

COURT FILE NUMBER B-170021
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE PROPOSAL OF GUO LAW CORPORATION

SECOND REPORT OF THE PROPOSAL TRUSTEE

DECEMBER 7, 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. Powroznik 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 Proposal Trustee has been served with a Notice of Application by Lloyd’s Underwriters set for hearing on December 11, 2017. Accordingly the Proposal Trustee has prepared this Second Report for the purpose of providing an update on these proceedings for the benefit of this Honourable Court.

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 Second 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.

A. BACKGROUND/CAUSES OF FINANCIAL DIFFICULTY

10. Guo Law was founded in 2011 as a law firm primarily focused on serving the needs of Sino-Canadian clients. The firm offers a broad range of services including:
- (a) Advice on mergers and acquisitions and investment in industries such as energy, mining, information technology, real estate and natural resources;
 - (b) Advice on international trade;
 - (c) Immigration law; and
 - (d) Real estate conveyancing and providing advice on structuring of real estate transactions.

11. The Company enjoyed several years of profitability recording a profit as recent as the fiscal year ending April 30, 2016.
12. However, commencing in or around mid-February 2016 the Company's consolidated trust accounts (the "**Trust Accounts**"). The theft involved a number of transactions that occurred over the period of mid-February to late March 2016.
13. The theft was discovered by the principal lawyer of Guo Law, Hong Guo ("**Guo**") in early April 2016. Upon discovering the missing funds in the Trust Accounts, Guo contacted the RCMP to report the theft.
14. In addition Guo notified the Law Society of British Columbia (the "**LSBC**") about the deficiency in the Trust Accounts and retained the services of the accounting firm, McLaren Trefanenko Inc. ("**MTI**") to perform a forensic review of the Trust Accounts.
15. As indicated in the forensic report prepared by MTI (the "**Forensic Report**"), the total funds missing from the Trust Accounts approximated \$6.619 million.
16. Subsequent to discovering the theft, Guo arranged funding from related parties and from the Guo Law operating account to partially fund the deficiency in the Trust Accounts to allow for the Company's client's transactions to close. According to the Forensic Report, during the period between mid-April and early August 2016, funding totaling approximately \$1.941 million was deposited into the Trust Accounts from these arrangements.
17. The current deficiency in the Trust Accounts according to the Forensic Report is \$4.678 million.
18. On August 23, 2016, the LSBC sought and obtained an order of the Court appointing the LSBC as custodian of part of the law practice of Guo and Guo Law, limited to the trust account that Guo Law maintained with the Canadian Imperial Bank of Commerce ("**CIBC**").

19. As a result of these events coupled with the decline in real estate conveyancing work in the lower mainland of British Columbia, the revenue generated by Guo Law has significantly decreased over the past year.
20. Several of the Company's clients affected by the deficiency in the Trust Accounts initiated litigation against Guo and Guo Law, several of which had obtained judgements and/or garnishment orders.
21. Accordingly, on January 6, 2017, Guo Law filed an NOI to provide the Company with a stay of proceedings to provide the Company with some time to prepare a proposal to its creditors for their consideration.

UPDATE ON THE PROPOSAL PROCEEDINGS

22. On February 17, 2017, a proposal was drafted and signed by Guo on behalf of Guo Law. The intention of the proposal was to provide for the orderly sale of certain real estate assets (the "**Properties**") owned personally by Guo (the "**Sponsor**"), the proceeds of which would be directed to the Proposal Trustee in order to repay those clients of Guo Law who had been affected by the theft from the Trust Accounts (the "**Trust Creditors**").
23. The Office of the Superintendent of Bankruptcy in addition to some of the creditors of Guo Law, believed that treatment of the unsecured trade creditors of Guo Law as unaffected would not be consistent with the provisions of the BIA.
24. Accordingly, the proposal was revised and an amended proposal was drafted and signed on March 30, 2017 (the "**Proposal**"). The Proposal grouped all creditors into one class.
25. A meeting of creditors was held on April 10, 2017 at which time the Proposal was accepted by the requisite number of creditors.

