

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

BETWEEN:

HSBC BANK CANADA

Applicant

- and -

NATIONAL TELECOMMUNICATIONS INC.

Respondent

**FIRST REPORT OF THE RECEIVER
DATED JUNE 23, 2015**

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EXHIBITS

EXHIBIT	DESCRIPTION
A	Appointment Order and Endorsement of Justice Conway dated April 9, 2015
B	General security agreement in favour of HSBC Bank Canada
C	HSBC Collateral Charge over Real Property
D	Addiction Associates Inc. payout statement dated June 18, 2015
E	Mazza Sale Agreement dated May 12, 2015 re 101 Innovation Drive, Unit 3, Vaughan, Ontario and certain property located therein
F	Statement of Receipts and Disbursements for the period April 9, 2015 to June 18, 2015
G	Affidavit of Paul Casey of Deloitte Restructuring Inc. sworn June 19, 2015
H	Affidavit of Grant Moffat of Thornton Grout Finnigan LLP sworn June 11, 2015
I	Affidavit of Aaron English of Torkin Manes LLP sworn June 9, 2015

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**”). Copies of the Appointment Order 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. Immediately following the issuance of the Appointment Order, the Receiver issued a Notice and Statement of the Receiver (“**Notice to Creditors**”) pursuant to subsections 245(1) and 246(1) of the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”).
4. The Appointment Order, together with related Court documents, the Notice to Creditors and this First Report have been posted on the Receiver’s website at www.insolvencies.deloitte.ca/en-ca/NationalTelecommunications.
5. The purpose of this first report of the Receiver (the “**First Report**”) is to:
 - (a) provide this Court with a description of the Property; and
 - (b) provide the Court with the evidentiary basis to make an Order:

- (i) authorizing and directing the Receiver to enter into and carry out the terms of the agreement of purchase and sale between the Receiver and Unit 3 Innovation Drive Inc. (“**Mazza**”) dated May 12, 2015 (the “**Mazza Sale Agreement**”) together with any further amendments thereto deemed necessary by the Receiver in its sole opinion, 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;
- (ii) if the Mazza Sale Agreement is terminated in accordance with its terms, authorizing and directing the Receiver to engage a real estate brokerage to market and sell the Vaughan Property, subject to further Court approval;
- (iii) approving the activities of the Receiver as described in the First Report including, without limitation, the steps taken by the Receiver pursuant to the sale of the Sold Assets, collection of accounts receivable, sales of inventory and investigations to date;
- (iv) authorizing and directing the Receiver, on behalf of the Debtor, to file an assignment in bankruptcy of the Debtor;
- (v) approving the Receiver’s Statement of Receipts and Disbursements for the period from April 9, 2015 to June 18, 2015; and
- (vi) approving the professional fees and disbursements of the Receiver and its independent legal counsel set out herein, and authorizing the Receiver to pay all such fees and disbursements from available funds.

TERMS OF REFERENCE

6. In preparing this First 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**”). Except as described in this First Report:

- (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 Canadian Auditing Standards (“**CAS**”) pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and
- (b) the Receiver has prepared this First Report in its capacity as a Court-appointed officer to support the Court’s approval of the Mazza Sale Agreement and the other relief being sought. Parties using the First Report, other than for the purposes outlined herein are cautioned that it may not be appropriate for their purposes.

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

BACKGROUND

9. 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.
10. 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.

11. The Debtor had ceased operating in the ordinary course prior to the date of the Appointment Order.

TAKING POSSESSION AND SAFEGUARDING ASSETS

12. The Receiver has undertaken the following activities in accordance with the terms of the Appointment Order:
 - (a) established the Receiver's website and issued the Notice to Creditors described in paragraph 3 herein;
 - (b) retained Thornton Grout Finnigan LLP ("TGF") and Torkin Manes LLP ("**Tokin Manes**") as its independent legal counsel;
 - (c) met with Guyatt to review available books and records. The Receiver has significant concerns regarding the accuracy and completeness of such books and records as described below;
 - (d) provided notice of the Receiver's appointment to Supreme Insurance Brokers Inc. who arranged for the insurance coverage through Intact Insurance. On May 14, 2015, Intact Insurance informed the Receiver that it would not renew the policy effective the expiry of the year term ending on June 8, 2015. The Receiver has since made alternate arrangements with Marsh Insurance for the period after June 8, 2015;
 - (e) arranged for a locksmith to attend at the Vaughan Property to change the locks;
 - (f) requested that the cash balance of the Debtor held at accounts with TD Canada Trust be directed to the Receiver and obtained same;
 - (g) compiled invoice data and issued demand letters with respect to the Debtor's accounts receivable and undertook collection efforts described herein;
 - (h) settled outstanding payment of the property tax arrears and condominium fees owing on the Vaughan Property and obtained the discharge of the condominium fee lien registered against the Vaughan Property;

