

**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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	<b>April 9 to June 18, 2015</b>	<b>June 19, 2015 to December 2, 2015</b>	<b>Total</b>
<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>	<b>\$ 173,170</b>	<b>\$ 896,895</b>	<b>\$ 1,070,065</b>
<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>	<b>\$ 12,967</b>	<b>\$ 401,984</b>	<b>\$ 414,951</b>
<b>Surplus of receipts over disbursements available for secured creditors</b>	<b>\$ 160,203</b>	<b>\$ 494,911</b>	<b>\$ 655,114</b>
<b>Holdback for future disbursements net of expected recoveries</b>			<b>55,114</b>
<b>Surplus available for distribution to secured creditors</b>			<b>\$ 600,000</b>

## 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 Torkin 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 Torkin Manes personnel is more particularly described in the Affidavit of Seth Zuk of Torkin 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