

Court File No.: CV-15-10921-00CL

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

HSBC BANK CANADA

Applicant

and

NATIONAL TELECOMMUNICATIONS INC.

Respondent

**MOTION RECORD  
(returnable on Wednesday, January 6, 2016)**

December 18, 2015

**Thornton Grout Finnigan LLP**  
Barristers & Solicitors  
Suite 3200, TD West Tower  
100 Wellington Street West  
P.O. Box 329, Toronto-Dominion Centre  
Toronto, ON M5K 1K7

**Kyla E.M. Mahar** (LSUC# 44182G)  
Tel: (416) 304-0594  
Fax: (416) 304-1313  
Email: [kmahar@tgf.ca](mailto:kmahar@tgf.ca)

Lawyers for the Receiver

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B.	First Report of the Receiver dated June 23, 2015 [without Exhibits]
C.	Approval and Vesting Order dated June 30, 2015, Conduct and Fee Approval Order dated June 30, 2015 and Endorsement of Justice Conway dated June 30, 2015
D.	Statement of Receipts and Disbursements for the period June 19, 2015 to December 2, 2015
E.	Documents provided to counsel for Addiction Associates on November 25, 2015
F.	Affidavit of Paul Casey of Deloitte Restructuring Inc. sworn on December 11, 2015
G.	Affidavit of Grant Moffat of Thornton Grout Finnigan sworn on December 16, 2015
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I.	Form of Discharge Certificate
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# TAB 1

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

**HSBC BANK CANADA**

Applicant

– and –

**NATIONAL TELECOMMUNICATIONS INC.**

Respondent

**NOTICE OF MOTION  
(returnable on January 6, 2016)**

Deloitte Restructuring Inc. (“**Deloitte**”) as receiver and manager (in such capacities, the “**Receiver**”) without security, of all of the assets, undertaking and properties of National Telecommunications Inc. (the “**Debtor**”) will make a motion before a Judge of the Ontario Superior Court of Justice (Commercial List) on Wednesday, January 6, 2016 at 10:00 o’clock in the morning, or as soon after that time as the motion can be heard, at 330 University Avenue, in the City of Toronto.

**PROPOSED METHOD OF HEARING:** The motion is to be heard orally.

**THE MOTION IS FOR:**

1. the Discharge Order substantially in the form of the Order contained at Tab 3 of the Receiver’s Motion Record:

- (a) abridging the time for service of the Notice of Motion and the Motion Record herein and dispensing with further service thereof;
- (b) approving an initial distribution of \$600,000.00 from available proceeds to HSBC Bank Canada (“**HSBC**” or the “**Bank**”), the Debtor’s first ranking secured lender, as described in the Second Report of the Receiver dated December 17, 2015 (the “**Second Report**”) and authorizing the Receiver to make additional distributions to the Bank in such amounts as the Receiver deems appropriate in partial repayment of the Bank’s secured advances to the Debtor;
- (c) approving the activities of the Receiver as described in the Second Report;
- (d) approving the Receiver’s Statement of Receipts and Disbursements for the period from June 19, 2015 to December 2, 2015;
- (e) approving the professional fees and disbursements of the Receiver from June 6, 2015 to November 30, 2015 and its independent legal counsel, Thornton Grout Finnigan LLP (“**TGF**”) for the period from June 1, 2015 to November 30, 2015 and Torkin Manes LLP (“**Torkin Manes**”) for the period from June 5, 2015 to August 6, 2015, as set out in the Second Report and the fee affidavits including future cost estimates to complete the receivership, and authorizing the Receiver to pay all such fees and disbursements from available funds; and
- (f) discharging the Receiver upon the filing of a Certificate confirming the Receiver has completed the other activities described in the Second Report (the “**Discharge Certificate**”);

- (g) releasing Deloitte from any and all liability in its capacity as Receiver upon the filing of the Discharge Certificate; and
- (h) such further and other relief as counsel may request and this Honourable Court may deem just.

**THE GROUNDS FOR THE MOTION ARE:**

**Background**

1. Pursuant to an Order of this Court made April 9, 2015 (the “**Appointment Order**”), Deloitte was appointed as Receiver, without security, of all of the assets, undertakings and property of the Debtor.
2. The Appointment Order authorized the Receiver to, among other things, take possession of, and exercise control over the Property and any and all proceeds, receipts and disbursements, arising out of, or from, the Property. In addition, the Receiver was authorized to sell, convey, transfer, lease or assign the Property or any part thereof out of the ordinary course:
  - (a) without the approval of the Court in respect of any transaction not exceeding \$150,000, provided that the aggregate consideration for all such transactions does not exceed \$500,000; and
  - (b) with the approval of the Court in respect of any transaction exceeding \$150,000 or exceeding \$500,000 in the aggregate.
3. The Mazza Sale Agreement closed on July 15, 2015. The Receiver has filed its Receiver’s Certificate with the Court confirming the closing of the transaction.

4. The Receiver had arranged for the transfer and off-site storage of the limited relevant books and records from the Vaughan Property prior to the closing of the transaction. Net proceeds from the Mazza Sale Agreement totaled \$759,143, comprised of a deposit of \$20,000 and closing proceeds of \$739,143. These funds are being held by the Receiver and have not yet been distributed to any secured creditor of NTI.
5. Following protracted negotiations, the Receiver executed a settlement agreement with Connect Cabling on July 15, 2015 (the “**Connect Settlement Agreement**”). The Connect Settlement Agreement contemplates a settlement amount of \$141,000, of which \$69,000 has been collected to date with the balance of \$72,000 payable in monthly installments ending May 31, 2016. A collection agency fee is payable on these receipts.
6. As at the date of the Second Report, collection efforts are ongoing with respect to certain amounts owing from MTD Consulting, Featurecom and other customers and parties;
7. The Receiver has prepared a statement of receipts and disbursements as at December 2, 2015;
8. HSBC is the first secured creditor of the Debtor, holding, among other security, a general security agreement in its favour and a first ranking collateral charge in the principal amount of \$520,000 together with interest on the liabilities at the prime interest rate per annum plus three per cent (3%) per annum and costs, charges and expenses in accordance with its terms registered against the Vaughan Property (the “**Collateral Charge**”) to secure the indebtedness owed to it by NTI;

9. The Receiver has obtained security opinions confirming the validity of HSBC Bank Canada's Collateral Charge and the validity of HSBC Bank Canada's first ranking security interest in the personal property of NTI;
10. The Receiver has undertaken an allocation of the fees and disbursements in the Receivership as between the Vaughan Property and the personal property and has confirmed that HSBC is entitled to receive distributions as contemplated in the draft Order;
11. The Receiver and its legal counsel are required to pass their accounts and have submitted their accounts to the Court for this purpose;
12. The Receiver's fees and the fees of its legal counsel are detailed in the fee affidavits filed in support of this motion including estimates to complete the receivership;
13. The Receiver's fees including the fees of its legal counsel, TGF and Torkin Manes, are fair and reasonable;
14. The provisions of the Appointment Order;
15. Rules 1.04, 2.03, 3.02, 16.08 and 37 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and
16. Such further and other grounds as counsel may advise and this Court may permit.

**THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the motion:

1. The Receiver's Second Report, to be filed;



2. The Affidavit of Paul Casey sworn on December 11, 2015;
3. The Affidavit of Grant B. Moffat sworn on December 16, 2015;
4. The Affidavit of Seth Zuk of Torkin Manes sworn August 28, 2015; and
5. Such further and other material as counsel may advise and this Honourable Court may permit.

