administration and claims of secured creditors.

SECTION H – Potential Recoveries

In the latter part of 2010 Company filed an application with the Ontario Media Development Corporation for digital media tax credits from 2005 to 2008 for approximately \$370,000. The Company may also be eligible to file for additional tax credits for 2009 to 2011, which are estimated by the Company to be worth approximately \$140,000.

The claims for 2005 – 2008 have been submitted and are pending review and assessment by OMDC. If approved OMDC issues a certificate of eligibility at which time the claims can be incorporated into ESC's corporate tax return. The OMDC process can take between 12 and 18 months.

The claims for 2009 to 2011 have not yet been prepared. Preparation of the claims requires detailed knowledge of product development and marketing and will require the active involvement of ESC's co-founders. Such claims will also be subject to subsequent OMDC review process and timeframes.

Recovery from these claims is considered uncertain at this time.

SECTION I – Trustee's Fees

Fees and disbursements of the Trustee in Bankruptcy will be paid from the estate in accordance with the provisions of the BIA, subject to inspector approval and taxation.

DATED AT Toronto, this 24th day of November, 2011.

SCHONFELD INC., Trustee of the
Estate of Electric~Spin Corporation

Per: 

Robert G. Link, CIRP