

Court File No. 07-CL-7281

**Cygnal Technologies Corporation
Cygnal Technologies Ltd.
Accord Communications Ltd.**

**MONITOR'S REPORT TO THE CREDITORS
ON THE PLAN OF ARRANGEMENT**

January 28, 2008

**ONTARIO SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF

Cygnal Technologies Corporation,
Cygnal Technologies Ltd. and
Accord Communications Ltd.
(collectively, the "Applicants")

**MONITOR'S REPORT TO THE CREDITORS
SUBMITTED BY PRICEWATERHOUSECOOPERS INC.
IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On November 14, 2007, (the "Filing Date") the Applicants made an application under the *Companies' Creditors Arrangement Act* (the "CCAA") and an initial order (the "Initial Order") was granted by the Honourable Mr. Justice Spence of the Ontario Superior Court of Justice (Commercial List) (the "Court") granting, *inter alia*, a stay of proceedings against the Applicants until December 14, 2007 (the "Stay Period") and appointing PricewaterhouseCoopers Inc. as monitor (the "Monitor"). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the "CCAA Proceedings".
2. On November 20, 2007 the Monitor submitted its First Report to the Court informing the Court of it's and the Applicants' activities to that date and of the Applicants' request for approval of a claims procedure.

3. On November 23, 2007 the Applicants made an application under the CCAA for the approval of a Claims Procedure, and a Claims Procedure Order (the “Claims Procedure Order”) was granted by the Honourable Mr. Justice Morawetz.
4. On December 10, 2007 the Monitor submitted its Second Report to the Court informing the Court of its and the Applicants’ activities since the First Report to Court, including the Applicants financial performance to date, its efforts to identify a purchaser or establish alternate sources of financing, the status of the Claims Procedure, and its intentions regarding a plan of arrangement. At that time the Applicant requested an extension of the stay of proceedings, which was granted by the Honourable Mr. Justice Morawetz to January 31, 2008.
5. On January 25, 2008 the Monitor submitted its Third Report to the Court informing the Court of its and the Applicants’ activities since the Second Report to Court, including the Applicants financial performance to date, its efforts to identify a purchaser or establish alternate sources of financing, the status of the Claims Procedure, and its intentions regarding a plan of arrangement. The Third Report to the Court recommended that the Court grant a further extension of the stay of Proceedings until March 21, 2008 to allow the Applicants to complete their Plan of Arrangement (the “Plan”), seek Creditor’s approval of the Plan, request that the Court sanction the Plan, if approved by the creditors and implement the Plan.
6. In preparing this Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Applicants and CCAA parties. The Monitor has not performed an audit, or other verification of such information. Future oriented financial information relied upon in this report is based on management’s assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.
7. The purpose of this, the Monitor’s Report to the Creditors on the Plan of Arrangement, is to inform the Creditors of the following:

- (i) The Plan,
 - (ii) Alternatives to the Plan,
 - (iii) Liquidation Analysis,
 - (iv) Consequences of rejecting the Plan
 - (v) Monitor's Recommendation.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein are as defined in the Initial Order, or the Claims Procedure Order.

THE PLAN

9. The Applicants have filed a Joint Plan of Arrangement the key Financial Elements of which are:
- At the Effective Time, each Affected Claim will be compromised, and thereafter each Affected Creditor will receive, in full satisfaction of its Distribution Claim against the applicable Applicant, its choice of one of the following forms of distribution in accordance with its election or deemed election under the Distribution Option Notice.
 - (i) Distribution Option 1 – an Affected Creditor may agree to forego its Pro Rata Share and elect to receive the lesser of:
 - (1) the amount of the Distribution Claim of such Affected Creditor;
and
 - (2) \$2,500.
 - (ii) Distribution Option 2 – an Affected Creditor may elect to receive the amount of its Pro Rata Share estimated to be 10% of the Affected Creditor's Claim;
 - (iii) Distribution Option 3 – an Affected Creditor may elect to forego its Pro Rata Share and elect to receive 75% of the amount of its Pro Rata Share

and a new Promissory Note to be issued by the applicable Applicant, in the principal amount equal to an additional 75% of its Pro Rata Share, substantially in the form of the promissory note attached as Schedule C to the Plan. New Promissory Notes will be non-interest bearing with the principal of such notes payable on the one year anniversary of the Plan Implementation Date.