December 18, 2015

**Thornton Grout Finnigan LLP**  
Barristers & Solicitors  
Suite 3200, TD West Tower  
100 Wellington Street West  
P.O. Box 329, Toronto-Dominion Centre  
Toronto, ON M5K 1K7

**Kyla E.M. Mahar** (LSUC #44182G)  
Tel: (416) 304-0594  
Fax: (416) 304-1313  
Email: [kmahar@tgf.ca](mailto:kmahar@tgf.ca)

Lawyers for the Receiver

**TO: THIS HONOURABLE COURT**

**AND TO: THE ATTACHED SERVICE LIST**

**HSBC BANK CANADA**

- and -

**NATIONAL TELECOMMUNICATIONS INC.**

Applicant

Respondent

Court File No.: CV-15-10921-00CL

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

Proceedings commenced at Toronto

**NOTICE OF MOTION  
(RETURNABLE ON JANUARY 6, 2016)**

**Thornton Grout Finnigan LLP**  
Barristers & Solicitors  
Toronto-Dominion Centre, TD West Tower  
100 Wellington Street West  
Suite 3200, P.O. Box 329,  
Toronto, ON M5K 1K7

**Kyla E.M. Mahar** (LSUC #44182G)  
Tel: (416) 304-0594  
Fax: (416) 304-1313  
Email: [kmahar@tgf.ca](mailto:kmahar@tgf.ca)

Lawyers for the Receiver

**HSBC BANK CANADA V. NATIONAL TELECOMMUNICATIONS INC.  
EMAIL SERVICE LIST  
[AS AT DECEMBER 17, 2015]**

<b>AND TO:</b>	<p><b>BAKER &amp; MCKENZIE LLP</b> 181 Bay Street, P.O. Box 874 Suite 2100 Toronto, ON M5J 2T3</p> <p><b>John Pirie</b> Tel: (416) 865-2325 Fax: (416) 863-6275 Email: <a href="mailto:john.pirie@bakermckenzie.com">john.pirie@bakermckenzie.com</a></p> <p><b>Michael Nowina</b> Tel: (416) 865-2312 Fax: (416) 863-6275 Email: <a href="mailto:michael.nowina@bakermckenzie.com">michael.nowina@bakermckenzie.com</a></p> <p>Lawyers for HSBC Bank Canada</p>
<b>AND TO:</b>	<p><b>DELOITTE RESTRUCTURING INC.</b> Brookfield Place, 181 Bay Street Suite 1400 Toronto, ON M5J 2V1</p> <p><b>Paul Casey</b> Tel: (416) 775-7172 Fax: (416) 601-6690 Email: <a href="mailto:paucasey@deloitte.ca">paucasey@deloitte.ca</a></p> <p><b>Stefano Damiani</b> Tel: (416) 874-4404 Fax: (416) 601-6690 Email: <a href="mailto:sdamiani@deloitte.ca">sdamiani@deloitte.ca</a></p> <p>Court-Appointed Receiver</p>

<b>AND TO:</b>	<p><b>THORNTON GROUT FINNIGAN LLP</b> Barristers &amp; Solicitors Suite 3200, TD West Tower 100 Wellington Street West P.O. Box 329, Toronto-Dominion Centre Toronto, ON M5K 1K7</p> <p><b>Grant B. Moffat</b> Tel: (416) 304-0599 Fax: (416) 304-1313 Email: <a href="mailto:gmoftat@tgf.ca">gmoftat@tgf.ca</a></p> <p><b>Kyla E.M. Mahar</b> Tel: (416) 304-0594 Fax: (416) 304-1313 Email: <a href="mailto:kmahar@tgf.ca">kmahar@tgf.ca</a></p> <p>Lawyers for the Receiver</p>
<b>AND TO:</b>	<p><b>TORKIN MANES LLP</b> 151 Yonge Street, Suite 1500 Toronto, ON M5C 2W7</p> <p><b>Seth Zuk</b> Tel: (416) 775-8822 Fax: (888) 554-6176 Email: <a href="mailto:szuk@torkinmanes.com">szuk@torkinmanes.com</a></p> <p><b>Aaron English</b> Tel: (416) 643-8811 Fax: (888) 554-6181 Email: <a href="mailto:aenglish@torkinmanes.com">aenglish@torkinmanes.com</a></p> <p>Real Estate counsel to the Receiver</p>
<b>AND TO:</b>	<p><b>LAW OFFICE OF ALAN S. PRICE</b> 1200 Eglinton Avenue East, Suite 901 Toronto, ON M3C 1H9</p> <p>Tel: (416) 214-2700 Fax: (416) 214-5983 Email: <a href="mailto:alanprice@alanpricelaw.ca">alanprice@alanpricelaw.ca</a></p> <p>Lawyer for Addiction Associates Inc.</p>

<b>AND TO:</b>	<b>GIANFRANCO JOHN DE MATTEIS</b> Barrister and Solicitor 3300 Steeles Avenue West, Unit 204 Concord, ON L4K 2Y4  Tel: (905) 738-4900 ext. 240 Fax: (905) 738-4901 Email: <a href="mailto:john@dematteis.ca">john@dematteis.ca</a>  Lawyer for Unit 3 Innovation Drive Inc., the Purchaser
<b>AND TO:</b>	<b>DEPARTMENT OF JUSTICE</b> Ontario Regional Office The Exchange Tower, Box 36 130 King Street West Suite 3400 Toronto, ON M5X 1K6  <b>Diane Winters</b> Tel: (416) 973-3172 Fax: (416) 973-0810 Email: <a href="mailto:diane.winters@justice.gc.ca">diane.winters@justice.gc.ca</a>  Lawyers for the Canada Revenue Agency
<b>AND TO:</b>	<b>HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF ONTARIO AS REPRESENTED BY THE MINISTER OF FINANCE</b> Legal Services Branch 33 King Street West, 6 <sup>th</sup> Floor Oshawa, ON L1H 8H5  <b>Kevin O'Hara</b> Tel: (905) 433-6934 Fax: (905) 436-4510 Email: <a href="mailto:kevin.ohara@ontario.ca">kevin.ohara@ontario.ca</a>
<b>AND TO:</b>	<b>NATIONAL TELECOMMUNICATIONS INC.</b> 101 Innovation Drive, Unit 3 Vaughan, ON L4H 0S3  Email: <a href="mailto:nelsonguyatt@hotmail.com">nelsonguyatt@hotmail.com</a>

<b>AND TO:</b>	<b>NELSON GUYATT</b> 46 English Daisy Court Vaughan, ON L0J 1C0  Email: <a href="mailto:nelsonguyatt@hotmail.com">nelsonguyatt@hotmail.com</a>
<b>AND TO:</b>	<b>NORMAN, GOLDBERG &amp; CO. LLP</b> 266 Sheppard Ave West Toronto, Ontario M2N 1N3  <b>Henry Goldberg</b> Tel: (416) 733-1234 Fax: (416) 789-9768 Email: <a href="mailto:henry@henrygoldberg.ca">henry@henrygoldberg.ca</a>

**HSBC BANK CANADA V. NATIONAL TELECOMMUNICATIONS INC.  
COURIER SERVICE LIST  
[AS AT DECEMBER 17, 2015]**

<b>TO:</b>	<b>HONDA FINANCE CANADA INC.</b> 180 Honda Blvd. Markham, ON L6C 0H9
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# TAB 2



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

**BETWEEN:**

**HSBC BANK CANADA**

Applicant

- and -

**NATIONAL TELECOMMUNICATIONS INC.**

Respondent

**SECOND REPORT OF THE RECEIVER  
DATED DECEMBER 18, 2015**

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**EXHIBITS**

<b>EXHIBIT</b>	<b>DESCRIPTION</b>
<b>A</b>	Appointment Order dated April 9, 2015 and Endorsement of Justice Conway dated April 9, 2015
<b>B</b>	First Report of the Receiver date June 23, 2015
<b>C</b>	Approval and Vesting Order dated June 30, 2015, Conduct and Fee Approval Order dated June 30, 2015 and Endorsement of Justice Conway dated June 30, 2015
<b>D</b>	Statement of Receipts and Disbursements for the period June 19, 2015 to December 2, 2015
<b>E</b>	Documents provided to counsel for Addiction Associates on November 25, 2015
<b>F</b>	Affidavit of Paul Casey of Deloitte Restructuring Inc. sworn December 11, 2015
<b>G</b>	Affidavit of Grant Moffat of Thornton Grout Finnigan LLP sworn December 16, 2015
<b>H</b>	Affidavit of Seth Zuk of Torkin Manes LLP sworn August 28, 2015
<b>I</b>	Form of Discharge Certificate

