

COURT FILE NUMBER 1504-00570
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE GRANDE PRAIRIE

APPLICANT HARLAN VENTURES LTD.
RESPONDENT THE RURAL LINK INC.

IN THE MATTER OF THE RECEIVERSHIP OF
THE RURAL LINK INC.

APPLICANT HARDIE & KELLY INC., in its capacity as Court-appointed
Receiver of the assets, undertakings and property of THE RURAL
LINK INC.

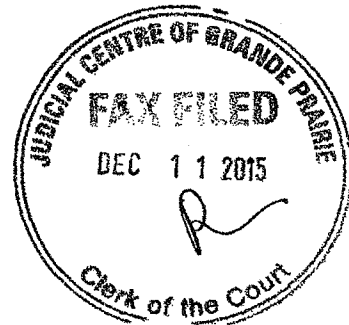
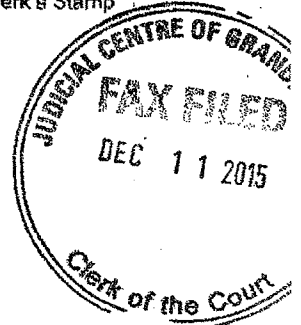
DOCUMENT **FIRST REPORT OF THE RECEIVER,
HARDIE & KELLY INC.
DECEMBER 11, 2015**

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**FIRST REPORT OF THE RECEIVER
HARDIE & KELLY INC.
DECEMBER 11, 2015**

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INTRODUCTION

1. On September 16, 2015, Harlan Ventures Ltd. ("Harlan Ventures") made an application to the Court of Queen's Bench of Alberta (the "Court") for the appointment of a receiver (the "Receiver") of the current and future assets, undertakings and property of The Rural Link Inc. ("TRLI" or the "Company").
2. The Court granted an Order (the "Receivership Order") on September 16, 2015 (the "Receivership Date"), appointing Hardie & Kelly Inc. as the Receiver.
3. The purpose of this report (the "First Report") is to advise the Court of:
 - a. The activities of the Receiver since the Receivership Date;
 - b. Details of and the results of the asset sales tender process implemented and administered by the Receiver;
 - c. The extent of the known claims of creditors against TRLI;
 - d. The receipts and disbursements of the Receiver since the Receivership Date; and
 - e. The Receiver's recommendation in respect to the sale of all of the Company's assets.

TERMS OF REFERENCE

4. In preparing this First Report, the Receiver has relied upon unaudited financial information, records of the Company and discussions with one of the Company's former employees. The Receiver has not performed an audit, review or other verification of such information.

BUSINESS OPERATION

5. TRLI is a private company that was incorporated in Alberta on June 19, 2012. The Company provides wireless systems and private network solutions for personal and business internet access in and around Grande Prairie, Alberta.
6. As of the Receivership Date, the Company was still operational; however, the original ownership and management group no longer had any involvement with the Company such that TRLI was being managed by the last remaining employee, Mr. Byron Garnish.

ACTIVITIES OF THE RECEIVER

Employees

7. As the principal asset of the Company is its base of internet customers, the Receiver made arrangements to retain Mr. Garnish to continue to manage the day to day operations of the Company to ensure the uninterrupted provision of internet service to TRLI's customers. Since the Receivership Date, under the supervision of the Receiver, Mr. Garnish has continued to invoice customers on a monthly basis, attend to customer service calls, assist with ongoing collections and maintain the equipment necessary to provide service to customers while also assisting the Receiver with the administration of the sales process.

Bank Accounts

8. The Receiver arranged to secure the Company's bank accounts held at Royal Bank of Canada ("RBC"); however, as many of the Company's customers make their monthly payments for internet service by way of automatic direct deposit, the Receiver was concerned with the possibility of losing business by complicating matters for customers if new payment arrangements had to be established. Consequently, the Receiver made arrangements with RBC to have the Company's existing accounts set up as "for deposit only" to allow customer payments to continue to be processed in the ordinary course, while restricting unauthorized withdrawals from the bank accounts.