26. The Proposal was subsequently approved by this Honourable Court by an Order dated May 4, 2017 (the “**Approval Order**”).
27. The Proposal required the Sponsor to list a number of properties for sale within 60 days of obtaining the Approval Order. The Proposal Trustee consulted with real estate agents and Guo to set listing prices for the properties. The properties were listed for sale and although some offers have been received, the offers did not approach the list prices and in consultation with Guo, were accordingly not accepted.
28. One of the assets pledged by the Sponsor for the Proposal is a 35% interest in a company called Mytopia Inc. (“**Mytopia**”).
29. Mytopia’s primary asset is three parcels of development property located in Surrey, BC.
30. The Proposal Trustee has been advised by Guo that the lands held by Mytopia are subject to a binding contract of purchase and sale. The Proposal Trustee was provided with a copy of the sale agreement (the “**Agreement**”) and notes that the sale is scheduled to close on February 25, 2018.
31. The Agreement was entered into on March 25, 2017 and required two non-refundable deposits. The first deposit of \$750,000 was received by Mytopia on April 13, 2017 while the second deposit of \$750,000 was received on September 30, 2017.
32. Guo met with the principal of Mytopia and was given \$250,000 from the receipt of the second deposit. The \$250,000 was forwarded by Guo to the Proposal Trustee for deposit into its estate account.

33. With the approval of the Inspectors, the Proposal Trustee brought its fees and expenses current along with those of its legal counsel. As a result, the Proposal Trustee is now holding \$110,058 in its estate account.
34. The Proposal Trustee has been advised by Guo that significant funds will be available to Guo from the closing of the Agreement. The Proposal Trustee is aware that there are two mortgages that would need to be discharged from the sale proceeds, real estate commissions due, property taxes and other normal closing adjustments in addition to corporate income taxes that would accrue from the sale.
35. The Proposal Trustee has requested these details from Guo in order to estimate the amount that may be due to Guo, however to date Guo has not been able to obtain this information. Accordingly the Proposal Trustee is unable to comment on the quantum of funds that may be available to Guo to fund the Proposal.
36. The table below summarizes the claims that have been filed to date in this proceeding:

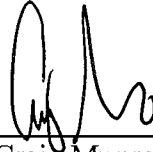
Claim of the LSBC (Trust Claims)	4,644,079.96
Unsecured trade creditors of Guo Law	242,353.61
Disputed unsecured claims	3,197,494.81
Indirect Trust Claim	993,430.59
	\$ 9,077,358.97

37. The LSBC completed its own audit of the Trust Accounts and submitted a claim on behalf of all the Trust Creditors. The LSBC claim was slightly less than the deficiency indicated in the Forensic Report as a result of some additional funding that was provided from Guo Law's general account subsequent to the completion of the Forensic Report.

38. There are a number of unsecured claims that have been submitted which are disputed by Guo Law. In many of these instances a process to determine the validity of the claim has been established between lawyers representing the unsecured creditor and lawyers representing Guo Law.
39. The Indirect Trust Claim arises from a claim being asserted by a purchaser of a property from one of Guo Law's clients. The Trust Accounts of Guo Law held monies relating to a holdback from the sale of property by a non-resident vendor. The holdback was intended to satisfy any non-resident tax assessed by the Canada Revenue Agency ("CRA").
40. As a result of the shortage in the Trust Accounts created by the theft, Guo Law was unable to pay the taxes assessed by CRA. However, despite the fact that the vendor is the party obligated to pay the tax, the purchaser may also be held responsible to ensure the vendor makes the payment to CRA. Accordingly, CRA assessed the purchaser of the property for the amount of the vendor's tax in addition to assessing a penalty for late payment and interest for the overdue amount.
41. The Proposal Trustee is aware of at least one additional Indirect Trust Claim as a result of similar circumstances. However to date the creditor has not filed a proof of claim with the Proposal Trustee.
42. In the event the monies being released by Lloyd's Underwriters are used to pay off the obligations of the Direct Trust claim (ie. the tax due to CRA by Guo Law's client), then the amount of the Indirect Trust Claim would also be reduced as CRA couldn't continue to assert the same claim against both parties.

All of which is respectfully submitted this 7th day of December, 2017.

FTI Consulting Canada Inc.,
in its capacity as Proposal Trustee of
Guo Law Corporation



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