

Court File No.

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**BETWEEN:**

**2293035 ONTARIO LIMITED**

**Applicant**

**-and-**

**HEALTHSCREEN SOLUTIONS INCORPORATED**

**Respondent**

**AFFIDAVIT OF AL HILDEBRANDT**

I, AL HILDEBRANDT, of the City of Kelowna, in the Province of British Columbia, MAKE OATH AND SAY:

1. I am an officer of the Applicant, 2293035 Ontario Limited ("229"). I have personal knowledge of the facts stated herein, except where I have been informed of such facts, in which case I have stated the source of such facts, and that I believe such facts.
2. This affidavit is filed in support of an application by 229 for the appointment of Deloitte & Touche Inc. ("**Deloitte**") as receiver and manager of the assets, property and undertaking of Healthscreen Solutions Incorporated ("**Healthscreen**") and the approval of a sale process for the sale of all or some of the assets, property and undertaking of Healthscreen by the proposed receiver, Deloitte.

**BACKGROUND**

3. 229 is a recently incorporated Ontario company, incorporated on July 22, 2011. Its registered office is in Toronto, Ontario. 229 is a wholly owned subsidiary of QHR Technologies Inc. ("**QHR**").
4. QHR is a public company incorporated under the laws of the Province of British Columbia. Its head office is in the City of Kelowna, British Columbia. I am the

President, CEO, President and Director of QHR as well as President & sole director of QHR's subsidiary companies.

5. QHR is a provider of information technology that serves the Canadian healthcare market. It has offices located across Canada to serve its client base. QHR consists of several divisions with software applications for use in hospitals, health regions, social services, public safety and physician's medical offices through software licensing and related services. In particular, QHR operates from three divisions: (i) the Enterprise Management Software ("EMS") division provides complex healthcare and social services with workforce management solutions including integrated payroll, staff scheduling and human resource applications; (ii) the Electronic Medical Records ("EMR") division develops software modules for family physicians, medical specialists, and surgeons that enable these practitioners to participate in the Canada-wide move to implement electronic medical records management along with computer-based billing and patient scheduling; and (iii) the Hosting division specializes in providing EMR hosting solutions, both on-site and off-site, including custom application hosted solutions, office software packages and other custom solutions and services.
6. Healthscreen is also in the healthcare services and medical software business. It is a public company incorporated under the laws of the Province of Ontario. On May 10, 2007 Healthscreen completed the acquisition of Medical Telecom Corporation ("MTC") and merged their operations. Effective October 1, 2008 Healthscreen amalgamated with its wholly owned subsidiaries, 1589681 Ontario Limited ("158") and Regent Healthcare Systems ("Regent"). 158, MTC and Regent are therefore predecessor companies to Healthscreen. Attached hereto to this my affidavit and marked as **Exhibit "A"** is a true copy of the Corporation Profile Report of Healthscreen dated June 28, 2011. Since the merger with MTC on May 10, 2007, Healthscreen has reported revenues of \$47.7 million and reported losses of \$15 million.
7. Healthscreen's registered office and principal place of business is at the leased premises at 80 Bloor Street West, Toronto, Ontario and I understand that Healthscreen also operates from another leased premises in St. Catharines, Ontario.

## QHR AND HEALTHSCREEN

8. As I indicated above, Healthscreen and QHR are each in the healthcare services and medical software business. They are competing businesses. That is one aspect of their relationship. Another aspect of their relationship relates to QHR's interest in purchasing Healthscreen's Software business ("Software") which includes various billing systems, patient scheduling and EMR software. From June 10, 2006 until October 19, 2006 Healthscreen and QHR were actively engaged in exploring merger or acquisition discussions for Healthscreen to join what is today QHR's EMR division (Optimed Software Corporation). Those discussions ended on October 19, 2006 when Healthscreen made a decision to merge with MTC. Since January 10, 2011, Healthscreen and QHR have been discussing the possibility of QHR acquiring, among other things, Healthscreen's Software business. Finally, as discussed below, the relationship between QHR, through its subsidiary 229, and Healthscreen is that of debtor and creditor, with 229 being a secured creditor of Healthscreen and the applicant in this receivership application. In other words, QHR is wearing different "hats" in its relationship with Healthscreen.
9. The negotiations or discussions between Healthscreen and QHR did not lead to an agreement or QHR's acquisition of Healthscreen's Software business.

