



INSOLVENCY CONSULTANTS & TRUSTEE IN BANKRUPTCY

410 – 800 W Pender Street  
Vancouver, BC V6C 2V6  
Tel 604 605 3335  
Fax 604 605 3359  
www.boalewood.ca

**Court No. B081091**  
**Estate No. 11-1092861**  
**Vancouver Registry**

**IN THE MATTER OF THE BANKRUPTCY OF  
SXIP IDENTITY CORPORATION**

**TRUSTEE'S PRELIMINARY REPORT TO CREDITORS**

Sxip Identity Corporation (the “Company” or “Identity”) filed a voluntary assignment in bankruptcy on July 28, 2008 and Boale, Wood & Company Ltd. was appointed Trustee of the Estate.

This report has been prepared by Boale, Wood & Company Ltd., in its capacity as Trustee of the Estate of Sxip Identity Corporation to provide preliminary information to the creditors available as at August 22, 2008.

**BACKGROUND**

Identity is a Canadian company that was incorporated on December 15, 2004. Mr. Dick Hardt is the sole Director and Officer of the Company. The Company is a wholly owned subsidiary of Sxip Networks Inc. (“Networks”), a company also controlled by Mr. Hardt.

Identity is a software development business that developed identity software for enterprises and consumers to provide safe and secure infrastructures for internet users to access online resources and prevent identity theft.

Funding for the software development was provided primarily by Networks. We are advise that in 2007 the Company recognized that it would not be able to continue to rely on Networks for funding and commenced discussions with various prospective purchasers regarding a sale of the business. The two primary divisions of Identity are Sxip Access/Audit and Sxipper. Discussions ensued with several parties including Computer Associates, Google and Microsoft with respect to the sale of the entire business or one of the divisions. Mr. Hardt has advised us that he was optimistic based on his discussions with interested parties that a sale would be consummated that would ensure the creditors of the Company were paid in full and would also provide a return to the shareholders.

In the summer and fall of 2007, while discussions with interested parties were ongoing, Identity raised approximately \$600,000 from investors to provide working capital to fund operations until a deal could be consummated.

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Unfortunately Identity was not able to consummate a deal with any of the interested parties that Mr. Hardt was in discussions with.

In early 2008, with no working capital left to continue funding operations, the Company was forced to liquidate certain of the business assets.

In February 2008 an asset purchase agreement was entered into with Ping Identity Corporation (“Ping”) for the sale of Sxip Access and Sxip Audit software and related corporate documentation. The purchase price of \$311,962.50 (US) was paid on closing.

In March 2008 an agreement was entered into with Tricipher, Inc. (“Tricipher”) for the sale of the Sxip Pink Project and related corporate documentation. The agreement provides for the purchase price of \$270,000 (US) to be paid as follows:

- \$90,000 (US) due on closing (received by the Company on April 14, 2008)
- \$90,000 (US) due on December 31, 2008
- \$90,000 (US) due on March 31, 2009

We understand that it was Mr. Hardt’s intention, after downsizing the operations from the sales noted above, to find new investors to provide ongoing funding for the Sxipper division. According to Mr. Hardt the litigation commenced against Identity by certain investors that providing funding in 2007, negated any opportunity to raise more working capital.

In May 2008, Mr. Hardt made a decision to sell the Sxipper software and related corporate documentation, certain hardware and certain patents and trademarks of the Company to Sxip Inc., a company controlled by Mr. Hardt. The purchase price of \$150,000 (CDN) was paid on closing. The purchase price did not segregate the value of the hardware that we have determined to have a liquidation value of approximately \$40,000.

Identity had three years remaining on its premises lease at a rental rate below market. Efforts were made to sublet the space, however, in the end the landlord entered into a new lease agreement with another party.

We understand the Company engaged its lawyers to commence an action against the landlord for terminating the lease agreement without cause. This led to a settlement offer from the landlord of \$50,000 (CDN) plus a return the rent deposit of \$24,218 (CDN) that was

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accepted by the Company.

On July 25, 2008 the Company filed an Assignment in Bankruptcy pursuant to the provisions of the *Bankruptcy and Insolvency Act* (the "BIA") and Boale Wood and Company Ltd. was named Trustee.