## INTRODUCTION

1. By Order of the Ontario Superior Court of Justice (the “**Court**”) dated April 9, 2015 (the “**Appointment Order**”), Deloitte Restructuring Inc. (“**Deloitte**”) was appointed as the receiver and manager (the “**Receiver**”) of all of the assets, undertakings and properties of National Telecommunications Inc. (“**NTI**” or the “**Debtor**”) acquired for, or used in relation to the business carried on by the Debtor, including all proceeds thereof (the “**Property**”). A copy of the Appointment Order dated April 9, 2015 and the Endorsement of Justice Conway dated April 9, 2015 are attached hereto as Exhibit “**A**”.
2. The Appointment Order authorized the Receiver to, among other things, take possession of, and exercise control over the Property and any and all proceeds, receipts and disbursements, arising out of, or from, the Property. In addition, the Receiver was authorized to sell, convey, transfer, lease or assign the Property or any part thereof out of the ordinary course:
  - (a) without the approval of the Court in respect of any transaction not exceeding \$150,000, provided that the aggregate consideration for all such transactions does not exceed \$500,000; and
  - (b) with the approval of the Court in respect of any transaction exceeding \$150,000 or exceeding \$500,000 in the aggregate.
3. On June 23, 2015, the Receiver issued its first report to the Court (the “**First Report**”) for the purpose of, among other things, seeking an order of the Court approving the activities of the Receiver to the date of the First Report, authorizing and directing the Receiver, on behalf of the Debtor, to file an assignment in bankruptcy of the Debtor, authorizing and directing the Receiver to carry out the terms of the Mazza Sale Agreement (as defined below), approving the Receiver’s statement of receipts and disbursements to June 18, 2015, and approving the professional fees and disbursements of the Receiver and its independent legal counsel and authorizing the Receiver to pay all such fees and disbursements from available funds. A copy of the First Report is attached hereto as Exhibit “**B**”.

4. Pursuant to Orders of the Court dated June 30, 2015 the relief sought by the Receiver as set out in paragraph 3 herein was granted. Pursuant to the Approval and Vesting Order dated June 30, 2015 (the “**Approval and Vesting Order**”), the Court approved the agreement of purchase and sale between the Receiver and Unit 3 Innovation Drive Inc. (“**Mazza**”) dated May 12, 2015 (the “**Mazza Sale Agreement**”) for the sale of certain of the Property comprised of the real property located at 101 Innovation Drive, Unit 3, Vaughan, Ontario (the “**Vaughan Property**”) and certain Property located at the Vaughan Property as described in the Mazza Sale Agreement (the “**Sold Assets**”) and vesting title to the Sold Assets in and to Mazza upon closing of the Mazza Sale Agreement. Pursuant to a separate Order dated June 30, 2015 (the “**Conduct and Fee Approval Order**”), the Court, among other things, approved the conduct of the Receiver and the professional fees and disbursements of the Receiver and its independent legal counsel as set out in the First Report and authorized the Receiver to pay all such fees and disbursements from available funds. A copy of the Approval and Vesting Order, the Conduct and Fee Approval Order and the Endorsement of Justice Conway dated June 30, 2015 are attached hereto as Exhibit “C”.
5. As set out in the First Report, the Mazza Sale Agreement did not contemplate the payment of a sales commission to a real estate broker nor to any other party. In order to facilitate the closing of this transaction, the Receiver agreed to Mazza’s request for an extension of the title due diligence date from May 28, 2015 to June 2, 2015. On June 2, 2015, Mazza’s legal counsel informed the Receiver in writing that the financing condition set out in the Mazza Sale Agreement was waived. The Mazza Sale Agreement transaction closed on July 15, 2015.
6. For the reasons set out in the First Report, the Receiver had made requests to the Debtor’s principal to execute the documents necessary for the Debtor to file an assignment in bankruptcy under the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”). The principal chose not to do so. Pursuant to the Conduct and Fee Order, the Court authorized the Receiver to file an assignment in bankruptcy by and on behalf of the Debtor in the name of the Debtor. On July 10, 2015, the Receiver assigned the debtor into bankruptcy, and Deloitte was appointed Trustee of the estate of the Debtor.

7. The Appointment Order, together with related Court documents, additional Orders and the Receiver's reports to the Court have been posted on the Receiver's website at [www.insolvencies.deloitte.ca/en-ca/NationalTelecommunications](http://www.insolvencies.deloitte.ca/en-ca/NationalTelecommunications).
8. The purpose of this second report of the Receiver (the "**Second Report**") is to provide the Court with the evidentiary basis to make an Order:
  - (a) approving a first distribution of available proceeds to HSBC Bank Canada ("**HSBC**" or the "**Bank**"), the Debtor's senior secured lender, as described herein, and authorizing the Receiver to make additional distributions to the Bank in such amounts as the Receiver deems appropriate in partial repayment of the Bank's secured indebtedness;
  - (b) approving the activities of the Receiver as described in the Second Report including, without limitation, the steps taken by the Receiver pursuant to the sale of the Sold Assets, collection of accounts receivable, allocation of professional fees and other receivership administration;
  - (c) approving the Receiver's Statement of Receipts and Disbursements for the period from June 19, 2015 to December 2, 2015;
  - (d) approving the professional fees and disbursements of the Receiver from June 6, 2015 to November 30, 2015 and its independent legal counsel, Thornton Grout Finnigan LLP ("**TGF**") for the period from June 1, 2015 to November 30, 2015 and Torkin Manes LLP ("**Torkin Manes**") for the period from June 5, 2015 to August 6, 2015, as set out herein, and authorizing the Receiver to pay all such fees and disbursements from available funds;
  - (e) approving the payment of future estimated fees and disbursements to completion of these receivership proceedings in connection with the remaining activities described in this Second Report; and
  - (f) discharging the Receiver and releasing the Receiver from any and all liability that it has or may have incurred while acting in its capacity as Receiver upon the filing of a Certificate certifying the completion of the receivership activities in the form set out herein (the "**Discharge Certificate**").

## TERMS OF REFERENCE

9. In preparing this Second Report, the Receiver has been provided with, and has relied upon unaudited, draft and/or internal financial information, the Debtor's books and records, discussions with former management and external accountants of the Debtor, and information from third-party sources (collectively, the "**Information**"). As noted in the First Report, the Receiver has found the books and records of the Debtor to be incomplete, inaccurate, and unreliable and to contain material misstatements. Further:
- (a) the Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Receiver has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards, and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of the Information;
  - (b) in view of the purpose of the Second Report, some of the financial information herein may not comply with generally accepted accounting principles;
  - (c) some of the information referred to in this Second Report consists of forecasts and projections which were prepared based on estimates and assumptions. Such estimates and assumptions are, by their nature, not ascertainable and as a consequence no assurance can be provided regarding the forecasted or projected results. Accordingly, the reader is cautioned that the actual results will likely vary from the forecasts or projections, even if the assumptions materialize, and the variations could be significant; and
  - (d) the Receiver has prepared this Second Report in its capacity as a Court-appointed officer to support the Court's approval of the Receiver's activities and the other relief being sought. Parties using the Second Report, other than for the purposes outlined herein, are cautioned that it may not be appropriate for their purposes, and consequently should not be used for any other purpose.

10. Unless otherwise stated, all dollar amounts contained in the Second Report are expressed in Canadian dollars.
11. Unless otherwise provided, all other capitalized terms not otherwise defined in this Second Report are as defined in the First Report or the Appointment Order.

## **BACKGROUND**

12. The Debtor is an Ontario corporation which operated as a re-seller of data communications equipment. The Debtor maintained and owned an office and warehouse located at 101 Innovation Drive, Unit 3, Vaughan, Ontario.
13. Nelson Guyatt (“**Guyatt**”) is the sole director and principal of NTI and was the only remaining employee of the Debtor as at the date of the Appointment Order, with one other employee having been terminated prior to the Receiver’s appointment.
14. The Debtor had ceased operating in the ordinary course prior to the date of the Appointment Order.

## **UPDATE ON THE SALE OF THE VAUGHAN PROPERTY**

15. The Mazza Sale Agreement closed on July 15, 2015. The Receiver has filed its Receiver’s Certificate with the Court confirming the closing of the transaction.
16. The Receiver had arranged for the transfer and off-site storage of the limited relevant books and records from the Vaughan Property prior to the closing of the transaction. Net proceeds from the Mazza Sale Agreement totaled \$759,143, comprised of a deposit of \$20,000 and closing proceeds of \$739,143. These funds are being held by the Receiver and have not yet been distributed to any secured creditor of NTI.

## **TRADE ACCOUNTS RECEIVABLE**

17. The First Report detailed the limited collections of Canadian and US dollar accounts receivable (“**A/R**”) to June 18, 2015. An updated summary of the Receiver’s collection



efforts with respect to CAD and USD balances is summarized in the table below.

