

COURT NO. B131552
ESTATE NO. 11-1820752
VANCOUVER REGISTRY

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY**

IN THE MATTER OF THE BANKRUPTCY OF

0409725 B.C. LTD.

FORMERLY DOING BUSINESS AS ODENZA HOMES LTD. (“Odenza”)

**SUMMARY REPORT OF G. POWROZNIK GROUP INC.
OF G-FORCE GROUP
AS CLAIMS ADMINISTRATOR OF THE
TRUST CLAIM SETTLEMENT PROGRAM AND AS TRUSTEE IN
BANKRUPTCY OF ODENZA**

JUNE 30, 2014



Background and Purpose of this Report

1. This report summarizes the activities of the Claims Administrator as set out in the more detailed Second Report of June 6, 2014 which was sent to creditors on June 10, 2014 and also the Trustee in Bankruptcy (“Trustee”) of Odenza (the “**Summary Report**”). All of the defined terms used in the Claims Administrator’s Second Report will be used in this report. We are providing the Summary Report because many creditors have requested a shorter report to help them focus on the key issues related to the ultimate recovery for the creditors, while recognizing our reports to the Court must be more extensive. The reader may also want to refer to earlier reports by both the Claims Administrator and the Trustee which are posted on the G-Force website at <http://www.g-forcegroup.ca/bankruptcy-of-0409725-b-c-ltd/>, including the comprehensive Second Report of the Claims Administrator dated June 6, 2014 (the “**Second Report**”).
2. The Trustee’s Preliminary Report of January 7, 2014 which was reviewed by the Trustee at the First Meeting of Creditors in the Bankruptcy summarized the preliminary findings for the causes of the insolvency of Odenza and the Recovery Plan to minimize the losses to the primary stakeholders, being the creditors and the Owners, through three primary elements:
 - a) A bankruptcy of Odenza to provide a Court supervised, orderly, wind-up of Odenza’s affairs and distribution of any assets to its unsecured creditors;
 - b) A Court sanctioned Trust Claim Settlement Program (“TCSP”) to preserve the Potential Trust Funds and Holdbacks due from Odenza’s Construction Contracts and simplify the administration of Trust and Lien Claims and distribution of Trust Assets that collectively come under the jurisdiction of the *Builders Lien Act* (“BLA”);
 - c) A co-operative process involving the Trustee, Claims Administrator, former key employees and management, the trade creditors and Owners to facilitate the finishing of uncompleted construction contracts for Owners’ Projects in order to minimize the losses for Owners, maximize the recoveries under Odenza’s Construction Contracts, minimize the costs and time delays and thereby maximize the recovery for creditors.
3. The role of the Claims Administrator in administering the TCSP is complementary to the role of the Trustee since the former deals exclusively with trust assets under the BLA, and corresponding Trust and Liens Claims which the Trustee has no power to deal with. To the extent that the TCSP is successful, the recovery of the unsecured creditors in the Bankruptcy will be enhanced because the TCSP is designed to: first, enhance the preservation of Potential Trust Funds and Holdbacks from Odenza’s Construction Contracts for the Trust and Lien Claimants; and second, avoid construction litigation and related costs that would erode or completely eliminate the potential recoverable assets that may also be available for the unsecured creditors. Further, since most of the creditors who have Trust and Lien Claims will be facing a shortfall in collecting these claims, they may also have unsecured claims in the Bankrupt Estate for the balance of

their claim. Accordingly, the overall recovery for all creditors could be enhanced by an efficient and effectively run TCSP and Recovery Plan.

4. The Recovery Plan design was based upon a previous successful implementation of a similar plan for an insolvent contractor. It was expected to obtain substantially better results than the alternative of an uncoordinated piecemeal approach using the normal construction litigation process. It also replaced the need for the sub-trades to initiate legal proceedings themselves to recover Holdbacks and thereby incur costs where there was no certainty of collection or recovery of their costs. By comparison the Recovery Plan is a form of contingent recovery program for sub-trades where most creditors will not need to incur any new costs but simply file their Trust and Lien Claim and potentially receive a recovery on their claims after the costs of the Recovery Plan are allocated. In other words, the Recovery Plan provides a potential net return to Trust and Lien Claimants without the need for them to incur any out of pocket costs. Also, they will have opportunities to improve their recovery by providing accurate information to the Trustee and Claims Administrator and co-operating to eliminate potential necessary costs in the Recovery Plan that would otherwise reduce the potential net recovery to them.