- (i) arranged for two auctioneers to attend at the premises to inspect the inventory and other fixed assets located at the Vaughan Property;
- (j) obtained and reviewed listing proposals from three real estate brokerages;
- (k) made inquiries of various other parties connected to the business of NTI;
- (l) arranged for the backing up of electronic hard drives;
- (m) communicated with the Debtor's email service provider to ensure the preservation of the Debtor's data;
- (n) prepared an inventory list and conducted the Inventory RFO (as defined below) process;
- (o) made arrangements with Canada Revenue Agency ("CRA") to conduct a payroll audit, and to schedule a meeting for an HST audit;
- (p) coordinated the delivery of T4 slips to the two former employees of the Debtor; and
- (q) communicated with Sun Life Financial with respect to a life insurance policy on Guyatt and requested that the cash surrender value be forwarded to the Receiver.

SECURED CREDITORS

HSBC

13. HSBC is the first secured creditor of the Debtor and the applicant in this proceeding. Among other security granted to HSBC, HSBC holds a general security agreement ("GSA") and a collateral charge in the principal amount of \$520,000 over the Vaughan Property (the "**Collateral Charge**") to secure the indebtedness owed to it by NTI. A copy of the GSA and the Collateral Charge in favour of HSBC are attached hereto as Exhibits "**B**" and "**C**", respectively.
14. As at June 18, 2015, HSBC advised the Receiver that NTI's outstanding indebtedness to HSBC totals in excess of Cdn \$2.2 million inclusive of interest and costs incurred to date.

15. The Receiver has obtained a security opinion from TGF in respect of the personal property security granted by NTI to HSBC. The opinion confirmed that the GSA creates a valid security interest in the right, title and interest of the Company in and to its personal property Collateral (as defined in the GSA) located in the Province of Ontario in favour of HSBC as security for all indebtedness, obligations and liabilities of any kind now or hereafter existing between the Company and HSBC and that the GSA is properly perfected and enforceable as against the Company and as against the Receiver in accordance with its terms.
16. The Receiver has also obtained a security opinion from Torkin Manes in respect of the Collateral Charge granted by NTI to HSBC. The opinion confirmed that the Collateral Charge is a valid and enforceable first-ranking collateral charge registered against the Vaughan Property. The Collateral Charge is continuing collateral security for payment and satisfaction to HSBC of all obligations, debts and liabilities owing by NTI to HSBC which charge will not secure that portion of the aggregate principal component of the liabilities outstanding at any time which exceeds 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.

Addiction Associates Inc.

17. In addition to HSBC's Collateral Charge, a property abstract of the Vaughan Property reveals a second charge in the principal amount of \$250,000 registered in favour of Addiction Associates Inc. ("**Addiction Associates**"). On June 18, 2015, counsel to Addiction Associates provided a payout statement (the "**Addiction Associates Payout Statement**") which is attached hereto as Exhibit "**D**".
18. Based on the Addiction Associates Payout Statement, Addiction Associates is owed \$320,250. The Receiver's legal counsel has also requested Addiction Associates' security documentation.

Condominium Corporation Lien

19. On June 5, 2015, the Receiver obtained a copy of a Registration of Discharge of Lien document with respect to monthly fees payable to the condominium corporation regarding the Vaughan Property.

Leased Property

20. The Debtor had leased two vehicles from Honda Finance Canada Inc. (“**Honda Finance**”). The Receiver confirmed that the vehicle identification number for the 2012 Honda Crosstour parked at the Vaughan Property agreed to the lease documents. Guyatt informed the Receiver that the remaining leased vehicle, a 2012 Honda Odyssey, was returned to the Honda dealership. The Receiver immediately notified Honda Finance of the receivership, which subsequently made its own arrangements in this regard.

