

**IN THE MATTER OF THE PROPOSAL OF
VICEROY BUILDING SOLUTIONS 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 Building Solutions Ltd. (“**VBS**” 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://cfcanda.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 as 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 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. Viceroy Homes Ltd. (“**VHL**”), the parent company of VBS, was founded over 60 years ago as a family-owned business, manufacturing pre-engineered housing. VHL established a reputation for its quality building designs.
12. VBS was founded in 2009 and is a wholly-owned subsidiary of VHL. Until January 2015, VBS acted as a dealer and building contractor for VHL's home packages.
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 VHL's acquisition by CWFS, VHL and VBS were chronically under-funded for working capital which resulted in several business challenges including:

- (a) Delays in meeting deadlines for home construction;
- (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. As a result, VBS and VHL shut down their operations around January 2015 as they had run out of operating funds.

17. The sole focus of management since January 2015 was to find an investor or buyer for the business and assets of VHL (and possibly, the Company). A buyer was located by management which resulted in the general terms of an asset purchase transaction being negotiated in May 2015.

18. 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. THE PROPOSAL

19. 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 VBS.

20. 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.

21. The substantive terms of the Proposal are:

(a) An amount of \$100,000 (the “**Proposal Funds**”) will be made available to the Proposal Trustee to be distributed as follows:

- i. 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; and
- ii. The remaining balance of the Proposal Funds will be made available to the unsecured creditors (“**Unsecured Creditors**”) to be distributed on a pro-rata basis.

(b) Upon payment of the amounts described above, the claims of the Unsecured Creditors shall be released as against VBS and its directors and officers.

22. The funds necessary to implement the Proposal are to be provided by San Bao Investments Inc. (“**San Bao**”). San Bao is a secured creditor of VHL and is expected to receive a distribution from the proceeds of sale of VHL’s assets, pursuant to an asset purchase agreement dated November 12, 2015 (the “**APA**”). The transaction contemplated by the APA (the “**Transaction**”) is now scheduled to close on December 21, 2015 (or an earlier date as agreed by the proposed buyer and VHL).

23. 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.

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.

24. Pursuant to section 147 of the BIA, payments under the Proposal are subject to the 5% levy payable to the Superintendent of Bankruptcy.

25. 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 H below) it is anticipated that the Company's Unsecured Creditors will receive a distribution of approximately 3.5% of their Proven Claims.

26. 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 11 am PST at Suite 950, 609 Granville Street, Vancouver, BC V7Y 1H2.
27. 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.
28. Up to five inspectors may be appointed at the Meeting. The inspectors shall have the following powers, but will have no personal liability to VBS 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.

F. CREDITOR CLAIMS

29. The list of creditor claims and their claimed amounts is summarized in the Statement of Affairs (“**SOA**”) filed by the Company with the Proposal, which is also attached with this Report.
30. 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**”).
31. As at the Claims Bar Date, the Proposal Trustee had received 77 claims from Unsecured Creditors totalling \$2,837,380. Subsequent to the claims bar date, the Proposal Trustee has received a further three claims totalling \$97,874.
32. After reviewing the claims with the Company, the Proposal Trustee accepted 69 Unsecured Creditor claims with a total value of \$2,489,418.

Priority Creditors

33. Based on a review of the Company’s books and records and the Claims Process, the Priority Claims, calculated in accordance with the provisions of the BIA, are approximately \$14,000.
34. As at the date of the Proposal, VBS 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. The Proposal Trustee did not receive any other claims from the Crown as a result of the Claims Process.
35. Therefore, the Priority Claims under the Proposal do not include any Crown Claims (and comprise only the Employee Priority Claims).

Unsecured Creditors

36. The Proposal is being made to the Unsecured Creditors with Unsecured Creditor Claims against VBS. According to the Company’s SOA, the Company’s Unsecured Creditors were

owed approximately \$1,976,970. Pursuant to the Claims Process, the amount of Unsecured Creditor Claims filed and accepted by the Proposal Trustee total \$2,489,418.

G. PREFERENCES AND RELATED PARTY TRANSACTIONS

37. If VBS were to become bankrupt, there are certain transactions that could be voided by a trustee in bankruptcy, in order to increase the recovery to VBS'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.
38. 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 VBS's books and records, the ability of the Proposal Trustee to perform this review was limited.
39. The Proposal Trustee reviewed the Company's bank statements in conjunction with its review of the secured creditor claims, however the Proposal Trustee was unable to identify any unusual transactions without having the assistance of an updated general ledger.
40. The Proposal Trustee inquired with Robert Hammell, the sole director of VBS, and Mr. Joseph Kwok, a former director of VBS, 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.
41. According to Mr. Hammell and Mr. Kwok, to the best of their knowledge they are not aware of any such transactions.

H. ESTIMATED DISTRIBUTION IN THE EVENT OF A BANKRUPTCY

42. Based on the Company's SOA and books and records as at the date of the NOI, VBS's assets are:

(a) accounts receivable with a book value of \$46,500 (the "AR"); and

(b) intercompany receivables (owed to the Company by VHL) with a book value of \$999,500 (the “**Intercompany Debt**”).

43. 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.
44. The estimated realizable value (the “**ERV**”) of the AR is nil, as they relate to partially completed customer contracts where there is no likelihood of collection.
45. The ERV of the Intercompany Debt is also nil, as it is owed to VBS by VHL, an insolvent company.
46. Accordingly, the amount available to Unsecured Creditors in the event of a bankruptcy is expected to be nil.

I. COMPARISON OF PROPOSAL VS. BANKRUPTCY DIVIDEND

47. Based on the analysis in Section H of this Report, it is estimated that in the event of a bankruptcy of VBS, the Unsecured Creditors would receive no dividend.
48. Based on the terms of the Proposal, the Proposal Trustee estimates the recoveries to Priority Creditors and Unsecured Creditors of VBS as follows:

Class of Creditor	Amount of Claims (Note 1)	Proposal Funds (Note 2)	Estimated Proposal Dividend (Note 3)	Estimated Bankruptcy Dividend (Note 4)
Priority Creditors	14,000	14,000	100.0%	0.0%
Unsecured Creditors	2,489,418	86,000	3.5%	0.0%
Total	2,503,418	100,000		

Notes:

1. The quantum of Priority Claims and Unsecured 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 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 Company's assets, in the event of a bankruptcy, the dividend for the Priority Creditors and Unsecured Creditors would be nil.

SUMMARY COMMENTS

49. The Proposal Trustee is of the view that Priority Creditors 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, it is expected that \$100,000 will be available to fund the Proposal resulting in an opportunity for the Priority Creditors and Unsecured Creditors 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.
50. 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.
51. 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 Building Solutions Ltd. and
not in its personal capacity**

Per:

A handwritten signature in black ink, appearing to read "Craig Munro". The signature is written in a cursive, flowing style.

Craig Munro, CPA, CA, CIRP
Managing Director