

January 30, 2008

**Second Report to the Shareholders of 6356095 CANADA INC.  
(Formerly known as Excapsa Software Inc.)**

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**6356095 CANADA INC. (FORMERLY KNOWN AS EXCAPSA SOFTWARE INC.) – LIQUIDATION**

**1. Introduction**

As you are aware, the shareholders of 6356095 Canada Inc. (the "Corporation"), at a special meeting held on the 24<sup>th</sup> day of November, 2006, passed a special resolution requiring the Corporation to be voluntarily liquidated and dissolved (the "Liquidation") under the provisions of the *Canada Business Corporations Act* ("CBCA") and appointing Mintz & Partners Limited ("MPL") of Toronto, Ontario as Liquidator, effective November 30, 2006.

By Court Order made on November 30, 2006, the Honourable Madam Justice Mesbur of the Ontario Superior Court of Justice approved and ratified the appointment of MPL as Liquidator of the Corporation. On December 22, 2006, the Honourable Madam Justice Mesbur issued an Amended and Restated Order, which made the appointment of MPL as Liquidator of the Corporation effective from January 15, 2007.

The Liquidator has since merged with the accounting firm of Deloitte. The Liquidator anticipates that it will make an application to Court substituting Deloitte & Touche Inc. as the Liquidator for MPL.

This second report of the Liquidator is intended to provide the shareholders with a summary report of the Liquidator's activities from May 25, 2007 to December 31, 2007 including the status of the note receivable from Blast-Off Limited ("Blast Off").

**2. Note Receivable from Blast-Off Limited**

Pursuant to the promissory note issued by Blast Off Limited ("Blast Off") to the Corporation, Blast Off was required to make minimum monthly principal payments of \$1 million through November 2007, increasing to \$2 million per month in December 2007. Blast Off made all required minimum monthly payments through September 2007, but did not make any prepayments of principal. In addition, interest on the principal balance of the promissory note, accruing at the rate of 1% per month from December 1, 2006, has not been paid. This is permitted under the promissory note. Accrued and unpaid interest as of September 30, 2007 was approximately US\$ 11.4 million.

Representatives of Blast Off approached the Corporation and advised that their current operations, while profitable, could not support the increase in principal payments to US \$2 million per month commencing in December 2007. They asked for the opportunity to restructure the payment schedule. It was considered to be in the best interests of the Corporation to engage in these discussions with Blast Off while reserving all rights. Accordingly, an inspector and legal counsel of the Corporation met with representatives of Blast Off and have had numerous discussions with Blast Off concerning modified terms of payment under the promissory note. Some of the key items requested by Blast Off are:



- (i) the reduction of the minimum annual principal payments under the promissory note to US \$1 million per month; Blast Off would be permitted to defer payment of up to two monthly instalments in a year so long as at least US \$10 million is paid in that year;
- (ii) the increase of the interest rate under the promissory note to the greater of:
  - (a) 12% per annum; and
  - (b) the Bank of England's prime rate plus 3% per annum; Blast Off would be permitted to defer interest payments as provided in the existing promissory note;
- (iii) the deferral of the principal payments due in October and November 2007 which would be payable at the end of the term of the promissory note; and
- (iv) providing Blast Off with additional time to cure defaults under the promissory note.

In the interests of facilitating these negotiations, the Corporation permitted Blast Off to defer the monthly payments due in October and November 2007. A payment of US \$631,000.00 was made by Blast Off in December 2007, resulting in a shortfall of US \$369,000.00. The Corporation has been assured by a senior officer of Blast Off that the shortfall will be paid. As of today's date, the January 2008 payment has not yet been received.

The Corporation has requested several concessions in return for the modification of the payment terms under the promissory note as outlined above. These negotiations are ongoing, and the parties have not as yet reached an agreement. A draft amending agreement is in circulation, but for reasons of confidentiality, the details of this agreement are not disclosed herein. Any amendment to the existing terms of the promissory note will be subject to approval by the shareholders of the Corporation. If approved by the shareholders, the Liquidator will seek ratification of the changes to the promissory note by the court supervising the liquidation. Full disclosure of the details of any amending agreement that the Liquidator is prepared to support will be included in the shareholder meeting materials and, if applicable, the court materials.

The Corporation believes that Blast Off is conducting these negotiations in good faith. Further, the Corporation is currently of the belief that a revised payment arrangement requiring regular monthly payments, in lieu of the immediate commencement of enforcement proceedings, is a more certain approach and, if Blast Off meets the monthly and annual commitments, is more likely to result in a greater recovery for the Corporation's shareholders. Accordingly, the Liquidator is prepared to permit these negotiations to continue so long as they are successfully concluded in the near term. If the Corporation and Blast Off reach agreement on revised terms and the necessary approvals are obtained, it is anticipated that the new arrangement would be in place within 3 to 4 months (taking into account the time needed to obtain the approvals). The Liquidator intends to monitor the situation closely in consultation with the Corporation's inspectors and legal counsel.

### **3. Claims Bar Process**

In order to identify and determine the claims, if any, against the Corporation by creditors, on January 19, 2007, the Liquidator mailed a letter including a Notice to Shareholders, Creditors and all others having claims against the Corporation ("Notice") and a proof of claim form to be completed in the event that the recipient of the letter and Notice had a claim against the Corporation.

Pursuant to the Amended and Restated Order made on December 22, 2006, the Liquidator placed the above Notice for two consecutive weeks on January 22, 2007 and January 29, 2007 respectively in The Wall Street Journal, The Globe & Mail (National Edition), The Times of London and The Times of Malta. The Notice required all claimants wishing to assert a claim against the Corporation to file a claim with supporting documentation with the Liquidator by 5:00 p.m. Toronto time on March 22, 2007 or forever be barred from making a claim.

