

In the Matter of the Bankruptcy of
Telemus Systems Inc.
of the City of Kanata in the Province of Ontario

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

I BACKGROUND

Telemus Systems Inc. is a privately held corporation incorporated on March 19, 2019 under the *Business Corporations Act* (Ontario) under the name Telemus Warfare Inc. On January 29, 2020, Telemus Warfare Inc. began operations. On March 15, 2021, Telemus Warfare Inc. filed articles of amendment changing its corporate name to Telemus Systems Inc. ("**Telemus**" or the "**Company**"). The Company's registered office and principal place of business was leased premises located at 88 Hines Road, Kanata, Ontario (the "**Premises**").

Telemus is a wholly owned subsidiary of Lansdown Holdings Ltd., a holding company controlled by ECJ Holdings Ltd. ("**Parentco**"), a private equity firm based in London, United Kingdom.

The Telemus business was originally founded in 1984 and since its inception has gone through a series of mergers, acquisitions, and rebranding.

Telemus was in the business of developing, building, and delivering non-ITAR electronic military systems to governments, prime contractors and military customers around the world. The Company's products and systems were built using proprietary technology and included a wide array of electronic intelligence (ELINT) and electronic support (ESM) electronic warfare ("**EW**") systems. The Company's primary customer was Turkish Aerospace Industries Inc. ("**TAI**") located in Turkey, which signed contracts with the Company for delivery of ELINT and ESM systems.

In mid-2020, Global Affairs Canada ("**GAC**"), on behalf of the Canadian government, suspended export permits for military goods and technology destined for Turkey, which jeopardized the Company's ability to deliver under its existing contracts with TAI. Additionally, the Company was not able to source new customers (outside of Turkey) due to the fact that it could not freely sell its products and technology which were subject to restrictions under federal Controlled Goods Regulations pursuant to the *Defence Production Act*. Despite the Company's repeated attempts to reach a resolution with the GAC, including explaining the material adverse impact on the Company's financial situation and solvency, the Company's Turkish export permits remained suspended and its applications for new export permits to deliver on purchase orders with TAI were not approved. As the result of the government sanctions, the Company was no longer able to generate any revenue and was solely dependent on Parentco for financial support. In April 2021, Global Affairs Canada advised the Company of its decision to cancel the Company's existing Turkish export permits pursuant to subsection 10(1) of the *Export and Import Permits Act*.

As a result of Telemus' lack of revenue and an imminent liquidity crisis, on August 24, 2021 (the "**Date of Bankruptcy**"), Telemus filed an assignment in bankruptcy pursuant to the the *Bankruptcy and Insolvency Act* (Canada) ("**BIA**"). KPMG Inc. was appointed trustee (the "**Trustee**") of Telemus' bankrupt estate by the Official Receiver, subject to affirmation by the creditors at the first meeting of creditors.

On August 27, 2021, all known creditors of Telemus were provided with notice of the first meeting of creditors, a list of creditors, a proof of claim form and a form of proxy. On August 31, 2021, notice of the bankruptcy and the first meeting of creditors was published in the National Post.

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA.

II CAUSES OF BANKRUPTCY

As a result of the aforementioned export permit issues, the Company's financial performance significantly declined in FY21 as set out below:

(in CAD \$000s)	FY20	FY21 (7 months)
Revenue	\$ 2,380	\$ 0
COGS	343	121
Gross Profit	2,037	(121)
Total SG&A Expenses	2,397	998
Net Loss	\$ (360)	\$ (1,119)

In fiscal 2020, the Company incurred a net loss of approximately \$360,000. In the 7 months ended July 31, 2021, Telemus did not generate any revenue and accordingly, incurred a net loss of approximately \$1.1 million. As mentioned above, due to government sanctions, the Company's export permits for military products and technology were suspended, which prevented the Company from exporting its products to its primary customer in Turkey.

Telemus' losses have been funded by capital injections from Parentco which had been the primary source of funding for the Company since the suspension of the export permits. Subsequently, Parentco advised the Company that it was not prepared to provide additional funding given the lack of a revenue stream. Without funding from Parentco, Telemus would no longer be able to meet its obligations as they become due.

The Trustee understands that the Company hired the Richter Advisory Group Inc. ("**Richter**") in July 2021 to provide a valuation (the "**Richter Valuation**") of the Company in effort to understand its options. Richter's analysis indicated that the Company had no going-concern value and valued the Company on a liquidation basis.

On August 13, 2021, Telemus Systems Limited (the "**Purchaser**"), a UK entity related to Parentco, entered into an asset purchase agreement (the "**August Transaction**") with the Company for the sale of substantially all of the Company's assets (the "**Purchased Assets**") for total cash proceeds of \$283,270, an amount that the Trustee understands was higher than the liquidation value estimated by the Richter Valuation. The Trustee notes the Purchased Assets included the Company's right, title and interest in but not limited to accounts receivable and the net proceeds, cash, accounts, or other receipts from (i) collection of accounts receivable; (ii) returns or

refundable credits in respect of any income taxes, Scientific research and experimental development tax incentive credits, HST, GST or other taxes or credits or returns received by the Company from governmental programs or sources.

The cash proceeds received from the August Transaction were used to complete the Company's regulatory obligations with respect to the Controlled Goods Regulations, to pay outstanding and accrued vacation pay to its employees and to facilitate the wind-down of the Company.

III FINANCIAL POSITION/ASSETS

As detailed in the Statement of Affairs, the Company's realizable assets consisted of cash of approximately \$15,000 as at the Date of Bankruptcy.