Suppliers

9. The Receiver made arrangements with the TRLI's existing suppliers for the continued delivery of goods and services necessary to maintain ongoing operations and the provision of internet service to TRLI's customers while the Receiver administered a sales process.

Accounts Receivable

10. With the assistance of Mr. Garnish, the Receiver continued to collect accounts receivable as well as issue new billings for services provided subsequent to the Receivership Date.

Office Furniture and Equipment

11. Given the nature of TRLI's operations, the Company has a minimal amount of office furniture.

12. The Company has an inventory of telecommunications equipment necessary to supply internet services located at various cell phone towers and transmitting locations in and around Grande Prairie as well as an inventory of miscellaneous and spare parts.

SALES PROCESS

13. On November 5, 2015, the Receiver launched a public sales process for the Company's assets and book of business (collectively referred to as the "Assets").
14. The Receiver published an advertisement (the "Advertisement") of the asset tender process in each of the National Post, Calgary Herald, Edmonton Journal and Grande Prairie Daily Herald Tribune. A copy of the Advertisement is attached as Appendix "A",
15. The Receiver also mailed out a copy of the Advertisement to approximately 50 businesses that the Receiver determined through its research may possibly have a strategic interest in the Assets.
16. The Receiver also posted notice of the opportunity on the Receiver's website.
17. In response to the Receiver's efforts, numerous parties expressed an initial interest in the Assets and requested additional information from the Receiver. Six parties ultimately attended in Grande Prairie to meet with the Receiver and Mr. Garnish to review the Company's operations.
18. The deadline for offers established by the Receiver (the "Bid Deadline") was December 4, 2015 and six interested parties submitted offers to the Receiver by the Bid Deadline.
19. The Receiver determined that a credit bid submitted by Harlan Ventures (the "Harlan Offer") for all of the Assets was the superior offer and accepted the Harlan Offer subject to the approval of this Honourable Court.
20. An Agreement of Purchase and Sale (the "APA") was negotiated and entered into with Crossover Networks Inc. ("Crossover Networks", the nominee of Harlan Ventures. The APA, details of the six offers received and an overall analysis of the offers will be contained in the Receiver's Confidential Supplemental Report (the "Confidential Report").

21. The Receiver is concerned that in the event the pending sale to Harlan Ventures does not close for any reason, the disclosure of the respective details of the various offers may affect the Receiver's efforts to remarket the Assets. The Receiver will be seeking the Court's approval to have the Confidential Report sealed until February 28, 2016 assuming the contemplated sale to Harlan Ventures is approved by the Court and closes.

CREDITORS

22. As of the Receivership Date, the Company had recorded obligations totaling approximately \$2.3 Million. The Receiver has not and does not propose to initiate a formal claims process.
23. The creditors purporting to have a secured interest in the Company's Assets as evidenced by a search of the Alberta Personal Property Registry (the "PPR") and the approximate amounts owed to each of these parties as set out in the available books and records of the Company are listed as follows in order of the respective dates of registration at the PPR:
- a. Harlan Ventures Ltd. - \$1,162,500;
 - b. Jillian Mitton - \$50,000;
 - c. Kent Wiebe - \$423,750; and
 - d. 763993 Alberta Ltd. - \$197,500.
24. The Receiver has received an independent legal opinion confirming the validity and enforceability of Harlan Venture's security interest.
25. In addition to the above secured creditors, the Receiver has the following comments in respect of other potential priority claims:
- a. Although Canada Revenue Agency ("CRA") has not yet advanced a claim, the Receiver understands there to be approximately \$3,000 of unremitted employee withholdings for which CRA may ultimately file a deemed trust claim. At this time the Receiver is uncertain as to whether CRA may undertake a payroll audit;
 - b. The Receiver understands from CRA that there is no outstanding GST owing as of the Receivership Date; and
 - c. At this time, the Receiver is not aware of any potential claims from any former employees of the Company.