Recovery Plan – Seven Primary Group’s of Activities

5. The Recovery Plan breaks down into seven primary groups of activities:
 - a) Group One – Initial activities to establish the Recovery Plan;
 - b) Group Two – Updating the accounting records for the assets and liabilities and obtaining and adjudicating the claims from the creditors;
 - c) Group Three – Facilitating the transition of uncompleted Projects to new contractors, collecting the Potential Trust Funds and Holdbacks relating to the Construction Contracts and recovering other non-trust assets;
 - d) Group Four – Determining entitlement to the assets including the cash on hand at the date of bankruptcy (“**Initial Cash Balance**”) and other assets recovered after the date of bankruptcy;
 - e) Group Five – Removing liens on title of specific projects once Owners have paid the balance due under their construction contract and related Holdbacks to the Claims Administrator;
 - f) Group Six – Obtaining approval of the distributions on all Trust and Lien Claims, the allocation of costs related to the TCSP and the discharge of Claims Administrator;
 - g) Group Seven – Determining whether there are any net assets available to the Trustee after completion of the mandate of the Claims Administrator for assets and liabilities covered by the BLA and any other asset recoveries by the Trustee leading to a distribution to unsecured creditors and/or discharge of the Trustee.

6. Group One activities included those to implement the key elements of the Restructuring Plan and minimize initial asset dissipation which commonly happens quickly in construction insolvencies. These activities included:
- a) Taking possession of all assets and advising Owners of their obligations to finalize their commitments through the Claims Administrator and/or the Trustee;
 - b) Providing a claims filing and adjudication process for all creditors;
 - c) Providing initial reporting to the creditors;
 - d) Beginning to update the accounting records to reflect accurate balances due to creditors and due from Owners;
 - e) Investigating the pre-bankruptcy affairs of Odenza to determine the causes of the insolvency, whether any undue preferences occurred and whether any stakeholders received benefits that can be recovered under the provisions of the Bankruptcy and Insolvency Act (“**BIA**”);
 - f) Providing key elements of a plan to facilitate the finishing of uncompleted Projects to maximize recovery of amounts due to Odenza from Owners on timely basis;
 - g) Obtain the appointment of Inspectors from Odenza’s creditors in the bankruptcy to assist and advise the Trustee.

These initial activities of Phase One were commenced within the first few weeks of the appointment of the Trustee and Claims Administrator. Unfortunately, the time and effort required by the Claims Administrator and the Trustee to efficiently implement these initial activities was far more than expected because of the activities of a few outspoken creditors as described in paragraph 47 in the Second Report. Although this caused additional unnecessary costs, these issues are largely behind us now as the Inspectors have been instrumental in helping the Trustee to deal with the initial unsettling issues that bothered a small group of creditors.

7. Group Two activities included completing the update of the books and records for the assets and creditor claims and obtaining and adjudicating the creditor claims. The Claims Administrator updated most of the relevant records and as reported in the Second Report, 512 or 96% of the Trust and Lien Claims received by the Claims Administrator have been adjudicated. The Claims Administrator expects that virtually all of these claims will be completely dealt with by the end of July. Now that the Project accounting has been updated, balances due to Odenza are available to the Owners to enable them to start entering into final settlements with the Trustee and Claims Administrator. To date, the Trustee has received unsecured/preferred claims in the bankruptcy from 55 creditors totalling more than \$1,375,000 in claims. These claims include claims of landlords, former employees, and Owners who may have overpaid Odenza. We will delay our adjudication of the unsecured claims until we can determine whether there will be any assets for distribution to them.

