

COURT FILE NUMBER B-170021
VANCOUVER REGISTRY

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN THE BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF GUO LAW CORPORATION**

**FIRST REPORT OF THE PROPOSAL TRUSTEE
FEBRUARY 3, 2017**

INTRODUCTION

1. On January 6, 2017, Guo Law Corporation (“**GLC**” or the “**Company**”) filed a Notice of Intention to File a Proposal (“**NOI**”) pursuant to Part III, Division I of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended (the “**BIA**”).
2. On January 6, 2017 G. Powrozink Group Inc. was appointed as the proposal trustee (the “**Initial Proposal Trustee**”).
3. On January 13, 2017, pursuant to an order of this Honourable Court, the Initial Proposal Trustee was substituted by FTI Consulting Canada Inc. (“**FTI**”) who had consented to act as the proposal trustee (the “**Proposal Trustee**”) in this matter.
4. The reports of the Proposal Trustee and other information in respect of this proceeding are posted on the Proposal Trustee’s website at <http://cfcanada.fticonsulting.com/Guolawcorporation/>.

PURPOSE

5. The purpose of this First Report is to provide this Honourable Court with an update on the following:
 - (a) The activities of the Company since the filing of its NOI;
 - (b) An analysis of the Company’s actual cash receipts and disbursements to January 28, 2017; and
 - (c) The Company’s request for an extension of the current stay of proceedings under the NOI from February 5, 2017 to February 17, 2017 (the “**Extension Period**”).

TERMS OF REFERENCE

6. In preparing this report, the Proposal Trustee has relied upon unaudited financial information, other information available to the Proposal Trustee and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
7. Except as described in this First Report:
 - (a) The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook; and
 - (b) The Proposal Trustee has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
8. Future oriented financial information reported or relied on in preparing this report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

UPDATE ON THE COMPANY'S ACTIVITIES

10. Subsequent to filing the NOI, the Company's representative worked with the Proposal Trustee in preparing an 8 week cash flow commencing from the date of filing the NOI. The cash flow was filed with the Office of the Superintendent of Bankruptcy on January 16, 2017 the (the "**Cash Flow**") (Appendix A).

11. The Cash Flow, which extends beyond the Extension Period, indicated the Company has sufficient funds to meet its obligations as they come due through the Extension Period.
12. On January 20, 2017, with support from the Company, the Proposal Trustee mailed to all creditors with amounts owed in excess of \$250 a copy of the NOI, a copy of the “Certificate of filing a Notice of Intention to Make a Proposal” and the list of creditors.
13. Since filing the NOI, the Company has continued to operate its business in the normal course.
14. The Company has also been working diligently with its counsel and the Proposal Trustee and has prepared a preliminary draft of a proposal that it had anticipated filing with the Proposal Trustee prior to the expiration of the Company’s initial 30 day stay.
15. Given the current intervention in the operation of some of GLC’s trust accounts by the Law Society of British Columbia (the “LSBC”), the Company shared the draft proposal with representatives of the LSBC to solicit its input on the provisions of the proposal.
16. The LSBC has provided its comments on the draft document; some of which are substantive in nature and will require further discussion between the LSBC and the Company.
17. In order to allow the Company sufficient time to finalize its proposal to creditors, the Company is seeking a short extension to February 17, 2017.

SUMMARY OF RECEIPTS AND DISBURSEMENTS

18. The following table indicates the actual operating cash receipts and disbursements for the period from January 6, 2017 to January 28, 2017

	<u>TOTAL</u>
Opening Cash (Canadian Dollar)	297,294
<u>Cash Receipts:</u>	
Professional Fees	15,192
Leasehold Income	5,131
Other	20,100
Total Cash Receipts	40,422
<u>Operating Cash Disbursements:</u>	
Cost of Services Sold	2,638
Strata Fees, Principal, Interest & Lease Rent	25,763
Staff Expenses	8,829
Office Supplies, Technology & Postage	510
Utilities, Telephone & Internet	1,212
Other Administrative Costs	125
Professional Retainers	80,000
Professional Fees	20,000
Operating Cash Disbursements	139,078
Net Change in Cash	(98,655)
Closing Cash Balance	198,639

19. The receipts from Professional Fees mainly relates to income generated from real-estate conveyancing fees.
20. Leasehold income relates to the rental income generated from partial rental of the Company's office space and sub-lease of the Company's former office space.
21. Other income mainly relates to funding received from a related party to pay for the mortgage on the Company's office space.

