

District of Ontario
Division No.: 09 - Toronto
Estate No. 31-1981498
Court No. 31-1981498

IN THE MATTER OF THE BANKRUPTCY OF
SPORT ALLIANCE OF ONTARIO
OF THE CITY TORONTO
IN THE PROVINCE OF ONTARIO

Trustee's Preliminary Report to the Creditors

BACKGROUND

1. Sport Alliance of Ontario ("**SAO**") is an Ontario corporation. SAO was established to support the development of sport in Ontario through the establishment of a provincial sports centre and through the management of the Ontario Games, Team Ontario, the Ontario Sport Awards, and KidsSport.

2. Prior to its bankruptcy, SAO operated as a not-for-profit provincial sport development agency to support personal and community development through sport opportunities and provided programs, services and resources to help its member organizations achieve their own objectives and realize their full potential, thus enabling the full Ontario sport and recreation community to grow and prosper.

3. SAO operated from leased premises located at 3 Concorde Gate, Toronto. Included in the resources provided by SAO were: (i) office space for approximately 40 organizations at 1 Concorde Gate, 3 Concorde Gate and 12 Concorde Place, Toronto, Ontario (the "**Leased Premises**"), (ii) design, print and promotion services and (iii) telecommunication services at a reduced rate.

Causes of Insolvency

4. While SAO was an independent organization, SAO was receiving annual funding from the Ontario Ministry of Tourism, Culture and Sport (the "**Ministry**") in the amount of approximately \$4 million per annum to sustain its operations.

5. Following receipt of a letter dated March 26, 2015 from the Ministry in which the Ministry stated that it would enter into a final three month transfer payment agreement with SAO from April 1, 2015 to June 30, 2015, effectively ceasing the Ministry's funding as of June 30, 2015, SAO's board of directors (the "**Board**") met on an urgent basis to determine if SAO could continue in operation.

6. The Board concluded that SAO's operations could not continue without the Ministry's commitment to ongoing unconditional and sufficient funding and, in light of SAO's existing and

potential future obligations, the Board authorized SAO to make an assignment into bankruptcy in accordance with the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA"), as soon as practicably possible.

7. On April 10, 2015, SAO filed an Assignment in Bankruptcy. Following the filing of SAO's Assignment in Bankruptcy, the Office of the Superintendent of Bankruptcy appointed Collins Barrow Toronto Limited ("CBTL") as the bankruptcy trustee of SAO (the "Trustee") subject to affirmation at the First Meeting of Creditors.

SECTION A: PRELIMINARY EVALUATION OF ASSETS

8. According to SAO's Statement of Affairs, the assets of SAO as at the date of bankruptcy consist of the following:

Cash on hand	\$419,169.00
Accounts receivable	164,089.02
Furniture	9,000.00
Machinery, equipment and fixed assets	5,500.00
Other property	<u>307,565.33</u>
Total assets	<u>\$905,323.35</u>

a) Cash

According to SAO's Statement of Affairs, SAO's primary asset was cash on deposit in SAO's bank accounts in the amount of approximately \$419,000, which the Trustee understands was the approximate balance in the bank accounts as of April 9, 2015. On April 10, 2015, the Trustee wrote to Royal Bank of Canada ("RBC") where SAO's bank accounts were held, to notify RBC of the bankruptcy, request that RBC freeze the SAO accounts and arrange for the transfer of the balance in SAO's accounts to the Trustee. The Trustee was informed by RBC that the balance in the SAO bank accounts was \$366,986.65 at the date of bankruptcy. This amount plus additional net receipts of \$2,026.36 were transferred to the Trustee on April 15, 2015 and has been deposited to the estate bank account in respect of SAO.

b) Accounts Receivable

According to SAO's Statement of Affairs, SAO's accounts receivable as of the date of bankruptcy consisted of the following:

	Book Value	Collectible
Accounts receivable	\$224,266.89	\$ 69,947.10
HST receivable	<u>94,141.92</u>	<u>94,141.92</u>
	<u>\$318,408.81</u>	<u>\$164,089.02</u>

As of April 9, 2015, SAO's accounts receivable included amounts due from various sports organizations, including those who were sub-tenants of the SAO Leased Premises and other customers for printing and other services provided as well as refunds due from certain vendors. According to the Statement of Affairs, \$69,947.10 of the accounts receivable balance of \$224,266.89 is considered collectible. On April 24, 2015, the Trustee sent letters to SAO's debtors requesting payment of amounts owing to SAO as per SAO's records. As of April 28, 2015, \$10,302.67 has been collected by the Trustee.