### **CONSERVATORY MEASURES**

Prior to the Assignment in Bankruptcy, Identity had vacated its leased premises at 798 Beatty Street, Vancouver. The remaining assets included furnishings, computers and office equipment were either moved into storage or to Sxip Inc.'s office at 33 Water Street, Vancouver.

Upon being appointed, representatives of the Trustee attended at 33 Water Street and the storage locker. The Trustee changed the storage locker locks and has assumed responsibility for the payment of storage locker. A complete inventory of the assets at these locations was taken.

The Trustee has arranged insurance on the assets based on their estimated liquidation value of \$24,000 and organized a Bond in the amount of \$300,000 as requested by the Office of Superintendent of Bankruptcy.

### **ASSETS**

#### ***Cash on Hand***

At the date of bankruptcy the Company provided a bank draft to the Trustee in the amount of \$100,000 that has been deposited to the estate bank account.

We sent a letter to the HSBC, where the company did all its banking, requesting that the bank accounts be frozen and any balances in the account be paid to over to the Trustee. The cheque from HSBC in the amount of \$ 21,634.98 (CDN), representing the balance in the accounts, was received by the Trustee and deposited to the estate bank account.

#### ***Computers, Office Equipment and furnishings***

Identity commenced efforts to sell the redundant computers, office equipment and furnishings commenced in late February 2008. The assets were advertised on Craig's List

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as well as being offered to staff, friends and acquaintances. The asking prices for the items offered for sale were determined by the Company's management based on their personal knowledge of the assets and in reference to prices for similar items being advertised on Craig's list.

The Company received approximately \$8,000 (CDN) from the sale of these redundant assets.

The remaining assets that are either in storage or at 33 Water Street have been appraised by Timeline Asset Services Ltd. ("Timeline"). The gross auction value for these assets as determined by Timeline Asset Services Ltd. is approximately \$24,000.

#### ***Accounts Receivable***

As of the date of bankruptcy the only outstanding receivables of the Company were as follows:

1. The amount of \$180,000 (US) owed by Tricipher as referenced above. The Trustee has sent a letter to Tricipher confirming the assignment in bankruptcy and requesting that the amounts still payable under the terms of the agreement be paid to the Trustee for the benefit of the creditors.
2. A Goods and Service Tax refund of \$10,646.07.

The Company believes these receivables are fully collectible.

#### ***Scientific Research & Experimental Development Claim ("SR & ED")***

The Company qualifies for a SR & ED pursuant to the provisions of the *Income Tax Act* for certain of its software development costs. The Company applied for and received a SR & ED refund in the amount \$ 637,584 for the taxation year ending January 1, 2008.

The Trustee will be submitting a claim on behalf of the Company for the current taxation to the date of bankruptcy and anticipates a refund in approximate amount of \$220,000.

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### **PROVABLE CLAIMS**

The Trustee has performed a preliminary review of the claims filed to date which are summarized below:

	<b>As per Statement of Affairs</b>	<b>Claims Filed to date</b>
Secured Creditors	Unknown	\$17,631
Preferred Creditors	0	4,000
Unsecured Creditors	5,667,885	5,532,366
	<u>\$5,667,885</u>	<u>\$5,553,997</u>

There have been no significant differences between the claims listed on the statement of affairs and the claims filed with the Trustee that cannot be explained.

### **SECURED CREDITORS**

#### **Sxip Inc. (“INC”)**

INC is a company controlled by Mr. Dick Hardt that acquired the assets of Sxipper division of the Company in May 2008. At the time of purchase INC registered a General Security Agreement in the Personal Property Security Registry. Mr. Hardt has advised us that the security was registered to ensure that should the transaction between INC and Identity be reversed by the Trustee the funds advanced by INC would be secured.

#### ***Canada Revenue Agency (“CRA”)***

CRA has conducted an audit of books and records of the Company and have determined that there are no outstanding unremitted payroll deductions.

#### **Equipment financiers**

We understand that the Company has paid out all of the equipment finance contracts.