26. Although it does not have a direct claim against TRLI, the Receiver wishes to draw to the Court's attention the interest of Community Futures Grande Prairie and Region ("Community Futures") in the receivership proceedings. By way of background we can advise as follows:
- a. On November 29, 2013, TRLI and Binary Solutions Ltd. ("Binary") entered into an Asset Purchase Agreement (the "Binary APA") whereby TRLI acquired the equipment and customers associated with Binary's broadband service delivery business (the "Binary Assets") for consideration totaling \$650,000 payable by way of a combination of cash, the issuance of shares of TRLI and incentive performance payments based on TRLI achieving certain revenue targets.
 - b. The Binary APA also included a provision that certain of Binary's obligations would be assumed by TRLI, including regular payments to Binary on account of Binary's ongoing obligation to Community Futures; however, Community Futures was not a party to the Binary APA. A recent search of the PPR indicates that Community Futures holds a security interest over all of the present and after acquired property of Binary.
 - c. The sale from Binary to TRLI closed; however, as of the Receivership Date TRLI had not paid the entire purchase price to Binary as contemplated by the Binary APA nor had TRLI made the regular contemplated payments to Binary in respect of Binary's obligation to Community Futures.
 - d. Binary has filed an unsecured claim in the amount of approximately \$87,000 with the Receiver in respect of the Binary APA.
 - e. A search of the PPR as at the Receivership Date did not disclose any registration by Community Futures as against TRLI.
27. The Receiver's position is that:
- a. The Binary Assets were sold to TRLI pursuant to the Binary APA and are the property of TRLI; and
 - b. Community Futures has no claim against any of the Assets contemplated in the APA between the Receiver and Crossover Networks.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

28. A copy of the Receiver's Statement of Receipts and Disbursements is attached as Appendix "B" indicating that the Receiver maintained approximately \$18,000 in its trust account as of December 10, 2015.

RECOMMENDATIONS

29. The Receiver is seeking approval of and recommends to this Honourable Court the approval of the APA and the contemplated sale to Crossover Networks for the reasons set out in the Confidential Report.
30. The Receiver recommends that the Confidential Report be ordered sealed until February 28, 2016 for purposes of maintaining the integrity of the sales process in the event the contemplated sale to Intertainment does not close for any reason.

All of which is respectfully submitted this 11th day of December 2015.

Hardie & Kelly Inc.; in its capacity
as Receiver of The Rural Link Inc.
and not in its personal capacity

Per: 

Marc E. Kelly, CA-CIRP
Senior Vice President

APPENDIX "A"

RECEIVERSHIP SALE THE RURAL LINK INC.

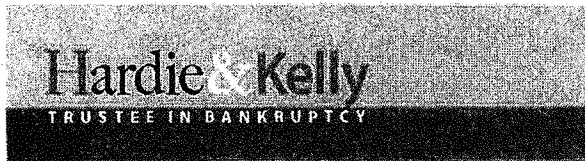
The Rural Link Inc. ("TRLI" or the "Company") provides wireless systems and private network solutions for personal and business internet access in and around Grande Prairie, Alberta.

Hardie & Kelly Inc. in its capacity as Court appointed Receiver Manager (the "Receiver") of TRLI is accepting offers for the Company's right, title and interest in the following:

- Book of business;
- Equipment; and
- Miscellaneous parts and supplies.

To obtain further information and or to arrange for a viewing of the above assets, please contact Jerri Beauchamp at 403-536-8503.

The deadline for offers is 4:00 p.m. MST on Friday, December 4, 2015. All sales will be subject to approval by the Court of Queen's Bench of Alberta and the Receiver reserves the right to enter into any sale prior to the deadline and is not obligated to accept the highest, or any offer.



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APPENDIX "B"

The Rural Link Inc., in receivership
Statement of Receipts and Disbursements
as at December 10, 2015

Receipts

Sales	\$ 25,126.61
RBC accounts	24,014.46
Accounts receivable	16,941.22
GST collected	1,529.32
Interest	1.26

67,612.87

Disbursements

Rentals	13,751.83
Wages - net	11,972.60
Telephone lines	11,110.37
Payroll deductions	6,172.63
Advertisng of sales process	2,627.56
GST paid	937.56
Office expenses	842.85
Insurance	612.44
Storage	600.00
Repairs and maintenance	593.25
Courier	218.98
Filing fees	70.00

49,510.07

Funds on hand

\$ 18,102.80