22. Strata Fees, Principal, Interest & Lease Rent relates to the mortgage and strata fees on the Company's office space and the monthly lease payments on the Company's former office space which is sub-let. This amount represents the January mortgage and lease payments.
23. Staff Expense is the staff payroll.
24. Professional Retainers are the amounts paid to various professionals to be held as retainers.
25. Professional Fees are amounts paid to professionals for work completed to date.
26. The Proposal Trustee notes that a number of payments that were anticipated to be made in week 4 of the Cash Flow were made in weeks 2 and 3 resulting in a timing variance between the actual cash balance at January 28, 2017 and the Week 3 ending balance per the Cash flow.

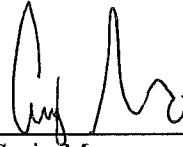
COMPANY'S REQUEST FOR AN EXTENSION OF THE STAY

27. The Company is seeking an extension of the stay of proceedings to February 17, 2017. Absent such extension, the stay will expire on February 5, 2016. The Company is seeking an extension to allow the Company to finalize its proposal to creditors.
28. The Proposal Trustee supports the Company's request for an extension of its stay of proceedings based on the following:
 - (a) The Proposal Trustee has observed that the Company is acting in good faith and with due diligence;
 - (b) The Company will likely be able to make a viable proposal if the extension being applied for is granted; and

- (c) No creditor will be materially prejudiced if the extension being applied for were granted.

All of which is respectfully submitted this 3rd day of February, 2017.

FTI Consulting Canada Inc.,
in its capacity as Proposal Trustee under notice
of intention to make a proposal filed by
Guo Law Corporation



Name: Craig Munro
Title: Managing Director,
FTI Consulting Canada Inc.

APPENDIX A

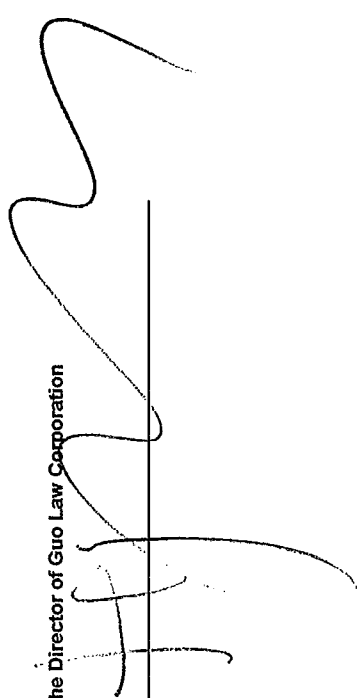
In the Matter of the Notice of Intention to make a proposal of the Guo Law Corporation

Cash Flow Statement (Notes 1, 2 and 3)

For the eight week period commencing January 8, 2017

Notes	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	TOTAL
	Jan 8-14	Jan 15-21	Jan 22-28	Jan 29-Feb 4	Feb 5-11	Feb 12-18	Feb 19-25	Feb 26-Mar 4	
Cash Receipts:									
Advances from Related Party	-	19,000	-	-	-	19,000	-	-	38,000
Release of Funds in Court	-	-	-	-	-	-	-	39,026	39,026
Professional Fees	4,957	4,957	4,957	4,957	4,024	4,024	4,024	4,024	35,925
Leasehold Income	2,421	2,421	2,421	2,421	2,421	2,421	2,421	2,421	19,370
Total Cash Receipts	7,379	26,379	7,379	7,379	6,445	25,445	6,445	45,472	132,321
Operating Cash Disbursements:									
Cost of Services Sold	1,190	1,190	1,190	1,190	966	966	966	966	8,622
Strata Fees, Principal, Interest & Lease Rent	-	-	-	33,669	-	-	-	33,669	67,337
Staff Expenses	-	10,798	-	10,798	-	10,798	-	10,798	43,191
Bank Service Charges	-	-	-	945	-	-	-	779	1,724
Insurance	-	-	-	1,036	-	-	-	1,036	2,072
Office Supplies, Technology & Postage	-	-	-	2,588	-	-	-	2,297	4,885
Utilities, Telephone & Internet	-	-	-	1,159	-	-	-	1,159	2,318
Other Administrative Costs	-	-	-	1,013	-	-	-	835	1,847
Sales Tax Remittances (GST/ PST)	366	366	366	366	366	366	366	366	2,927
Operating Cash Disbursements	1,556	12,353	1,556	52,762	1,332	12,129	1,332	51,904	134,923
Total Cash Receipts less Operating Cash Disbursements	5,823	14,025	5,823	-45,384	5,114	13,316	5,114	-6,432	-2,601
Extraordinary Cash Disbursements (Trustee and Legal Fees)									
Operating Cash Disbursements	60,000	20,000	-	70,000	35,000	15,000	20,000	15,000	235,000
Total Cash Receipts Less Total Cash Disbursements	-54,177	-5,975	5,823	-115,384	-29,886	-1,684	-14,886	-21,432	-237,601
Opening Cash Balance	297,294	243,117	237,142	242,965	127,582	97,695	96,011	81,125	297,294
Projected Closing Cash Balance	243,117	237,142	242,965	127,582	97,695	96,011	81,125	59,693	59,693