As of March 22, 2007, the Liquidator received eight (8) proofs of claim totaling less than US \$60,000.00. The Liquidator assessed and disposed of one supplier claim which was paid approximately US \$4,000.00. Two supplier claims in the approximate amount of US \$38,200.00 were received which appear to belong to a related company. These claims have not yet been resolved. Two supplier claimaints and two shareholders filed NIL claims which indicated that no funds were owing. The remaining claim was filed by a shareholder for the amount of his purchase of the shares of Excapsa. As noted above, no substantive claims were advanced against the Corporation. The Liquidator will be applying to the court for approval of the dispositions of the claims.

### **4. Income Taxes**

The Corporation's income tax returns have been filed for the taxation years ending June 30, 2006 and June 30, 2007. The Liquidator has received notices of assessment from Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance ("MOF"), respectively, indicating no income taxes are owing for the period ending June 30, 2006.

On April 3, 2007, the Liquidator sent a request to CRA for the issuance of a clearance certificate to the Corporation for the period ending June 30, 2006. The tax return for the taxation year ending June 30, 2007 has been filed. Once the assessments for that taxation year are received from CRA and the MOF, and any applicable taxes paid, the Liquidator will issue a request for a clearance certificate to CRA for the period ending June 30, 2007. The 2007 taxation year captures the sale to Blast-Off and the significant capital gains dividend payment made to the shareholders on January 4, 2007.

### **5. Distributions to Shareholders and Cash Position**

The Corporation issued a capital gains dividend on January 4, 2007 in the amount of US \$26 million to its shareholders of record on December 8, 2006.

Pursuant to the provisions of the Income Tax Act (Canada), a Liquidator can be held personally liable for distributions made prior to receipt of a Clearance Certificate from CRA. As a result, the Liquidator will not be in a position to pay any dividends to shareholders until a Clearance Certificate is received for the period ending June 30, 2007 (2007 Clearance Certificate). In the event that the

Liquidator receives a Clearance Certificate for the period ending June 30, 2006 before the 2007 Clearance Certificate is received, and given the discontinuance of the Corporation's business in October 2006 and the limited activity since that time, the Liquidator will make every effort to persuade CRA that partial distributions be allowed to be made in these circumstances. The Corporation can offer to provide security in respect of any future taxes owing, however, there is no assurance that CRA will permit partial distributions. The Liquidator will continue in its efforts to obtain the Clearance Certificate for the period ending June 30, 2006, and will actively pursue the Clearance Certificate for the period ending June 30, 2007.

As at December 31, 2007, the Corporation had cash and cash equivalents in the approximate amount of US \$47 million. These funds are invested on an interest-bearing basis. In addition, the Corporation has incurred costs in connection with the liquidation process from January 15, 2007 to December 31, 2007 in the approximate amount of US \$1,042,000 as noted below:

Description	US \$
Legal Fees	251,200
Directors and Officers Insurance	172,900
Liquidator Fees	137,600
Corporate Taxes	119,600
Wages, benefits and source deductions for former employees	78,100
Inspectors Fees	77,400
Consulting Fees	74,800
Newspaper publication and agency fees	74,700
Goods and Services Tax	25,300
Telephone	14,000
Computershare Fees	9,600
Rent for former Excapsa premises	5,900
Postage, courier, photocopies	900
<b>Total</b>	<b><u>1,042,000</u></b>

## 6. Dispensing of the Need for an Annual Audit and Annual Meeting

The Liquidator had intended to submit its First Report to the court last year. However, due to the circumstances described in Section 2 above, the court application was delayed. Regardless of the outcome of negotiations with Blast Off, the Liquidator expects to submit its First Report to the court by no later than June 30, 2008.

As part of its First Report, the Liquidator expects to include a request for the Court to dispense with the requirement that an audit of the Corporation be conducted in respect of its current and future fiscal years. At the Special Meeting of Shareholders held on November 24, 2006, 63% of the total shareholders were in attendance at that meeting either in person or by proxy, and those shareholders voted 100% in favour of dispensing with the appointment of an auditor and compliance requirements of the CBCA if permitted thereunder. The Liquidator, and the inspectors of the Corporation, do not believe that the Corporation's current activities warrant an audit, as there is no active income and the Corporation's shares no longer trade on the AIM market.

Since the Corporation is in Liquidation, the Liquidator and the inspectors do not believe that the Corporation's current activities warrant regular annual meetings of shareholders of the Corporation since the main purposes of having an annual meeting (such as appointing auditors and electing directors) are no longer relevant (given that audited financial statements are proposed to be dispensed with and control of the Corporation is in the hands of the Liquidator and the inspectors). To the extent that shareholders have any questions or concerns, they can raise them with the Liquidator or the inspectors or can bring matters before the court. If requested, special meetings of the shareholders of the Corporation could still be convened.

If the Corporation's circumstances change due to the transactions described in Section 2 above, the Liquidator, in consultation with the inspectors and legal counsel, will reconsider the applicability of the audit and regular meeting requirements of the CBCA.

## 7. Future Report to Shareholders

The Liquidator intends to institute regular reporting to the shareholders on a quarterly basis. Accordingly, the next reports will be issued shortly following each calendar quarter.

## 8. General

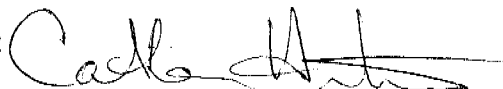
If you wish to review the court materials, including court orders, please access the Liquidator's web site at [www.mintzca.com](http://www.mintzca.com) and then click on Liquidation Files.

Should you have any questions or require further information, please contact the undersigned.

Yours very truly,

**MINTZ & PARTNERS LIMITED**  
In its capacity of Liquidator of  
6356095 Canada Inc.

Per:



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