

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION No.: 01-Montreal
COURT No.: 500-11-038010-092
ESTATE No.: 41-1296174
OFFICE No.: 906531-1000001

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF THE
PROPOSAL OF :**

6552757 CANADA INC., a legal person, duly incorporated according to law, having its head office and principal place of business at 3200 Guénette Street, Saint-Laurent, Quebec H4S 2G5

Insolvent Person

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
(Jean-François Nadon, CA, CIRP, designated responsible person) having its place of business at 1 Place Ville-Marie, Suite 3000, Montreal, Quebec H3B 4T9

Trustee

TRUSTEE'S REPORT ON THE PROPOSAL

[Sections 50(5) and 50(10)]

The purpose of this report is to inform the creditors with a view to assist them in evaluating the proposal as filed on June 3, 2010 by 6552757 Canada Inc., hereinafter referred to as “the Company”.

It is important to note that we did not perform an audit or investigation of the books and records of the Company. Consequently, we cannot express an opinion as to the exactness or the completeness of the information contained in this report. The unconfirmed information dealt with in this report was submitted to the Trustee by the Company.

A. INTRODUCTION

On December 3, 2009, the Company filed with Samson Bélair/Deloitte & Touche Inc. a *Notice of intention to make a proposal* under the *Bankruptcy and Insolvency Act*.

On December 10, 2009, the Trustee sent to every creditor known by the Company a copy of the *Notice of intention to make a proposal*.

The *Cash Flow Statement* was prepared by the Company for the period from December 3, 2009 to February 19, 2010 and was filed with the Official Receiver on December 11, 2009 with the *Trustee's*

Report on Cash Flow Statement and the Report on Cash Flow Statement by the Person Making the Proposal, in conformity with the section 50.4(2) of the *Bankruptcy and Insolvency Act*.

On December 29, 2009, the Company petitioned the Court for an extension of delay in conformity with the section 50.4(9) of the *Bankruptcy and Insolvency Act*. The motion was granted by M^c Pierre Pellerin, registrar, therefore the delay to file a proposal was extended for an additional 41 days, until February 12, 2010.

On February 12, 2010, the Company petitioned the Court for a second extension of delay in conformity with the section 50.4(9) of the *Bankruptcy and Insolvency Act*. The motion was granted by M^c Chantal Flamand, registrar, therefore the delay to file a proposal was extended for an additional 45 days, until March 29, 2010.

On March 29, 2010, the Company petitioned the Court for a third extension of delay in conformity with the section 50.4(9) of the *Bankruptcy and Insolvency Act*. The motion was granted by M^c Pierre Pellerin, registrar, therefore the delay to file a proposal was extended for an additional 44 days, until May 12, 2010.

On May 12, 2010, the Company petitioned the Court for a fourth extension of delay in conformity with the section 50.4(9) of the *Bankruptcy and Insolvency Act*. The motion was granted by M^c Pierre Pellerin, registrar, therefore the delay to file a proposal was extended for an additional 22 days, until June 3, 2010.

On June 3, 2010, the Company filed a Proposal with the Trustee. On June 15, 2010, the Company filed the present amended Proposal (the "Amended Proposal") with the Trustee, with the intent of clarifying some of the elements included in the Proposal originally filed with the Trustee on June 3, 2010.

B. BACKGROUND

The Company is a corporation constituted under the *Canadian Business Corporations Act* and having its head office at 3200 Guénette Street, Saint-Laurent, Quebec H4S 2G5.

The Company specializes in the development, conception and delivery of components used in broadband wireless technologies and network solutions for voice and internet operators and service providers. The company also provides clients with after-sale services.

C. EVENTS LEADING TO THE PROPOSAL

6552757 Canada Inc. was constituted for the purpose of acquiring the assets and the operations of *SR Telecom Inc.* as part of its restructuring process under the *Companies' Creditors Arrangement Act*. In spite of significant investments, the Company was never able to make the operations of *SR Telecom Inc.* profitable.

