

COURT FILE NUMBER B-150645
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 VICEROY HOMES LTD.**

FIRST REPORT OF THE PROPOSAL TRUSTEE

JUNE 29, 2015

INTRODUCTION

1. This report (“**First Report**”) has been prepared by FTI Consulting Canada Inc. (“**FTI**”) in its capacity as the Trustee (the “**Proposal Trustee**”) under a Notice of Intention to File a Proposal (“**NOI**”) filed by Viceroy Homes Limited (“**Viceroy**”) and Viceroy Building Solutions Ltd. (“**VBS**”) (collectively the “**Companies**”) dated June 9, 2015 pursuant to Part III, Division I of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended (the “**BIA**”).
2. Viceroy was founded over 60 years ago as a family owned business, manufacturing pre-engineered housing and established a reputation for its quality building designs. VBS was established in 2009 as Viceroy’s in-house construction company. VBS was a 100% owned subsidiary of Viceroy.
3. Viceroy 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.
4. Viceroy was a publicly traded company until it was privatized in 2008 through a transaction in which Viceroy was sold to Growth Technologies (Russia) Limited.
5. In December 2012 Viceroy was again sold to Canada Wood Frame Solutions Ltd. (“**CWFS**”), the current owner of Viceroy. CWFS’s plan was to utilize its expertise to expand Viceroy’s global market into China.
6. Subsequent to its acquisition by CWFS, Viceroy 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.

7. In addition, Viceroy's management was reluctant to take the steps necessary to reduce overheads in line with the Companies declining revenue.
8. As a result, the Companies shut down their operations around January 2015 as they had run out of operating funds.
9. The sole focus of management since January 2015 has been to find an investor or buyer of the business. A buyer was located by management and an Asset Purchase Agreement ("APA") was entered into between the potential buyer (the "**Potential Buyer**") and Viceroy in May 2015.
10. Since January 2015, the holding costs of the two facilities have been funded by the Potential Buyer.
11. Since February 2015, the Companies Management, Director, and headquarters have been located in Richmond, British Columbia.
12. Given that the Companies were insolvent, management realized that a sale could not be completed outside of an insolvency process and accordingly on June 9, 2015 filed a Notice of Intention to File a Proposal.
13. 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/>.

PURPOSE

14. The purpose of this First Report is to provide this Honourable Court with an update on the following:
 - (a) The activities of the Companies since the filing of its NOI;
 - (b) An analysis of the Companies' actual cash receipts and disbursements to date, compared to the forecast filed on June 19, 2015;

- (c) The Companies' cash flow projection for the period from June 29, 2015 to August 21, 2015 (the "**Cash Flow Projection**");
- (d) The rationale for the proposed Professional Charge over the Companies assets to secure the professional fees and disbursements in relation to these proceedings; and
- (e) The Companies' request for an extension of the current stay of proceedings under the NOI from July 9, 2015 to August 21, 2015.

TERMS OF REFERENCE

- 15. In preparing this report, the Proposal Trustee has relied upon unaudited financial information, other information available to the Proposal Trustee and, where appropriate, the Companies' books and records and discussions with various parties (collectively, the "**Information**").
- 16. 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 Canadian Institute of Chartered Accountants Handbook.
- 17. 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.

18. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

UPDATE ON THE COMPANIES ACTIVITIES

19. Subsequent to filing the NOI's, the Companies' representatives worked with the Proposal Trustee in preparing a cash flow for the initial 30 day stay period. The cash flow was filed with the Office of the Superintendent of Bankruptcy on June 19, 2015 (copy attached as Appendix A).
20. The cash flow indicated a cash need of approximately \$300,000 to maintain the two manufacturing facilities on a temporary shut-down basis. As indicated in the cash flow, the funding was provided by Wiston Building Materials Co., a company related to the Potential Buyer of the Companies.
21. The Companies have instructed their counsel to re-draft the APA into a form of agreement that would be consistent within the context of these proceedings.
22. The Companies' representatives and the potential buyer of the Companies have been engaged in confirmatory due diligence with respect to the status of customer contracts and the ability of the Potential Buyer to retain certain key employees of the Companies.
23. The Potential Buyer has also expressed an interest in entering into an Interim Occupancy agreement to cover the holding costs of the two facilities while the terms of a binding APA are negotiated.
24. It is envisioned that the APA will form the basis of the Companies' proposals to their creditors.

