

G. Powroznik Group Inc.

In the matter of the bankruptcy of Philpott, Evitt & Co. Ltd.

**Trustee's Report to the Creditors on Preliminary Administration
April 17, 2009**

Submitted to: The Creditors of Philpott, Evitt & Co. Ltd.
 The Official Receiver of the OSB

Submitted by: G. Powroznik Group Inc., Trustee in Bankruptcy

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**TRUSTEE'S REPORT TO THE CREDITORS ON PRELIMINARY
ADMINISTRATION**

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1) Background Statement

Philpott, Evitt & Co. Ltd. (“the Company”), also known as Philpott Evitt Building Centre, closed its business effective December 31, 2008. The Company is a wholly-owned subsidiary of Hecate Holdings Ltd. The Company’s business assets were sold to Prince Rupert Building Materials, a new building supplies retail store that took over the Company’s former business location at the Rupert Square Shopping Centre in Prince Rupert, B.C.

In the deal, Philpott, Evitt & Co. Ltd. sold its fixed assets and inventory to Prince Rupert Building Materials. The accounts receivables of the Company were not included in the sale. The sale was completed January 12, 2009.

At the time, the owners of the Company believed that the sale of remaining inventory and collection of accounts receivable would produce a financial return sufficient to satisfy the following:

- secured debts owed to two secured creditors: Rupert Square Shopping Centre Ltd. and the Royal Bank of Canada; and
- any remaining debts to unsecured creditors

There are some common shareholders in Rupert Square Shopping Centre Ltd. and Hecate Holdings Ltd.

After the sale was completed, it became clear there was a substantial shortfall of necessary cash to satisfy remaining charges against the Company. Secured debts were paid (see section 5 below for additional information) leaving approximately \$640,000 in unsecured claims.

At the time of the sale of the business to Prince Rupert Buildings Materials, it is clear the available quantity of Company inventory did not meet the owners’ expectations of inventory that should have been on hand. As a result, the realization was considerably lower than planned. The Company Director believes evidence exists to suggest at least one former employee may have perpetuated a form of inventory fraud over an indeterminate period of time before the business closed. This could be a cause of the reduced inventory that was available for sale in January. An investigation has been initiated with the Prince Rupert RCMP although results of the investigation are not favourable to date (refer to section 7 for more information).

The Company continued its collection of outstanding receivables throughout February and March 2009. The owners’ original plan was to do a general distribution of funds, on a prorated basis, to remaining unsecured creditors with funds remaining from the sale of the business assets and the collection of outstanding receivables. Not unexpectedly, receivable collections slowed over time and there was increasing creditor frustration with the Company’s inability to settle its liabilities in full.

As a final result of the significant deficit of liabilities over available assets, the Company was assigned into bankruptcy for the general benefit of creditors on March 27, 2009. This was thought to be an equitable solution for all creditors in light of increasing creditor

frustration and, in some cases, the commencement of legal action by some of the creditors that would have resulted in gaining a priority over others.

2) Preliminary Evaluation of Assets and Details of Security Interest

As summarized above, there are limited assets remaining in the bankrupt Company as the majority of tangible items (fixed assets and inventory) were sold to Price Rupert Building Materials in January 2009. Assets remaining in the Estate are as follows:

Accounts Receivable

The Company held approximately \$177,150 in gross accounts receivable as at the date of the assignment into bankruptcy. A \$44,300 provision was taken against this amount to reflect the likelihood that a significant portion of the receivables may prove to be uncollectible. A net amount of \$132,850 was disclosed on the Statement of Affairs sent to creditors in April 2009. Included in this amount is a lien held by the Company against a third party for debts of approximately \$50,000. This amount is discussed in further detail in the "Lien" section below.

The Company had engaged a former employee with 3rd party collection experience, located in Prince Rupert, after the January sale of assets to facilitate the collections process. The collector has continued its work to date and has been successful in collection of some of the debts owing to the Company. We have opted to retain the collector (since the assignment into bankruptcy) as she has already established contact with many of the parties who owe money to the Estate and she is located in the same locale as many of the Company's former customers which logistically can improve the rate of collections. The collector works on commission and is only paid when collections are made.

Final realization on the outstanding accounts receivable is unknown as at the date of this report.

Lien

Included in accounts receivable is a claim of approximately \$50,000 relating to a property in Prince Rupert held against an individual contractor. A lien is held as registered security and places the Company in the position of a secured creditor, however there are issues impacting the potential enforcement of the lien including a filing issue with the lien and the personal financial situation of the debtor.

We have discussed this lien with the Company's former legal counsel (Silversides, Merrick & McLean) and have retained this law firm to proceed to determine whether the lien can be enforced. There is also the potential for a recovery through the Lawyers' Insurance Fund (LIF) in the event the lien is declared invalid due to it originally being filed in error by another law firm.

At this time, the rate of recovery on the lien, if any, is unknown and we will obtain further direction on this issue from the creditors in the April 17, 2009 meeting.

Cash

On the date of its assignment into bankruptcy, the Company held \$86,557 in cash. As of the date of this report, we hold approximately \$93,450 of cash in Trust; the difference relates to the collection of certain receivables in April 2009.

3) Conservatory and Protective Measures

No unusual conservatory or protective measures have been required to date due to the nature of the remaining assets of the estate. There was no perishable property required to be sold, nor was there an active business to continue upon our appointment as Trustee in this matter. The Company's business operations had effectively wound down as at December 31, 2008, the date of its sale to a third party.

