

CANADA
District of Ontario
Division No. 09 – Toronto
Court No. 31-2822575
Estate No. 31-2822575

**TRUSTEE’S PRELIMINARY REPORT
IN THE MATTER OF THE BANKRUPTCY OF
CHISEL AI INC.
OF THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO**

The information contained in this Preliminary Report has been prepared from the available books and records of the Company (as such term is later defined). These books and records have not been reviewed or otherwise audited by the Trustee and, consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information taken from those records contained herein.

SECTION A – BACKGROUND

Chisel AI Inc. (“**Chisel**” or the “**Company**”) is an Ontario corporation that carried on business out of leased premises in Toronto, Ontario (the “**Premises**”). Chisel provided a platform to commercial insurance carriers and brokers to increase their business by automating mundane underwriting and brokering processes.

Leading up to the filing, the Company was seeking investment financing to strategically grow its business and had identified investors and signed a term sheet. When the lead investor experienced several delays in closing their round, and in order to mitigate Chisel’s risk, Chisel engaged in conversations with several potential strategic acquirors. After exploring these possibilities and with no confirmation of its ability to close on the financing and no definitive offers for acquisition, Chisel decided to cease operations to conserve cash, and thereafter, filed an assignment in bankruptcy.

Bankruptcy

On April 18, 2022, Chisel executed and filed an assignment in bankruptcy which was accepted by the Office of the Superintendent of Bankruptcy on April 19, 2022 (“**Date of Bankruptcy**”). MNP Ltd. (“**MNP**”) was appointed as Licensed Insolvency Trustee (the “**Trustee**”) of the bankrupt estate, subject to affirmation by the creditors at the First Meeting of Creditors (“**FMOC**”).

On April 20, 2022, the Notice to Creditors advising of the bankruptcy, the FMOC, a list of creditors and a proof of claim form, along with a proxy, were sent to all known creditors of the Company. Pursuant to subsection 102(4) of the *Bankruptcy and Insolvency Act* (the “**BIA**”), the Notice of Bankruptcy was published in the April 21, 2022, edition of the *The Toronto Sun*.

The various public documents related to Chisel and its bankruptcy proceedings are posted at Trustee’s case website at: <https://mnpdebt.ca/en/corporate/corporate-engagements/chisel-ai-inc>

Receivership

On April 21, 2022, MNP became a receiver (the “**Receiver**”) by virtue of being appointed by Silicon Valley Bank (“**SVB**”) pursuant to a Loan and Security Agreement (“**LSA**” or “**SVB’s Security**”) dated February 12, 2020, granted by Chisel in favor of SVB. Prior to accepting the appointments as Receiver and Trustee, MNP obtained an independent legal opinion from Loopstra Nixon LLP, its independent counsel, wherein it opined that subject to normal assumptions and qualifications, the LSA granted by the Company to SVB is valid and enforceable as of April 8, 2022, the date of its opinion.

SECTION B – PRELIMINARY EVALUATION OF ASSETS AND SECURITY INTERESTS

Chisel’s assets and their estimated realizable value, according to the Statement of Affairs (“**SOA**”) are as follows:

Nature of Property	Location/Details of Property	Value (CDN)
Cash in Financial Institutions	Cash at CIBC	706,086
Taxes	Subsequent – 2022	1
Other	Equipment	1
	Software IP	1
	Monies held in escrow (re: Ron Glozman Settlement Agreement)	43,333
Amazon Web Services	Refund	20,826
CRA HST refund		27,082
Jason McDermott	Refund from Amex Card	39,774
Ministry of Finance	EHT Refund	1,385
SWPP Technation	Wage Subsidy Grant	5,000
Total		843,490

Chisel’s assets are subject to SVB’s Security and are under the possession and control of the Receiver.

Cash at bank

Chisel banked at Canadian Imperial Bank of Commerce (“**CIBC**” or the “**Bank**”) and based on the SOA, had cash of approximately \$705,000 on deposit on the Date of Bankruptcy. On the Date of Bankruptcy, the Trustee advised CIBC of the receivership/bankruptcy and requested it freeze the Company’s bank account but permit incoming deposits only. On April 25, 2022, the CIBC forwarded an amount of approximately \$705,741 to the Receiver.

Equipment

Chisel had terminated most of its employees before the Date of Bankruptcy. As part of the termination, certain of Chisel's former employees were offered to keep the equipment that were already in their possession in exchange for signing a letter to release the Company of any future claims (the "**Release**"). The \$1 dollar reflected on the SOA is place holder for any equipment that may still be returned to the Company by its former employees.

Office Furniture

Chisel at the Date of Bankruptcy had no office furniture. The Company had moved to 100% remote work environment at the start of the COVID pandemic. Upon expiration of their office lease in October 2021, they decided to continue working remotely to eliminate the rent expenses and to conserve cash. The furniture in the rented premises was sold for a modest amount at that time.