COMPARISON OF FORECAST TO ACTUAL

25. The following table indicates the consolidated actual cash receipts and disbursements for the period from June 9, 2015 to June 26, 2015 as compared to the forecast filed by the Companies on June 19, 2015.

Viceroy Homes Ltd. and Viceroy Building Solutions Ltd. (Forecast vs. Actual)

	Period covering June 9, 2015 to June 26, 2015		Variance
	Forecast	Actual	
	Week 1 - Week 3	Week 1 - Week 3	
Opening Cash (Canadian Dollar)	-		
Cash Receipts			
Interim Financing	300,000	300,000	-
Total - Operating Receipts	300,000	300,000	-
Cash Disbursements			
Rent	-	-	-
Insurance	10,806	21,612	10,806
Payroll	5,493	5,493	-
G&A	21,844	-	(21,844)
Professional Fees	60,000	58,775	(1,225)
			-
Total - Operating Disbursements	98,143	85,880	(12,263)
Net Change in Cash from Operations	201,857	214,120	12,263
Total Net Cash Flow	201,857	214,120	12,263
Ending cash (Canadian Dollar)	201,857	214,120	12,263

26. The variances in the cash disbursements to date are timing related and are expected to reverse in future periods.

CASH FLOW PROJECTION

27. The Companies prepared a consolidated Cash Flow Projection for the period from June 29, 2015 to August 21, 2015 (attached as Appendix B).

28. The Cash Flow Projection indicates a further cash need of approximately \$350,000 for the extension period being sought. The Potential Buyer has agreed to provide the funding pursuant to a prior lending agreement and the cash is being held in the trust account of the Companies' legal counsel.

ADMINISTRATIVE CHARGE

29. The Companies are seeking an Administrative Charge in the amount of \$100,000 in respect of the fees and expenses of the Proposal Trustee and its counsel, Fasken Martineau DuMoulin LLP as well as the Companies' legal counsel, Clark Wilson LLP, and any other professionals whose services may be retained by the Proposal Trustee in these proceedings (the "**Professional Charge**").
30. The Proposal Trustee has been provided with a copy of an appraisal for the land and buildings located in Port Hope, Ontario prepared in December 2014.
31. In addition, the Proposal Trustee has been provided with an appraisal of the equipment and inventory located at both the Richmond, British Columbia and Port Hope, Ontario locations. The appraisal was prepared in December 2014.
32. The Proposal Trustee notes that the purchase price offered in the APA exceeds the sum of the appraised value of the Port Hope property and the Companies equipment and inventory by approximately \$1.6 million.
33. The Proposal Trustee has not included copies of the appraisals in this First Report but has them available for this Honourable Court should it wish to review them.
34. As a result of the potential upside associated with the sale to the Potential Buyer over a liquidation, the Proposal Trustee is of the view that the Professional Charge is necessary in order to secure the continued participation of the professional advisors.

35. An Administrative Charge is common in restructuring proceedings and is, in the Proposal Trustee's view, appropriate given the lack of liquidity in the Companies.

OTHER ISSUES

36. The Proposal Trustee was informed by the shareholder of CWFS, that the majority ownership of VBS was transferred through a share subscription to a company controlled by the Potential Buyer in or around February 2015.
37. The Proposal Trustee has not yet reviewed the details of the transaction but notes that it would likely constitute a reviewable transaction and that it will be necessary prior to the presentation of any proposal to Viceroy's creditors to ensure that the value ascribed to the shares reflected fair market value.
38. The property in Port Hope, Ontario which is owned by Viceroy has an existing mortgage registered against it in favour of Elle Mortgage Corporation ("**Elle**") in the approximate amount of \$2.5 million.
39. Viceroy ceased paying the mortgage payment to Elle in January 2015 and as result, Elle brought an action in Ontario against Viceroy seeking a Writ of Possession of the Port Hope property.
40. Viceroy's counsel dealing with this matter was recently appointed to the bench and accordingly wasn't able to defend the action at the hearing in June. Although the hearing was adjourned to July 8, 2015, Elle was successful in obtaining an Interim Possession Order and has taken steps to secure the Port Hope property.
41. Elle served Viceroy with a Notice of Intention to Enforce its security pursuant to section 244(1) of the BIA in February 2015 and accordingly is not stayed by Viceroy's NOI.