Currency	First Report		Second Report	
	Total A/R Owing as at April 8, 2015 (Per Debtor)	A/R Collections from April 9, 2015 to June 18, 2015	A/R Collections from June 19, 2015 to December 2, 2015	Status as at December 2, 2015
CAD Balances	\$ 353,663	\$ 18,816	\$ 69,000	Collection efforts are ongoing. An additional \$72,000 is expected pursuant to a settlement agreement with Connect Cabling
USD Balances	\$ 1,251,857	\$ 97,487	\$ 65,000	Collection efforts are ongoing. Additional recoveries are extremely uncertain.

18. Prior to the date of the Appointment Order, Connect Cabling Inc. (“**Connect Cabling**”) purchased certain products from NTI pursuant to two separate transactions: the first in the approximate amount of \$32,000 as evidenced by an invoice dated December 9, 2014 and the second in the approximate amount of \$250,000 as evidenced by an invoice dated December 16, 2014 (the “**Connect Transactions**”). Accordingly, Connect is indebted to NTI in the total amount of \$282,000 in respect of the Connect Transactions (the “**Connect Indebtedness**”).
19. Following protracted negotiations, the Receiver executed a settlement agreement with Connect Cabling on July 15, 2015 (the “**Connect Settlement Agreement**”). The Connect Settlement Agreement contemplates a settlement amount of \$141,000, of which \$69,000 has been collected to date with the balance of \$72,000 payable in monthly installments ending May 31, 2016. A collection agency fee is payable on these receipts.
20. In the First Report, the Receiver noted that only one USD balance customer, Otisco Valley Telecom Ltd. (“**Otisco**”), had acknowledged indebtedness to NTI and was expected to pay its remaining balance in late June, 2015. On June 24, 2015, the Receiver collected USD \$65,000 from Otisco, thereby settling this account in full.
21. As at the date of this Second Report, collection efforts are ongoing with respect to certain amounts owing from MTD Consulting, Featurecom and other customers and parties.

**STATEMENT OF RECEIPTS AND DISBURSEMENTS**

22. Attached as Exhibit “D” is the Statement of Receipts and Disbursements for the period June 19, 2015 to December 2, 2015, and for the cumulative receivership period from April 9, 2015 to December 2, 2015. As at December 2, 2015, the closing cash balance was approximately \$655,000. No distributions have been made from the receivership to date.
23. For the period from June 19, 2015 to December 2, 2015, there was a surplus of cash receipts over disbursements of approximately \$495,000. This amount includes the receipt of the balance of proceeds from the sale of the Vaughan Property of \$740,000 received on July 16, 2015, collections of A/R totaling \$149,000 and receipt of the cash surrender value of a life policy with Sun Life in the amount of \$8,000. Cash disbursements during this period totaling \$402,000 consist of insurance, utilities, closing costs for the Mazza Sale Agreement, commissions payable to the collection agency on settlement of A/R, fees and disbursements of the Receiver and its legal counsel and HST.
24. A summary of the receipts and disbursements for the receivership administration to date, together with the Receiver’s calculation of the amount available for distribution to the secured creditors of the estate is set out in the table below.

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	<u>April 9 to June 18, 2015</u>	<u>June 19, 2015 to December 2, 2015</u>	<u>Total</u>
<b>Receipts</b>			
Proceeds from sale of of the Vaughan Property	\$ 20,000	\$ 740,000	\$ 760,000
Collections of accounts receivable	138,510	148,801	287,311
Proceeds from the sale of inventory	9,500		9,500
Other receipts	3,639	8,095	11,733
HST collected by the Receiver	1,521		1,521
<b>Total receipts</b>	<u>\$ 173,170</u>	<u>\$ 896,895</u>	<u>\$ 1,070,065</u>
<b>Disbursements</b>			
Property taxes, maintenance fees, liens, utilities and other costs re Vaughan Property	\$ 11,231	\$ 7,655	\$ 18,886
Other costs	80	1,097	1,177
CRA re Deemed Trust for unremitted source deductions	1,520		1,520
Commission payable to collection agency		12,540	12,540
Receiver's fees		279,463	279,463
Receiver's legal fees - Thornton Grout Finnigan LLP		36,725	36,725
Receiver's Real Estate Counsel - Torkin Manes LLP		20,096	20,096
HST paid by the Receiver	136	44,407	44,542
<b>Total disbursements</b>	<u>\$ 12,967</u>	<u>\$ 401,984</u>	<u>\$ 414,951</u>
<b>Surplus of receipts over disbursements available for secured creditors</b>	<u>\$ 160,203</u>	<u>\$ 494,911</u>	<u>\$ 655,114</u>
<b>Holdback for future disbursements net of expected recoveries</b>			55,114
<b>Surplus available for distribution to secured creditors</b>			<u>\$ 600,000</u>

## DISTRIBUTIONS FROM THE ESTATE

25. As set out in the First Report, the A/R and inventory balances reported by the Debtor were significantly higher than the respective realizations to date. Other than the remaining collection from the Connect Settlement Agreement, in the Receiver's view additional collections of A/R or other amounts owing to the Debtor are extremely uncertain.
26. As noted in the First Report, HSBC is the first secured creditor of the Debtor, holding, among other security, a general security agreement in its favour and a first ranking collateral charge in the principal amount of \$520,000 together with interest on the liabilities at the prime interest rate per annum plus three per cent (3%) per annum and

costs, charges and expenses in accordance with its terms registered against the Vaughan Property (the “**Collateral Charge**”) to secure the indebtedness owed to it by NTI. The Receiver has obtained a security opinion from TGF confirming the validity and enforceability of the personal property security granted by NTI to HSBC. The Receiver has also obtained a security opinion from Torkin Manes confirming the Collateral Charge is a valid and enforceable first-ranking charge granted by NTI to HSBC.

27. As of June 18, 2015, NTI’s indebtedness to HSBC was in excess of \$2.2 million, which amount continues to accrue interest. The Receiver has confirmed that HSBC demanded payment on March 11, 2015. As a result, interest on the Collateral Charge would have accrued from the date of demand. As at November 30, 2015, the Collateral Charge had accrued interest in the amount of \$21,720 based on the contractual rate contained in the Collateral Charge of prime plus 3%, resulting in the Collateral Charge securing principal and interest in the total amount of \$541,720. This amount is before including any of HSBC’s costs, charges and expenses which are also properly secured by the Collateral Charge.
28. In addition to HSBC, Addiction Associates Inc. (“**Addiction Associates**”) is also a secured creditor of NTI holding a second-ranking charge in the principal amount of \$250,000 registered against the Vaughan Property in favour of Addiction Associates (the “**Second Charge**”). As at June 18, 2015, counsel to Addiction Associates provided a payout statement indicating that Addiction Associates is owed \$320,250. The Receiver has obtained a security opinion from Torkin Manes confirming the Second Charge is a valid and enforceable second-ranking charge granted by NTI to Addiction Associates.
29. The total indebtedness owing to the secured creditors exceeds \$2.5 million, and accordingly, the Receiver estimates a shortfall on the secured indebtedness of NTI to exceed \$1.8 million. The result is that no recoveries are expected to be available for NTI’s unsecured creditors.
30. As a result of the fact that the secured creditors are not the same on the personal property and the Vaughan Property, rather than deduct the fees and disbursements of the Receiver and its counsel secured by the Receiver’s Charge from the total realizations in the estate,

the Receiver undertook the allocation of direct and indirect disbursements, fees and costs associated with the Vaughan Property and the realization of personal property assets.