Refunds

Based on the Company's books and records, Amazon Web Services ("**AWS**") and Ministry of Finance are each reflected as owing Chisel money. The Ministry of Finance refund relates to a refund of Employer Health Tax ("**EHT**") for over-remittances, which is subject to adjustment in respect of 2022 EHT activity. The SOA reflects AWS as also being a creditor.

Fund receivable from Jason McDermott ("Jason**")**

In order to support Chisel's operations, Jason utilized his personal American Express ("**AMEX**") credit card to purchase certain goods and services on behalf of the Company, some of which involved recurring or pre-authorized charges. At the Date of Bankruptcy, there was a credit available to Jason on the AMEX card arising from a previous refund from AWS. Given Chisel's bankruptcy, Jason advised AMEX to cancel the card, and on April 25, 2022, AMEX issued Jason a refund of \$37,992. However, AMEX advised Jason that he remains responsible for ongoing charges that arise from pre-authorized and/or recurring charges. Amex advised Jason that it may take four (4) to six (6) weeks to process the refund. Jason has advised the Trustee that he will remit payment to the Trustee for the amount of he receives from Amex, subject to adjustment, if necessary, for subsequent pre-authorized or recurring charges.

Consequently, the Trustee contacted each of the affected Chisel service providers and informed them of the bankruptcy and requested those suppliers to stop charging the AMEX credit card. Ongoing supplies are required from certain of these suppliers to preserve and protect the Company's IP (defined below), domain name and active licenses. In those cases, the Trustee has made alternative payment arrangements that do not involve the AMEX card. Notwithstanding these efforts, certain suppliers recently charged the AMEX card; the Trustee is endeavouring to have these charges reversed.

SWPP Technation

As part of the Government of Canada's Student Work Placement Program (SWPP), Technation's wage subsidy program, Career Ready, supports businesses by financing their decision to hire a student for a work-term placement. Chisel recently received a confirmation that Technation has approved its SWPP application which was submitted prior to the Date of Bankruptcy and will be awarding a subsidy of \$15,000 in the next few weeks. The Trustee is investigating whether there are any conditions that the Company still needs to satisfy before the SWPP subsidies are earned.

SRED Claim

Based on the Company's previous tax filings and receipt of Scientific Research and Experimental Development ("**SR&ED**") refunds from CRA (as such term is later defined) the Trustee is in the process of evaluating the extent to which Chisel may have further federal SR&ED claims and any associated provincial SR&ED and Ontario Innovation Tax Credit claims (together with SR&ED, the "**SRED Claim**") for expenditures incurred after December 31, 2021. To assist the Trustee in this evaluation and in advancing the SRED Claim, the Trustee is in the process of contracting: (i) four of former Chisel's employees; and (ii) Chisel's external SRED consultant, each of whom is sought to have knowledge and insight that will be instrumental in pursuing recovery of further SRED Claims.

Monies held in Escrow

Ron Glozman ("**Glozman**") is a former employee and co-founder of the Company and entered into a Revised Separation Agreement (the "**Separation Agreement**") with the Company, dated August 8, 2021. Under the terms of the Separation Agreement, a portion of the monies payable to Glozman were to be paid as a lump sum, with the balance payable in equal monthly installments over a twelve-month period ending August 1, 2022 (the "**Installment Payments**"). Moreover, the funds required to fund the Installment Payments were paid to The Laurel Hill Advisory Group Company (the "**Escrow Agent**"), as escrow agent, and to be held in trust for Glozman. The Escrow Agent and the Company entered into an escrow agreement, dated August 31, 2021. On the Date of Bankruptcy, the Escrow Agent held \$43,333.36 plus interest (the "**Escrow Funds**"). On April 27, 2022, the Escrow Agent wired an amount of \$43,388 to the Trustee.

The Trustee requested Loopstra Nixon LLP review the Separation Agreement. Loopstra Nixon LLP is of the preliminary view that the Separation Agreement establishes a valid trust in favour of Glozman, and accordingly, by virtue of s. 67(1)(a) of the BIA the Escrow Funds do not form part of the property divisible among Chisel's creditors. The Trustee has not requested a formal written legal opinion from Loopstra Nixon LLP at this time.

On May 9, 2022, the Trustee received a Proof of Claim (Property) from Glozman in relation to the Escrow Funds.

Software – Intellectual Property

As noted above, prior to the Date of Bankruptcy, Chisel had exploratory discussions with parties that may have interest in acquiring its intellectual property (the “**IP**”). Since the Date of Bankruptcy, the Receiver/Trustee has been approached by a number of these and other interested parties. The Trustee will likely require the assistance of certain of Chisel’s former employees to assist in any sale process involving the IP and in transferring Chisel’s knowledge of the IP to the successful bidder. The Trustee will consult with the Inspectors appointed to act in the estate in further developing a sale process in respect of the IP.