42. Viceroy, in conjunction with the Potential Buyer is now exploring options with Elle to forbear on its right to sell the property pending a transaction with the Potential Buyer.

COMPANIES' REQUEST FOR AN EXTENSION

43. The Companies are seeking an extension of the stay of proceedings from July 9, 2015 to August 21, 2015. The Companies are seeking an extension for the following reasons:

- (a) To provide the Companies with the time required to finalize its negotiations with the Potential Buyer of the assets and business;
- (b) To formulate a proposal to its creditors in conjunction with the proposed sale transaction; and
- (c) To allow the Proposal Trustee adequate time to assess the proposed sale transaction and evaluate whether it is beneficial for all of the stakeholders.

44. The Proposal Trustee supports the Companies' request for an extension of its stay of proceedings based on the following:

- (a) The Companies are acting in good faith and with due diligence;
- (b) The Potential Buyer is providing the funding necessary to pay the post-filing holding costs as projected in the Cash Flow Projection;
- (c) Subject to further evaluation, a sale transaction would appear to provide the best outcome for all stakeholders in addition to preserving employment for many employees who are currently laid off; completion of customer homes currently with incomplete contracts and the continuation of a business with a good brand name.

All of which is respectfully submitted this 29th day of June, 2015.

FTI Consulting Canada Inc.,
in its capacity as Proposal Trustee under a NOI
filed by Viceroy Homes Limited and Viceroy
Building Solutions Ltd.

A handwritten signature in black ink, appearing to read 'Craig Munro', positioned above a horizontal line.

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

APPENDIX A

	Week Beginning					TOTAL	Note
	Week 1 8-Jun	Week 2 15-Jun	Week 3 22-Jun	Week 4 29-Jun	Week 5 6-Jul		
Opening Cash (Canadian Dollar)	-	-	209,139	201,857	29,489	209,139	1
Cash Receipts							
Interim Financing		300,000	-	-	-	-	2
Total - Operating Receipts	-	300,000	-	-	-	-	
Cash Disbursements							
Rent	-	-	-	99,595	-	99,595	3
Insurance	-	10,806	-	-	-	-	4
Payroll	-	5,493	-	5,493	-	5,493	5
G&A	-	14,563	7,281	7,281	6,381	20,944	6
Professional Fees	-	60,000	-	60,000	-	60,000	7
Tax/Other	-	-	-	-	-	-	
Total - Operating Disbursements	-	90,861	7,281	172,369	6,381	186,031	
Net Change in Cash from Operations	-	209,139	(7,281)	(172,369)	(6,381)	(186,031)	
Total Net Cash Flow	-	209,139	(7,281)	(172,369)	(6,381)	(186,031)	
Ending cash (Canadian Dollar)	-	209,139	201,857	29,489	23,107	23,107	

Notes:

FTI Consulting Canada Inc. ("FTI") has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Viceroy Home Limited and Viceroy Building Solutions Limited (collectively "Viceroy") for the 5 week period from June 9, 2015 to July 10, 2015. The Projected Cash Flow Statement is based on the probable and hypothetical assumptions detailed in Notes 1 - 7. Consequently, actual results will likely vary from performance projected and such variations may be material.

- 1 - No opening cash balance
- 2 - Wiston Building Materials Co. has agreed to fund an additional \$300,000 to Viceroy under an existing financing arrangement. The \$300,000 has been placed into a trust account with Viceroy's legal counsel to fund the on-going costs of Viceroy during the initial stay period.
- 3 - Monthly rent for the Richmond facility in BC, Port Hope facility, and Viceroy Building Solutions Inc. in Ontario.
- 4 - The insurance expense relates to insurance on the Port Hope facility. The monthly expense is based on historical insurance costs.
- 5 - Payroll relates to the 3 current Viceroy employees.
- 6 - G&A includes the utility costs associated with maintaining Viceroy's Richmond and Port Hope facilities on a non-operating basis. G&A expenses are based on historical costs as well as updated payments which reflect no operations at either facility. G&A expenses are assumed to be paid evenly through the month.
- 7 - Professional/legal fees include fee estimates provided by the trustee.