The HST refund of \$94,141.92 set out on the Statement of Affairs relates to HST returns filed in respect of 2014. The return for the period January 1 to March 31, 2015 has not yet been filed and, based on information provided by SAO, may result in an additional HST refund of approximately \$80,000. The Trustee is in the process of arranging to have the HST return for the period January 1 to March 31, 2015 completed and filed.

c) Furniture, machinery, equipment and plant

According to the Statement of Affairs, the cost of SAO's fixed assets was approximately \$459,000, excluding leased or financed assets. The net book value of those fixed assets, according to SAO's internal financial statements as at March 31, 2015 was approximately \$28,000. The fixed assets included office furniture and equipment, computer equipment, and printing equipment used by SAO's printing department, Medallion Press. SAO advised the Trustee that most of the furniture and computer equipment was old, and that several pieces of the printing equipment were old and no longer in use.

Prior to the appointment of the Trustee, an appraisal of the fixed assets (that were not subject to a lease or secured charge) was obtained from Canam – Appraiz Inc. The Trustee will review with the inspectors to be elected at this First Meeting of Creditors ("**Inspectors**") the appraisal obtained.

d) Other Property

Other property included on the Statement of Affairs consists of the following:

- i. Inventory – comprised mainly of paper and other supplies used by Medallion Press in its printing operations. The cost value of that inventory was approximately \$7,800;
- ii. Prepaid postage of \$15,000 – the available credit in SAO's account with respect to the postage meter under lease;
- iii. Funds held by Trustee - In addition to the funds held in SAO's accounts at RBC, the Trustee is in possession of \$150,000 which was provided to CBTL by SAO on April 2, 2015 which were to be used to fund professional costs relating to the bankruptcy process. These funds have been transferred to the estate bank account in respect of SAO;

- iv. Prepaid expenses – comprised of amounts prepaid on insurance and other supplier contracts;
 - v. Telephone system – equipment subject to a security interest registered by Maxium Financial Services Inc.;
 - vi. Kodak Controller, copier and computer/postage equipment – equipment subject to a security interest registered by Pitney Bowes Global Financial Services;
 - vii. Konica Minolta Photocopiers – equipment subject to a security interest registered by Element Financial Corporation;
 - viii. Sport IS Development Fund ("**Sport IS**") - The amount of \$70,000 set out on the Statement of Affairs represents funds in a bank account held in the name of "Sports Alliance Ontario, Sport IS Development Fund" ("**SAO IS Account**"). According to RBC, the balance in the RBC Sport IS bank account was \$27,011.22 and those funds have been transferred to the Trustee. The Canadian Council of Provincial and Territorial Sport Federations has filed a Proof of Claim (Property) pursuant to Subsection 81(4) of the BIA to assert a claim to all funds and records of activity related to the Sport IS Development Fund for the last six years; and
 - ix. Leasehold improvements – the cost value, according to the Statement of Affairs of the assets, are approximately \$4.2 million.
9. The Trustee will discuss these assets further with the Inspectors.

SECTION B: CONSERVATORY AND PROTECTIVE MEASURES

Fixed Assets

10. The Trustee understands from information provided to it by SAO that the aggregate rent paid monthly for the Leased Premises was approximately \$246,000 per month and that SAO defaulted on its rent for the month of April, 2015.
11. On April 10, 2015 following the issuance to the Trustee of the Certificate of Appointment by Industry Canada, Office of the Superintendent of Bankruptcy, and in order to not expose the Trustee and the estate of the bankrupt to potential substantial occupation rent obligations, the Trustee made an application to the Court for an Order authorizing the Trustee to disclaim the Trustee's interest in SAO's leases for the Leased Premises (the "**Leases**"). On April 10, 2015, the Court made an Order authorizing the Trustee to disclaim the Leases. On April 10, 2015, the Trustee disclaimed the Leases.
12. As a result of the Disclaimer of the Leases, the Trustee did not take possession of the Leased Premises nor SAO's fixed assets.

