

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY
IN THE MATTER OF THE PROPOSAL OF
WISTON INTERNATIONAL TRADE CO. LTD.**

Proposal Trustee's Second Report

PURPOSE OF THIS REPORT

This report should be read in conjunction with the Trustee's First Report dated April 24, 2018.

Pursuant to Section 50.4(9) of the Bankruptcy and Insolvency Act, Wiston International Trade Co. Ltd. ("**Wiston**" or the "**Company**") is seeking an extension of 42 days to file its proposal.

This report is to provide the Court and other stakeholders an update on Wiston's current financial affairs and conduct since it filed its Notice of Intention to Make a Proposal ("**NOI**") on March 26, 2018, and G. Powroznik Group Inc. consented to act as Trustee (the "**Proposal Trustee**"). An automatic stay of proceedings arose as a result of filing the NOI with respect to all claims that existed against Wiston as of March 26, 2018.

According to Wiston's financial records, at March 26, 2018, Wiston's liabilities exceed its assets by approximately \$8.0 million. While Wiston is insolvent, it is not bankrupt nor is it in receivership. The Director of Wiston believes there are sufficient potential opportunities to refinance the Company such that a viable proposal can be made to its creditors.

If the extension sought is not allowed, Wiston will be deemed to have made an assignment in bankruptcy.

Background

Wiston was registered as a company in British Columbia on January 6, 2009. Wiston's sole shareholder and director is Huigang (Andrew) Sun. Wiston has been actively engaged in the business of importing hard wood flooring product from China and selling into the wholesale market in the Lower Mainland and the Toronto area since inception.

The Company's primary reason for its insolvency is its inability to collect major receivables from its Viceroy Group of related companies. They are involved in a major lawsuit that started in the summer of 2017 to collect \$20 million from a customer in Alberta. The inability to collect this large sum has affected all of the Viceroy companies including Wiston and their ability to pay their obligations.

The Company's corporate offices are located in Richmond, B.C. The Company has a lease for the premises located in Richmond, B.C. The lease for the Ontario location is entered into with a related party of the Company. Wiston advises that it still has 9 full time employees of which 3 are located in the Richmond, B.C. office, 5 are located in the Markham, Ontario warehouse facility and there is one sales person in Calgary, Alberta. Employees are engaged in sales, warehouse operations and administrative functions.

Wiston's assets consist of accounts receivable, product inventory, vehicles and equipment and investments/loans in related companies. A preliminary review indicates that all the assets are encumbered by either a registered financing agreement or by a General Security Agreement.

FINANCIAL POSITION AND CAUSE OF FINANCIAL DIFFICULTIES

Wiston has relied on a single source manufacturer in China for supply of its hard wood-flooring product. The supplier, HeilongJiang Far East Wood Co. ("HFEWC"), is located in Harbin, China, and we are advised it is related to and controlled by the Company's principal.

The Company indicates that in early 2016 it overpurchased product from HFEWC that was not suitable for Wiston's Canadian markets. The Company further states that this purchase caused future supply problems from China, in turn leading to an incremental reduction in supply of inventory from HFEWC, until it ceased in late 2017. Wiston's financial records as at March 26, 2018 indicate it owes more than \$21.0 million to this supplier.

Wiston has made several investments and/or loans in and to related parties. As of March 26, 2018, Wiston's records indicated they were owed approximately \$14.2 million from these investments/loans including the Viceroy Group, and it is unknown if these amounts are collectible.

FUTURE BUSINESS OPERATIONS AND CASH FLOW

As indicated, Wiston is currently selling hard wood flooring and plans to continue this in its current format.

We attach as Appendix A, a comparison of Actual compared with Budget cash flows for the period from March 26, 2018 to July 8, 2018. In addition, we attach as Appendix B a forecast cash flow for the period July 9, 2018 to September 2, 2018.