- New Common Shares will be issued to ContributionCo, a wholly owned subsidiary of Laurus.
- Existing shares will be effectively cancelled for no consideration and shareholders will receive no payment under the Plan.

ALTERNATIVES TO THE PLAN

10. The Applicants, for several months prior to commencement of these proceedings attempted to find a purchaser for the business. They also sought to raise additional financing.
11. The sales/refinancing efforts continued after commencement of the CCAA proceedings with the approval of the Court until December 13, 2007. Interested parties were invited to submit en bloc offers for the Applicants' assets, including their interest in a wholly owned subsidiary White Radio Ltd. ("White Radio") No offers were submitted and no additional financing was raised.
12. The Applicants have determined with the assistance of the Monitor that, if the Plan is rejected they will likely be forced into liquidation, either through a bankruptcy, or through the appointment of a receiver under security held by the DIP Provider.

LIQUIDATION ANALYSIS

13. Prior to commencement of these proceedings, the DIP Provider had advanced to the Applicants funding totalling approximately \$18.5 million which was subject to security in favour of the DIP Provider (the “Laurus Security”). Interest continues to accrue on this amount.
14. Since the commencement of these proceeding, the DIP Provider has advanced a further \$1.2 million, also subject to the security set out in the DIP Term Sheet. Further advances are made weekly under this facility, and may reach a maximum of \$4.5 million.
15. The Monitor’s legal counsel conducted a review of the Laurus Security and concluded, based on its review, that the Laurus Security had been duly registered, filed and recorded and created a valid and binding obligation enforceable against the Applicants.
16. In addition to amounts due to the DIP Provider the Applicants are indebted to Canada Revenue Agency and the Ontario Ministry of Finance in respect of Source Deductions, Goods and Service Tax and Retails Sales Tax. These amounts, and the claims of other creditors holding security, may rank in priority to the unsecured creditors (together with the Laurus Security the “Priority Indebtedness”).
17. Therefore in a liquidation of the Applicants’ business and assets, Priority Indebtedness in excess of \$20 million would have to be satisfied before the claims of unsecured creditors would share in any distribution.
18. At November 30, 2007, the book value of the Applicants’ tangible assets, excluding their interest in White Radio, totalled \$23.9 million. The Monitor has conducted a preliminary liquidation analysis utilizing information provided by the Applicants (but not audited or tested by the Monitor), which analysis suggests that even in the most favourable reasonable scenario the liquidation value is substantially below book value and the amount of the Priority Indebtedness.

19. It is possible that a going concern sale of White Radio might be achieved. However, White Radio has its own secured debt, owing to a financial institution in the amount of approximately \$10 million which would need to be paid in priority to any distribution of proceeds of sale to the Applicants. Realization accruing to the Applicants from a sale of their interest in White Radio, applying reasonable EBITDA multiples, would therefore likely be insufficient to offset the significant shortfall arising on liquidation of the Applicants' other assets.

CONSEQUENCES OF REJECTING THE PLAN

20. As noted above, if the Plan is rejected the Applicants will likely be liquidated through a receivership or by a trustee in bankruptcy. It is likely that no funds will be available to unsecured creditors in a liquidation.
21. Additionally if the Plan is rejected the continued employment of the Applicants' 293 employees will be jeopardised.

MONITOR'S RECOMMENDATION

22. The Plan will provide a recovery to all Affected Creditors. The amount will vary from 100% to creditors owed \$2,500 or less, to an estimated 10% in cash for larger creditors who elect to receive full distribution of their pro rata share on Plan Implementation Date. Affected Creditors who elect to receive 75% of their pro rata share plus a New Promissory Note may recover up to 15% of their debt over time.
23. Therefore, as the Plan provides a substantially greater return to the creditors than a liquidation the Monitor recommends that Affected Creditors approve the Plan at the meeting of Creditors on March 7, 2008.

Dated this 28th day of January 2008.

PRICEWATERHOUSECOOPERS INC.

In its capacity as Monitor of
Cygnal Technologies Corporation
Cygnal Technologies Ltd.
Accord Communications Ltd.

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive style with a large initial "P" and a stylized "B".

Paul Bishop
Senior Vice President