As at the date of this report, the Company's actual cash balance increased to \$129,186 as a result of a deposit that was made to the Company's bank account, after the Date of Bankruptcy, in the amount of \$115,485. The Trustee understands this deposit was related to the receipt of refunds from the Company's 2020 income tax return ("**Tax Refund**"). As indicated above, the Tax Refund was included as a Purchased Asset as part of the August Transaction and subject to the security interests of the Purchaser.

A claims process has been initiated by the Trustee but it is anticipated that there will not be any funds available for distribution to the Company's proven creditors.

IV SECURED CREDITORS

The Company's Statement of Affairs indicates that there were no known secured creditors as at the Date of Bankruptcy.

However, the Trustee notes that in order to secure the Company's obligations to deliver all of the assets subject to the August Transaction, the Company granted a fixed security interest in the Purchased Assets in favour of the Purchaser. According to the results of a search of the Personal Property Security Registration System, the Purchaser registered a security interest against the Company's assets, including the Tax Refund.

It is the intention of the Trustee to seek instructions from the inspectors to be appointed at the first meeting of creditors (the "**Inspectors**") with respect to what actions, if any, the Trustee should take in this regard.

V SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

The Trustee is not aware of any potential claims pursuant to section 81.3 of the BIA. Based on the Company's books and records, all amounts owing in respect of wages and/or vacation pay to the Company's former employees, including its now former Director, were paid by Telemus prior to the Date of Bankruptcy. The Trustee understands funding for these amounts were provided by the cash proceeds from the August Transaction.

The Trustee will comply with the requirements of the *Wage Earner Protection Program Act*, where applicable.

VI PREFERRED CREDITORS

The Company's Statement of Affairs indicates that there is one preferred creditor with a claim of \$45,476 related to the Company's outstanding rent arrears for the Premises.

The Trustee notes the Premises is leased from Communication Components Antenna Inc. (the "**Sublandlord**") pursuant to a lease assignment and assumption agreement with an effective date of January 31, 2020. Based on its option to sublease, the Sublandlord had subleased a portion of its head lease to Telemus.

The Trustee is currently considering its options in connection with the Premises and it is the intention of the Trustee to discuss the status of the Premises with the Inspectors and obtain instructions regarding same.

VII UNSECURED CREDITORS

The Company's Statement of Affairs indicates that there are approximately 37 unsecured creditors (including claims of former employees in respect of termination pay but excluding any amounts owing to the Sublandlord) with claims totalling approximately \$593,155.

VIII CLAIMS FILED

As at 9:00 a.m. on the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

	Claims Filed (#)	Amount (\$)	Proxies in Favour of Trustee (#)	Amount (\$)
Secured	Nil	Nil	Nil	Nil
Preferred	2	190,383.85	1	120,880.62
Unsecured	8	323,921.86	1	9,746.25
TOTAL	10	514,305.71	2	130,626.87

As noted above, the Trustee received two claims from creditors claiming a right to a priority under Section 136 of the BIA, both of which were listed as unsecured claims in the Company's statement of affairs. The Trustee has not been able to resolve these discrepancies as at the time of this report and as such, these claims have been included in the table above as filed and will be admitted by the Trustee for purposes of voting at the first meeting of creditors

IX CONSERVATORY AND PROTECTIVE MEASURES

In order to ensure that key information pertaining to the Company was properly safeguarded, certain physical books and records were moved to an offsite location and the Company's servers have been electronically backed up and stored on an external storage device. In order to comply with the Controlled Goods Regulations, only key information related to employees, payroll, tax remittances, vendors and financial records have been retained. For clarity, the Trustee did not take control of any records that would be subject to federal Controlled Goods Regulations.

In order to realize value on the Company's furniture, fixtures and equipment (the "**FF&E**") located at the Premises, the Trustee commenced a process to market the FF&E to 4 prospective liquidators that were known to the Trustee as having interest in like assets. The Trustee commenced the process prior to the date of the First Meeting of Creditors in order to avoid incurring additional rent costs for the Premises. As of the date of this report, the Trustee received 2 bids for the FF&E from the prospective interested parties and it is the intention of the Trustee to further discuss the sale of the FF&E with the Inspectors.

IX PREFERENCE PAYMENTS AND TRANSFERS UNDER VALUE

The Trustee has not performed a review of the Company's books and records, with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of its review with the Inspectors.

X TRUSTEE'S FEES

In consideration for consenting to act in these proceedings, the Purchaser provided a deposit to the Trustee in the amount of \$56,591 (the "**Third Party Deposit**") to guarantee payment of the Trustee's fees and disbursements for statutory work in accordance with the provisions of the BIA, should insufficient funds be available from the Company's estate. The Third Party Deposit is being held by the Trustee in an account segregated from the funds of the estate.

XI OTHER MATTERS

Subject to approval by the Inspectors and the Office of the Superintendent of Bankruptcy, the Purchaser has privately appointed KPMG to act as receiver (in such capacity, the "**Receiver**") of the Company solely for the purpose of taking possession of and distributing certain amounts received by the Trustee, pursuant to certain security granted by the Company in favour of the Purchaser as part of the August Transaction. In accordance with the BIA, the Receiver has retained the law firm of Loopstra Nixon LLP ("**Loopstra**"), as independent counsel to the Receiver to advise as to the validity and enforceability of the security granted by the Company in favour of the Purchaser. Loopstra has provided a written opinion that, subject to the typical assumptions and qualifications for opinions of this nature, the security granted by the Company is valid and enforceable in the Province of Ontario as against the Trustee's interest.

Further information relating to the Company's bankruptcy proceedings may be obtained from KPMG's website at <http://home.kpmg/ca/telemus>

Dated at Toronto, Ontario, this 14th day of September, 2021.

KPMG INC.

in its capacity as Trustee of the estate of
Telemus Systems Inc.,
and not in its personal capacity



Pritesh Patel, CIRP, LIT
Senior Vice President