8. Group Two activities also include more in depth reviews for reviewable transactions to determine whether related or third parties received any undue benefits prior to the Bankruptcy (“**Reviewable Transactions**”). Since the date of the Trustee's Preliminary Report, one or two minor additional reviewable and related party transactions have been noted by the Trustee over and above those already identified in the Preliminary Report. The Trustee has discussed the related party transactions with the former principal of Odenza and his brother to collect proper amounts due to Odenza by them. In addition, the Trustee has performed additional work/investigation on certain related party concerns raised by the Inspectors and other creditors. The Trustee has reported on these items to the Inspectors and will follow-up in due course. These additional reviews have resulted in no additional recoveries for the creditors and have only served to increase costs of administration. There have been a few creditors and former employees who repeatedly raise allegations about specific issues that have we have found groundless. The Trustee and Claims Administrator are continuing their review of the accounting and claims for each Project and are in a good position to identify any abnormalities in the records or unsupported transactions that unduly benefit any particular party. The Inspectors are being kept fully apprised of any findings or new information that may surface to indicate any source of potential undisclosed assets.
9. Group Three activities initially focussed on attempting to facilitate a smooth transition of the Projects involved with uncompleted Construction Contracts to new contractors chosen by the Owner to obtain certain Transition Benefits as described in paragraph 47(b) of the Second Report. The Recovery Plan included an option for Owners to work with a new company established by the principal of Odenza which depended upon co-operation and support from key former employees and subcontractors of Odenza. Unfortunately as set out in the Second Report, a small group of creditors and former employees were not prepared to support this option or any other comparable aspect of the Recovery Plan and many of the potential Transition Benefits were not achieved.
10. Group Three activities also include collection of receivables and Holdbacks from the Owners. After updating Odenza's records for the claims received and the Project accounting charges in the first three months, the estimated amounts due on the Projects for Holdbacks and amounts due in excess of Holdbacks approximated \$1.96 million. This amount encompasses over 30 accounts and provides the maximum potential available from Odenza's Construction Contracts at the date of Bankruptcy. However, this amount is being reduced by Owners' offsets for reasonable deficiencies, credits for uncompleted work or other valid credits that may arise in the process of adjudicating the claims and settling the accounts with the Owner. These estimates are before administration and professional costs and do not include the Initial Cash Balance. As reported in the Second Report, the Claims Administrator has collected \$177,000 from three Owners, abandoned one Project where there is no further amount to collect although there are trust claims filed, and settled with another Owner where there will be no amount collected but all Lien and Trust Claims on the Project have been paid. In addition, the Claims Administrator has completed its review of 13 other Projects with balances due by the Owners of \$307,000 in receivables (which may become Potential Trust Funds) and \$667,000 in Holdbacks and has submitted the estimated final statements of account to the Owners for comment. Owners are reviewing the final

accounting for their Projects or providing us with feedback in order to finalize them as the final steps prior to making their final payment. Another 11 projects are under various stages of review having a book value in Odenza's records for receivables and holdbacks of \$459,000 and \$367,000 respectively.

11. Generally, most Owners want to settle their accounts without undue delay or additional costs and have the Claims Administrator remove all of the registered liens, which in most cases exceed the amounts due by the Owners to Odenza and related Holdbacks. There are a few cases where Owners are raising issues through their lawyers that are not consistent with their contractual arrangements with Odenza, its records or the evidence received from former employees and sub-trades. Having completed most of the basic updating of claims and Project accounting records, the Trustee and Claims Administrator are now focussing more on the few cases that require the collection of additional information from former managers or third parties, including sub-trades, to provide independent confirmation of Odenza's position in order to effect a final negotiated resolution with the Owner or pursue litigation. The Inspectors have been helpful in helping us collect the required information to support Odenza's valid claims against individual Projects, particularly in confirming the approvals for extras and cost increases and the reasonable value of deficiencies and work not completed. We are hopeful that Owners will be reasonable in their efforts to finalize their accounts with Odenza to avoid unnecessary costs and take advantage of the TCSP Order to have the lien claims on the title to their Project removed once payment from them is received by the Claims Administrator. In our view it will be relatively more expensive for an individual Owner to support an unreasonable claim against Odenza than for the individual creditors who have a claim on its specific Project due to the synergies of the Recovery Plan and the TCSP Order.
12. Group Three activities include those of the Trustee in identifying and realizing upon assets that are available for the unsecured creditors of Odenza. Most of Odenza's assets are related to the Construction Contracts and governed by the BLA. The amount of any surplus available from any one Project after satisfaction of the recovery costs and payment of the specific Trust and Lien Claims on that project are unknown at this time. The Trustee sold sundry office assets of Odenza (computers, furniture, etc.) to Maynard's auctioneers in January 2014 with Inspector approval for \$4,500. Also in January 2014, the Trustee recovered approximately \$17,500 in insurance proceeds relating to an accident at the Main Street office location.
13. Group Four activities include determining which creditors are entitled to the various assets recovered or expected to be recovered by the Claims Administrator or the Trustee. The determination is particularly complicated for the amounts due relating to the Construction Contracts and for the Initial Cash Balance due to the technical requirements in the BLA governing Trust Receipts, Holdbacks and Trust and Lien Claims. The application by the Claims Administrator to the Supreme Court of British Columbia on June 20, 2014 was supported by the Second Report. Based upon the advice from its independent counsel, the Claims Administrator asked the Court to confirm the manner in which the Claims Administrator should deal with the Initial Cash Balance and the Potential Trust Funds and Holdbacks received by the Claims Administrator after the date

of Bankruptcy, in the context of its mandate and the TCSP Order. In particular, the Claims Administrator requested the Court to order, direct and declare, *inter alia*, that:

- a) The Initial Cash Balance, the Potential Trust Funds and the Holdbacks are trust funds to which neither the Owners, in respect of the Initial Cash Balance, nor the Bankrupt Estate have a priority claim;
- b) The Initial Cash Balance, subject to the charges provided for in the TCSP Order and section 4(1) of the BLA, be distributed to all creditors with Trust and Lien Claims on a pro rata basis;
- c) The Potential Trust Funds, subject to the charges provided for in the TCSP Order and section 4(1) of the BLA, be distributed to the creditors with Trust and Lien Claims in respect of the specific Project on which the Potential Trust Funds have been received, on a pro rata basis;
- d) The Holdbacks, subject to the charges provided for in the TCSP Order and the provisions of the BLA, be distributed to the creditors with Trust and Lien Claims, the Holdback Only Claimants and Odenza in respect of the specific Project on which the Holdback has been received, in accordance with the priority provisions of the BLA; and
- e) The proposed manner for allocation of costs among the Projects (see paragraphs 36-40 in the Second Report) be approved, subject to the final passing of accounts as provided by the TCSP Order.

This application was made on notice to all interested parties and was intended to provide full transparency to all Owners and all Odenza's trust, lien and unsecured creditors who are also subject to a bankruptcy administration in which the Trustee is performing an instrumental and complementary role with the Claims Administrator to maximize preservation of Odenza's assets and ultimate distribution to its creditors. Only one party appeared in Court on June 20th to challenge the application by the Claims Administrator. It was a lawyer for an Owner who challenged the request regarding entitlement to the Initial Cash Balance on the basis that a large payment was made within three weeks of the bankruptcy and the Owner was in a credit position and wanted his money back or to have it paid to his trade suppliers who had registered liens on his property. The Judge initially reserved judgement in order to consider whether to grant the Order or to provide the one Owner with more time to make his argument. On June 30, 2014, the Judge issued written Reasons for Judgment and made the decision to adjourn the application for a period of thirty days in order to allow both sides to gather additional evidence and submit additional arguments at the next hearing. Other than for the narrow issue this one Owner is contesting, the lack of formal responses to the Claims Administrator application to Court is a positive sign that there is general acceptance of the merits of the TCSP and how the Claims Administrator intends to deal with the ultimate proceeds and related costs. Notice of the next Court hearing and the Judge's ultimate decision, when received, will be posted on our website.

14. Group Five activities include the removal of liens from the title of specific Projects for Owners who have paid the balance due under their Construction Contract with Odenza and the related Holdbacks to the Claims Administrator. These are important for the following reasons:
 - a) The Owners have the right to the removal of the liens on title once they pay the amounts due to Odenza and outstanding Holdbacks (the “Final Balance”) to the Claims Administrator or to the Court;
 - b) The Owner avoids significant unrecoverable costs if it pays the Final Balance to the Claims Administrator rather than pay the funds into Court;
 - c) The Trust and Lien Claimants who have also filed liens on title of an Owner’s Project must remove the liens or the Claims Administrator will need to apply to Court to have them removed which will increase the costs of the Recovery Plan and thereby reduce the net recoveries to the Trust and Lien Claimants;
 - d) The Claims Administrator and Trustee, with active support from the Inspectors, have established an informal process to encourage all Trust and Lien Claimants who have liens on the title of Projects to remove them when the Final Balance has been received by the Owner;
 - e) By removing liens on title, the Trust and Lien Claimants can help reduce the professional costs for lien removal in the order of \$150-200,000 for the remaining Construction Contracts.
15. Where a lien holder does not voluntarily remove its lien on the land in these circumstances and causes the Claims Administrator to formally remove the lien, the Claims Administrator will recommend to the Court that these incremental costs be deducted from any amounts due to the lien holder(s) under the TCSP. We believe all of the lien holders who have voluntarily removed their liens will support the recommendation for lien holders to bear the incremental costs that their inaction triggers. We are hopeful that all of the Trust and Lien Claimants who have liens on title will voluntarily remove them when required to avoid these incremental costs.
16. Group Six activities relate to the preparation for Court approval of the calculations of the net distributions against the Trust and Lien Claims on each Odenza Construction Contract, obtaining that approval, sending out the payment to the Trust and Lien Claimants and obtaining the discharge of the Claims Administrator. Before this can be done, the Claims Administrator and Trustee will be required to finalize all collections from Owners, ensure the liens on the title of the related Projects are removed and allocate and deduct the costs of the TCSP on an equitable basis from the Trust and Lien Claims that will receive a recovery. It is unlikely that an interim distribution can be made until all of the Owner’s accounts have been resolved because the costs for the TCSP are spread amongst all Trust and Lien Claims that receive a payment. Each Trust and Lien Claimant will benefit by having the costs of the TCSP process allocated over the maximum of assets recovered to minimize the portion applied to each distribution and ensure an