Since the beginning of 2009, the Company made significant efforts in order to find the required investments to continue its operations while rationalizing them in order to adapt to the current economic conditions.

As part of the restructuring of its operations, the Company completed two significant employee lay-offs on May 15 and May 29, 2010. The lay-offs included forty-four (44) employees, which represented almost the totality of the Company's employees. The lay-offs reduced the operations to a minimum with the objective of providing the Company with additional time to find the necessary investments in order to continue its operations.

On December 3, 2010, the Company's inability to raise financing and its liquidity problems forced it to file the Notice of Intention.

D. SUMMARY OF THE AMENDED PROPOSAL

The following is a brief synopsis intended to assist the Reader. Please refer to the Amended Proposal itself for a complete description of measures that would result from the approval of the Amended Proposal.

The Amended Proposal essentially provides for the measures described below to be put into effect following the acceptance of the Amended Proposal by the creditors and its approval by the Court:

- *All sums payable under the Amended Proposal shall be paid through Deloitte, who shall issue the dividend in accordance with the terms of the Proposal.*
- *Payment to the second ranked secured creditor (Groupe Lagassé Inc.), which is an affiliated company of 6552757 Canada Inc., will be subordinated to the payment of the dividend payable to ordinary unsecured creditors (as described below) for the unsecured portion of its claim (estimated at \$11,531,633.23).*
- *Payment in full of all preferred claims.*
- *Payment in full of all employee claims (i.e., amounts that employees or former employees would be qualified to receive under section 136(1)(d) of the Bankruptcy and Insolvency Act if the Company became bankrupt on the Date of the Proposal).*
- *Payment to ordinary unsecured creditors in a total amount of \$1,000,000 to be distributed in the following manner: :*
 - *A first instalment of \$250,000 on the Date of Ratification (net of payments of employees' claims);*
 - *A second instalment of \$250,000 on June 3, 2011;*
 - *A third instalment of \$250,000 on June 3, 2012;*
 - *A fourth instalment of \$250,000 on June 3, 2013.*

At the sole discretion of the Company, the second, third, and fourth instalments may be paid in shares of a corporation related to the Company whose shares are publicly traded, it being understood that such payment in shares may never be inferior to the value of the instalment as described above.

E. STATUTORY BALANCE SHEET

The statutory balance sheet as of June 3, 2010 is as follows:

Statutory Balance Sheet	
Unaudited	
(as of June 3, 2010)	
	(\$)
Assets	
Laboratory equipment	600,000.00
Capital assets	45,000.00
Inventory, equipment, intangible assets (Symmetry One)	<u>150,000.00</u>
	795,000.00
Liabilities	
First-ranked secured creditor (Business Development Bank of Canada)	1,833,515.00
Second-ranked secured creditor (Groupe Lagassé Inc.)	11,531,633.23
Unsecured creditors*	<u>6,065,114.46</u>
	<u>19,430,262.69</u>
Deficit	<u>(18,635,262.69)</u>

* Creditors will have the onus to prove their claims and only those which are finally approved will constitute the liabilities to be paid in the proposal.

The value attributed to the various assets of the Company in the Statutory Balance Sheet represents the net realization value of those assets under a liquidation scenario estimated by the management of the Company:

- **Laboratory equipment:** The last valuation of the equipment commanded by the first-ranked secured creditor of the Company to an external valuation firm resulted in a valuation of \$1.2M for the laboratory equipment. However, an offer solicitation process was run by the Company during the time it was under a stay of proceedings (hereinafter referred to as the "solicitation process"), which resulted in a best offer of \$225K for the laboratory equipment. Therefore, based on the results of the solicitation process and the last valuation of the equipment performed by an external firm, the Management estimates the net realization value of the equipment could be approximately \$600K.
- **Capital assets:** Following the solicitation process, the Company received an offer of \$35K for most of its capital assets. Management of the Company also estimated the net realization value of the rest of the capital assets (not included in the purchase offer received) to be approximately \$10K, for a total value of \$45K therefore attributable to capital assets.
- **Inventory, equipment, intangible assets (Symmetry One product):** The net realizable value attributed to the assets in the Statutory Balance Sheet is based on the best purchase offer of \$150K received by the Company following the solicitation process.