TRADE ACCOUNTS RECEIVABLE

21. As set out above, the Receiver met with Guyatt to review available books and records of NTI. It is the Receiver’s opinion that there was very little financial and operating information located at the Vaughan Property, particularly for a business which had recorded sales revenues of \$18.4 million and \$20.8 million for the fiscal years-ended October 31, 2013 and 2014 respectively, according to draft financial statements provided to the Receiver by NTI’s external accountant, Henry Goldberg of Norman, Goldberg & Co. LLP (“**Goldberg**”).
22. On April 9, 2015, the Receiver met with Guyatt to discuss, among other things, the outstanding accounts receivable (“**A/R**”) and collectability of each customer balance. Guyatt provided the Receiver with A/R subledgers dated April 8, 2015, which are summarized along with the status of the Receiver’s collection efforts in the tables below.

CAD Balances

Customer Name	Amount (\$CDN) Owing as at April 8, 2015	Amount (\$CDN) Collected from April 9, 2015 to June 18, 2015	Status as at June 18, 2015
Connect Cabling Inc. ¹	282,041	Nil	Collection efforts are ongoing.
LDM Systems	30,001	Nil	Not owing – Customer provided evidence of payment.
Telinks Canada Inc.	17,204	17,204	Paid in full.
Tel e technologies	6,509	Nil	Collection efforts are ongoing.
Comfort Telecom	5,668	Nil	Not owing – Customer provided evidence of payment.
Datacom Solutions	2,644	Nil	Not owing – Customer provided evidence of payment.
Featurecom	2,606	Nil	Collection efforts are ongoing.
Pairo	2,147	Nil	Not owing - Customer provided evidence of payment.
Telogiks	1,356	Nil	Customer claims that NTI did not ship all of the correct equipment, and incurred additional charges.
One Restaurant	1,198	973	Customer paid balance less contra for meal on account.
Broadconnect	1,158	Nil	Customer has claimed offsetting amounts owing from NTI, and that it is a net creditor of NTI.
Motion Technology Solutions	565	565	Paid in full.
Unique Fine Fabrics	226	Nil	Unable to locate customer.
Prime Marketing	226	Nil	Unable to locate customer.
Glasser TV	74	74	Paid in full.
Norvyacom Asset Management	40	Nil	Not owing – Customer provided evidence of payment.
Total (16 customers)	\$353,663	\$18,816	

¹ Connect Cabling Inc. (“**Connect Cabling**”) occupies the premises immediately adjacent to the Vaughan Property, and there is evidence of a former inside access door connecting the two units. As noted below, the relationship among the Debtor and Connect Cabling and their respective principals appears to extend beyond normal trade in the resale of used telecommunications equipment. With respect to the A/R owing from Connect Cabling, the Receiver has had multiple exchanges with respect to the collection of amounts owing which have been unsuccessful to date. Accordingly, the Receiver has referred this account to a collection agency.

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USD Balances

Customer Name	Amount (\$US) Owing as at April 8, 2015	Amount (\$US) Collected from April 9, 2015 to June 18, 2015	Status as at June 18, 2015
Panda Ventures Inc.	926,086	Nil	Amount not owing – Greg Wass of Panda Ventures and Guyatt advised the Receiver that a \$1,000,000 payment was issued in November, 2014 as “prepayment” for product. This is not consistent with the Debtor’s financial records which indicate this was an equity / financing transaction.
Otisco Valley Telecom Ltd.	162,487	97,487	Customer has made payments on account and advised the Receiver that the balance will be paid in late June 2015.
Featurecom Inc.	67,270	Nil	Collection efforts are ongoing.
Telquest	50,088	Nil	Collection efforts are ongoing.
Viper Communications	38,408	Nil	Collection efforts are ongoing.
Telogiks	7,500	Nil	Customer has claimed an offset based on a verbal agreement with NTI.
MTD Consulting	18	Nil	This customer is not responding to the Receiver.
Total (7 customers)	\$1,251,857	\$97,487	

INVENTORY

23. According to the January Financial Statements and the Debtor’s unaudited interim balance sheet as at December 31, 2014, the Debtor reported inventory balances of \$860,000 and \$990,000, respectively.
24. Immediately following its appointment, the Receiver met with Guyatt to conduct an inventory count. Based on the inventory count schedule prepared on the date of the

Appointment Order, Guyatt calculated a book value of inventory of approximately \$320,000.