Cash In Bank

13. As set out earlier in this report, the Trustee is in possession of the funds in the SAO and the SAO IS bank accounts.

Books and Records

14. Immediately prior to SAO filing an assignment in bankruptcy, SAO's books and records including its electronic records were packed and sent to offsite storage. The Trustee has notified the third party in possession of SAO's records of the Trustee's appointment and obtained a list of the records retained. The Trustee will review the disposition of SAO's records with the Inspectors.

SECTION C: LEGAL PROCEEDINGS

15. The Trustee is not involved in any legal proceedings at this time.

SECTION D: PROVABLE CLAIMS

16. The claims filed by creditors as of 6:00 p.m. on April 28, 2015, are as follows:

	Per Statement of Affairs	Filed as of April 28, 2015
Secured	\$ 87,565.33	\$ -
Preferred	14,500.00	971,669.59
Unsecured	2,585,184.05	3,516,398.59
Contingent	10,016,000.00	-
<u>Total</u>	<u>\$12,703,249.38</u>	<u>\$4,488,068.18</u>

17. The Trustee will review the differences between the amounts set out in the Proofs of Claim filed and the amounts included in the SOA.

SECTION E: SECURED CREDITORS

18. The following creditors were identified by a search conducted of the Personal Property Security Act Registration System ("PPSA") as having a secured interest in certain equipment as at the date of bankruptcy.

Secured Party	Equipment
Element Financial Corporation	Konica Minolta photocopiers
Maxium Financial Services Inc.	Telephone system
Pitney Bowes Global Financial Services	Copier, Kodak Controller, computer/postage equipment

19. As the Trustee did not take possession of the premises occupied by SAO, it is not in possession of the leased assets.

20. The PPSA also identified the following parties as having a security registration against SAO, but as at the date of bankruptcy the nature of their interest was not identified nor were those creditors included on the list of secured creditors on the Statement of Affairs.

Secured Party	Equipment
GE Canada Asset Financing Holding Company	Unidentified
GE VFS Canada Limited Partnership	Unidentified
Royal Bank of Canada	RBC has advised the Trustee that it holds a security interest against SAO with respect to outstanding credit card balances.

SECTION F: ANTICIPATED REALIZATIONS AND PROJECTED DISTRIBUTION

21. Based on the information set out in this report, the Trustee is not able to estimate at this time the anticipated net proceeds of realization from SAO's assets. The Trustee notes that included in the claims of creditors in SAO's Statement of Affairs is a contingent claim of the landlord of the Leased Premises in the amount of approximately \$10 million, representing SAO's obligations for the balance of the terms of the Leases. As the Trustee has not yet determined the admissibility of any claims in the estate, the Trustee is not in a position to estimate the funds that may be available for distribution to SAO's creditors.

SECTION G: TRANSFERS AT UNDERVALUE AND PREFERENCE PAYMENTS

22. The Trustee has obtained copies of SAO's bank statements for the period January 2014 to March 2015, but has not yet undertaken a review of transactions for that period. The Trustee will review this matter further with the Inspectors.

SECTION H: OTHER MATTERS

23. In addition to the foregoing, the Trustee has the following to report:

- i. KidSport Canada ("KSC") has filed a Proof of Claim (Property) pursuant to Subsection 81(4) of the BIA to assert a claim to all funds and records of activity related to KSC. The Trustee will review this claim with the Inspectors.
- ii. A partner at Collins Barrow Vaughan LLP was, until her resignation on April 2, 2015, the Treasurer and a member of the Board of Directors of SAO. Collins Barrow Vaughan LLP is a partnership that operates independently of Collins Barrow Toronto LLP. The Trustee is of the view that no conflict of interest exists, but is making this disclosure to ensure full transparency and out of an abundance of caution.

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Dated at Toronto, Ontario, this 29th day of April, 2015.

COLLINS BARROW TORONTO LIMITED in its capacity as
Trustee of the Estate of Sport Alliance of Ontario, a bankrupt
and not in its personal capacity



Per: Daniel Weisz, CPA, CA, CIRP
Senior Vice President