ACTUAL CASH FLOW

The Actual Cash Flow set out in Appendix A shows, that since March 26, 2018 and up to July 8, 2018, Wiston has received approximately \$655,000 from the sale of hardwood flooring product inventories. Total expenditures for the same period amounted to \$639,239. This would appear to show that Wiston is operating on a cash flow breakeven basis throughout the period since March 26, 2018 and up to July 8, 2018. However, when making a comparison with the Budgeted Cash Flow numbers, actual expenditures for certain expenditure categories were lower than anticipated in the budget. The most notable categories where actual expenditures were lower than budget include:

- Trustee and legal fees: \$120,000 under budget
- Office/Warehouse: \$59,000 under budget
- Staffing and payroll costs: \$55,000 under budget
- Sales Tax remittances: \$27,000 under budget

While certain of these variances have arisen due to the timing of specific payments, many are the result of unpaid post-filing liabilities due to a delay in the refinancing by the Company. The unpaid liabilities approximate \$172,500, \$50,000 of which are the Trustee's fees.

The Proposal Trustee has been informed by management that Wiston, is planning within the next week, to process an order for the bulk sale of product inventory which should result in estimated realizable proceeds of approximately \$100,000 which will be used to, pay the outstanding post-filing liabilities. Further, it is planning a sale program to the retail public of its 'end-of-line' products to improve its sales.

The accumulated unpaid liabilities are more than offset by the prepayment of inventory purchases amounting to approximately \$239,000.

FORECAST CASH FLOW

The cash flow prepared by the company (Attached as "Appendix B") forecasts a shortfall of \$52,250 during the extension sought, which it expects to cover from either its refinancing activities or the administration charge sought in its current application.

The forecast cash flow is premised on aggregate normal product sales of \$300,000 over the forecast eight-week period, or an average of \$37,500 per week. Management considers this to be a reasonable estimate in relation to the most recent weekly sales volumes. The average weekly sales generated in the first fifteen weeks since March 26, 2018 was approximately \$43,500 per week. In addition, it is forecasting sales of \$250,000 from its new strategy to eliminate 'end-of-line' inventory.

A discussion of direct material cost expenditures, including both actual and forecast is set out below.

Direct Material Cost Expenditure

Payments classified as 'Direct Material Cost' expenditures are amounts advanced to HFEWC in Harbin China, to secure shipments of product inventory. Wiston's shareholder serves as the payment intermediary between Wiston and HFEWC. We are advised that payments made to the shareholder during the NOI have been paid to HFEWC as advances on new inventory. Management of Wiston explained that HFEWC requires a 30% cash advance to commence the manufacturing process of new product. Management has further advised that there are two containers at the plant in Harbin China which are awaiting inspection clearance by the Chinese authorities, which will upon receiving clearance be transported to Wiston. The Proposal Trustee's staff, while visiting the Wiston office in Richmond B.C., observed a video conference between Wiston Richmond, Wiston's shareholder and what appeared to be the HFEWC factory in Harbin China. There appeared to be product in Wiston marked packaging, which the Proposal Trustee was informed, was the product awaiting shipment.

The Proposal Trustee was informed that the product is purchased F.O.B. Port of Vancouver. The two containers awaiting shipment would require a deposit in the order of magnitude of \$75,000. Thus the \$239,000 prepayment referred above would account for a 30% down payment for 6 containers. Management of Wiston explained that HFEWC is preparing the balance of the 22 containers for shipment to Wiston, that were referred to in the Proposal Trustee's First Report, dated April 24, 2018. Management explained that the lead time for production is 3 months and so the initial 2 containers have only just finished the manufacturing process. The average land and ocean transportation time from the product inventory from dispatch in Harbin China to arrival in Vancouver is 6 weeks. Accordingly, the initial two container shipment is not expected to arrive until late August 2018 when it will be available for sale.

FINANCIAL POSITION

The trustee has relied to date on the internal financial information provided by the Company and has not attended

to third party verification of asset values.

Assets

Accounts Receivable and Related Party Investments

Wiston's receivables arise from the sale of inventory and investments/loans made in and to related third parties. Wiston advises that they are selling on a cash-on-delivery basis while under the NO1.

The Company's records indicate that total accounts receivable from operations at June 30, 2018 was a net \$224,700 (March 26, 2018 - \$360,038) comprising gross receivables of 368,700 and customers in credit positions for \$144,000. Of the total accounts receivable of \$224,700, approximately \$120,000 is aged over ninety (90) days. Included in this \$120,000 is a single account balance in the amount of \$55,710. The Proposal Trustee inquired about this account and was informed by management that this supplier is in close communication with Mr. Sun, who is confident that the amount is fully collectible. The Proposal Trustee has asked management to conduct an analysis of the recoverability of the remainder of the accounts receivable and will report on that once the information is received.