25. The Receiver requested proposals from two third-party auctioneers. One party declined to submit a proposal because it deemed the inventory to not have any commercial value. A second auctioneer submitted a proposal for \$5,500, inclusive of the Debtor's forklift truck located at the Vaughan Property.
26. The Receiver requested from Guyatt a list of customers with purchase orders for the inventory located at the Vaughan Property. Guyatt informed the Receiver that the inventory was purchased on a speculative basis without specific orders on hand from customers. Notwithstanding, the Receiver obtained the names of 8 prospective purchasers from Guyatt.
27. On April 24, 2015, the Receiver e-mailed a request for offers with respect to the Debtor's inventory (the "**Inventory RFO**") to 10 prospective purchasers, including the 8 parties named by Guyatt. The Inventory RFO included the Debtor's inventory listing and contemplated an offer deadline of May 7, 2015. The Receiver re-issued the Inventory RFO on May 1, 2015 to those prospective purchasers who did not respond to its initial request.
28. The Receiver received two offers pursuant to the Inventory RFO. None of the 8 parties named by Guyatt submitted an offer for the inventory. The Receiver accepted an *en bloc* offer of \$9,500 plus HST, and executed a bill of sale with the successful purchaser on May 8, 2015. This transaction has since closed and all proceeds have been received.

PRELIMINARY REVIEW OF NON-TRADE AMOUNTS OWING TO THE DEBTOR

29. Prior to its appointment as Receiver, Deloitte was engaged by HSBC as a consultant. On March 13, 2015, Deloitte met with Guyatt and Goldberg at NTI's premises, and was provided with an unaudited interim balance sheet as at January 31, 2015 and an income statement for the period November 1, 2014 to January 31, 2015 (together, the "**January Financial Statements**"). Based on the Receiver's review of the January Financial Statements and other information provided by Guyatt, the Receiver noted certain non-trade accounts receivable discussed below.

30. From the books of account made available to the Receiver, the Receiver issued demand letters to the recipients of certain funds from NTI.
31. Also, the Receiver has commenced a preliminary review of available bank statements with respect to NTI's accounts held at HSBC and TD Canada Trust for the period March 1, 2013 to April 9, 2015. The Receiver has contacted TD Canada Trust to obtain certain bank statements which were missing from the Debtor's records and were missing from the banking records provided by Goldberg.
32. Further details on these non-trade amounts owing to NTI are provided below along with the Receiver's observations on NTI's disbursement to another company, MTD Consulting.

Gusto Brands Ltd. - \$1.5 Million

33. Based on the Receiver's discussions with Guyatt, approximately \$1.25 million of a total of \$1.5 million of funds were disbursed from NTI's account at TD Canada Trust as a short-term investment in a food distribution company transaction.
34. Based on the Debtor's A/R subledger as at April 8, 2015, there is an account receivable recorded in the amount of \$504,248. The Receiver is unable to reconcile this balance to the other reported aspects of this transaction.
35. The Receiver has identified that NTI issued two cheques to Connect Cabling on October 28, 2014 and November 19, 2014 in the amounts of \$250,000 and \$1,000,000, respectively.
36. On April 14, 2015, the Receiver wrote to Connect Cabling to request the return of these funds as they appeared to be for assets or investments that could not be identified from the books and records of NTI.
37. On April 24, 2015, Anthony Quinto ("**Quinto**"), Connect Cabling's principal, provided the Receiver with copies of payments totaling \$1.275 million in connection with this investment to the following parties:

- (a) Vincent Leli in the amount of \$50,000 pursuant to a cheque dated November 7, 2014;
 - (b) 2252593 Ontario Inc. (“**2252593**”) in the amount of \$975,000 by way of bank draft dated November 19, 2014; and
 - (c) Gusto Brand Ltd. in the amount of \$250,000 by way of bank draft dated October 28, 2014.
38. In addition, the Receiver determined that on November 3, 2014, NTI directly remitted a separate payment of \$250,000 to 2252593 from its account with TD Canada Trust. Together with the payments via Connect Cabling described above, NTI appears to have contributed at least \$1.525 million of payments to an alleged investment in Gusto.
39. In response to Quinto’s disclosure that Connect Cabling was only acting as “trustee” with respect to these transactions, the Receiver requested evidence of a trust agreement from Connect Cabling.
40. On April 22, 2015, Quinto provided a Trust Declaration which set out the terms of an agreement between NTI and Connect Cabling.
41. The Receiver has reviewed a copy of a promissory note dated November 14, 2014 in favour of NTI issued by Vincent Leli personally and 2252593 in the amount of \$2,000,000, all of which were due on February 15, 2015. The return on the initial investment called for the “...*principal amount together with profit of the Wall Mart PO order# 44104 sale of \$2,867,151.60, being \$452,013 subject to foreign exchange interest rate adjustments.*” No amounts were repaid on or since February 15, 2015 pursuant to this Promissory Note.
42. The Receiver also reviewed a General Security Agreement in favour of “National Telecom Inc.” provided by 2252593. In response to the Receiver’s inquiries, Guyatt had no explanation as to why NTI has never registered its security interest nor took any action to collect the amount due.

