

**IN THE MATTER OF THE PROPOSAL OF
VICEROY HOMES LTD.
OF THE CITY OF VANCOUVER,
IN THE PROVINCE OF BRITISH COLUMBIA**

REPORT OF TRUSTEE ON PROPOSAL

A. INTRODUCTION

1. On June 9, 2015, Viceroy Homes Ltd. (“**VHL**” or the “Company”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) under Part III, Division I of the Bankruptcy and Insolvency Act, R.S.C. 1985, C. B-3 as amended (the “**BIA**”). FTI Consulting Canada Inc. consented to act as trustee in respect of the Company’s proposal proceedings (in such capacity, the “**Proposal Trustee**”). This report (the “**Report**”) has been prepared by the Proposal Trustee.
2. The NOI provided an automatic 30 day stay of proceedings (the “**Stay**”). The Stay subsequently has been extended, most recently to December 9, 2015 by an Order of the Supreme Court of British Columbia (the “**Court**”) dated November 19, 2015.
3. To date, the Proposal Trustee has filed five reports to the Court in respect of these proceedings. The reports of the Proposal Trustee and other information in respect of these proceedings are posted on the Proposal Trustee’s website at <http://cfcanada.fticonsulting.com/viceroy/>.
4. On December 9, 2015 the Company delivered its proposal (the “**Proposal**”) to the Proposal Trustee and the Proposal Trustee lodged the Proposal with the Official Receiver in

accordance with Section 62(1) of the BIA. A copy of the Proposal is attached with this report.

B. PURPOSE OF THIS REPORT

5. The purpose of this Report is to:
 - a. Provide background information concerning the Company, its financial situation, the causes of the Company's financial difficulties and the state of the Company's business and financial affairs;
 - b. Outline the terms of the Proposal;
 - c. Discuss the conditions that must be satisfied subsequent to creditor approval in order for the Proposal to become effective and to be successfully completed;
 - d. Provide an overview of the Proposal Trustee's findings resulting from its preliminary review of preferences and related party transactions as required under the BIA;
 - e. Compare the amounts distributable under the Proposal to the estimated distribution to the Company's unsecured creditors ("**Unsecured Creditors**") in the event the Proposal is not accepted, and the Company is deemed to have made an assignment in bankruptcy; and
 - f. Recommend acceptance of the Proposal by the Unsecured Creditors.

C. TERMS OF REFERENCE

6. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company's management, the Company's books and records, other information available to the Proposal Trustee and discussions with various parties including management (collectively, the "**Information**").
7. Except as described in this 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 Chartered Professional Accountants of Canada 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 upon in this Report is based on management's assumptions regarding future events; actual results achieved may vary from this forecast and such variations may be material.
 9. Unless Otherwise defined in this report the capitalized terms used in this Report are defined in the Proposal and this Report should only be read in conjunction with that Proposal. Details of the Proposal are outlined in this Report.
 10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

D. BACKGROUND/CAUSES OF FINANCIAL DIFFICULTY

11. VHL was founded over 60 years ago as a family-owned business, manufacturing pre-engineered housing, and established a reputation for its quality building designs.
12. VHL operates its business from two facilities; the first is a leased facility located in Richmond, British Columbia and the second is an owned premise in Port Hope, Ontario.
13. VHL was a publicly traded company until it was privatized in 2008 through a transaction in which VHL was sold to Growth Technologies (Russia) Limited.
14. In December 2012 VHL was again sold to Canada Wood Frame Solutions Ltd. (“CWFS”), the current owner of VHL. CWFS’s plan was to utilize its expertise to expand VHL’s global market into China.
15. However, subsequent to its acquisition by CWFS, VHL was chronically under-funded for working capital which resulted in several business challenges including:
 - (a) Delays in meeting deadlines for home deliveries;
 - (b) Diversion of management’s attention from the daily operation of the business to dealing with persistent liquidity issues and cash preservation;
 - (c) Over-extending credit limits with suppliers; and
 - (d) Labour disruptions.
16. In addition, VHL’s management was reluctant to take the steps necessary to reduce overheads in line with the Company’s declining revenue.
17. As a result, the Company shut down its operations around January 2015 as it had run out of operating funds.
18. The sole focus of management since January 2015 was to find an investor or buyer for the business and assets of VHL. A buyer was located by management which resulted in the general terms of an asset purchase transaction.