4) Provable Claims

Creditors continue to submit their completed Proof of Claim forms to our office as expected. On the original Statement of Affairs there were 104 unsecured creditors with unproven claims totalling \$633,850.

To date, we have received twenty-seven completed Proof of Claim forms. Twenty-six of these are proven totalling \$212,900 in admitted claims. One claim is admitted for voting purposes but is subject to our final review in the amount of \$294,834. Total submitted claims to date are \$507,734. Creditors having submitted claims in excess of \$10,000 are as follows:

Creditor	Claim amount admitted	Notes
Tim-BR-Marts	\$294,833.97	claim is allowed for voting purposes but the amount is subject to Trustee's final review
Canwel Hardware	\$58,143.75	
Convoy Supply	\$34,643.00	
Canadian Freightways Ltd.	\$17,441.10	
Broadleaf Logistics Company	\$16,046.12	
Pacific West Systems	\$15,021.28	

Related Party Liabilities

There are approximately \$868,000 in liabilities to related parties which were not recorded on the Statement of Affairs. The related parties do not intend to file a proof of claim for these debts to allow for an increased distribution to arm's length creditors. We have not

seen any evidence of any preference payments to related parties to date and we will complete our review after the first meeting of creditors.

5) Legal Proceedings, Reviewable Transactions and Preference Payments

The only legal proceeding involving the Estate of the Company relates to the lien discussed in section 2 above. As of the date of this report, we have discussed the matter with legal counsel and we will obtain further direction from the creditors in the April 17, 2009 meeting.

Upon our appointment as Trustee in bankruptcy in this matter, we performed interviews with the Company Director as well as with a former employee of the Company to determine what payments, if any, had been made before the assignment of the Company into bankruptcy.

We obtained loan and legal documents, as well as other pertinent support, relating to the two secured creditors of the Company: Rupert Square Shopping Centre Ltd. (approx. \$330,000) and RBC (approx \$246,000). We have received no information contrary to the statements made by the Director or the Company's lawyers that the security held by these creditors was valid, registered security. Accordingly, we have not found any indication that the Company, in settling these debts, made any preference payments before the assignment into bankruptcy.

We also reviewed bank transactions leading up to the bankruptcy to determine what other payments had been made before the assignment. We have determined the Company made payments of the following nature before the assignment into bankruptcy:

- employees' wages (only one employee after mid-February);
- phone charges and other incidentals for working out of a small office space and attempting to facilitate the "wind down" of the Company, including some postal fees and office supplies;
- commissions to the accounts receivable collections service;
- banking fees; and
- Statutory remittances to the Receiver General to clear up source deduction accounts and other CRA matters.

As of the date of this report, we have found no evidence that funds were transferred out of the Company in an inappropriate manner. We have seen no evidence of distributions to shareholders or to the Company's Director before the assignment into bankruptcy.

6) Conflict of Interest, Fee Guarantees, and Third Party Deposits

As Trustee of the Estate of the bankrupt, we report that we have not identified any possible conflicts of interest as of the date of this report. There are no fee guarantees or third party deposits outstanding as of this date.

7) Projected Distribution and Anticipated Asset Realization

The amount of any distribution will largely depend on the collectability of the outstanding accounts receivable. The likelihood of realizing an amount on the lien as described in section 2 is also unknown at this time.

Also, as discussed in section 1 above, there is the matter of the alleged fraud involving a former employee of the Company. The owners of the Company had previously referred the matter to the Prince Rupert RCMP. It is our understanding that a preliminary investigation has been completed and the RCMP has concluded there is not enough evidence to suggest the Company was victim of fraud or theft. However, the former owners and the Director of the Company are adamant that some form of wrongdoing has occurred.

We plan to revisit this issue with the RCMP, as this matter represents a potential recovery for the Estate and a potentially-increased distribution to creditors. We plan to take the following actions:

- 1) Confirm whether the RCMP will continue the investigation.
- 2) Determine whether the employee in question has any personal assets. If so, consider pursuing him directly.
- 3) Determine whether the Company had any insurance policy coverage in this matter.
- 4) If yes to either #2 or #3, consider developing/proving a claim. This is easier if the RCMP pursues the matter as discussed in #1.
- 5) If no to both #2 and #3, abandon the matter.

Based on the above, we cannot reasonably determine the amount or likelihood of any recovery from this source at this time.

Our intention is to balance the costs of any actions or activities to recover amounts from the potential fraud, the lien, or accounts receivable against the prospect for recovery for the Estate in order to maximize the available net realization for distribution to creditors.

Based upon a net recovery from the receivables of 40%-60% with no recovery on the fraud matter, we would expect a distribution to creditors to be in the \$0.17 to \$0.22 on the dollar range. Due to the nature of the assets, we expect that it might take 6 to 12 months before a final distribution to creditors can be made.

RESTRICTIONS AND QUALIFICATIONS

This report on the preliminary administration of the Estate of Philpott, Evitt & Co. Ltd. (“the Company”) summarizes the Trustee’s findings and conclusions from its review of the Company’s records and other information received, and from its investigations since the date of bankruptcy. It is subject to change based on subsequent findings or receipt of additional information.

In conducting our research and preparing our report, we obtained certain information and representations from the Director, former employees of the Company, and third parties. Information, data and documentation furnished by others was presumed to be reliable and, except as expressly noted in our report, was not verified. Accordingly, G. Powroznik Group Inc. assumes no responsibility for the accuracy of third party information provided. We are pleased to answer any questions you may have.