43. Vincent Leli, a Director of Gusto Brands Ltd. and 2252593, personally filed an assignment in bankruptcy on December 4, 2014.
44. On April 30, 2015, the Receiver filed a Proof of Claim in the Bankruptcy of Vincent Leli with Richard Goldhar of Goldhar & Associates Ltd. (“**Goldhar**”), the Bankruptcy Trustee for Mr. Leli.
45. The Receiver has obtained a copy of the minutes of the First Meeting of Creditors and Trustee’s Preliminary Report to the Creditors from Goldhar.
46. On May 4, 2015 the Receiver attended a call with Goldhar and the Trustee’s legal counsel. Goldhar undertook to provide the Receiver with a transaction history with respect to certain parties that are of interest to NTI and the Receiver. This information remains outstanding as at the date of this First Report.
47. The Receiver also sent demand letters to Letters sent to Gusto Brands Ltd., Gusto Brands Inc., and 2252593 o/a Gusto International Foods.
48. By letter dated April 17, 2015, Emilio Bisceglia, legal counsel to Gusto Brands Inc., advised that the Receiver’s letter may be referring to Gusto International (“**GI**”), which he advised is not his client. The Receiver reviewed GI’s website and confirms that both Gusto Brands Inc. and GI appear to use the same address. The Receiver’s investigations are continuing.

2334270 Ontario Inc. Re Episolar Inc. - \$450,000

49. In addition to the loss on the Gusto loan above, Guyatt had informed the Receiver that another cause of NTI’s financial troubles originated from the loss of funds advanced to Episolar Inc. (“**Episolar**”).
50. NTI had a loan receivable from 2334270 Ontario Inc. (“**2334270**”) in the amount of \$450,000. Guyatt and Goldberg had informed Deloitte that this receivable related to funds that were invested in Episolar in connection with a solar project in Ghana.

51. Based on the Receiver's review of a corporate profile report for 2334270, Guyatt and Quinto are listed as the principals of 2334270. As noted earlier in the First Report, Quinto is also the principal of Connect Cabling, which among other things, is a customer of NTI and the immediately adjacent tenant located at 101 Innovation Drive, Vaughan. On April 15, 2015, the Receiver issued a demand letter to both Guyatt and Quinto regarding 2334270's indebtedness to NTI. Quinto advised that he was not aware of any loan from NTI to 2334270. Guyatt has yet to respond in this regard. The Receiver is conducting further investigations into the nature of this loan receivable and the potential for recovery of amounts advanced.
52. The Receiver has also emailed and mailed a demand letter to other identified addresses for Episolar, but has not received a response to date.

2188257 Ontario Ltd.

53. NTI has a loan receivable from 2188257 Ontario Ltd. ("**2188257**") in the amount of \$43,403. Based on a corporate profile report obtained by the Receiver, Guyatt is listed as the Director of 2188257.
54. On April 15, 2015, the Receiver issued a demand letter to 2188257. Guyatt has informed the Receiver that 2188257 has no funds and is unable to pay this balance. Guyatt did not provide details with respect to this balance or what the funds were used for by 2188257. The Receiver has requested confirmation of the financial status of 2188257 but has not received a response to date.

Hansen Properties / M&M Industrial Properties / Gary Bluestein

55. Following a review of bank statements and available invoices found at the Vaughan Property, the Receiver noted that payments exceeding \$170,000 were issued to M&M Industrial Properties ("**M&M**") since April 2, 2014. Also, NTI paid amounts for property management and utilities relating to two properties located at 29 and 31 Hansen Road South, Brampton, Ontario (the "**Hansen Properties**").