229

10. On July 25, 2011, WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III ("**Wellington**") assigned to 229 all of Wellington's right, title and interest in and to the Debentures (defined below) and the security and related documents in relation to Healthscreen (the "**Assignment Agreement**"). Under the Assignment Agreement, Wellington assigned to 229 a Secured Debenture from Healthscreen dated May 15, 2008 in the principal amount of \$4,250,000, as amended ("**Debenture A**") and a Secured Debenture from Healthscreen dated April 7, 2009 in the principal amount of \$550,000, as amended ("**Debenture B**" and together with Debenture A, the "**Debentures**"). As a result of the assignment, Healthscreen is currently indebted to 229 in excess of \$5 million. As security for this debt, 229 holds various security including the following:

- (a) A Security Agreement from Healthscreen dated May 15, 2008 (the "GSA");
- (b) Confirmation of Security Interests in Intellectual Property from Healthscreen dated May 15, 2008;
- (c) A Guarantee from MTC dated May 15, 2008 in relation to Debenture A, secured by a Security Agreement from MTC dated May 15, 2008 (collectively, the "MTC Guarantee and Security");
- (d) A Guarantee from 158 dated May 15, 2008 in relation to Debenture A, secured by a Security Agreement from 158 dated May 15, 2008 (collectively, the "158 Guarantee and Security"); and
- (e) Acknowledgement, Agreement and Confirmation from Healthscreen and MTC dated April 7, 2009 (the "Acknowledgement") acknowledging and agreeing, among other things, the validity and enforceability of the GSA and the MTC Guarantee and Security.

As I indicated above, MTC and 158 are predecessor companies of Healthscreen. Attached hereto to this my affidavit and marked as **Exhibit "B"** are true copies of the Assignment Agreement, Debenture A, Debenture B, GSA and Acknowledgement. With respect to the GSA, a financing statement was registered against Healthscreen under the Ontario *Personal Property Security Act* (the "PPSA") as registration number 20080514 1127 1590 1248.

#### **OTHER SECURED CREDITORS**

11. Counsel for 229 ordered searches under the Ontario PPSA against Healthscreen (file currency, August 25, 2011), MTC (file currency, August 25, 2011), Regent (file currency, August 28, 2011 and 158 (file currency, August 25, 2011). There was no match against Regent. The PPSA search regarding Healthscreen lists the following creditors or registrants: Royal Bank of Canada ("RBC"), CIT Financial Ltd. ("CIT"), 229, Her Majesty in Right of Ontario (in the amount of \$144,061), Justin Belobaba and Azedomine Inc. The PPSA search regarding the predecessor or pre-amalgamated company of Healthscreen, MTC, lists the following creditors or registrants: The Toronto-

Dominion Bank ("TD"), Alliance Funding Corporation ("Alliance") and Wellington. As noted above, Wellington's assignment to 229 under the Assignment Agreement included the assignment of the MTC Guarantee and Security. Finally, the PPSA search against the other predecessor or pre-amalgamated company of Healthscreen, 158, identifies one creditor, Wellington. Wellington's assignment to 229 under the Assignment Agreement included the assignment of the 158 Guarantee and Security. True copies of the above four (4) PPSA searches are attached hereto to this my affidavit and marked as **Exhibit "C"**. I have been advised by counsel for 229 and do verily believe that as of June 24, 2011 the Province of British Columbia had filed or registered a crown charge against Healthscreen pursuant to the *Social Service Tax Act* (BC).