Approved by the Director of Guo Law Corporation



Hong Guo

**In the Matter of the Notice of Intention
to make a Proposal of the Guo Law Corporation
Notes to Cash Flow Statement
For the eight week period commencing January 8, 2017**

1. Purpose of the Cash Flow Statement

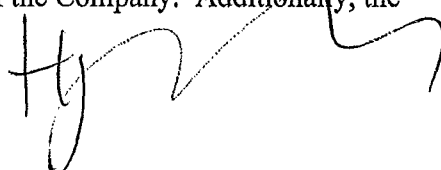
Guo Law Corporation (the "Company") has prepared this Cash Flow Statement and the accompanying Notes to the Cash Flow Statement (collectively the "Cash Flow Statement") in support of the Notice of Intention to make a Proposal (the "Notice of Intention") that it filed under the Bankruptcy and Insolvency Act ("BIA") on January 6, 2016. Mr. Craig Munro of FTI Consulting Canada Inc. is the Proposal Trustee in this matter (the "Trustee"). The Cash Flow Statement should be read in conjunction with the Report on Cash Flow Statement by Guo Law Corporation (Form 30 under the BIA) and also with the Trustee's Report on Cash Flow Statement (Form 29 under the BIA).

The Company has prepared the Cash Flow Statement based on probably and hypothetical assumptions that reflect the Company's planned course of action for the period January 8, 2017 to March 4, 2017 (the "Cash Flow Period"). Management is of the opinion that, as at the date of filing the Cash Flow Statement, the assumptions used to develop the projection represent the most probable set of economic conditions facing the Company and that the assumptions used proved a reasonable basis for and are consistent with the purpose of the Cash Flow Statement.

The Cash Flow Statement has been developed pursuant to subsection 50.4(2) of the BIA and is in support of the Company's Notice of Intention. The information contained in the Cash Flow Statement is subject to changing assumptions and/or receipt of new or additional information; actual results may vary. This Cash Flow Statement should not be used for any other purpose, and creditors are cautioned that the information provided in the Cash Flow Statement could vary based on changing future circumstances.

2. Recovery of or Restitution for Stolen Trust Funds

The circumstances proximately causing the insolvency of the Company were the theft in February and March 2016 of approximately \$6,619,256 from its pooled trust account. Ms. Hong Guo then immediately advanced over \$1.9 million to fund the trust shortage. The thieves were a former contractor and employee who fled to China and confessed. An offer by the family of one of the thieves to return almost half of the stolen funds has been received but not yet actualized. The Company filed an action to foreclose on real property in British Columbia of the thieves but the amount to be realized will be minimal. The Company also filed an action for declaratory judgment against the LSBC Captive Insurance Company Ltd. which is expected to go to binding arbitration in early 2017. Furthermore, the Company has excess indemnity insurance for which claims have been filed and concerning which coverage of the majority of the stolen funds will have to be paid out if the arbitration is in favour of the Company, and may nevertheless be paid out even if the arbitration is not in favour of the Company. Additionally, the



Company intends to bring actions against one or more putative defendants which the Company believes were negligent and thereby facilitated the theft of the trust funds. Aside from the foreclosure on the thieves' property, any of the foregoing events could occur in the near future and any of those events would restore the Company to solvency.

3. Financing of Operations

During the Notice of Intention and Proposal periods the Company plans to carry on as a going-concern and provide legal services to its existing and future clients to maximize the revenue for its creditors. The Company has secured financing so that it can meet its Post-Filing obligations to suppliers and employees in the normal course of business.

4. Advances from Related Party

A related party has agreed to advance the sum of \$19,000 for the months of January through March, 2017.