19. Given that the Company was insolvent, management realized that a sale could not be completed outside of an insolvency process and accordingly on June 9, 2015 filed the NOI.

E. ASSET PURCHASE AGREEMENT

20. On November 12, 2015, VHL executed an asset purchase agreement (the “**APA**”) with Besco International Investment Co., Ltd. (“**Besco**”), and an entity associated with Besco (Viceroy Houses (2015) Ltd.). A copy of the signed APA is attached as Appendix A to the Fifth Report to the Court of the Proposal Trustee (the “**Fifth Report**”).

21. The key terms of the APA include:

(a) Besco will acquire the following assets:

- i) The real property situated at 414 Croft Street, Port Hope (the “**Port Hope Facility**”);
- ii) The chattels and inventory located at the Port Hope Facility and at the facility located at 12211 Horseshoe Way, Richmond, British Columbia (the “**Richmond Facility**”);
- iii) Certain partially completed customer contracts (the “**Customer Contracts**”); and
- iv) The books and records relating to VHL’s business,

(collectively, the “**Purchased Assets**”).

(b) The purchase price is \$8,650,000, subject to normal closing adjustments.

22. The APA and the transaction contemplated thereby (the “**Transaction**”) were approved by the Court on November 19, 2015.

23. The Transaction was scheduled to close on December 8, 2015. However, Besco experienced difficulty in transferring the funds necessary to close the transaction from its bank in China. As a result, Besco and VHL agreed to extend the closing date to December 21, 2015.

24. Subsequent to the closing of the APA, the only assets remaining in VHL would be the intellectual property rights, which would include, among other things, the website domain name, architectural drawings and VHL’s trademarks (collectively, the “**Remaining Assets**”).

F. CLAIMS PROCESS

25. As a result of the Company's books and records not being current as at the date of the NOI, the Company sought an Order of the Court dated July 30, 2015, authorizing the Proposal Trustee to conduct a claims process (the "**Claims Process**") and setting a claims bar date of September 8, 2015 (the "**Claims Bar Date**").
26. As at the Claims Bar Date, the Proposal Trustee had received 282 claims from Unsecured Creditors and Priority Creditors (Employee Priority Claims and the Priority Claim) totalling \$16,245,684. Subsequent to the Claims Bar Date, the Proposal Trustee has received a further 15 claims from Unsecured Creditors and Employee Priority Creditors totalling \$325,850.
27. After reviewing the claims with the Company, the Proposal Trustee accepted 286 claims from Unsecured Creditor and Priority Creditors with a total value of \$11,188,187.
28. As at the date of this Report, there is one Unsecured Creditor claim that is still pending (the "**Disputed Claim**"). This claim relates to invoices for consulting services provided prior to the filing of the NOI.
29. The Disputed Claim was filed in the amount of \$396,514.

G. SECURED CREDITOR CLAIMS

30. As detailed in the Fifth Report, three secured claims were filed in the Claims Process by VHL's lenders (the "**Secured Lenders**"), which the Proposal Trustee (having obtained advice from its legal counsel) has allowed in an approximate amount of \$16.4 million.
31. An additional four secured claims were filed in the Claims Process relating to leased equipment and outstanding municipal property taxes (the "**Other Secured Creditors**").
32. The Secured Lenders and Other Secured Creditors are unaffected by the Proposal, other than to the extent that they have an Unsecured Deficiency Claim, being the amount of any shortfall they will suffer on their secured claims. As indicated previously, the purchase price under the APA is \$8,650,000. Accordingly, subsequent to closing the APA the Secured

Lenders will have an Unsecured Deficiency Claim of approximately \$7.8 million which would be additional Unsecured Creditor claims.

33. One of the Secured Lenders, San Bao Investments Inc. (“**San Bao**”), is the majority shareholder of CWFS, the parent company of VHL and has a secured claim of approximately \$11.5 million included in the total noted above. San Bao is expected to receive a distribution from the proceeds of sale of VHL’s assets pursuant to the APA.

