

Estate No. 11-2806711
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE BANKRUPTCY OF
WEATHERGUARD EXTERIORS INC.

ORDINARY ADMINISTRATION

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

BACKGROUND

Weatherguard Exteriors Inc. (the “**Company**” or “**Exteriors**”) operated from Langley, British Columbia and provided exterior renovation services for residential and commercial properties in the Lower Mainland of British Columbia. The Company’s services included siding installation, house and building wrapping, and trim design and detailing.

A search of the British Columbia Corporate Registry dated February 10, 2022, indicated that Exteriors was incorporated on May 17, 2004 and that Bradley McDonald and Stephen Wall are the Company’s directors. We understand that the Company’s operations were primarily managed by Stephen Wall.

Prior to the bankruptcy, the directors performed a detailed review of the Company’s expected cashflows in medium term, reviewed the Company’s growing amount of unpaid suppliers and unpaid subcontractors and ultimately determined that the Company was no longer viable. On February 18, 2022 the Company ceased operations and terminated all of its employees.

BANKRUPTCY ASSIGNMENT

On February 18, 2022, it was resolved at a meeting of the Company’s directors that the Company was in financial distress, could no longer meet its obligations as they generally became due, that the Company would make an assignment in bankruptcy pursuant to the provisions of the *Bankruptcy and Insolvency Act* and that Stephen Wall be authorized to execute the documents associated with the bankruptcy proceedings. The bankruptcy documents were filed with the Office of the Superintendent of Bankruptcy and MNP Ltd. was appointed as the Licensed Insolvency Trustee of the Bankrupt Estate (“**MNP**” or the “**Trustee**”) on February 22, 2022.

Weatherguard Exteriors Inc. – In Bankruptcy
Trustee’s Preliminary Report to Creditors

Notice of the Assignment in Bankruptcy and First Meeting of Creditors was sent to all known creditors on February 24, 2022.

ASSETS

According to the Statement of Affairs filed in the bankruptcy, the assets of Exteriors include:

Statement of Affairs

Inventory	\$350,000
Accounts Receivable	\$350,000
Machinery and Equipment	\$103,000
Vehicles	\$52,000
Furniture	\$500
Security Deposits	\$1,500
	<u>\$857,000</u>

Accounts Receivable

The Company’s Statement of Affairs reported total accounts receivable of \$1,400,000, of which \$350,000 was considered by management to be collectable.

Subsequent to the bankruptcy, the Trustee wrote to the various outstanding trade accounts advising of the bankruptcy and directing payment to the Trustee’s office. As of the date of this report the trustee has not received any payments in relation to the outstanding accounts receivable and holdbacks.

Until such time as the Trustee completes its review and corresponds with customers and subcontractors, it is difficult to provide a reasonable estimate of funds which may be collectable, and not subject to liens and/or trust claims.

Inventory

The Company did not maintain a perpetual inventory tracking system. The inventory was counted once each year with the most recent inventory count being performed for the Company’s year-end in November 2021. The Trustee attended the Company’s premises on February 22, 2022 and inspected the inventory on site. The Company shared warehouse space with a related company, Weatherguard Gutters Inc. (“**Gutters**”). The inventory stored at the Company’s warehouse was separated into sections dedicated to Exteriors and sections dedicated Gutters. The Trustee performed testing over the Gutters inventory and determined that the inventory was properly segregated.

The level of inventory maintained at the Company’s premises was minimal compared to the figure reported on the statement of affairs. The Trustee reviewed the Company’s monthly purchases from June 2021 until the date of bankruptcy and noted that the Company’s purchases had been steadily

Weatherguard Exteriors Inc. – In Bankruptcy
Trustee’s Preliminary Report to Creditors

declining. Per discussion with Stephen Wall and several of the Company’s former employees it was determined that much of the inventory that was previously delivered to jobsites had been installed and that inventory levels had not been replenished due to the Company’s cash flow constraints.

The Trustee has not identified material amounts of inventory on any jobsites and does not expect a material realization from the inventory stored in the Company’s warehouse.

Machinery and Equipment

The value for machinery and equipment reported on the Statement of Affairs included various tools, scaffolding, and equipment. The trustee has identified limited small tools and equipment stored in the warehouse, along with scaffolding located at a former worksite. The Trustee will take steps to realize on those assets. The Trustee is still working with management to determine the location of one piece of equipment.

Furniture and Computer Equipment

Exteriors owns several pieces of office furniture and computer equipment. The value reported on the Statement of Affairs for these assets was \$5,500. The Trustee does not expect a material realization from the Company’s furniture or computer equipment.

Vehicles

The Trustee has secured all of the Company’s vehicles. The Statement of Affairs reports vehicles with a value totaling \$52,000. Specifically, the Statement of Affairs reports a 2018 Dodge Ram Promaster cargo van, two 2016 Dodge Ram trucks, and a 2002 Kenworth flat deck truck. With the approval of any inspectors appointed, the Trustee will take steps to realize on the vehicles and pay the outstanding leases. The balance of funds will be for the benefit of the estate.

The Trustee prepared an inventory of the personal property at the premises to which the Director attested to be a complete and accurate representation of the Company’s assets as at the Date of Bankruptcy.

PROVABLE CLAIMS

It is the duty of the Trustee to examine and satisfy itself as to the validity and priority of all claims filed in the Estate. Claims filed with the Trustee as of 3 pm on March 14, 2022 are as follows:

	Statement of Affairs	Filed
Secured Creditors	\$ 2,951,800	\$ 98,982.96
Preferred Creditors	\$ -	\$ -
Unsecured Creditors	\$ 1,409,282	\$ 348,268.52
Total	<u>\$ 4,361,082</u>	<u>\$ 447,251.48</u>

As at the date of this report, there have been no significant differences between the claims listed on the Statement of Affairs and the claims filed to date with the Trustee.

