

**IN THE MATTER OF THE BANKRUPTCY OF
THE COLUMBIA RESTORATION COMPANY LTD.**

TRUSTEE'S REPORT TO CREDITORS

September 4, 2013

BACKGROUND

The Columbia Restoration Company Ltd. (the "Company" or "Columbia") was a general contractor that employed approximately 70 people when fully operational. The Company performed building envelope restoration work and their primary customers were stratas and housing co-operatives in the Lower Mainland. The Company leases a premise in Surrey, B.C. The Company is a subsidiary of RDS Investments Ltd., which is owned by Richard Snelgrove.

Revenue for the fiscal years ending June 30, 2012 and June 30, 2011 were \$9.6 million and \$9.5 million, respectively. The Company experienced a decline in fiscal 2013 revenue and for the 10 month period ended April 30, 2013, revenue was \$6.0 million.

Declining revenue, lower margins on projects and the inability of the Company to meet its obligations as they became due resulted in a shutdown of operations and termination of all employees on or about July 11, 2013. On July 16, 2013, the landlord commenced distraint proceedings. The Company was petitioned into bankruptcy by HSBC Bank Canada ("HSBC") on August 14, 2013.

The Trustee in Bankruptcy was unable to get in contact with the director of the Company, Richard Snelgrove, until the late evening of September 2, 2013 when he emailed the Trustee to advise that he would be attending the First Meeting of Creditors. The Trustee has not had further contact with him as he advised us that he will be in transit to Vancouver from Calgary.

FINANCIAL SITUATION

The table on the following page is a summary of the unaudited income statement for the 10 month period ended April 30, 2013 and the unaudited income statement for the 12 month period ended June 30, 2012 and 2011.

| | 10 months ended April 30, 2013 | | 12 months ended June 30, 2012 | | 12 months ended June 30, 2011 | |
|---------------------------|-----------------------------------|-------|----------------------------------|-------|----------------------------------|-------|
| | (\$000's) | GM % | (\$000's) | GM % | (\$000's) | GM % |
| Revenues | 6,041 | | 9,627 | | 9,521 | |
| Cost of sales | 5,118 | | 8,063 | | 8,134 | |
| Gross Profit | <u>923</u> | 15.3% | <u>1,564</u> | 16.2% | <u>1,387</u> | 14.6% |
| Operating and admin costs | <u>1,164</u> | | <u>1,493</u> | | <u>1,369</u> | |
| Net income before taxes | (241) | | 71 | | 18 | |
| Income taxes | - | | 23 | | (78) | |
| Net income | <u><u>(241)</u></u> | | <u><u>48</u></u> | | <u><u>96</u></u> | |

We have been informed by a former employee that the revenue and accounts receivable in the 10 months period ending April 30, 2013 were inflated by creating fictitious invoices. We have not verified these allegations as the records of the Company are incomplete and there would be significant costs and little, or no benefit to preparing current financial statements.

The table on the following page summarizes the management prepared balance sheet as at April 30, 2013 and the unaudited balance sheet as at June 30, 2012.

| | As at April 30, 2013 (\$000's) | As at June 30, 2012 (\$000's) |
|---------------------------|--------------------------------------|-------------------------------------|
| Accounts receivable | 2,750 | 1,973 |
| Prepaid expenses | 61 | 64 |
| Inventory | 224 | 224 |
| | <u>3,035</u> | <u>2,261</u> |
| Due from related parties | 568 | 988 |
| Capital assets | 485 | 465 |
| | <u>4,088</u> | <u>3,714</u> |
| Bank overdraft | 1,534 | 1,073 |
| Accounts payable | 703 | 973 |
| Payroll liabilities | 621 | 292 |
| HST | 276 | 340 |
| Other current liabilities | 313 | 154 |
| | <u>3,447</u> | <u>2,832</u> |
| Shareholders equity | 641 | 882 |
| | <u>4,088</u> | <u>3,714</u> |

The secured debt as at the date of bankruptcy is summarized below.

| | (\$000's) |
|-------------------------|--------------|
| CRA - Source deductions | 485 |
| HSBC | 1,000 |
| BDC | 2,000 |
| Total secured debt | <u>3,485</u> |

- The \$2 million owing to BDC is debt of a related party, RDS Investments Ltd. ("RDS") that is guaranteed and supported by a General Security Agreement against Columbia. We understand that RDS has no assets of value to realize on for the benefit of BDC.
- In addition, there is approximately \$850,000 of unsecured debt.

- We are informed by representatives of CRA that the last payroll remittance paid by the Company was in November 2012. The debt of \$485,000 is owing and confirmed by a CRA payroll audit completed to May 31, 2013. The amount owing to CRA is a deemed trust claim which ranks ahead of all creditors.

IDENTIFICATION AND VALUATION OF ASSETS

The Company's principal assets as at July 31, 2013 are listed below.

| | Book Value (\$000's) | Estimated Net Realization (\$000's) |
|---------------------|---------------------------------|--|
| Accounts receivable | 2,034 | Unknown |
| Prepaid expenses | 61 | - |
| Inventory | 224 | Unknown |
| Fixed assets | 485 | Unknown |
| | <u>2,804</u> | <u>Unknown</u> |

The Trustee has not taken possession of the inventory and fixed assets as the costs to recover the assets would be greater than the estimated gross realization and CRA's deemed trust claim which ranks in priority to all claims.

The Company records we obtained are incomplete and we have been informed by a former employee of the Company that the computer with the accounting information was removed from the premises by Richard Snelgrove prior to the bankruptcy.

Accounts Receivable

The book value of the accounts receivable is approximately \$2 million.

