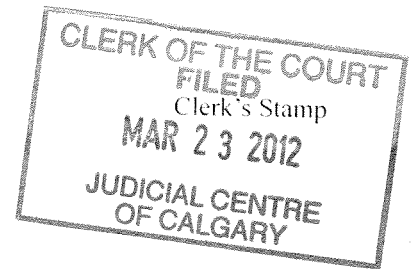


COURT FILE NUMBER 1101-10212
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
PLAINTIFF(S) ROLL TIDE SOLUTIONS INC.
DEFENDANT(S) LAYER 10 SOLUTIONS INC.
DOCUMENT SECOND REPORT OF THE RECEIVER
HARDIE & KELLY INC. March 22, 2012

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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SECOND REPORT OF THE RECEIVER
HARDIE & KELLY INC.
March 22, 2012

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Introduction

1. On August 3, 2011, Roll Tide Solutions Inc. ("**Roll Tide**") successfully made an application to the Court of Queen's Bench of Alberta (the "**Court**") for the appointment of a Receiver of the assets, property and undertakings of Layer 10 Solutions Inc. ("**Layer 10**" or the "**Company**") and the Court granted an order (the "**Receivership Order**") appointing Hardie & Kelly Inc. as Receiver.
2. The purpose of this report (the "**Second Report**") is to provide the Court with:
 - a) An update as to the activities of the Receiver;
 - b) A summary of the legal opinion obtained by the Receiver regarding the validity and enforceability of security agreements between the Debtor and its various secured creditors;
 - c) The Scientific Research and Experimental Development Expenditures ("**SR&ED**") claims and subsequent credits;
 - d) A statement of receipts and disbursements; and
 - e) The Receiver's recommendations.
3. This Second Report may be read together with the First Report of the Receiver in the within action. Except where a contrary indication is shown in this Second Report, defined terms in the Receivership Order and the First Report take on the same meaning in this Second Report.

Terms of Reference

4. In preparing this Second Report, the Receiver has relied upon certain unaudited financial information, corporate, personal property and land title searches, and on discussions with Layer 10's shareholders, former management and employees.
5. The Second Report is made to the Court and is for the Court's use. The Receiver assumes no responsibility or liability for any loss or damage suffered by any other party because of the publication, circulation, reproduction or use of this Second

Report. Any use which any other party may make of this Second Report or any reliance or decisions to be based on it is the responsibility of the party.

Receiver's Activities

6. The Receiver continued the collection of Accounts Receivable and to date has collected \$612,752.74.
7. The Receiver authorized Roll Tide Inc. to perform warranty repair on equipment from multiple customers in order to aid in the continued collection of accounts receivable.
8. Pursuant to the terms of the Order of this Court dated December 16, 2011 (the "**December Order**") the Receiver closed the sale of certain assets of the Company to Roll Tide. The Receiver applied the \$10,000 deposit held pursuant to the terms of the Purchase and Sale Agreement firstly towards the GST due on the sale in the amount of \$2,237.18 and secondly towards the purchase price in the amount of \$7,762.82. The Balance of the purchase price, \$36,980.68, has been recorded as an adjustment in the amount of the debt due Roll Tide.
9. Also in accordance with the December Order the Receiver has paid the amounts due to CRA on account of statutory deemed trusts and the amounts due on account of the Wage Earner Protection Program Act. The payment on account of Deemed Trust was reduced by \$206.31 from that previously reported by the Receiver as the Company received a Small Business Employment Insurance Premium Credit prior to payment.
10. The Receiver sold cubical workstations back to the original supplier for an amount that exceeded the appraised value of the assets.
11. The Receiver sold an equipment demonstration kit back to the original supplier for an amount that exceeded the appraised value of the equipment. These proceeds, in the amount of \$1,000.00, are anticipated to be received shortly.

12. The Receiver authorized the return of some inventory which was sent to auction together with the remaining office equipment and inventory. The Receiver anticipates receiving the net proceeds realized, in the amount of \$958.12, shortly.