H. OVERVIEW OF THE PROPOSAL

34. The purpose of filing the Proposal is to allow the Company to preserve the shell of the Company for possible future operations. As discussed in a subsequent section, if the Proposal is implemented, the Company’s Priority Creditors and Unsecured Creditors will derive a greater benefit than they would in a bankruptcy of VHL.
35. The Report provides an overview of the terms of the Proposal. The Report is not a substitute for reading the Proposal and creditors are strongly encouraged to review the Proposal in its entirety prior to voting on the Proposal. Creditors are also encouraged to discuss the terms of the Proposal with their legal counsel.
36. The substantive terms of the Proposal are:
- (a) Former employees will be paid their priority claim for unpaid salaries and wages up to a maximum amount of \$2,000 per employee (the “**Employee Priority Claims**”) as required by the BIA;
 - (b) An amount of \$500,000 (the “**Proposal Funds**”) will be made available to the Proposal Trustee to be distributed as follows:
 - i. A former landlord of VHL will be paid its priority claim for unpaid rent up to a maximum amount of three months’ rent, as required by the BIA (the “**Priority Claim**”); and
 - ii. The remaining balance of the Proposal Funds will be made available to the Unsecured Creditors to be distributed on a pro-rata basis; and

- (c) Upon payment of the amounts described above, the Unsecured Creditor claims, Employee Priority Claims and Priority Claim shall be released as against the Company and its directors and officers.
37. The funds necessary to implement the Proposal (including the Proposal Funds) are to be provided by San Bao from the distribution it expects to receive from the sale of VHL's assets pursuant to the APA.
38. As an additional incentive to the Unsecured Creditors, San Bao has agreed not to include its Unsecured Deficiency Claim as an Unsecured Creditor claim for purposes of voting on the Proposal or to include it for purposes of distribution of the Proposal Funds.
39. It is a condition precedent to the Proposal becoming effective that:
- (a) the Transaction shall have closed; and
 - (b) San Bao will provide the Proposal Trustee with sufficient funds to make all payments under the Proposal.
40. If the Transaction does not close as scheduled, the funds required to implement the Proposal will need to be raised from an alternative source, the outcome of which is uncertain.
41. Pursuant to section 147 of the BIA, payments of the Proposal Funds are subject to the levy of 5% payable to the Superintendent of Bankruptcy.
42. The projected distribution to Unsecured Creditors will vary depending on the exact quantum of claims filed and accepted by the Proposal Trustee in accordance with the claims process (as defined below), but (as set out in Section L below) it is anticipated that the Company's Unsecured Creditors will receive a distribution of approximately 3.7% of their Proven Claims.
43. The Company is required to hold a meeting of its Unsecured Creditors (the "**Meeting**") to consider and vote on the Proposal. The Meeting has been scheduled for December 24, 2015 at 10 am PST at Suite 950, 609 Granville Street, Vancouver, BC V7Y 1H2.

44. In order for the Proposal to be accepted, two-thirds in dollar value and over 50% in number of the Unsecured Creditors present and voting, in person, by proxy or by voting letter at the Meeting, must vote in favour of the Proposal. If the Unsecured Creditors accept the Proposal, it must also be approved by the Court. Rejection of the Proposal (either by the Unsecured Creditors or the Court) would result in the Company being deemed to have made an assignment in bankruptcy.
45. Up to five inspectors may be appointed at the Meeting. The inspectors shall have the following powers, but will have no personal liability to VHL or other creditors:
- (a) To advise the Proposal Trustee in connection with its actions under the Proposal or any amendment thereto as the Proposal Trustee may, from time to time, request;
 - (b) To advise the Proposal Trustee concerning any dispute which may arise as to the validity of claims of Unsecured Creditors or Priority Creditors under the Proposal;
 - (c) To extend the Distribution Date and/or Effective Date provided for under the Proposal; and
 - (d) To advise the Proposal Trustee in respect of such other matters as may be referred to the inspectors by the Proposal Trustee.