5. Release of Funds in Court

The Company has a release, and/or claim to, garnished funds on deposit with the court, and has taken steps to obtain their release forthwith, which may take a few weeks.

6. Professional Fee Revenues

At the present time, for existing and new clients, the Company's business principally involves the provision of real estate conveyancing services to vendors and purchasers of residential and commercial properties, business purchase representation, and corporate records maintenance. Additionally, the Company has existing clients for which it has and continues to provide immigration services. Although it is not taking on new immigration clients at this time, it has a considerable amount of earned but not yet billed receivables. So it is estimated that presently half of its revenue comes from real estate conveyancing, and a portion of that revenue constitutes reimbursement for taxable disbursements, which constitute the cost of services sold. The receipt of anticipated funds from the earned but not billed receivables has not been factored into the Cash Flow Statement. The estimates of professional fee revenue is based on historical records reflecting the seasonal nature of the real estate market projected forward based on the revenues earned in December 2016 after the Company suffered two months of adverse publicity in the local media, and is a depressed market for many of the Company's clients who are non-residents negatively affected by the imposition in August 2016 of a non-resident sales tax. However, the Company expects the real estate market to recover and hopes that the effects of the negative media coverage affecting the Company will soon lapse, that positive media coverage may ensue after filing its Notice of Intention, and its business will return to the level that it was at prior to the theft of the trust funds, roughly four times its current level.

7. Strata Fees, Interest & Lease Rent Expenses

The Company owns a suite of offices at 200-6061 No. 3 Road, Richmond, BC V6Y 2B2. Roughly half of the almost 10,000 square foot premises comprise the private suite of offices of its law practice, there is a common executive style reception, plus 17 individual executive style offices, of which five are leased while the others are available for lease.

Improvements which included partitioning of a portion of the premises were completed in August 2016 behind schedule, resulting in the loss of a single tenant for all that space. While the 13 vacant executive offices are advertised it is unlikely that additional tenants will be secured unless and until the Company's Proposal is accepted by its creditors. Prior to occupying the premises in September 2016 the Company entered into a long term lease concerning an office at 120-6068 No. 3 Road, Richmond, BC V6Y 2B3 which is now subleased. Therefore the Company has strata fees to pay for its office premises, it receives some leasehold income, and has mortgage expenses. A related party has agreed to exercise forbearance by deferring the receipt of its interest payments on its mortgage.

8. Staff Expenses

Prior to the theft of trust funds the Company maintained a staff of about 16 employees and two contract lawyers, in addition to the principal, Ms. Hong Guo as sole practitioner. In November 2016 the contract of one lawyer was allowed to lapse. In December 2016 three employees were laid off, and one employee resigned but the position was not filled. On January 6, 2016 another employee resigned and that position also will not be filled. And on January 16, 2017 three full time employees were reduced to half-time pursuant to an incentive offer whereby a loyalty bonus was accepted by them to continue working full time subject to requested approval of the offer by the Employment Standards Branch. The bonus is contingent on the recovery or restitution of stolen trust funds discussed at Note 2 and, if actualized, would result in payment to the employees of amounts equal to the wages that they would have earned had they been paid full time, plus loyalty bonuses. In the past two months the Company has therefore reduced its staff expenses by over half and its contract lawyer expenses by about half in order to streamline its operations.

9. Office Overhead Expenses

Office overhead has also been reduced wherever possible. The variable expenses which have been reduced include office supplies, computer technology and postage. However the Company has fixed insurance expenses including power, telephones and the Internet.

10. Sales Tax Remittances

The Company collects and must remit sales taxes on professional fees and disbursements.

11. Extraordinary Cash Disbursements (Trustee and Legal Fees)

In addition to appointing the Trustee, the Company has engaged Branch MacMaster LLP to represent it in an action it took against the LSBC Captive Insurance Company Ltd. and certain matters involving the Law Society of British Columbia, and it engaged Cuttler & Company as regards certain current and future matters. Additionally, the Company will require other legal representation as regards future matters. However, to the maximum extent possible the Company, a law firm, will endeavor to minimize these legal expenses by retaining as much in-house conduct of these matters as is prudent in the circumstances. For example, it will take immediate steps to obtain release from court of garnished funds. Finally, the Company has taken steps to immediately recover \$95,000 in retainers paid to or on behalf of a law firm and a proposal trustee that the Company had formerly engaged. Recovery of these funds may occur during the eight week period ending March 4, 2017.