equitable sharing of costs. We are hopeful that now virtually all the Trust and Lien Claims are filed and adjudicated, and that we can accelerate the settlements with Owners because the final balances owing will be known. We hope that Owners will be reasonable in dealing with disagreements and avoid taking unreasonable positions or dragging out settlements. The Trustee and Claims Administrator have the collective mandate from the Court and the creditors to proceed with the administration on a practical and timely basis. The Trustee and Claims Administrator have some tools available to them to help facilitate timely settlements on a reasonable basis and discourage Owners from taking unreasonable or unsupportable positions. We will keep the creditors fully apprised of the Projects we may have a problem with and seek additional information from the trades, former employees and professionals involved to ensure that Odenza's position is reasonable and justified in law. Once the Claims Administrator applies to Court and obtains approval for its costs and the net distribution to the Trust and Lien Claimants and possibly to the Trustee, payments will be made and the Claims Administrator will obtain its discharge.

17. Group Seven activities include the final assessment by the Trustee of available assets for the unsecured or preferred creditors in the Bankrupt Estate. At this time, we believe that the Trustee's activities will be near completion when the Claims Administrator's mandate is complete because the main assets of Odenza relate to the Construction Contracts and the complicated matters covered by the BLA. The Trustee will ultimately be required to obtain the Inspectors approval for any distribution to creditors and the net cost of the Trustee, which will also be required to be taxed by the Court.

Estimated Net Recoveries for Trust and Lien Claimants

18. The Trustee's Report to the Creditors on its Preliminary Administration on January 7, 2014 provided a very preliminary estimate of expected net recoverable trust receivables and Holdbacks of approximately \$903,000, excluding the Initial Cash Balance. The Claims Administrator hopes that the actual amount recovered will be higher as it processed more claims than originally recorded in Odenza's books, many of which should be recoverable from the Owners. In our experience, predicting the ultimate recoveries from the assets of an insolvent construction company with any accuracy until the results are much further along is very difficult because of the myriad of complexities brought about by the BLA and the piecemeal and unpredictable practices among the stakeholders in the normal construction litigation process. We set out a list of several variables in paragraph 50 in the Second Report that could affect the potential recovery from each Project.
19. Due to the high number of unknown variables it is very difficult to project realizations for the Trust and Lien Claimants. The TSCP provides an incentive for creditors to cooperate in filing accurate claims, remove liens when Owners settle their accounts with Odenza, provide accurate information on specific Projects to help maximize the collection of amounts due from the Owners and to act reasonably in completing deficiencies that may be holding up collecting from an Owner. Similarly, the TSCP provides an incentive for Owners to reach a reasonable settlement of their account with

the Claims Administrator to minimize their costs, have all of the liens discharged from the title to their Project on a timely basis and avoid a very public process.

20. The Trustee's Preliminary Report provided a very preliminary estimate of the potential recovery for the Trust and Lien Claimants from the Potential Trust Funds and the Holdbacks, on a global basis, in the range of 30-37 cents on the dollar and for each project in the range from no recovery to 80 cents on the dollar. Although some of the individual variables affecting those estimates have changed, these estimates appear to be still reasonable, although they could change due to the large number of variables that could affect them. The exception is that should the Court confirm that the Initial Cash Balance is available to all Trust and Lien Claimants on a pro rata basis, then there will be at least some recovery on every Project.
21. The benefits of the Overall Recovery Plan have not been as great as they could have been to date due to the obstacles set out in paragraph 47 of the Second Report. However, in our view, the Overall Recovery Plan will result in net recoveries for the Trust and Lien Claimants on a number of Projects and areas over and above what we believe would have happened if there was not an integrated TSCP Order with a complementary bankruptcy process for Odenza. These Trust and Lien Claimants can help make the result as positive as possible by:
 - i) voluntarily removing liens on title when requested; and
 - ii) providing information to the Claims Administrator and Trustee accurately reflecting the work done on each Project and the approvals obtained to facilitate final collection of balances due by Owners.

The Inspectors are committed to help facilitate this support from the creditors.

We will post additional periodic reports to our website for creditors to monitor our progress.

G. Powroznik Group Inc. of G-Force Group
In its capacity as Claims Administrator
for the Trust Claim Settlement Program and
Trustee in Bankruptcy of Odenza



Per: Mr. Gary Powroznik
Managing Director