31. For the purpose of determining net realizations allocable to the Vaughan Property and the personal property assets of NTI, the Receiver segregated the receipts and direct disbursements between the Vaughan Property and the personal property assets for the purpose of then using such net realization to reasonably allocate the professional fees and disbursements of the Receiver and its independent legal counsel, TGF, to the two asset realization pools.
32. The professional fees of the Receiver and its independent legal counsel for the periods from the commencement of this receivership to June 5, 2015 and May 31, 2015, respectively were detailed in the First Report and approved by the Court pursuant to the Order in this matter dated June 30, 2015. Professional fees incurred since the First Report are detailed later in this Second Report. In the calculation of net recoveries set out in the table at paragraph 41 of this Second Report, the Receiver has estimated the unbilled and future fees from November 1, 2015 to completion of the receivership to be \$30,281 plus HST of \$3,937. As such, the total billed and forecast professional fees and disbursements of the Receiver and TGF for the period from the commencement of these proceedings to completion of the receivership and discharge of the Receiver to be allocated are \$346,470 plus HST of \$45,010.
33. With respect to HST, by letters dated November 19 and 27, 2015, Canada Revenue Agency (“**CRA**”) provided the Receiver with its preliminary audit findings for the period prior to the date of the Appointment Order. CRA has disallowed approximately \$304,000 of input tax credits that had been claimed by NTI. Based on this disallowance and having regard to CRA’s position in other receivership proceedings, it is the Receiver’s view that CRA will withhold the release of any potential refund owing in connection with the Receiver’s HST account for the post-receivership period. Accordingly, HST paid by the estate on all exigible disbursements have been included in the analysis undertaken by the Receiver and allocated to the respective property categories.

34. Using the methodology of allocating professional fees and costs based on the ratio of actual and forecast net recoveries in each asset category, the Receiver calculated actual and forecast net recoveries to be \$717,705 (67%) from the Vaughan Property and \$347,708 (33%) from the personal property assets before allocating the professional fees and disbursements of the Receiver and its legal counsel. For the purpose of this calculation, the Receiver did not include a reserve for collection risk with respect to the future collections of accounts receivable. As set out in the table in paragraph 41, after allocating the professional fees and disbursements of the Receiver and its legal counsel on a *pro rata* basis based on these percentages, this methodology (“**Methodology #1**”) results in a net recovery of \$455,414 and \$218,520 to the Vaughan Property and the personal property assets, respectively.
35. As the net recovery allocable to the Vaughan Property under Methodology #1 is less than the principal amount of the Collateral Charge of \$520,000 in favour of HSBC before accounting for accrued interest and costs, there would be no funds available from the Vaughan Property to satisfy Addiction Associates’ Second Charge.
36. The Receiver had initially intended to bring a motion seeking a distribution order allowing the Receiver to pay certain amounts to HSBC based on its analysis under Methodology #1 in September, 2015. However, when the analysis using Methodology #1 was shared through counsel with Addiction Associates, Addiction Associates’ counsel advised that that they would oppose such a distribution motion on the basis that they did not agree with the allocation undertaken by the Receiver and requested that a more detailed allocation of fees and costs incurred during these proceedings be provided by the Receiver.
37. In order to accommodate the request of Addition Associates, the Receiver deferred bringing a motion for an initial distribution order and undertook the more detailed allocation of fees and disbursements set out in the accounts of the Receiver and TGF for the purpose of allocating such costs into three categories being the Vaughan Property, the personal property assets, and those fees and disbursement that could not be reasonably allocated to specific asset recovery categories.

38. This specific fee analysis results in \$63,122 (inclusive of HST) of Receiver and TGF fees collectively being allocable to the Vaughan Property, and \$100,167 (inclusive of HST) of Receiver and TGF fees collectively being allocable to the personal property assets, leaving a residual balance of \$228,190 (inclusive of HST) that cannot be reasonably allocated to specific asset recoveries that remained to be allocated. As set out in the table in paragraph 41, the Receiver calculated actual and forecast net recoveries before allocating the professional fees that cannot be reasonable allocated to specific asset recoveries under this methodology to be \$654,583 (73%) from the Vaughan Property and \$247,541 (27%) from the personal property assets, again without including a reserve for future account collection risks. The Receiver then allocated the residual balance that could not be reasonable allocated to specific asset recoveries on a *pro rata* basis based on the percentages as used in Methodology #1 (i.e. 67% / 33% rather than 73% / 27% above). This methodology (“**Methodology #2**”) results in a net recoveries of \$501,696 and \$172,238 to the Vaughan Property and personal property assets, respectively. (The Receiver notes that prorating on the basis of 73% / 27% would have resulted in an even lower net recovery allocable to the Vaughan Property).
39. As the calculated net recovery to the Vaughan Property in Methodology #2 is less than the principal amount of the Collateral Charge of \$520,000 in favour of HSBC before accounting for accrued interest and costs, there would be no funds available from the Vaughan Property to satisfy Addiction Associates’ Second Charge.
40. Counsel for the Receiver provided the Receiver’s analysis for Methodology #1 and Methodology #2 to counsel for Addiction Associates, for review prior to finalizing this Report. In particular, the documents attached hereto as Exhibit “E” were provided by counsel for the Receiver to counsel for Addiction Associates on November 25, 2015.
41. The table below summarizes net recoveries before and after the allocation of the fees and disbursements of the Receiver and its legal counsel, TGF, using both Methodology #1 and Methodology #2:

**In the Matter of the Receivership of National Telecommunications Inc.**  
**Actual plus Forecast Receipts and Disbursements**  
**As at December 2, 2015**  
 (All amounts in \$CAD)

	Methodology #1			Methodology #2			Notes
	Vaughan Property	Other	Total	Vaughan Property	Other	Total	
Receipts							
Actual	760,000	310,065	1,070,065	760,000	310,065	1,070,065	
Forecast	-	72,000	72,000	-	72,000	72,000	1
Total	760,000	382,065	1,142,065	760,000	382,065	1,142,065	
	67%	33%	100%	67%	33%	100%	
Direct disbursements							
Actual	42,295	15,394	57,689	105,417	104,467	209,884	2
Forecast	-	18,963	18,963	-	30,057	30,057	1, 3
Total	42,295	34,357	76,652	105,417	134,524	239,941	
Net recoveries before the following allocations	717,705	347,708	1,065,413	654,583	247,541	902,124	
	67%	33%	100%	73%	27%	100%	
Allocation of remaining professional fees with HST (allocated 67% / 33%)							
Actual	239,365	117,896	357,262	137,395	67,672	205,067	3
Forecast	22,926	11,292	34,218	15,492	7,631	23,123	3
Total	262,291	129,188	391,479	152,888	75,303	228,190	
Net recoveries							
Actual	478,340	176,774	655,114	517,188	137,926	655,114	
Forecast	(22,926)	41,746	18,820	(15,492)	34,312	18,820	
Total	455,414	218,520	673,934	501,696	172,238	673,934	
Secured indebtedness (estimated) as at June 18, 2015							
HSBC Bank Canada			2,200,000			2,200,000	4
Addiction Associates Inc.			320,250			320,250	5
Total secured indebtedness			2,520,250			2,520,250	

**Notes**

- 1 Assumes the full collection of the remaining \$72,000 balance from an A/R settlement less a direct disbursement for collection agency commission. No reserve for doubtful collection or additional costs has been calculated for the purpose of this analysis.
- 2 Direct disbursements include the fees of Torkin Manes LLP (\$20,096 plus HST of \$2,596) which acted as specialist real estate counsel solely with respect to the sale of the Vaughan Property and related security review.
- 3 Fees of the Receiver and TGF have been paid to October 31, 2015. The forecast fees represent the estimated fees of the Receiver and TGF to completion and discharge.  
 In Methodology #1, none of the professional fees of the Receiver or TGF were included in the calculation of direct disbursements. All of these costs are fully prorated.  
 In Methodology #2, the Receiver has allocated professional fees of the Receiver and TGF to the Vaughan Property and other assets, where such allocation could reasonably be identified, with the balance being prorated.
- 4 Refer to paragraph 14 of the First Report.
- 5 Refer to paragraph 18 of the First Report.



42. The actual and forecast disbursements directly related to the Vaughan Property of \$42,295 using Methodology #1 are comprised of property taxes (\$6,474), condominium fees and lien discharge (\$5,040), insurance (\$3,525), utilities (\$1,984), fees of Torkin Manes, independent real estate counsel (\$20,096 plus HST of \$2,596), and other direct costs and HST of \$2,580. The Receiver had negotiated a zero % sale commission with Mazza in the Mazza Sale Agreement. In addition to the above amounts totaling \$42,295, Methodology #2 includes direct Receiver and TGF fees totaling \$63,122 inclusive of HST directly allocable to the Vaughan Property.
43. The actual and forecast disbursements directly related to personal property of \$34,357 using Methodology #1 are comprised of the settlement of a deemed trust as assessed by CRA with respect to employee source deductions that were not remitted by the Debtor (\$1,520), commissions payable to the collection agency regarding A/R (\$31,020), and other direct costs and HST of \$1,817. In addition to the above amounts, Methodology #2 includes actual and forecast Receiver and TGF fees totaling \$100,167 inclusive of HST directly allocable to personal property realizations.