56. In response to the Receiver's questions, Guyatt advised that he had entered into an Agreement of Purchase and Sale with M&M to purchase the Hansen Properties. On February 20, 2014, NTI disbursed a deposit of \$200,000 to the seller's legal counsel, Sheldon Skryzlo, from NTI's bank account, notwithstanding that M&M's agreement was with 2188257 and not NTI. Guyatt further advised that he had agreed to forfeit the \$200,000 deposit as he could not carry out the terms of the agreements in connection with the Hansen Properties.
57. Based on the Receiver's review of available documentation, the \$200,000 deposit was issued to "The Seller's Lawyer, Sheldon Skryzlo, in trust".
58. The Receiver wrote to Mr. Skryzlo to request additional information on the release of these funds as the payment had been made from the account of NTI. Mr. Skryzlo advised that the funds were released pursuant to directions from purchaser's lawyer, John Cirillo.
59. On May 15, 2015, the Receiver wrote to Mr. Cirillo who acted as counsel to 2188257 to request details in this regard. We have not received a response from Mr. Cirillo to date. In response to a follow up request made by the Receiver's legal counsel on June 18, 2015, Mr. Cirillo advised that he was attempting to contact his client to obtain instructions.

MTD Consulting

60. The Receiver has identified at least \$5.2 million of wire transfers and cheques which were issued to MTD Consulting ("**MTD**") during the period from April 24, 2013 to February 4, 2015. The Receiver understands that MTD is a real estate development and construction consulting company located in Lonsdale, Minnesota, United States. Guyatt advised the Receiver that these payments related to the sourcing of equipment. The Receiver did not find any information at the Vaughan Property to support underlying transactions that would result in these substantial payments.

ASSIGNMENT FOR THE GENERAL BENEFIT OF THE CREDITORS OF NTI

61. Based upon the proceeds of realization obtained by the Receiver to date and anticipated future realizations upon the Property, the Receiver has concluded that the proceeds of the Property will not be sufficient to satisfy the secured and unsecured claims against the Debtor.
62. Since the date of the Appointment Order, the Receiver has made requests of Guyatt and his external accountant for financial information with respect to the Debtor, including several material transactions and investments made out of the ordinary course of NTI's telecommunications business and without notice to HSBC. The Receiver has received only limited cooperation and insufficient explanations to date.
63. As described above, significant disbursements were made with respect to non-trade activities outside the ordinary course of the business.
64. The Receiver requested passwords from Guyatt who advised that the Debtor's email was nticanada@hotmail.com. Prior to and on the date of the Appointment Order, Guyatt corresponded with Deloitte using the "@nticanada.com" domain name. The Receiver took steps to preserve the data on these accounts.
65. Based on the Receiver's review of the @hotmail.com email account, the Receiver noted only 26 emails, including spam emails, which covered the period from June 2014 to the date of the Appointment Order.
66. Based on the Receiver's review of the @nticanada.com email account, access to the email account showed that the account was last renewed in 2011 for a 5-year term expiring in 2016. From this account, the Receiver found the following data:
 - (a) only one (1) email was noted for the more than 10-year period from January 2003 to June 2014;
 - (b) only ten (10) emails for the 10-month period from June 2014 to the date of the Appointment Order, all of which all appear to be spam emails; and
 - (c) from the date of the Appointment Order to June 18, 2015 there were over twelve hundred (1,285) emails in the inbox, including the eleven (11)

mentioned above. These contained both business related and numerous spam emails.

67. The Receiver was advised that there was no email backup, which is unusual given the level of operations and size of the business.
68. In reviewing the Debtor's insurance policies, the Receiver noted that NTI's insurance policy also covered a second property located at Unit 28 - 4370 Steeles Avenue West, Vaughan, Ontario ("**4370 Steeles**"). Guyatt advised the Receiver that this property was one of the Debtor's previous locations before moving to 101 Innovation Drive, Vaughan, Ontario. Guyatt could not explain to the Receiver why this insurance had been renewed in June 2014 and was not subsequently cancelled. The Receiver was informed that 4370 Steeles is owned by Connect Cabling, and the Receiver has demanded repayment of these insurance premiums from Connect Cabling. Connect Cabling's principal wrote to the Receiver on April 21, 2015 and advised that it did not derive any benefit from this policy paid by NTI and would not be reimbursing NTI.
69. The Receiver is of the view, that there are a number of unusual transactions that could be investigated further including with a view to of possibly recovering amounts as settlements of property of preferential transactions. Accordingly, the Receiver is of the view that it would be advantageous to assign the Debtor into bankruptcy for the purpose of permitting the trustee in bankruptcy to efficiently exercise its statutory investigatory and recovery rights pursuant to the BIA.
70. NTI has committed an act of bankruptcy in the most recent six-month period by, among other things, ceasing to meet its liabilities as they generally become due.
71. The Receiver has requested that Guyatt, in his capacity as the sole Director and President of NTI, execute the documents necessary for the Debtor to file an assignment in bankruptcy under the BIA. In the event that Guyatt refuses to execute the assignment documents as requested, the Receiver seeks the Court's authorization and direction to file, on behalf of the Debtor, an assignment in bankruptcy pursuant to the BIA to facilitate the following, among other things:

- (a) an investigation to be made of the affairs of the bankrupt, including the examination of the management of the Debtor and any person reasonably thought to have knowledge of the affairs of the Debtor; and
- (b) the setting aside of preferences and other fraudulent transactions so that all ordinary creditors may share equally in the value realized through administration of the bankrupt's assets, subject to the priorities of preferred creditors and the rights of the secured creditors.

72. HSBC supports the Receiver's recommendation that an assignment in bankruptcy be filed so that a trustee in bankruptcy can be appointed over the estate of NTI.
73. As set out above, the Receiver has confirmed with independent legal counsel the validity and enforceability of the Bank's security over all of the assets and undertaking of NTI. Deloitte consents to act as the bankruptcy trustee of NTI if such an assignment is made. Given the uncertainty of recovery of amounts for the general benefit of NTI's creditors after the settlement of secured claims, the Bank has agreed to indemnify the proposed trustee for its fees and costs for the administration of the NTI bankruptcy.

SALE OF THE SOLD ASSETS INCLUDING THE VAUGHAN PROPERTY

74. On the evening of April 8, 2015, the day prior to the Appointment Order, the Bank and Deloitte received an email from Goldberg, NTI's external accountant, with respect to the Vaughan Property. Goldberg's e-mail contained an unsolicited offer (the "**April 8 Offer**") for the Vaughan Property from "John Mazza in Trust". This offer had an expiry date of Saturday, April 11, 2015. The April 8 Offer contemplated a sales commission payable to Fernando Giandomenico of Intercity Reality Inc. and contained other conditions which were not acceptable to the Receiver. The Receiver also deemed the April 11, 2015 deadline to be unreasonable in the circumstances.
75. The Receiver made numerous requests to Guyatt for background information on the Vaughan Property, including a copy of a report which Guyatt advised had been prepared by a third party consultant. The Receiver did not receive further information or cooperation from Guyatt in this regard.

76. The Receiver made arrangements with three GTA based real estate brokerages with affiliations to national agencies to attend at the Vaughan Property, and requested listing proposals and estimated valuations.
77. On April 27, 2015, Fernando Giandomenico submitted a revised offer to the Receiver (the “**April 27 Offer**”) on behalf of “John Mazza in Trust”.
78. Following the Receiver’s review and analysis of the three listing proposals and the April 27 Offer, the Receiver engaged legal counsel to prepare an Agreement of Purchase and Sale with respect to the Vaughan Property. The Receiver entered into negotiations with Mazza’s legal counsel, which culminated in the Mazza Sale Agreement on May 12, 2015, a copy of which is attached hereto as Exhibit “E”. The Mazza Sales Agreement does not contemplate the payment of a sales commission to a real estate broker nor to any other party. The Mazza Sale Agreement is conditional on the approval of this Court.
79. In accordance with the Mazza Sale Agreement, a deposit of \$20,000 was delivered to the Receiver.
80. 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.
81. Although a closing date has not been established, the outside date for closing has been extended from June 24, 2015 to July 15, 2015 pursuant to correspondence between legal counsel for Mazza and the Receiver, for the purpose of obtaining Court approval of the transaction. Pursuant to the Mazza Sale Agreement Court approval is to be obtained no later than 14 days prior to the Outside Closing Date.
82. The Receiver recommends that the Court authorize and direct the Receiver to complete the Mazza Sale Agreement for the following reasons:
 - (a) following a review of three listing proposals from third party real estate brokerages and considering the additional carrying costs that would be incurred for this vacant unit, the Receiver has concluded that it is unlikely that it would

realize superior net proceeds for the Vaughan Property if the Court does not approve the Mazza Sale Agreement and the Receiver were required to remarket the Vaughan Property;