District of: British Columbia
Division No. 03 - Vancouver
Court No. 11-2004159
Estate No. 11-2004159

-- FORM 29 --
Trustee's Report on Cash-Flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

The attached statement of projected cash flow of Viceroy Homes Limited, as of the 19th day of June, 2015, consisting of , has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by: the management and employees of the insolvent person or the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by: management or the insolvent person for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

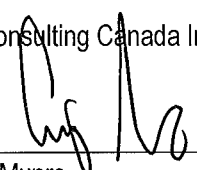
Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the city of Vancouver in the Province of British Columbia, this 19th day of June 2015.

FTI Consulting Canada Inc. - Trustee

Per:



Craig Munro
Pacific Centre
Suite 1502, 701 West Georgia Street
Vancouver BC V7Y 1C6
Phone: (604) 601-5691

District of: British Columbia
Division No. 03 - Vancouver
Court No. 11-2004159
Estate No. 11-2004159

- FORM 30 -

Report on Cash-Flow Statement by the Person Making the Proposal
(Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

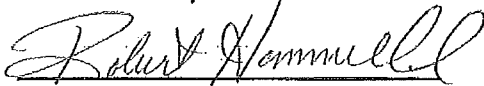
I, Viceroy Homes Limited, have developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 19 day of JUNE, 2015 consisting of .

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in the notes attached.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the city of Vancouver in the Province of British Columbia, this 19th day of June 2015.



Viceroy Homes Limited
Debtor



Name and title of signing officer

Name and title of signing officer

APPENDIX B

	Week Beginning								TOTAL	Note
	Week 4 29-Jun	Week 5 6-Jul	Week 6 13-Jul	Week 7 20-Jul	Week 8 27-Jul	Week 9 3-Aug	Week 10 10-Aug	Week 11 17-Aug		
Opening Cash (Canadian Dollar)	201,857	379,489	373,107	283,070	276,689	107,056	100,675	10,638		1
Cash Receipts										
Interim Financing	350,000	-	-	-	-	-	-	-	350,000	2
Total - Operating Receipts	350,000	-							350,000	
Cash Disbursements										
Rent	99,595	-	-	-	99,595	-	-	-	199,189	3
Insurance	-	-	20,000	-	-	-	20,000	-	40,000	4
Payroll	5,493	-	3,656	-	3,656	-	3,656	-	16,461	5
G&A	7,281	6,381	6,381	6,381	6,381	6,381	6,381	6,381	51,950	6
Professional Fees	60,000	-	60,000	-	60,000	-	60,000	-	240,000	7
									-	
Total - Operating Disbursements	172,369	6,381	90,037	6,381	169,632	6,381	90,037	6,381	547,601	
Net Change in Cash from Operations	177,631	(6,381)	(90,037)	(6,381)	(169,632)	(6,381)	(90,037)	(6,381)	(197,601)	
Total Net Cash Flow	177,631	(6,381)	(90,037)	(6,381)	(169,632)	(6,381)	(90,037)	(6,381)	(197,601)	
Ending cash (Canadian Dollar)	379,489	373,107	283,070	276,689	107,056	100,675	10,638	4,256	4,256	

Notes:

FTI Consulting Canada Inc. ("FTI") has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Viceroy Home Ltd. and Viceroy Building Solutions Ltd. (collectively "Viceroy") for the 8 week period from June 29, 2015 to August 21, 2015.

The Projected Cash Flow Statement is based on the probable and hypothetical assumptions detailed in Notes 1 - 7.

Consequently, actual results will likely vary from performance projected and such variations may be material.

- 1 - Forecasted opening cash as at June 29, 2015.
- 2 - Wiston Building Material has agreed to fund an additional \$350,000 to Viceroy. The funds have not been transferred at this time. Once received the funds will be placed into a trust account with Viceroy's legal counsel to fund ongoing costs of Viceroy during the extended stay process.
- 3 - Monthly rent for the Richmond facility and the Viceroy Building Solutions Ltd. office and monthly mortgage on the Port Hope facility.
- 4 - The insurance expense relates to insurance on the all facilities. The monthly expense is based on historical insurance costs.
- 5 - Payroll relates to the 3 current Viceroy employees.
- 6 - G&A includes the utility costs associated with maintaining Viceroy's Richmond and Port Hope facilities on a non-operating basis. G&A expenses are based on historical costs as well as updated payments which reflect no operations at either facility. G&A expenses are assumed to be paid evenly though the month.
- 7 - Professional/legal fees include fee estimates provided by the trustee.