

District of Ontario
Division No.: 12 - Ottawa
Estate No. 33-2051143
Court No. 33-2051143

IN THE MATTER OF THE BANKRUPTCY OF
CHF
OF THE CITY OF OTTAWA
IN THE PROVINCE OF ONTARIO

Trustee's Preliminary Report to the Creditors

BACKGROUND

1. CHF is a registered Canadian non-governmental organization ("NGO") that partnered with other NGOs and institutional donors on international development projects in rural communities throughout the world. Originally founded in 1961 as Canadian Hunger Foundation, the organization changed its name to CHF in 2004 and was headquartered in Ottawa.

2. As an independent Canadian non-profit international development agency, CHF relied on institutional funding for the majority of its revenue to support its program activities and also on charitable donations. Its primary institutional funder was the Department of Foreign Affairs, Trade and Development ("DFATD"), a department of the Canadian federal government.

Causes of Insolvency

3. The Trustee understands that the Canadian government revised its international development funding criteria to require implementing agencies to contribute a significantly higher project funding contribution raised through charitable donations.

4. In, 2013, a major donor for over ten years, during which an annual contribution of \$1.0 million in marketable securities was provided, ceased making further donations to CHF.

5. As a result of the higher financial contribution needed from charitable donations, and the decision of the major donor to cease making further donations to CHF, CHF recognized that its funding model was not sustainable. Accordingly, CHF's Board of Directors (the "Board") approved the organization to pursue various strategic options, including the sale of its office property and the consideration of merger or business combination alternatives.

6. In June 2015, DFATD indicated its unwillingness to continue to support project funding agreements with CHF which then required an accelerated process by CHF to transfer active projects to other Canadian implementing agencies. This process was completed in July 2015, in accordance with DFATD direction and approval, and at that time DFATD discontinued all institutional funding to CHF, save for support of transitional activities.

7. Following a further 60-day transition period to support the new agencies assuming CHF's active projects, the Board concluded that CHF's operations could not continue without DFATD's commitment to ongoing unconditional and sufficient funding and, in light of CHF's existing and potential future obligations, the Board authorized CHF to make an assignment in bankruptcy.

8. On October 27, 2015, CHF filed an Assignment in Bankruptcy. Following the filing of CHF's Assignment in Bankruptcy, the Office of the Superintendent of Bankruptcy appointed Collins Barrow Toronto Limited ("CBTL") as the bankruptcy trustee of CHF (the "Trustee") subject to affirmation at the First Meeting of Creditors.

SECTION A: PRELIMINARY EVALUATION OF ASSETS

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

Cash on hand	\$7,906.21
Accounts receivable	27,504.92
Furniture and computers	2,000.00
Other	3,196.66
Land and building	<u>2,847,450.00</u>
Total assets	<u>\$2,888,057.79</u>

a) Cash

According to CHF's Statement of Affairs, the cash on deposit in CHF's bank accounts was \$7,906.21 as of October 22, 2015. On October 28, 2015, the Trustee wrote to TD Canada Trust ("TD") where CHF's bank accounts were held, to notify TD of the bankruptcy and to request that TD freeze the CHF accounts and transfer the balance in CHF's accounts to the Trustee. The amount of \$5,756.21 was transferred to the Trustee on November 4, 2015 and has been deposited to the estate bank account in respect of CHF. The Trustee is awaiting receipt of the remaining balance of \$2,150.00 which was held in a different account.

b) Accounts Receivable

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

	Book Value
HST receivable	\$24,119.24
Sohel Khan	1,500.00
Sue MacPherson	<u>1,885.68</u>
	<u>\$27,504.92</u>

As of October 27, 2015, CHF's accounts receivable included amounts due from Canada Revenue Agency in respect of HST rebates for the period April 1 to October 27, 2015. On October 30, 2015, the Trustee received from CRA the refund due for the period April 1 to June 30, 2015 of \$16,099.46 and those funds have been deposited to the estate bank account.

The Trustee understands that the two individuals listed on the Statement of Affairs as owing amounts to CHF are former employees of CHF. The Trustee will discuss the status of these accounts receivable with the inspectors to be elected at this first meeting of creditors ("Inspectors").

c) Furniture and computers

CHF's fixed assets as of the date of bankruptcy were comprised of furniture (including desks, tables, filing cabinets) and five computers located at the real property owned by CHF. According to the Statement of Affairs, the estimated realizable value of the remaining fixed assets is estimated at \$2,000.00, before costs of realization. As the fixed assets appear to be subject to the security held by Romspen Investment Corporation ("Romspen"), CHF's secured lender, the Trustee has not taken any action to realize on these assets.

d) Other Property

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

Retainer provided to Collins Barrow Toronto Limited ("CBTL") – the amount of \$12,500.00 was provided to CBTL by CHF on October 9, 2015 for the purpose of funding professional costs relating to the bankruptcy process. These funds have been transferred by the Trustee to the estate bank account;

Prepaid Insurance of \$6,171.01 – this balance represents premiums paid by CHF on its combined commercial general liability, non-owned automobile, and commercial property insurance policy for the period ending February 8, 2016. The Trustee has been informed that if the insurance policy was cancelled, there would be a refund of premiums of \$988 available to the estate;