I. CREDITOR CLAIMS

46. The list of creditor claims and their claimed amounts is summarized in the Statement of Affairs (“**SOA**”) filed by the Company with the Proposal Trustee, which is also attached to this Report.
47. As noted above, after reviewing the claims with the Company, the Proposal Trustee accepted 286 Unsecured Creditor claims and Priority Creditor claims (as defined below) with a total value of \$11,188,187.

Priority Creditors

48. As at the date of the Proposal, VHL did not owe any amounts to Canada Revenue Agency (“CRA”) for unpaid source deductions and CRA did not file a proof of claim during the Claims Process.
49. Based on the Company’s books and records and the Claims Process, the Employee Priority Claims, consisting of claims of former employees, calculated in accordance with the provisions of the BIA, are \$160,780.
50. Based on a review of the Company’s books and records and the Claims Process, there is a Priority Claim, being the claim by a former landlord the of Company for an amount of \$27,500.

Unsecured Creditors

51. The Proposal is being made to the Unsecured Creditors of VHL. Pursuant to the Claims Process the amount of Unsecured Creditor claims filed and accepted by the Proposal Trustee total \$10,999,907.

Secured Creditors

52. Other than to the extent that they have Unsecured Deficiency Claims, the secured creditors are not included under or in any way affected by the Proposal and will be paid in accordance with existing agreements between such secured creditor and the Company.

J. PREFERENCES AND RELATED PARTY TRANSACTIONS

53. If VHL were to become bankrupt, there are certain transactions that could be voided by a trustee in bankruptcy, in order to increase the recovery to VHL’s Unsecured Creditors. These transactions would include transactions concluded with the intention of preferring one creditor over others, or selling an asset below market value.
54. The Proposal Trustee attempted to conduct a preliminary review of the Company's transactions for the twelve-month period immediately preceding the commencement of these

proceedings. However due to the lack of former employees and management and the state of VHL's books and records, the ability of the Proposal Trustee to perform this review was limited.

55. The Proposal Trustee inquired with Robert Hammell, the sole director of VHL, and Mr. Joseph Kwok, a former director of VHL, if either of them was aware of any payments or transactions (including transactions involving both arm's length and non-arm's length parties) which could be considered to be preferences or transfers made below market value.
56. According to Mr. Hammell and Mr. Kwok, to the best of their knowledge they are not aware of any such transactions.
57. Given the deficiency to the Secured Lenders as discussed previously, any such voidable transactions would need to exceed \$7.8 million (net of costs of realization) in order to have any impact on the funds available for distribution to the Unsecured Creditors.

K. ESTIMATED DISTRIBUTION IN THE EVENT OF A BANKRUPTCY

58. The following is a summary of the estimated realizable value ("**ERV**") of the Remaining Assets in the event that the Proposal is not accepted by the Unsecured Creditors or approved by the Court, and VHL is deemed bankrupt. The ERV indicates that the Remaining Assets have limited realizable value, and as previously indicated any such value would be payable to secured creditors. Accordingly, the amount available to Unsecured Creditors in the event of a bankruptcy is expected to be nil.
59. The calculation of the ERV was based on the Company's SOA, as modified to exclude the assets included in the APA. The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the consolidated balance sheet and expresses no opinion thereon.

Estimated Net Realizable Value in Bankruptcy

	Estimated Book Value as at June 9, 2015	Notes	Estimated Realizable Value	
			Low	High
Assets				
Remaining Property	1,444,000	1	190,000	234,000
Total	1,444,000		190,000	234,000
Secured Lenders' Unsecured Deficiency Claim		2	7,794,733	7,794,733
Remaining deficiency to Secured Lenders			(7,604,733)	(7,560,733)
Amounts available to Unsecured Creditors			-	-

Notes:

1. Included in the Remaining Property balance are the following:

- (a) Estimated book value of Accounts Receivable was \$884,000. The net realizable value of the Accounts Receivable is nil. The existing receivables are considered bad debts as the majority relate to partially completed customer contracts where there is no likelihood of collection.
- (b) Estimated book value and ERV of Deposits and Prepaids is \$90,000 as the balance would be refunded to VHL in the event of a bankruptcy.
- (c) Intellectual Property includes VHL's trademarks, website domain name, and architectural drawings. The proposal trustee is aware that VHL received an offer of \$100,000 for the website domain name. The Proposal Trustee is not aware of any other formal offers made on VHL's Intellectual Property and has not sought an independent valuation. As such the estimate of the net realizable value for all the intellectual property is \$100,000.
- (d) Viceroy Homes Inc. ("**VHI**") is a wholly owned subsidiary of VHL incorporated in the United States. VHI owns two vacant lots in Washington and Oregon which are in the process of being sold to Besco. Counsel for the Viceroy companies ("**Viceroy's Counsel**") informed the Proposal Trustee that the selling price of the lots is \$214,677 USD. The sale proceeds will first be used to pay VHI's creditors and the residual will be held to pay for Viceroy's Counsel's fees associated with the transaction. Viceroy's Counsel also informed the Proposal Trustee that VHI owes the Internal Revenue

Service approximately \$41,000 USD, which amount will be paid from the sale proceeds. Viceroy’s Counsel informed the Proposal Trustee that there may be other creditors who will also need to be paid from the sale proceeds. As such the low range ERV of the shares of VHI is nil and the high range is \$44,000.

2. This represents the Secured Lenders’ Unsecured Deficiency Claim.

L. COMPARISON OF PROPOSAL VS. BANKRUPTCY DIVIDEND

60. Based on the analysis in Section K of this Report, it is estimated that in the event of a bankruptcy of VHL, the Unsecured Creditors and Priority Claim would receive no dividend.

61. Based on the terms of the Proposal, the Proposal Trustee estimates the recoveries to Priority Claim and Unsecured Creditors of VHL as follows:

Class of Claims	Amount of Claims (Note 1)	Proposal Funds (Note 2)	Estimated Proposal Dividend (Note 3)	Estimated Bankruptcy Dividend (Note 4)
Priority Claims	27,500	27,500	100.0%	0.0%
Unsecured Claims	10,999,907	409,432	3.7%	0.0%
Unsecured Deficiency Claim	1,297,875	48,309	3.7%	0.0%
Unsecured Disputed Claim	396,514	14,759	3.7%	0.0%
Total	12,721,796	500,000		

Notes:

1. The quantum of Priority Claims and Unsecured Creditor claims are based on the proofs of claim received by the Proposal Trustee in the Claims Process.
2. The Proposal Funds represent the amounts payable pursuant to the Proposal.
3. This represents the estimated dividend payable to the Unsecured Creditors as a percentage of each Unsecured Creditor’s claim accepted pursuant to the Claims Process. The Unsecured Deficiency Claim excludes the Unsecured Deficiency Claim of San Bao. The actual distribution will depend on the final quantum of claims filed and accepted in these proceedings by the Proposal Trustee and accordingly may vary

from the amount calculated above, although given the time elapsed since the Claims Bar Date pursuant to the Claims Process, it is unlikely that additional claims will be received.

4. Based on the total ERV of the Remaining Assets, in the event of a bankruptcy, the dividend for the Priority Claim and Unsecured Creditors would be nil.

M. SUMMARY COMMENTS

62. The Proposal Trustee is of the view that the Priority Claim and Unsecured Creditors are unlikely to receive any recovery should the Proposal not be accepted by the Unsecured Creditors and approved by the Court. As set out in this Report, if the Proposal is approved \$500,000 will be available to fund the Proposal resulting in an opportunity for the Priority Claim and Unsecured Creditors (including the amount of employee claims in excess of their Employee Priority Claim) to realize some recovery on their claims. Subject to the closing of the Transaction and funds being made available to the Proposal Trustee by mid-January 2016, it is anticipated that payments under the Proposal will be made by the end of January 2016.

63. If the Proposal is rejected by the Unsecured Creditors (or not approved by the Court), a bankruptcy will ensue and it is expected that there will be no funds available for the Priority Creditors or Unsecured Creditors. Accordingly, the Trustee recommends that the Unsecured Creditors accept the Company's Proposal.

64. All of which is respectfully submitted this 14th day of December, 2015.

**FTI CONSULTING CANADA INC.,
The Trustee acting in re: the Proposal of
Viceroy Homes Ltd. and
not in its personal capacity**

Per:



Craig Munro, CA, CIRP
Managing Director