

**CANADA**  
**District of Ontario**  
**Division No. 09- Toronto**  
**Court No: 31-1249035**  
**Estate No: 31-1249035**

**IN THE MATTER OF THE BANKRUPTCY OF**  
**CREDIFINANCE SECURITIES LIMITED**  
**OF THE CITY OF TORONTO,**  
**IN THE PROVINCE OF ONTARIO**

**TRUSTEE'S REPORT ON ITS PRELIMINARY ADMINISTRATION**

**BACKGROUND**

Credifinance Securities Limited ("CFSL" or the "Company") is a private Ontario corporation which operated as an investment dealer selling securities and other investments to the public since 1991. The Company's head office was located at 41A Avenue Road, Toronto, Ontario.

The Trustee's understands that on November 13, 2007, CFSL entered into a share subscription agreement with DSLC Capital Corp. ("DSLSC") wherein DSLC agreed to gradually acquire an ownership interest in CFSL. As part of that transaction, DSLC loaned CFSL \$400,000. In October 2008, the two parties entered into a share purchase agreement to give DSLC a majority interest in CFSL. However, the transaction did not close. In February 2009, DSLC initiated legal proceedings against CFSL seeking damages of \$1,250,000 (the "DSLSC Proceedings"). As part of the DSLC Proceedings, the Ontario Superior Court of Justice granted an order on April 20, 2009 requiring CFSL to pay \$310,500 into court pending the ultimate disposition or settlement of the action.

After the transaction with DSLC did not close, CFSL voluntarily commenced to wind down its operations.

On August 21, 2009, the Company filed an assignment in bankruptcy and on August 24, 2009, the Office of the Superintendent of Bankruptcy issued a certificate of appointment naming Deloitte & Touche Inc. as Trustee of the estate of the bankrupt.

Causes of Insolvency

As a result of the aforementioned court order, the Company was unable to meet its obligations as they came due.

**CONSERVATORY AND PROTECTIVE MEASURES**

The Trustee has been advised that as at the date of bankruptcy, the Company had ceased operations. All client accounts of CFSL had been closed or transferred to another firm by January 31, 2009 and the Company had ceased to do business with the public. CFSL had tendered its resignation to the Investment Industry Regulatory Organization of Canada and on December 31, 2008, CFSL's registration with the Ontario Securities Commission was suspended.

Prior to the bankruptcy, CFSL had vacated its place of business and its books and records were moved to another location. As a result of the Company's records being filed together with records belonging to other companies, the Trustee has to date only taken possession of a portion of CFSL's books and records.

The Trustee notified the National Bank (the "Bank") of its appointment and requested that the Bank freeze the Company's account(s), and transfer the balance therein to the Trustee. To date, the funds (approximately \$310,890) have not been transferred to the Trustee. This matter is discussed further below.

## REALIZABLE ASSETS

According to the Company's Statement of Affairs, as at August 21, 2009, the realizable assets of the Company consisted of the following:

	<i>Statement Of Affairs</i>	<i>Estimated Realizations</i>
Cash	\$310,890	\$310,890
Furniture, and Equipment	3,400	200
Litigation vs. TD Waterhouse	<u>1</u>	<u>Unknown</u>
	<u>\$314,291</u>	<u>\$311,090</u>

### *CLASS II: FIXED ASSETS, OFFICE EQUIPMENT, ETC.*

The fixed assets are comprised of a few items of office furniture, a few old laser printers, and a desktop computer which according to the Company does not work.

### *CLASS III: BUILDINGS AND REAL ESTATE*

The Company leased its premises from a third party landlord and had paid rent through September 30, 2009. A portion of these premises was sublet to a third party to the expiry date of the lease. The Company had received post-dated cheques from the sub-tenant, and the Trustee has deposited the cheque dated September 1, 2009 into the estate's bank account. The lease for the premises expires on December 31, 2009. The Trustee will recommend to the Inspectors that the Trustee issue a disclaimer of lease to the landlord.

### *CLASS V: OTHER ASSETS*

#### 1) Cash

As at the date of bankruptcy, the Company had \$310,889.76 in its account at the Bank. In response to the Trustee's request to the Bank to transfer the funds to the Trustee, the Bank verbally advised the Trustee's counsel that counsel to DSLC advised the Bank that the funds are in dispute and as such, the Bank will only transfer the funds with DSLC's consent or pursuant to Court Order. The Trustee will review this matter further with the Inspectors to be elected at this First Meeting of Creditors.

2) Litigation vs. TD Waterhouse Investor Services (Canada) Inc. ("TD")

On March 25, 2003, CFSL filed a Statement of Claim against TD. CFSL's claim is for \$167,695.42 representing the amount CFSL claims was unlawfully drawn on CFSL's comfort deposit held by TD, further to an Introducing/Carrying Broker agreement between the parties. CFSL has also claimed \$1,300,000 in damages resulting from the withdrawal. Arbitration has been scheduled to be completed before the end of the current calendar year. The Trustee will review this account receivable with the Inspectors.

**LEGAL**

The Trustee has retained the services of Minden Gross LLP, independent counsel, to provide legal advice to the Trustee.

**SUMMARY OF PROVABLE CLAIMS**

A summary of the proofs of claim received to 10:00 a.m. on September 14, 2009 is set out below:

	<u>Claims Per Statement of Affairs</u>	<u>Claims Received To 10:00 am on September 14, 2009</u>
Secured	\$103,000.00	\$127,032.07
Unsecured	581,647.86	893,495.37
Contingent	<u>2.00</u>	<u>-</u>
Total	<u>\$684,649.86</u>	<u>\$1,020,527.44</u>

The Trustee will, if necessary, obtain explanations for any differences between the amounts set out in the proofs of claim filed and the amounts included in the Statement of Affairs.

**SECURED CREDITORS AND TRUST CLAIMS**

The following two creditors have a registered security interest against the assets, property and undertakings of the Company:

Benarroch, Georges	\$ 30,000
Credifinance Capital Corp.	<u>73,000</u>
	<u>\$103,000</u>

The Trustee is not aware of any deemed trust or other claims that may rank in priority to the claims of the Company's secured creditors.

To date, the Trustee has not requested that Minden Gross LLP provide an opinion to the Trustee on the validity and enforceability of the above claims as against the Trustee. The Trustee will review these claims with the Inspectors.

**ASSET REALIZATION AND PROJECTED DISTRIBUTION**

Pending receipt of the funds at the Bank, the Trustee is unable to advise whether there will be funds available for distribution to the unsecured creditors of the Company.

**REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS**

The Trustee has not at this time completed a review of the Company's bank statements and cancelled cheques to identify transactions that may constitute potential preferences pursuant to the Bankruptcy and Insolvency Act. The Trustee will review this matter further with the Inspectors.

**TRUSTEE'S FEES**

Donabo Inc. has provided a third party guarantee to the Trustee.

Dated at Toronto, in the Province of Ontario, this 14<sup>th</sup> day of September, 2009.

**DELOITTE & TOUCHE INC.**

In its capacity as Trustee of the Estate of  
Credifinance Securities Limited, a bankrupt,  
and not in its personal capacity

per: 

Daniel R. Weisz, CA•CIRP, CIRP  
Senior Vice President