Scientific Research and Experimental Development Expenditure Claim

13. The Receiver received a Corporation Notice of Assessment from the Canada Revenue Agency (“CRA”) detailing credits generated as a result of SR&ED claims by Layer 10 Inc.
14. For the tax year ending June 30, 2009, the credit amount due to the Company is \$88,567.94.
15. For the tax year ending June 30, 2010, the credit amount due to the Company is \$79,789.00.
16. These SR&ED credits have not been paid by CRA as Layer 10 has not filed all of its required corporate tax returns.
17. The Receiver is endeavouring to obtain all of the necessary information to enable the Receiver to complete the necessary returns as required, however, given the allegations contained in affidavit material filed in this action, the Receiver will be working closely with CRA to ensure only appropriate amounts are paid to the Company.
18. The Receiver has notified CRA of the allegations and provided copies of the relevant affidavit material.

Secured Creditors

19. In its First Report the Receiver summarized for the Court the secured creditors and the quantum of their claims as indicated in the records of the Company as follows:

The Toronto Dominion Bank ("TD Bank")	\$62,808.49
Roll Tide Solutions Inc.	1,119,567.34
Summerhill Investment Corporation ("Summerhill")	760,000.00
1027493 Alberta Inc. ("102")	231,781.78
2019658 Ontario Ltd. ("201")	10,000.00
EION Wireless Inc.	\$611,278.25

20. All of the creditors provided details of their claims as listed above, with the exception of Roll Tide and EION who proved for \$1,529,827.75 and \$1,012,135.67 respectively. The Receiver has not investigated the difference to the Company records at this time but intends to do so once it becomes apparent that it will have an effect on the distribution.
21. The Receiver has obtained legal opinions from its counsel that, subject to customary assumptions, qualifications and limitations, the security agreements between the Debtor and each of Eion, Summerhill, 102 Alberta and 201 Alberta create valid and enforceable security interests in the property described therein. The Receiver previously obtained a similar opinion from its counsel in respect of the security agreement between the Debtor and Roll Tide.
22. As discussed in the First Receiver's Report, there was an issue with the collateral description used by Eion in the registration of its security interest in the Alberta Personal Property Registry (the "PPR"). The Receiver has obtained an updated Debtor name search from the PPR dated March 20, 2012 (attached as Appendix A to this Report) and notes on page 9 of the appendix that Eion has registered a new financing statement since the issuance of the First Receiver's Report so as to address this issue. The Receiver further understands that an agreement has been reached between affected secured creditors regarding the priority dispute and that the agreement will be confirmed by court order.

Receiver's Statement of Receipts and Disbursements

23. Attached as Appendix B is the Receiver's Statement of Receipts and Disbursements from the date of the appointment to March 20, 2012. The Receiver presently holds \$528,739.25 in its trust account.

24. Collections of receivables total \$675,561.23, however, after the set off claimed by TD Bank, net collections total \$612,752.74.
25. Receiver's expenses total \$101,027.73 including the fees of the Receiver and its counsel to March 16, 2012.
26. The Receiver does not anticipate the need for a significant amount of funds going forward in this engagement and believes it would be appropriate to distribute funds to the secured creditors in accordance with the priority entitlement. The Receiver will withhold an appropriate amount from this distribution so as to account for charges that rank in priority to the secured creditors.

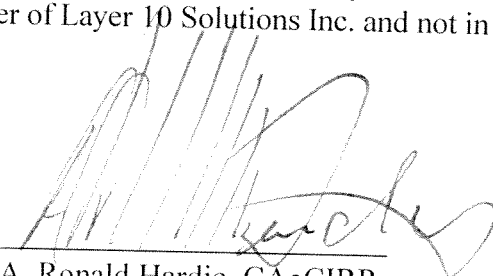
Summary & Recommendations

27. The Receiver recommends that it be authorized to make distributions to secured creditors in accordance with their priority agreement as set out in their proposed consent order.

All of which is respectfully reported this 22nd day of March, 2012

Hardie & Kelly Inc., in its capacity as
Receiver of Layer 10 Solutions Inc. and not in its personal capacity

Per:


A. Ronald Hardie, CA•CIRP
President

**SECOND REPORT OF THE RECEIVER
HARDIE & KELLY INC.
March 22, 2012**

**Appendix A
PPR Search**

Search ID#: Z03576818

Transmitting Party

HARDIE & KELLY INC.