### *Summary*

44. The table in paragraph 41 herein calculates net recoveries from the Vaughan Property of \$455,414 using Methodology #1 and \$501,696 using the Methodology #2. Both methodologies result in recoveries from the Vaughan Property in an amount less than the principal amount of the Collateral Charge of \$520,000. As a result, it is the Receiver's opinion that HSBC is entitled to all of the net proceeds from the Vaughan Property and will suffer a shortfall under its Collateral Charge after receiving payment. Since the Vaughan Property has been sold there will be no further proceeds from it to distribute.
45. The table in paragraph 41 herein, calculates net recoveries from the personal property assets of \$218,520 using Methodology #1 and \$172,238 using the Methodology #2. Since HSBC holds valid and enforceable first ranking personal property security, it is the Receiver's opinion that HSBC is entitled to all of the net proceeds from the personal property assets.

46. Since the receivership is now substantially complete, the Receiver is seeking an order to make an initial distribution to the Bank of \$600,000 and upon conclusion of the receivership to pay over to HSBC any monies remaining in its hands to partially repay its secured advances in excess of \$2.2 million.
47. The Receiver calculated the initial distribution of \$600,000 using the net surplus of receipts over disbursements as at December 2, 2015 of \$655,000 and deducting a holdback of \$55,000 for accrued and future remaining receivership liabilities for taxes, commissions, and professional fees and other disbursements to complete the receivership administration as set out in the table at paragraph 24.
48. In order to minimize the costs associated with obtaining approval by the Court of further distributions of available funds to the Bank, the Receiver recommends that it be authorized and directed to make additional distributions to HSBC (from either future realizations of personal property or any remainder of the holdback) immediately prior to filing its Discharge Certificate to conclude these proceedings, without further order of the Court.

#### **PROFESSIONAL FEES**

49. The Receiver, and its legal counsel, TGF and Torkin Manes, have maintained detailed records of their professional time and costs since the issuance of the Appointment Order. Pursuant to paragraph 21 of the Appointment Order, the Receiver and its legal counsel were directed to pass their accounts from time to time before this Honourable Court and were granted a Receiver's Charge over the Property.
50. The total fees of the Receiver during the period from June 6, 2015 to November 30, 2015, amount to \$123,196.00, together with expenses and disbursements in the sum of \$1,008.36 and HST in the amount of \$16,146.57, total \$140,350.93 (the "**Receiver's Fees**"). The time spent by the Receiver is more particularly described in the Affidavit of Paul Casey of Deloitte, sworn December 11, 2015 (the "**Casey Affidavit**") in support hereof and attached hereto as Exhibit "**F**".
51. The total legal fees incurred by the Receiver during the period June 1, 2015 to November 30, 2015, for services provided by TGF amount to \$29,787.50, together with

disbursements in the sum of \$532.23 and HST in the amount of \$3,923.77 total \$34,243.50. The time spent by TGF personnel is more particularly described in the Affidavit of Grant Moffat of TGF, sworn December 16, 2015 (the “**Moffat Affidavit**”) in support hereof and attached hereto as Exhibit “**G**”.

52. The total legal fees incurred by the Receiver during the period June 5, 2015 to August 6, 2015, for services provided by Torikin Manes amount to \$12,026.50, together with disbursements in the sum of \$343.13 and HST in the amount \$1,595.31, total \$13,964.95. The time spent by Torikin Manes personnel is more particularly described in the Affidavit of Seth Zuk of Torikin Manes sworn August 28, 2015 (the “**Zuk Affidavit**” and collectively with the Casey Affidavit and the Moffat Affidavit, the “**Fee Affidavits**”) in support hereof and attached hereto as Exhibit “**H**”.
53. As set out above, for the purposes of allocation analysis undertaken by the Receiver, the Receiver estimated the unbilled and future fees from November 1, 2015 to completion of the receivership to be \$30,281.32 plus HST of \$3,936.57. Since October 31, 2015, the Receiver and its counsel, TGF, incurred fees of \$10,560.00 and \$1,324.60 plus HST in the collective amount of \$1,545.00 for services provided to November 30, 2015. As a result, the Receiver estimates fees inclusive of HST to the conclusion of the Receivership for itself and its legal counsel, TGF, to collectively be in the amount of \$20,788.29.
54. The Receiver is of the view that the fees and disbursements set out in the Fee Affidavits and the estimated fees to complete the receivership are reasonable in the circumstances and should be approved by the Court.

#### **REMAINING ACTIVITIES AND DISCHARGE OF THE RECEIVER**

55. The tasks to be undertaken by the Receiver prior to the conclusion of these proceedings as are as follows:
  - (a) Complete remaining tax reporting and correspondence with CRA, and arranging an audit of the Receiver’s HST account;
  - (b) Complete the initial distribution and any future distribution to HSBC, as described in this Second Report;

- (c) Continue collection efforts of certain outstanding A/R, including receipt of remaining amounts owing pursuant to the Connect Settlement Agreement and pay related collection agency commissions;
- (d) Complete settlements of estate liabilities, if practicable in the discretion of the Receiver;
- (e) Prepare reports for to the Office of the Superintendent of Bankruptcy in accordance with BIA subsections 246(2) and 246(3);
- (f) Destruction of books and records of the Debtor that are in possession of the Receiver;
- (g) Stakeholder communications, as required; and
- (h) Final reconciliation of the Receiver's bank account once all distributions and expenses have cleared and subsequent closure of the Canadian and U.S. dollar receivership trust accounts.

56. As set out above, rather than return to the Court following the completion of these activities in 2016, the Receiver recommends that the Court make an Order discharging the Receiver upon filing with the Court of a Discharge Certificate in the form attached hereto as Exhibit "I".

#### **RECEIVER'S RECOMMENDATIONS**

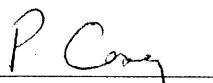
57. For the reasons set out above, the Receiver recommends that the Court make an Order:
- (a) approving an initial distribution of \$600,000 to HSBC, the Debtor's first secured creditor against the Vaughan Property and the personal property, and authorizing the Receiver to make additional distributions to HSBC in such amounts as the Receiver deems appropriate in partial repayment of the Bank's secured advances to the Debtor;
  - (b) approving the activities of the Receiver as described in the Second Report including, without limitation, the steps taken by the Receiver pursuant to the sale of the assets, collection of A/R, the allocation set out herein and other receivership administration;

- (c) approving the Receiver's Statement of Receipts and Disbursements for the period from June 19, 2015 to December 2, 2015;
- (d) approving the professional fees and disbursements of the Receiver from June 6, 2015 to November 30, 2015 and its independent legal counsel, TGF, for the period from June 1, 2015 to November 30, 2015 and Torkin Manes for the period from June 5, 2015 to August 6, 2015, as set out in the Fee Affidavits and the estimated fees, disbursements and costs to complete set herein, and authorizing the Receiver to pay all such fees, disbursements and costs from available funds;
- (e) approving the discharge of the Receiver effective upon the Receiver filing a Discharge Certificate certifying the completion of receivership activities set out herein; and
- (f) releasing the Receiver from any and all liability that it has or may have incurred while acting in its capacity as Receiver upon the filing of the Certificate of Completion of Receivership Activities.

All of which is respectfully submitted at Toronto, Ontario this 18<sup>th</sup> day of December, 2015.

**Deloitte Restructuring Inc.,**  
solely in its capacity as the  
Court-appointed receiver and manager  
of National Telecommunications Inc., and  
without personal or corporate liability

Per:

  
\_\_\_\_\_  
Paul M. Casey, CPA, CA, CIRP  
Senior Vice-President

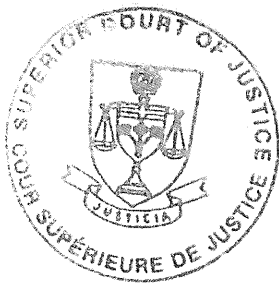
# EXHIBIT “A”

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

THE HONOURABLE MADAM  
JUSTICE CONWAY

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)

THURSDAY, THE 9th  
DAY OF APRIL, 2015



HSBC BANK CANADA

Applicant

and

NATIONAL TELECOMMUNICATIONS INC.