We hired a former employee of the Company to provide us with information that could assist us in collecting the outstanding receivables of the Company. The table on the following page is an aging of the accounts receivable as at July 31, 2013.

| | (\$000's) | | | | | Total |
|-------------------|------------|-------------|------------|------------|--------------|--------------|
| | Holdback | Current | 31-60 days | 61-90 days | Over 90 days | |
| Trade receivables | 857 | (33) | - | 202 | 104 | 1,130 |
| Related parties | | | | | 904 | 904 |
| | <u>857</u> | <u>(33)</u> | <u>-</u> | <u>202</u> | <u>1,008</u> | <u>2,034</u> |

Approximately \$900,000 of the accounts receivable is due from related companies (Eco Blast Solutions Inc. and Dynamic Metal Solutions Inc.) that do not have the ability to pay the debt. The former employee of the Company has informed us that most of the balances that are over 90 days old are highly unlikely to be collected. Excluding intercompany receivables, we have summarized the accounts receivable owing by stage of completion of project as follows:

| Breakdown of accounts receivable | |
|-----------------------------------|--------------|
| | (\$000's) |
| Completed projects | 33 |
| Holdbacks on completed projects | 118 |
| Projects in progress | 192 |
| Holdbacks on projects in progress | 686 |
| | <u>1,029</u> |

We have had discussions with the engineers, acting on behalf of the owners of the projects and the insurance adjusters representing various bonding companies with respect to the outstanding amounts owing to the Company. They have expressed the following concerns over collectability of the receivables:

- Lack of a warranty;
- Incomplete projects;
- New contractors need to be hired to complete the projects;
- Numerous liens that need to be dealt with;
- Outstanding trade payables balance and possible set off or amounts owing; and,
- Completed projects still have numerous deficiencies.

Based on our discussions with the various engineers and insurance adjusters, we are unsure of the amount that is collectible, if any. They have noted that it will take a few weeks to determine

what the final costs will be to payout the liens and other suppliers who are owed money on the projects and determine what additional costs there will be to complete the project.

We have sent letters to all of the accounts receivable customers requesting payment and in cases where they do not believe payment in full will be forthcoming, we have asked for an explanation, including an accounting of how much they believe is owed to the Company.

Inventory and fixed assets

When the landlord took possession of the assets through the distraint process they obtained two appraisals which gave an appraised value of between \$47,000 and \$120,000 for all of the tools, scaffolding, equipment and inventory in the premise. The appraisals were completed by Active Auction Mart Ltd. and R. Gilson Enterprises Ltd. The appraisals did not include the realization costs including occupation rent, selling commissions, clean-up, security, bailiff seizure costs, environmental costs for the removal of old paint and CRA deemed trust claim. Based on the appraisals, we estimated that the recovery would be insufficient to satisfy these costs and we abandoned the assets. On August 24, 2013 Marvel Auctions Ltd. conducted an auction at the premises on behalf of the landlord. We understand that the gross recovery before realization costs from the auction was approximately \$150,000. We note that any recovery from the assets in excess of the costs identified above would be paid to CRA for partial payment of their deemed trust claim.

We have been informed by the bailiff who took possession of the assets on behalf of the landlord that there were allegations that some of the assets were removed by Richard Snelgrove from the premises prior to their involvement. We cannot confirm what assets, if any, were removed.

SECURED CREDITORS

The Trustee is aware of the following claims summarized on the following page, which have priority over the claims of unsecured creditors:

| Creditor | Assets secured | Claim amount (\$000's) |
|-----------------|---------------------------|-----------------------------------|
| Employees | Vacation pay | 23 |
| CRA | Payroll source deductions | 485 |
| HSBC | All property | 1,000 |
| BDC | All property | 2,000 |
| | | 3,508 |

The Company granted HSBC Bank ("HSBC") a General Security Agreement dated August 23, 2010. The security supports an operating line HSBC provided to the Company.

The secured creditors will suffer a substantial (possibly total) shortfall on their loans to the Company and we are unsure if there will even be sufficient recovery to satisfy the debt of CRA for payroll source deductions. Therefore, we do not believe there will be any recovery to the unsecured creditors.

UNSECURED CREDITORS

The Company's records indicate trade creditors of approximately \$850,000, this does not include employee liabilities for vacation and severance pay.

LEGAL ACTIONS

Based on information we have been able to obtain from the abandoned premises, the Trustee is not aware of any ongoing litigation. The Trustee has not commenced or continued any actions on behalf of the Company.

REVIEW OF RECORDS

The Trustee has reviewed the books and records that were made available to us with respect to the accounts receivable and any other assets that we believed we could realize on. We also reviewed the payroll records available and determined that there are likely some employee liabilities for outstanding vacation pay and severance.

STATEMENT OF ESTIMATED REALIZATION

Realization from the Company's assets will be insufficient to satisfy the claims of the secured creditors who will suffer a significant shortfall. We are still awaiting confirmation on the collectability of the accounts receivable, however we believe it is likely that there will be insufficient recovery to satisfy CRA's deemed trust claim of \$485,000 for payroll source deductions and therefore no recovery to secured creditors including HSBC and BDC. Therefore, we believe there will be no distribution to the unsecured creditors.

TRUSTEE'S REMUNERATION

The Trustee's fees are being paid by the secured creditor, HSBC.

CONCLUSION

We are unsure of the amount of accounts receivable that will be collected, if any. In the event that we are satisfied that the only recovery will be to CRA for unremitted source deductions and WEPP claims we intend to hand over the records that we have to CRA so that they can attempt to collect on the accounts receivable.

THE BOWRA GROUP INC.
Trustee in Bankruptcy of
The Columbia Restoration Company Ltd.