475 433 MARLBOROUGH WAY NE
CALGARY, AB T2A 5H5

Party Code: 60002226
Phone #: 403 777 9999
Reference #:

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Exact Result(s) Only Found

NOTE:

A complete Search may result in a Report of Exact and Inexact Matches.

Be sure to read the reports carefully.



Search ID#: Z03576818

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Registration Number: 08060323241

Registration Type: SECURITY AGREEMENT

Registration Date: 2008-Jun-03

Registration Status: Current

Expiry Date: 2018-Jun-03 23:59:59

Exact Match on: Debtor

No: 1

Amendments to Registration

11061100383

Amendment

2011-Jun-11

Debtor(s)

Block

Status

1 LAYER 10 SOLUTIONS INC.
22 5440 4 st NW
Calgary, AB T2K 1A8

Current

Secured Party / Parties

Block

Status

1 686545 ALBERTA INC.
664 29 ave NW
Calgary, AB T2M 2M7

Current

Collateral: General

Block

Description

Status

1 Cash;Cq & Other Credit VIA Electronic Investment Provided

Deleted By
11061100383

2 All present and after-acquired personal property of the Debtor

Current By
11061100383

Search ID#: Z03576818

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Registration Number: 08061807913

Registration Type: SECURITY AGREEMENT

Registration Date: 2008-Jun-18

Registration Status: Current

Expiry Date: 2013-Jun-18 23:59:59

Exact Match on: Debtor

No: 2

Amendments to Registration

08061811258	Amendment	2008-Jun-18
11061100428	Amendment	2011-Jun-11
11071124367	Amendment	2011-Jul-11

Debtor(s)

Block

		<u>Status</u>
1	LAYER 10 SOLUTIONS INC., Suite 22, 5440 4th Street NW Calgary, AB T2K 1A8	Deleted by 08061811258

Block

2	LAYER 10 SOLUTIONS INC. Suite 22, 5440 4 Street NW Calgary, AB T2K 1A8	<u>Status</u> Current by 08061811258
---	--	---

Secured Party / Parties

Block

1	SUMMERHILL INVESTMENTS LTD. Unit 205, 120 Country Hills Landing NW Calgary, AB T3K 5T3	<u>Status</u> Deleted by 11071124367
---	--	---

Block

2	SUMMERHILL INVESTMENT CORPORATION RR2 Site 19 Box 6 Red Deer, AB T4N 5E2	<u>Status</u> Current by 11071124367
---	--	---

Search ID#: Z03576818

Collateral: General

Block **Description**

1 Shareholders Loan Proceeds (Cash Investment)

2 All present and after-acquired personal property of the Debtor.

Status

Deleted By
11061100428

Current By
11061100428

Search ID#: Z03576818

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Registration Number: 09092327413

Registration Type: SECURITY AGREEMENT

Registration Date: 2009-Sep-23

Registration Status: Current

Expiry Date: 2014-Sep-23 23:59:59

Exact Match on: Debtor

No: 1

Debtor(s)

Block

Status

1 LAYER 10 SOLUTIONS INC.
5440 - 4TH STREE NW, UNIT 22
CALGARY, AB T2K 1A8

Current

Secured Party / Parties

Block

Status

1 THE TORONTO-DOMINION BANK - 69032
6 FL TD TOWER 55 KING ST WEST
Toronto, ON M5K 1A2

Current

Collateral: General

Block **Description**

Status

1 FOREIGN EXCHANGE MASTER AGREEMENT AND ASSIGNMENT OF CREDIT

Current

2 BALANCES

Current

Search ID#: Z03576818

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Registration Number: 11061100478

Registration Type: SECURITY AGREEMENT

Registration Date: 2011-Jun-11

Registration Status: Current

Expiry Date: 2012-Jun-11 23:59:59

Exact Match on: Debtor

No: 1

Debtor(s)

Block

Status

1 LAYER 10 SOLUTIONS INC.
22, 5440 4 St. NW
Calgary, AB T2K 1A8

Current

Secured Party / Parties

Block

Status

1 EION WIRELESS INC.
320 March Rd., Suite 500
Ottawa, ON KZK 2E3

Current

Collateral: General

Block

Description

Status

1 All cash, cheque, product supply on investment VIA GSA.

Current

Search ID#: Z03576818

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Registration Number: 11072025260