#### **Employees**

Effective July 7, 2008 the Wage Earner Protection Program Act (“WEPPA”) came into

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force. WEPPA provides employees with a secured claim for wages (excluding severance obligations) and certain expenses owed, for the six month period preceding the date of bankruptcy. The secured charge is over the current assets of the employer company but is limited to \$3,000 for each employee.

Prior to bankruptcy the Company issued cheques to the employees for the outstanding wages and expenses. Two of the employees failed to cash their pay cheques prior to the bankruptcy and when they tried to cash their cheques after the date of bankruptcy they were returned as the account had been frozen by the Trustee.

**UNSECURED CREDITORS**

**Related Creditors**

The Statement of Affairs prepared by Identity lists the following related party creditors:

Dick Hardt	\$ 242,827
Sxip Networks Inc.	4,676,978

The amount owed by Identity to Sxip Networks Inc. represents cash advances made by Networks to Identity and expenses paid on behalf of Identity.

**Investors**

The Statement of affairs lists the investors that advanced monies to Identity in 2007. The investors' claims as shown on the statement of affairs are as follows:

Caliber Management Ltd.	\$ 163,336
Thomas Halikas	108,691
John Merrells	33,541
Opticality Ventures LLC	108,657
Polygon Financial LLC	163,336
Dan Robinson	21,738
Ronald Stevens	53,643
	<u>\$ 652,942</u>

The investors advanced funds to Identity under convertible bridge loan notes. The notes had rights of conversion to common shares upon a change of control or further financing

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by the Company.

**SETTLEMENTS, PREFERENTIAL PAYMENTS & REVIEWABLE  
TRANSACTIONS**

As mentioned earlier in our report INC, a company controlled by Mr. Hardt, purchased the Skipper software and related corporate documentation, certain hardware and certain patents and trademarks of the Company for \$150,000.

A Trustee, pursuant to the provisions of the BIA has a right to inquire into whether the bankrupt received fair market value in consideration for property transferred in a transaction with a related party within one year before the date of bankruptcy. If it is determined that the transaction is conspicuously less than or greater than the fair market value the court may give judgement to the Trustee against the other party.

We plan to discuss this transaction with the inspectors appointed on the estate and determine the appropriate course of action to take.

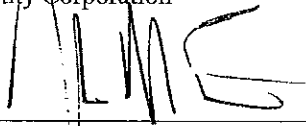
**ESTIMATED REALIZATION**

Based on the estimated value of the assets available, Trustees fees and realization costs, we estimate that the dividend to creditors will range between approximately 5 % and 9 %. Any dividend will be entirely dependent on the amount ultimately realized from the sale of the assets, collection of receivables, SR & ED refund received, and any amounts recovered in respect of reviewable transactions, as well as the final quantification of all claims. A Schedule of Estimated Realization is attached as Schedule A to this report.

DATED at the City of Vancouver, British Columbia this 21<sup>st</sup> day of August, 2008.

**Boale, Wood & Company Ltd.**

Trustee of the Estate of  
Sxip Identity Corporation



Per: John D. McEown, CA, CIRP  
*Chartered Insolvency & Restructuring Professional*

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Schedule A

**Schedule of Estimated Realization**

	Low	High
<b>Receipts</b>		
Cash on hand and in bank	\$ 121,635	\$ 121,635
Recovery of legal retainer	-	9,200
Sale of Furniture, computers and office equipment	15,000	30,000
Collection of receivables	100,000	190,000
SR & ED refund	180,000	220,000
	<u>416,635</u>	<u>570,835</u>
<b>Disbursements</b>		
Trustees Fees & Disbursements	80,000	40,000
Accounting services	20,000	10,000
Legal and Miscellaneous	30,000	10,000
	<u>130,000</u>	<u>60,000</u>
<b>Available for Distribution</b>	<u>286,635</u>	<u>510,835</u>
<b>Unsecured Creditors per Statement of Affairs</b>	<u>\$ 5,667,885</u>	<u>\$ 5,667,885</u>
<b>% Dividend</b>	<u>5.1%</u>	<u>9.0%</u>

*Note: Our estimated realization does not include any amount that may be recovered from INC in respect of its acquisition of assets from Identity.*