#### **DEFAULT AND DEMAND**

12. Healthscreen is in default of the Debentures including its breach of the following financial covenants contained in the Debentures ("**Credit Defaults**"): (i) maintaining a trailing twelve month revenue of \$15,000,000 as at the end of every fiscal quarter following March 31, 2010; (ii) maintaining a trailing twelve month EBITDA of \$100,000 as at the end of September 30, 2010; and (iii) maintaining at all times after May 31, 2010, a minimum unencumbered cash balance of \$1,000,000. It is uncertain whether Healthscreen has sufficient funding or cash to continue operations or operating beyond a one month period.
13. Because of these Credit Defaults, 229, through its lawyers, demanded payment of Healthscreen's outstanding indebtedness on August 18, 2011 and notified Healthscreen of its intention to enforce its security including the GSA under section 244 of the *Bankruptcy and Insolvency Act* (the "BIA") (collectively, the "Demand"). Under the Demand, Healthscreen was given twenty days notice to satisfy its obligations with 229. Attached hereto to this my affidavit and marked as **Exhibit "D"** is a true copy of the Demand.

#### **RECENT DEVELOPMENTS**

14. Healthscreen has consented to the waiver of the twenty day stay period under the Demand allowing 229 to take immediate enforcement steps under its security and has consented to the appointment by the Court of a receiver of Healthscreen. Attached hereto

to this my affidavit and marked as Exhibit "E" is a true copy of the said Waiver and Consent.

#### **APPOINTMENT OF RECEIVER AND MANAGER**

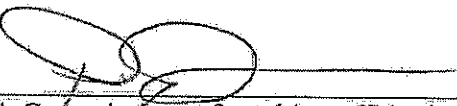
15. Pursuant to the GSA, upon an event of default, 229 (under the Assignment Agreement) may in its discretion, appoint a receiver and manager or apply to this Honourable Court appointing a Receiver over the personal property of Healthscreen, after the expiry of the stay period mandated by section 244 of the BIA as extended under the Demand or on the consent of Healthscreen waiving the stay period allowing for the immediate enforcement of the security of 229.
16. Healthscreen has consented to the appointment of a receiver and manager over the personal property of Healthscreen by this Honourable Court.
17. I verily believe that the appointment of a Receiver pursuant to the provisions of the *Courts of Justice Act* and the BIA is not only necessary for the protection of Healthscreen's estate and 229's security, but also to protect the interests of all stakeholders of Healthscreen. Given the Credit Defaults and Healthscreen's liquidity problems to ensure continued operations beyond the next month, there is an urgency that this matter be heard as soon as possible by the Court and a Receiver appointed in the circumstances.
18. Deloitte has agreed to act as receiver in respect of the appointment being sought in this application and to the proposed sale process described below. Attached hereto to this my affidavit and marked as Exhibit "F" to this my affidavit is a true copy of the consent of Deloitte to the appointment and sale process.

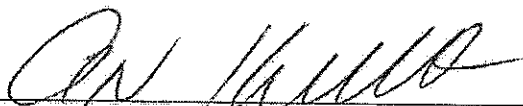
#### **SALE PROCESS**

19. As I indicated above, QHR has been and continues to be interested in purchasing Healthscreen's Software business. 229 intends to make a bid for it under the sale process approved by this Court. I also believe that an open, fair and transparent sale process will lead to a sale of Healthscreen's Software business that is in the best interests of Healthscreen and their stakeholders, including secured creditors, trade creditors, employees, customers and suppliers.

20. I believe that Healthscreen's Software business and any other Healthscreen assets can be properly canvassed and marketed pursuant to the sale process approved by the proposed receiver, Deloitte, and outlined or set out hereto in Exhibit "G" of my affidavit (the "Sale Process"). I also believe that the Sale Process addresses any concern about QHR/229 obtaining an unfair advantage as a result of it wearing different "hats" with respect to its relationship with Healthscreen.
21. QHR and 229 are proposing that the Sale Process be conducted or supervised by Deloitte. Given that there is a possibility that one or more of Healthscreen's direct or indirect shareholders or secured creditors (besides 229) may submit a bid for Healthscreen's assets, I verily believe that it is important in order to maintain the integrity of the Sale Process that it be conducted by an independent party. In this regard, Deloitte has extensive experience in conducting such asset sales.
22. I make this affidavit in support of an application for the appointment of Deloitte, as receiver and manager and for the approval of the Sale Process and for no other and improper purpose.

SWORN before me at the City of)  
Regina, in the Province of)  
Saskatchewan, this 29th day of August,  
2011.

  
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A Commissioner for taking affidavits.

  
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AL HILDEBRANDT