The amount owed to unsecured creditors includes the priority claims of the Company's employees. The Company estimates those priority claims at \$35,157.25. Under a bankruptcy scenario, employees' priority claims would be secured by a security on the Company's current assets in conformity with the section 81.3(1) of the *Bankruptcy and Insolvency Act*. The Company's current assets include the inventory of the Symmetry One product.

F. ANALYSIS OF THE AMENDED PROPOSAL

In the event where the creditors would refuse to approve the Amended Proposal, the Company would be declared bankrupt and, therefore, the Trustee, subject to the secured creditors' rights, would be forced to liquidate the Company's assets.

The Trustee describes to the creditors the possible scenarios following the approval or the refusal of the Amended Proposal by the creditors in order to assist them in their appreciation of the Amended Proposal:

- a) As shown by the estimated distribution of funds below, under a bankruptcy scenario, it is highly unlikely that the liquidation of the Company's assets would allow the unsecured creditors to receive a dividend:

Estimated distribution of funds (Liquidation scenario)		(\$)
Estimated funds available from the liquidation of assets:		
Laboratory equipment		600,000.00
Capital assets		45,000.00
Inventory, equipment, intangible assets (Symmetry One)		150,000.00
		<u>795,000.00</u>
Distribution of funds:		
Amount owed to the first-ranked secured creditor (Business Development Bank of Canada)		<u>1,833,515.00</u>
Deficit of the first-ranked secured creditor		<u>(1,038,515.00)</u>

As per the liquidation of assets presented above and despite the distribution of the totality of the proceeds to the first-ranked secured creditor of the Company (Business Development Bank of Canada "BDC"), the BDC would nevertheless incur an estimated total loss of \$1,038,515 under a bankruptcy scenario (before even considering all fees required to complete the liquidation of the assets). Therefore, in the event of a more optimistic liquidation process, all additional funds generated would more likely only be used to increase the dividend paid to the secured creditors.

The estimated distribution of funds presented above does not consider the security held by employees on current assets as per section 81.3(1) of the *Bankruptcy and Insolvency Act*. Under a bankruptcy scenario, any proceeds that are related to the sale of current assets (i.e., inventory of the Symmetry One product) would have to be used to pay the employees' priority claims prior to

the BDC. However, since the Amended Proposal already provides for the payment in full of all employees' priority claims, the bankruptcy scenario would not provide employees with any additional dividend due to section 81.3(1) of the *Bankruptcy and Insolvency Act*.

- b) The Amended Proposal, on the other hand, proposed a dividend of \$1,000,000 to the unsecured creditors, including a cash payment of \$250,000 (net of payments of employees' claims) at the Date of Ratification of the Amended Proposal by the Court. The Amended Proposal would be funded by an injection of funds coming from affiliated companies. The Trustee was not yet provided with any information regarding the financial capabilities of the affiliated companies.

Please note that the above analysis of the Amended Proposal does not consider the different treatment (under the Amended Proposal and the bankruptcy scenario) of any guarantees given by a third party for amounts due by the Company.

Given that all creditors with proven and accepted claims should receive a dividend under the Amended Proposal, the Trustee is of the opinion that the unsecured creditors would not be prejudiced in accepting the Amended Proposal and recommends its acceptance.

G. RECOMMENDATION

If the Amended Proposal is accepted by the creditors, the dividend payment will be made in accordance with the terms of the Amended Proposal.

In conclusion, **the Trustee recommends the approval of the Amended Proposal by the creditors** since a bankruptcy scenario would not generate any funds for the unsecured creditors.

Any creditors wishing to vote prior to the First meeting of creditors may complete the voting and claim forms included with the Notice of proposal to creditors, and forward them to the Trustee by mail or by fax.

DATED AT MONTREAL, this 15th day of June,
2010.

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
Trustee acting *in re*: the proposal of
6552757 Canada Inc.



Jean-François Nadon, CA, CIRP