Registration Type: SECURITY AGREEMENT

Registration Date: 2011-Jul-20

Registration Status: Current

Expiry Date: 2021-Jul-20 23:59:59

Exact Match on: Debtor

No: 2

Debtor(s)

Block

		<u>Status</u>
1	CTS SOLUTIONS INC. #201, 1055 - 20 AVENUE NW CALGARY, AB T2M 2E7	Current

Block

2	LAYER 10 SOLUTIONS INC. 22, 5440 - 4 STREET NW CALGARY, AB T2K 1A8	<u>Status</u> Current
---	--	---------------------------------

Secured Party / Parties

Block

1	1027493 ALBERTA INC. 6 MARTHA'S MEADOW BAY NE CALGARY, AB T3J 4N5	<u>Status</u> Current
---	---	---------------------------------

Collateral: General

Block

	<u>Description</u>	<u>Status</u>
1	ALL PRESENT AND AFTER-ACQUIRED PERSONAL PROPERTY OF THE DEBTOR.	Current

Search ID#: Z03576818

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Registration Number: 11072025409

Registration Type: SECURITY AGREEMENT

Registration Date: 2011-Jul-20

Registration Status: Current

Expiry Date: 2021-Jul-20 23:59:59

Exact Match on: Debtor

No: 2

Debtor(s)

Block

		<u>Status</u>
1	CTS SOLUTIONS INC. #201, 1055 - 20 AVENUE NW CALGARY, AB T2M 2E7	Current

Block

2	LAYER 10 SOLUTIONS INC. 22, 5440 - 4 STREET NW CALGARY, AB T2K 1A8	<u>Status</u> Current
---	--	---------------------------------

Secured Party / Parties

Block

1	2019658 ONTARIO LIMITED 911 QUEBEC AVENUE TORONTO, ON M6P 4B8	<u>Status</u> Current
---	---	---------------------------------

Collateral: General

Block

Description

		<u>Status</u>
1	ALL PRESENT AND AFTER-ACQUIRED PERSONAL PROPERTY OF THE DEBTOR.	Current

Search ID#: Z03576818

Business Debtor Search For:

LAYER 10 SOLUTIONS INC

Search ID #: Z03576818

Date of Search: 2012-Mar-20

Time of Search: 14:08:13

Registration Number: 12032009442

Registration Type: SECURITY AGREEMENT

Registration Date: 2012-Mar-20

Registration Status: Current

Expiry Date: 2013-Mar-20 23:59:59

Exact Match on: Debtor

No: 1

Debtor(s)

Block

1 LAYER 10 SOLUTIONS INC.
Suite 22, 5440 - 4 Street NW
Calgary, AB T2K 1A8

Status

Current

Secured Party / Parties

Block

1 EION WIRELESS INC.
320 March Road, Suite 500
Ottawa, ON K2K 2E3

Status

Current

Collateral: General

Block **Description**

1 All Present and After-Acquired Personal Property of the Debtor

Status

Current

Result Complete

**SECOND REPORT OF THE RECEIVER
HARDIE & KELLY INC.
March 22, 2012**

**Appendix B
Statement of Receipts and Disbursements**

Layer 10 Solutions Inc.
Second Report of the Receiver
Statement of Receipts and Disbursements
As at March 20, 2012

Collection of accounts receivable		
Gross collections	\$ 675,561.23	
Less: set off claimed by TD Bank	62,808.49	
Net collections	<u>612,752.74</u>	
GST Refund	3,251.41	
Sale of Assets	13,762.83	
Total Receipts		<u>\$ 629,766.98</u>
<hr/>		
Appraisal	\$ 1,000.00	
Fees paid to the official receiver	70.00	
Receivable collection fees	10,291.71	
Utilities	805.10	
Stocktaking and possession	838.88	
Bank fees	115.00	
GST paid net of gst collected on sales	1,532.23	
Insurance	1,000.00	
Freight	595.00	
Warranty repairs	4,662.20	
WEPPA	6,000.00	
Deemed Trust claim	1,801.25	
Receiver's fees	47,612.00	
Solicitor to the estate	24,704.36	
Total Disbursements		<u>\$ 101,027.73</u>
Excess of Receipts Over Disbursements		<u><u>\$ 528,739.25</u></u>