- (b) the Mazza Sale Agreement is in a form acceptable to the Receiver and its legal counsel; and,
- (c) HSBC supports the Receiver's recommendation that it be authorized and directed to complete the Mazza Sale Agreement.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

- 83. Attached as Exhibit "F" is the Statement of Receipts and Disbursements for the period April 9, 2015 to June 18, 2015 (the "**Receivership Period**"). As at June 18, 2015, the closing cash balance was approximately \$160,000, which includes a deposit of \$20,000 with respect to the sale of the Sold Assets.
- 84. The Receiver has collected \$139,000 of A/R to date, after conversion of US currency accounts to Canadian currency.
- 85. As set out above, the Receiver collected \$9,500 plus HST with respect to the sale of inventory.
- 86. On May 21, 2015, the Receiver also sold the Debtor's Toyota Electric Forklift Truck for \$2,200 plus HST.
- 87. Cash disbursements for the Receivership Period to June 8, 2015 were \$13,000 and primarily composed of property taxes (\$6,000), condominium fees and discharge of related lien (\$4,700), and remittance to CRA with respect to deemed trust amounts for unremitted source deductions outstanding as at the date of the Appointment Order (\$1,500).

PROFESSIONAL FEES

- 88. 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.

89. The total fees of the Receiver during the period from April 9, 2015 to June 5, 2014, amount to \$166,827.00, together with expenses and disbursements in the sum of \$1,755.90 and harmonized sales tax ("HST") in the amount of \$21,915.78, totalling \$190,498.68 (the "**Receiver's Fees**"). The time spent by the Receiver is more particularly described in the Affidavit of Paul Casey of Deloitte, sworn June 19, 2015 (the "**Casey Affidavit**") in support hereof and attached hereto as Exhibit "**G**".
90. The total legal fees incurred by the Receiver during the period April 23, 2015 to May 31, 2015, for services provided by TGF amount to \$7,525.00, together with disbursements in the sum of \$205.17 and HST in the amount of \$991.51 totalling \$8,721.68. The time spent by TGF personnel is more particularly described in the Affidavit of Grant Moffat, a partner of TGF, sworn June 11, 2015 (the "**Moffat Affidavit**") in support hereof and attached hereto as Exhibit "**H**".
91. The total legal fees incurred by the Receiver during the period May 4, 2015 to June 5, 2015, for services provided by Torkin Manes amount to \$7,667.50, together with disbursements in the sum of \$59.00 and HST in the amount of \$1,001.07, totalling \$8,727.57. The time spent by Torkin Manes personnel is more particularly described in the Affidavit of Aaron English, a partner of Torkin Manes, sworn June 9, 2015 (the "**English Affidavit**" and collectively with the Casey Affidavit and the Moffat Affidavit, the "**Fee Affidavits**") in support hereof and attached hereto as Exhibit "**I**".
92. The Receiver is of the view that the fees and disbursements set out in the Fee Affidavits are reasonable in the circumstances.

RECEIVER'S RECOMMENDATIONS


93. For the reasons set out above, the Receiver recommends that the Court make an Order:
 - (a) approving the activities of the Receiver as described in the First Report including, without limitation, the steps taken by the Receiver pursuant to the sale of the Vaughan Property, efforts to collect accounts receivable, sales of inventory and investigations to date;

- (b) authorizing and directing the Receiver, on behalf of the Debtor, to file an assignment in bankruptcy of the Debtor;
- (c) authorizing and directing the Receiver to enter into and carry out the terms of the Mazza Sale Agreement, together with any amendments thereto deemed necessary by the Receiver in its sole opinion and vesting title to that part of the Sold Assets in and to Mazza upon closing of the Mazza Sale Agreement;
- (d) if the Mazza Sale Agreement is terminated in accordance with its terms, authorizing and directing the Receiver to engage a real estate brokerage to market and sell the Vaughan Property, subject to further Court approval;
- (e) approving the Receiver's Statement of Receipts and Disbursements for the period from April 9, 2015 to June 18, 2015; and
- (f) approving the professional fees and disbursements of the Receiver and its independent legal counsel set out in the Fee Affidavits, and authorizing the Receiver to pay all such fees and disbursements from available funds.

All of which is respectfully submitted at Toronto, Ontario this 23rd day of June, 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