Hydro Ottawa deposit of \$3,213.00 – this amount represents a security deposit held by Hydro Ottawa. It is anticipated that Hydro Ottawa will use a portion of the deposit to pay outstanding hydro charges. The Trustee wrote to Hydro Ottawa on November 9, 2015 to advise of the bankruptcy and to request a refund of the deposit balance; and

Neopost Prepaid postage of \$1,596.66 – this amount represents the available credit in CHF's account with respect to the postage meter under lease. The Trustee has contacted Neopost to obtain a refund of this balance, but no payments to date have been received by the Trustee.

e) Land and Building

CHF is the registered owner of the real property located at 323 Chapel Street, Ottawa, Ontario also known as Kildare House. Kildare House is subject to a mortgage registered in the name of Romspen. On October 15, 2015, CHF was unable to make its monthly mortgage payment and on October 21, 2015 Romspen took possession and control of Kildare House pursuant to its rights under the mortgage.

According to the Statement of Affairs, the estimated value of Kildare House is \$2,847,450 before consideration of the amount owed by CHF to Romspen of \$1,528,505.20.

The Trustee has registered a Caution on title to Kildare House. On November 2, 2015, legal counsel for the Trustee wrote to counsel for Romspen to put Romspen on notice that the Trustee anticipates that there will be proceeds of sale available to the Bankrupt's estate after payment of the mortgage and to request that Romspen keep the Trustee up to date as to its enforcement of the mortgage, any sales process and the intended purchase price.

10. The Trustee will discuss these assets further with the Inspectors.

SECTION B: CONSERVATORY AND PROTECTIVE MEASURES

Fixed Assets, Land and Building

11. As noted earlier in this report, the fixed assets and land and building are subject to the security of Romspen and in the possession and control of Romspen. As such, the Trustee has not taken any steps to take possession of these assets.

Cash In Bank

12. As set out earlier in this report, the Trustee is in possession of the majority of the funds in the CHF bank accounts.

Books and Records

13. The Trustee understands that prior to CHF's bankruptcy, the majority of CHF's books and records were boxed into between 100 to 150 boxes. The boxes are currently on the premises at Kildare House. Romspen has agreed to grant the Trustee access to Kildare House in order to arrange for the removal of CHF's books and records. The Trustee will review the disposition of CHF's records with the Inspectors.

SECTION C: LEGAL PROCEEDINGS

14. The Trustee is not involved in any legal proceedings at this time. As of the date of bankruptcy, two legal actions had been initiated against CHF in respect of employee wage claims. The Trustee has written to counsel for the plaintiffs to advise that a Stay of Proceedings is in force as a result of CHF's bankruptcy.

SECTION D: PROVABLE CLAIMS

15. The claims filed by creditors as of 4:00 p.m. on November 16, 2015, are as follows:

	Per Statement of Affairs	Filed as of Nov. 16, 2015
Secured	\$1,528,505.20	\$ -
Unsecured	1,076,026.14	187,959.04
Preferred	-	98,908.20
Contingent	203,185.68	287,986.79
<u>Total</u>	<u>\$2,807,717.02</u>	<u>\$574,854.03</u>

16. The Trustee will review the differences between the amounts set out in the Proofs of Claim filed and the amounts included in the SOA in the event there are funds available for distribution to CHF's creditors.

SECTION E: SECURED CREDITORS

17. A search conducted of the Personal Property Security Act Registration System ("PPSA") identified one party as having a secured interest in CHF's personal assets as at the date of bankruptcy:

Secured Party	Charge over
Romspen Investment Corporation	Inventory, Equipment, Accounts, Other

In addition to the above and as set out earlier, Romspen has a mortgage on the Kildare House property. The Trustee has requested an opinion from Pallett Valo LLP, independent counsel, on the validity and enforceability of the security held by Romspen.

Third Party Property

18. The Trustee has received a Proof of Claim (Property) from CBSC Capital Inc. in respect of two copiers under lease to CHF. Pallett Valo LLP has reviewed the lease documentation and has advised the Trustee that the lease was not properly registered under the PPSA. The Trustee will discuss the disposition of this claim with the Inspectors.

SECTION F: ANTICIPATED REALIZATIONS AND PROJECTED DISTRIBUTION

19. As set out on the Statement of Affairs, CHF's primary asset is its land and building. At this time, it is uncertain as to the amount that will be realized from the land and building. In addition, the Trustee has not yet determined the admissibility in the estate of proofs of claim that have been, or may be filed, in the estate. As a result, the Trustee is not at this time in a position to estimate the funds, if any, that may be available for distribution to CHF's creditors.

SECTION G: TRANSFERS AT UNDERVALUE AND PREFERENCE PAYMENTS

20. The Trustee has not yet performed a review of CHF's bank statements for the period January 2015 to October 2015 in order to determine if there were any preference payments made to creditors of CHF. The Trustee will review this matter further with the Inspectors.

SECTION H: OTHER MATTERS

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

- i. A former member of CHF's Board of Directors, who resigned on July 29, 2015, is a partner at 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.

Dated at Toronto, Ontario, this 16th day of November, 2015.

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



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