SECTION C – BOOKS AND RECORDS

The Trustee had taken possession and control of Chisel’s books and records necessary to complete the administration of the bankruptcy estate. The Trustee has retained the Company’s external accountant, ConnectCPA LLP (“**Connect CPA**”), to complete certain tasks, including the preparation of 2022 T4s, final Harmonized Sales Tax (“**HST**”) and corporate tax returns. Connect CPA’s familiarity with Chisel’s financial affairs will permit these filing to be made in a cost effective and efficient manner.

SECTION D – CONSERVATORY AND PROTECTIVE MEASURES

Chisel’s assets are largely in the possession and control of the Receiver. Save and except for the comments above concerning the IP, any conservatory or protective measures have been taken by the Receiver, including the redirection of mail from the Company’s postal address to MNP’s office

SECTION E – PROVABLE CLAIMS AND CREDITOR GROUPS

Provable Claims

The claims of creditors as per the SOA and the claims filed as at 5 p.m. on May 6, 2022, are summarized below:

	SOA	Claims as Filed
Secured/Deemed Trust	\$650,416.37	Nil
Preferred	Nil	Nil
Unsecured	\$757,448.76	\$137,832.25
Contingent	Nil	Nil

Please note that the Trustee had not determined the admissibility of the above noted claims for dividend purposes.

Creditor Groups

Secured Creditors – The secured creditor claims comprise SVB’s claim of approximately \$608,226.66 (plus ongoing interest and costs), and the claims of Chisel’s former employees for unpaid vacation pay earned in the six (6) month period prior to the Date of Bankruptcy up to a maximum of \$2,000 per employee pursuant to s. 81.3 of the BIA (the “**Secured Employee Claims**”).

Unsecured Creditors – The unsecured creditors include, among other things, the unsecured portion of the vacation pay owed to the former employees of the Company, which claims may be eligible for the Wage Earner Protection Program (“**WEPP**”). The Trustee is investigating whether certain former employees released further vacation pay entitlement as part of the Release.

Canada Revenue Agency- Based on information provided by the Company and Canada Revenue Agency (“**CRA**”), it does not appear as if Chisel has any indebtedness to CRA. However, should CRA determine it has a claim for unpaid source deductions, a portion of that claim may represent a deemed trust claim ranking prior to the claims of secured and unsecured creditors. CPA Connect is in the process of preparing the 2022 T4s and final HST filings, which information CRA requires to confirm whether it has a claim against Chisel. CRA advised the Trustee that Chisel’s HST refund of \$27,082 is subject to audit.

SECTION F – LEGAL PROCEEDINGS

To date, the Trustee had not commenced any legal proceedings. As noted above, the Trustee has retained Loopstra Nixon LLP as its independent legal counsel to provide the Trustee with (i) an opinion on the validity and enforceability of SVB’s Security; and (ii) a preliminary opinion on whether the Escrow Funds are subject to a valid trust.

SECTION G – REVIEWABLE TRANSACTIONS

The Trustee is in the process of reviewing Chisel’s books and records in order to identify potential transfers at undervalue or preference payments. Based on the information provided by Chisel, they maintained their bank accounts at CIBC and additionally, used the AMEX credit card to purchase certain goods and services. The scope of the review was limited to a review of disbursements made in the twelve (12) months preceding the Date of Bankruptcy. The Trustee has reviewed the bank statements and Amex credit card statements and is in the process of reviewing the general ledgers for the aforementioned period. To date, nothing has come to the Trustee’s attention that warrants further investigation.

SECTION H – ANTICIPATED REALIZATIONS AND DISTRIBUTIONS

As noted above, Chisel’s property is subject to SVB’s Security. Based on information provided by the Company and subject to confirming CRA does not have a deemed trust claim, there appears to be sufficient funds available to repay SVB’s loan advances in full and satisfy the Secured Employee Claims, if any. At this time, the Trustee is unable to estimate the extent of additional

recoveries from Chisel's other assets, and accordingly, is unable to estimate the extent to which funds that may become available for distribution.

SECTION I – OTHER MATTERS

Wage Earner Protection Program (“WEPP”)

The Trustee is in the process of administering the WEPP and has initiated the registration with Service Canada. The relevant documents will be mailed to the former employees once complete. Based on the Company's records and subject to the comment above concerning the Release, the WEPP may be in respect of unpaid vacation pay only.

Dated at Toronto, Ontario this 9th day of May 2022.

MNP LTD.

***Trustee of Chisel AI Inc, a bankrupt
and not in its personal or corporate capacity***

Per:



Sheldon Title, CPA, CA, CIRP, LIT
Senior Vice President