Respondent

**ORDER**  
(appointing Receiver)

**THIS APPLICATION** made by the Applicant for an Order pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended (the "CJA") appointing Deloitte Restructuring Inc. ("**Deloitte**") as receiver and manager (in such capacities, the "**Receiver**") without security, of all of the assets, undertaking and properties of National Telecommunications Inc. (the "**Debtor**") acquired for, or used in relation to a business carried on by the Debtor, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Affidavit of John Borch sworn March 25, 2015 and the Exhibits thereto, and on hearing the submissions of counsel for the Applicant, and all other parties listed on the Counsel Slip, no one appearing for any other party although duly served as it appears from the Affidavits of Service of Edna Domingues de Araujo sworn on March 30, 2015 and Sean Louth sworn on March 27, 2015, and on reading the Consent of Deloitte to act as the Receiver,

**SERVICE**

1. **THIS COURT ORDERS** that, if necessary, the time for service of the Notice of Application and the Application Record herein is hereby abridged, and that service as effected is hereby validated so that this motion is properly returnable today, and hereby dispenses with further service thereof.

**APPOINTMENT**

2. **THIS COURT ORDERS** that pursuant to section 243(1) of the BIA and section 101 of the CJA, Deloitte is hereby appointed Receiver, without security, of all of the assets, undertakings and properties of the Debtor acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (the "Property").

**RECEIVER'S POWERS**

3. **THIS COURT ORDERS** that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

- (a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;



- (b) to receive, preserve, and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;
- (c) to manage, operate, and carry on the business of the Debtor, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Debtor;
- (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;
- (e) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Debtor or any part or parts thereof;
- (f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtor and to exercise all remedies of the Debtor in collecting such monies, including, without limitation, to enforce any security held by the Debtor;
- (g) to settle, extend or compromise any indebtedness owing to the Debtor;
- (h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtor, for any purpose pursuant to this Order;
- (i) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter

instituted with respect to the Debtor, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;

- (j) to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;
- (k) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business,
  - (i) without the approval of this Court in respect of any transaction not exceeding \$150,000, provided that the aggregate consideration for all such transactions does not exceed \$500,000; and
  - (ii) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause,

and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act*, or section 31 of the Ontario *Mortgages Act*, as the case may be, shall not be required, and in each case the Ontario *Bulk Sales Act* shall not apply;

- (l) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;
- (m) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the

Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

- (n) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;
- (o) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtor;
- (p) to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtor, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtor;
- (q) to exercise any shareholder, partnership, joint venture or other rights which the Debtor may have;

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- ~~(r) to make an assignment in bankruptcy on behalf of the Debtor; and~~
- <sup>R</sup>  
(s) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations,

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Debtor, and without interference from any other Person.

#### **DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER**

4. **THIS COURT ORDERS** that (i) the Debtor, (ii) all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and (iii) all other individuals, firms, corporations,

governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a "Person") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request.

5. **THIS COURT ORDERS** that all Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtor, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "Records") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 5 or in paragraph 6 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

6. **THIS COURT ORDERS** that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the

information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

7. **THIS COURT ORDERS** that Nelson Guyatt shall forthwith identify and provide the information and documents requested by the Receiver in the attached Schedule "A" if available to him.

8. **THIS COURT ORDERS** that the Receiver be and is hereby authorized to examine ~~under oath Nelson Guyatt and other Persons reasonably thought to have knowledge of the affairs of the Debtor on dates to be agreed upon by the solicitors for the Receiver and for those individuals, and absent agreement or in the event these individuals are not represented by counsel, that these examinations may be compelled by service of notices of examination in the form prescribed in the Rules of Civil Procedure for examinations for discovery and service of such notices of examination shall be effective by email or facsimile sent on five days' notice to the solicitors for these individuals or the individuals themselves if unrepresented, and such individuals are ordered and directed to attend such examinations.~~

*intentionally  
deleted  
bc -*

9. **THIS COURT ORDERS** that the Receiver shall provide each of the relevant landlords with notice of the Receiver's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled

to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Receiver's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Receiver, or by further Order of this Court upon application by the Receiver on at least two (2) days notice to such landlord and any such secured creditors.

**NO PROCEEDINGS AGAINST THE RECEIVER**

10. **THIS COURT ORDERS** that no proceeding or enforcement process in any court or tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

**NO PROCEEDINGS AGAINST THE DEBTOR OR THE PROPERTY**

11. **THIS COURT ORDERS** that no Proceeding against or in respect of the Debtor or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtor or the Property are hereby stayed and suspended pending further Order of this Court.

**NO EXERCISE OF RIGHTS OR REMEDIES**

12. **THIS COURT ORDERS** that all rights and remedies against the Debtor, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of any "eligible financial contract" as defined in the BIA, and further provided that nothing in this paragraph shall (i) empower the Receiver or the Debtor to carry on any business which the Debtor is not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtor from

compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

#### **NO INTERFERENCE WITH THE RECEIVER**

13. **THIS COURT ORDERS** that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtor, without written consent of the Receiver or leave of this Court.

#### **CONTINUATION OF SERVICES**

14. **THIS COURT ORDERS** that all Persons having oral or written agreements with the Debtor or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Debtor are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtor's current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver in accordance with normal payment practices of the Debtor or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

**RECEIVER TO HOLD FUNDS**

15. **THIS COURT ORDERS** that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "**Post Receivership Accounts**") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

**EMPLOYEES**

16. **THIS COURT ORDERS** that all employees of the Debtor shall remain the employees of the Debtor until such time as the Receiver, on the Debtor's behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*.

**PIPEDA**

17. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete



one or more sales of the Property (each, a "Sale"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtor, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

#### **LIMITATION ON ENVIRONMENTAL LIABILITIES**

18. **THIS COURT ORDERS** that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of

any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

**LIMITATION ON THE RECEIVER'S LIABILITY**

19. **THIS COURT ORDERS** that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*. Nothing in this Order shall derogate from the protections afforded the Receiver by section 14.06 of the BIA or by any other applicable legislation.

**RECEIVER'S ACCOUNTS**

20. **THIS COURT ORDERS** that the Receiver and counsel to the Receiver shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges unless otherwise ordered by the Court on the passing of accounts, and that the Receiver and counsel to the Receiver shall be entitled to and are hereby granted a charge (the "Receiver's Charge") on the Property, as security for such fees and disbursements, both before and after the making of this Order in respect of these proceedings, and that the Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subject to sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

21. **THIS COURT ORDERS** that the Receiver and its legal counsel shall pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

22. **THIS COURT ORDERS** that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the standard rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

**FUNDING OF THE RECEIVERSHIP**

23. **THIS COURT ORDERS** that the Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$250,000 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge and the charges as set out in sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

24. **THIS COURT ORDERS** that neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.

25. **THIS COURT ORDERS** that the Receiver is at liberty and authorized to issue certificates substantially in the form annexed as Schedule "B" hereto (the "Receiver's Certificates") for any amount borrowed by it pursuant to this Order.

26. **THIS COURT ORDERS** that the monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates evidencing the same or any part thereof shall rank on a *pari passu* basis, unless otherwise agreed to by the holders of any prior issued Receiver's Certificates.

#### **SERVICE AND NOTICE**

27. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "Protocol") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established at [www.insolvencies.deloitte.ca/en-ca/NationalTelecommunications](http://www.insolvencies.deloitte.ca/en-ca/NationalTelecommunications) in accordance with the Protocol.

28. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Receiver is at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile

transmission to the Debtor's creditors or other interested parties at their respective addresses as last shown on the records of the Debtor and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

**GENERAL**

29. **THIS COURT ORDERS** that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

30. **THIS COURT ORDERS** that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtor.

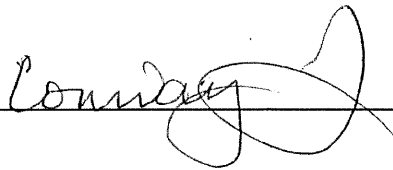
31. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

32. **THIS COURT ORDERS** that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the within

proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

33. **THIS COURT ORDERS** that the Plaintiff shall have its costs of this motion, up to and including entry and service of this Order, provided for by the terms of the Plaintiff's security or, if not so provided by the Plaintiff's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtor's estate with such priority and at such time as this Court may determine.