The Company's internal financial statements at March 26, 2018 show that amounts owed from investments/loans is approximately \$13.7 million. The trustee has not yet conducted an analysis of the investments to determine the likelihood and quantum of any recovery from them. Since these amounts are significant and can change the recovery to creditors by a large margin if collectible, an analysis of recoveries for Wiston under a liquidation scenario is premature. The Proposal Trustee will report on these investments when a liquidation analysis is conducted.

Product Inventory

The Proposal Trustee has visited the warehouse in Richmond B.C., to discuss product inventory with management and to review product inventory management reports. As at June 30, 2018 inventory management reports provided to the Proposal Trustee by management, indicate that the total product inventory held both in Richmond B.C., and Markham, Ontario amounts to approximately 603,000 square feet of hardwood flooring product. Based on the range of prevailing sales pricing per square foot, achieved in the period since March 26, 2018 and up to the present, the estimated realizable value of this inventory assuming selling in the normal course (on a going concern basis) would be in the order of \$1.3 million to \$1.4 million. In a forced liquidation scenario, managements best estimate of the liquidation value of product inventory

would be \$0.6 million, gross, before overhead and selling costs.

Vehicles and Equipment

There are no reported material changes in this asset category since the date of the Trustee's First Report.

Liabilities

The Proposal Trustee has not focused on updating the pre-NOI liabilities pending filing of a proposal. There are 103 arm's length unsecured trade creditors who are owed a total of \$368,000, inclusive of the \$144,000 of customers with credit referenced above.

Secured Creditor – Bank of Montreal ("Bank")

The Company has taken initiatives to refinance the Bank's debt and advises that it has a tentative agreement with a third party to do so. The Proposal Trustee and the Company's counsel have spoken to this third party to confirm his intentions. As at June 30, 2018 Wiston's records indicate they owed approximately \$2.5 million. The Bank has acquiesced on the Company's previous applications for extension of the NOI. Bank of Montreal was given a general security agreement ("GSA") over all the assets of Wiston by the Company. The Company's principal has provided a personal guarantee and an indemnity to BMO as collateral security against any shortfall on the secured amounts owing by Wiston. The personal guarantee is secured by a first mortgage against the principal's residential real estate in the City of Vancouver. The assessment value for the real estate is \$4,930,000 or more than double the amount of indebtedness to BMO. Accordingly, BMO appears to be fully secured for its loans by the principal's residence.

Secured Creditor – Vehicle and Equipment Leases

We have not performed any analysis to determine whether there is any equity in the vehicles and equipment subject to the financing agreements.

MONITORING

Pursuant to subsection 50.4(7) the Proposal Trustee is monitoring the Company's business and financial affairs. The Company has co-operated in providing weekly cash flow reports and access to information requested by the Trustee.

QUALIFICATIONS OF THIS REPORT

In preparing this report, the Proposal Trustee has relied upon Wiston's books and records, unaudited financial information prepared by Wiston and discussions with management and its legal counsel. The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Proposal Trustee expresses no opinion or other form of assurance with respect to the information contained in this report.

The cash flow statement and other future oriented financial information relied upon in this report are based upon management's assumptions regarding future events. Actual results will vary from the information presented even if the assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

RECOMMENDATION OF THE PROPOSAL TRUSTEE

The Proposal Trustee is continuing to monitor the Company's financial affairs and is not aware of any material change in its financial position other than as described in this report. The Company has begun implementing a strategy to eliminate the unexpected payables accumulation during the NOI and continues to pursue several options to refinance its affairs and file a successful proposal.

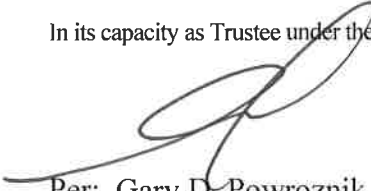
In the Proposal Trustee's opinion, Wiston has acted and is acting in good faith and with due diligence and further that no creditor will be materially prejudiced if the extension is granted.

Pursuant to the above, the Proposal Trustee supports a forty-two (42) day extension to the filing of the proposal.

All of which is respectfully submitted the 18th day of July 2018.

G. Powroznik Group Inc.

In its capacity as Trustee under the Proposal of Wiston International Trade Co. Ltd.



Per: Gary D. Powroznik, CIRP, LIT
Managing Director