34. **THIS COURT ORDERS** that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.



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ENTERED AT / INSCRIT A TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO.:

APR 9 - 2015  
NB

## SCHEDULE "A"

- | <b>Item</b> | <b>Description</b>  |
|-------------|---|
| 1           | <p><b>Financial Forecasts</b></p> <ul style="list-style-type: none"><li>a) Schedule of weekly collections to April 30, 2015 (and beyond) for individual accounts receivable (by customer).</li><li>b) Files, documentation, and general ledger transaction history report with respect to funds flowing from and to Panda Ventures Inc. and Otisco.</li><li>c) List of potential orders that can be filled from inventory on-hand as at March 25, 2015.</li><li>d) List of critical shipping and brokerage amounts and names to collect A/R.</li><li>e) Access to copies of supporting documentation for all receivable balances.</li></ul>   |
| 2           | <p><b>Financial and Tax Information</b></p> <ul style="list-style-type: none"><li>a) Finalized October 31, 2014 fiscal year-end financial statements, as reviewed by NTI's external accountant (if available)</li><li>b) February 28, 2015 month-end adjusted trial balance and general ledger, with supporting bank reconciliations for each account (if available).</li><li>c) March 25, 2015 trial balance and general ledger.</li><li>d) Draft trial balance and general ledger as at March 25, 2015.</li><li>e) Copies of the most recent tax filings, CRA Notices of Assessment and Statements of Account:<ul style="list-style-type: none"><li>i. Payroll Taxes and T4 Summary for 2014.</li><li>ii. HST return for February 2015 with supporting documentation.</li><li>iii. Income tax return for 2014, and the prior year return.</li></ul></li><li>f) Provide any reports or letters from CRA re: any audits performed in the last two years.</li><li>g) Insurance – Copies of the Certificates of Insurance, Statement of Account, and proof of the most recent payment for each insurance policy (e.g. key management life insurance, premises, property and other).</li><li>h) Copies of the Company's bank statements with financial institutions other than HSBC (e.g. TD Canada Trust) from January 2014 to March 2015. Online access to all bank accounts to obtain activity reports since the date of the last bank statement.</li></ul> |
| 3           | <p><b>Inventory</b></p> <ul style="list-style-type: none"><li>a) Copy of the inventory listing as at March 13 and 25, 2015 by description, cost, age, SKU, etc. Also, include an estimated selling price in a separate column. Identify obsolete/damaged inventory.</li><li>b) Details of any consignment inventory with NTI or customers, and any bill-and-hold arrangements, including inventory that the Company received since March 13, 2015.</li></ul>  |
| 4           | <p><b>Fixed Assets</b></p> <ul style="list-style-type: none"><li>a) Summary of leased equipment, including access to lease documentation.</li></ul>   |
| 5           | <p><b>Real Property</b></p> <ul style="list-style-type: none"><li>a) Copies of the most recent annual property tax assessments/statements (MPAC if available).</li><li>b) Details on the property (e.g. square footage for the warehouse and office sections), including copies of any prior real estate appraisals and reports.</li></ul>  |

**6 Accounts Payable & Accrued Liabilities**

- a) Explain the nature of recent purchases from Broadconnect (\$314K) and Featurecom (\$75K), and whether this product is on-site.
- b) Details of nature and amounts due to/from related parties, including supporting documentation.
- c) Breakdown of accrued liabilities, including of outstanding employee vacation pay.
- d) Details regarding any customer/ product warranty programs.

**7 Litigation**

- a) Copies of documents and details with respect to any ongoing, pending, or possible litigation.
- b) Gusto Brands Ltd. Promissory Note
  - i. A detailed accounting of which sets out the amounts, payee, and timing of all transactions relating to the Gusto Promissory Note
  - ii. Files, documentation and written and e-mail correspondence regarding Gusto.

**8 Episolar Transactions**

- a) Copy of the executed agreement with respect to Episolar, and any other parties.
- b) A detailed accounting which sets out the amounts, payee, and timing of all transactions relating to Episolar.



**SCHEDULE "B"**

**RECEIVER CERTIFICATE**

CERTIFICATE NO. \_\_\_\_\_

AMOUNT \$ \_\_\_\_\_

1. THIS IS TO CERTIFY that Deloitte Restructuring Inc, the receiver (the "Receiver") of the assets, undertakings and properties of National Telecommunications Inc. acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (collectively, the "Property") appointed by Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated the \_\_\_ day of \_\_\_\_\_, 20\_\_ (the "Order") made in an action having Court file number CV-15-10921-00CL, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$ \_\_\_\_\_, being part of the total principal sum of \$ \_\_\_\_\_ which the Receiver is authorized to borrow under and pursuant to the Order.

2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily][monthly not in advance on the \_\_\_\_\_ day of each month] after the date hereof at a notional rate per annum equal to the rate of \_\_\_\_\_ per cent above the prime commercial lending rate of Bank of \_\_\_\_\_ from time to time.

3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.

4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Toronto, Ontario.

5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

Deloitte Restructuring Inc., solely in its capacity  
as Receiver of the Property, and not in its  
personal capacity

Per: \_\_\_\_\_

Name:

Title:

**HSBC BANK CANADA**  
Applicant

-and-

**NATIONAL TELECOMMUNICATIONS INC.**  
Respondent

**Court File No.: CV-15-10921-00CL**

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**

**PROCEEDING COMMENCED AT**  
**TORONTO, ONTARIO**

**RECEIVERSHIP ORDER**

**BAKER & MCKENZIE LLP**  
Barristers & Solicitors  
181 Bay Street, P.O. Box 874,  
Suite 2100  
Toronto, Ontario M5J 2T3

**John Pirie (LSUC #40993K)**  
Email: [john.pirie@bakermckenzie.com](mailto:john.pirie@bakermckenzie.com)  
Tel.: 416.865.2325

**Michael Nowina (LSUC #49633O)**  
Email: [michael.nowina@bakermckenzie.com](mailto:michael.nowina@bakermckenzie.com)  
Tel: (416) 865 2312  
Fax: 416.863.6275

Lawyers for HSBC Bank Canada



Apr 2/15

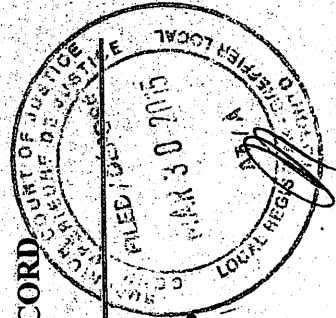
April 2/15 M. Nowina & J. Pirie, for HSBC  
MR Nowina conceded that it was an  
error that Mr Goldberg (Addiction  
Associates) was not served. I require  
him to serve Mr Goldberg & the matter  
can return for a brief hearing (15 min)  
on Tuesday April 9, 2015 before me.  
If the matter is opposed it may come  
to me as a 9:30 appor.

~~Conway~~  
Conway

April 9/15 M. Nowina, for HSBC  
Mr Goldberg has now been served & has  
not appeared & opposed. Mr Gygath has  
consented to the membership but not the  
precise form of the agreement. HSBC wants to  
include clauses 7 & 8 (non standard) in the  
form. I am not prepared at this point to grant  
an order examining him under oath but that  
can seek it at a later date should the debtor  
not cooperate. I am also not prepared to include

ONTARIO  
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(Commercial List)  
  
PROCEEDING COMMENCED AT  
TORONTO, ONTARIO

APPLICATION RECORD



BAKER & MCKENZIE LLP  
Barristers & Solicitors  
181 Bay Street, P.O. Box 874,  
Suite 2100  
Toronto, Ontario M5J 2T3

John Pirie (LSUC #40993K)  
Email: john.pirie@bakermckenzie.com  
Tel.: 416.865.2325

Michael Nowina (LSUC #496330)  
Email: michael.nowina@bakermckenzie.com  
Tel: (416) 865 2312  
Fax: 416.865.6275

Lawyers for HSBC Bank Canada



the term re immediately  
bankrupting the debtor - apparently  
Mr Goyar agreed to this in  
principle (re Mr Nowlin) but has  
not received legal advice on this  
proposed term.

OTG in form signed by me.

Conway J