SECURED CREDITORS

Canada Revenue Agency (“CRA”)

CRA has a “deemed trust” claim or property claim equal to the amount of payroll deductions withheld from employees’ compensation and not remitted to CRA. This claim comes in priority to the claims of all other creditors with the exception of a previously registered mortgage.

From a review of the Company’s records, the Trustee determined that Exteriors had failed to remit payroll deductions withheld from employees’ wages to CRA for the three pay periods immediately prior to the Date of Bankruptcy. The Trustee estimates that CRA’s deemed trust claim for unremitted source deductions totals approximately \$27,000. At the date of this report, CRA has not filed a claim with the Trustee.

Any debt owing to CRA for unremitted Goods and Service Tax and Corporate Income Tax at the date of bankruptcy will rank as a general, unsecured claim.

Claims of Wage Earners

Pursuant to Section 81.3(1) of the BIA, claims of employees who are owed wages, vacation pay, and other compensation for services rendered in the six-month period preceding the Date of Bankruptcy are secured, to the extent of \$2,000, by security over the Company’s current assets (cash, inventory, and accounts receivable).

The Director has advised that all employee wages, vacation pay, and other compensation has been paid in full, and as such, the Trustee does not anticipate receiving claims under Section 81.3(1). Amounts owing to employees for termination pay will be handled through Wage Earners Protection Program Act. The subrogated claim in relation to the employee’s termination pay will rank as a general, unsecured claim.

Bank of Montreal (“BMO”)

BMO advanced certain loans to Exteriors under an overdraft facility. As at February 22, 2022, Exteriors was indebted to BMO in the approximate amount of \$997,000 and interest and costs continue to accrue. BMO was granted a general security agreement which was registered in the Personal Property Registry on April 9, 2020.

Weatherguard Exteriors Inc. – In Bankruptcy
Trustee’s Preliminary Report to Creditors

Silver Sky Investments Ltd. (“Silver Sky”)

Silver Sky is a company controlled by Bradley McDonald which advanced funds to Exteriors and was granted a general security agreement. The general security agreement was registered in the Personal Property Registry on October 27, 2021 and is subordinate to BMO’s security. The statement of affairs reports that Exteriors is indebted to Silver Sky in the amount of \$1,874,500.

Fraser City Motors Ltd.

Fraser City Motors Ltd. registered a lease agreement in the Personal Property Registry on July 20, 2018 indicating specific security over the 2018 Dodge Ram Promaster cargo van.

WS Leasing

WS Leasing registered a lease agreement in the Personal Property Registry on October 4, 2016 indicating specific security over the 2016 Dodge Ram 1500 truck.

Meridian Onecap Credit Corporation (“Meridian”)

Meridian registered a lease agreement in the Personal Property Registry on January 8, 2021 indicating specific security over a 2014 Yale Forklift. Meridian also registered a lease agreement in the Personal Property Registry on December 22, 2020, with two Genie S-65 lifts as its security. The Trustee has reviewed the assets leased from Meridian, and determined that there is no net realizable value for the Estate after payment of the registered claims against the Forklift and S-65 lifts.

PREFERRED CREDITORS

Employees

Employees are afforded priority for wages and compensation that are not paid by virtue of Section 81 of the BIA. Claims of employees that relate to the period more than six months preceding the date of bankruptcy are general, unsecured claims and will share ratably with the claims of other creditors. As reported, we do not anticipate receiving claims from employees for unpaid compensation.

Landlord

As reported, the Company operated from premises shared with Gutters. Gutters has agreed to cover the rent and utility payments during the Trustee’s administration of the estate. We do not expect to receive any claims from unpaid landlords.

UNSECURED CREDITORS

The Statement of Affairs reports total unsecured creditors of approximately \$3.5 million, including the estimated deficiency claims of secured creditors.

Ultimately the amounts owing to unsecured creditors will be based on proofs of claim filed and admitted by the Trustee.

SALE AND REALIZATION OF ASSETS

All of the Company’s personal property appears to be encumbered by the registered secured claims of BMO, Silver Sky as well as the anticipated property claim of CRA. As such, it is likely that the general unsecured creditors have no financial interest in the assets.

OTHER MATTERS

Books and Records

The Trustee is in possession of certain books and records at the date of bankruptcy that were obtained from the Director, external bookkeeper, and external accountant.

Insurance

The Trustee has confirmed with the Company’s insurance provider that the existing insurance policy covering the Company’s assets and general commercial liability remains in effect.

Legal Proceedings

The Trustee has not commenced any legal proceedings at the date of this report.

Conservatory and Protective Measures

The Trustee did not change the locks to the Company’s premises on the Date of Bankruptcy as Gutters was continuing to operate and provide storage for the Exteriors assets.

Preferences, and Transactions at Under Value

The Trustee will review the Company’s books and records preceding the date of bankruptcy in order to ascertain whether any preferential payments and/or reviewable transactions have occurred within the last three months or, where related parties are involved, within the last twelve months.

Directive 5R – 3rd Party Deposit

Pursuant to a written agreement between the Trustee and Gutters, Gutters has advanced a \$83,000 retainer to the Trustee to be used to cover Trustee’s fees over and above the assets realized from the estate.

Weatherguard Exteriors Inc. – In Bankruptcy
Trustee’s Preliminary Report to Creditors

ESTIMATED REALIZATION

While the Trustee has not completed its review of the Company’s accounts receivable, given the claims of CRA, and other secured creditors, it is not anticipated that there will be any funds available for the claims of unsecured creditors in the Bankrupt Estate.

All dividends payable by the Trustee to creditors are subject to a 5% levy payable to the Office of the Superintendent of Bankruptcy.

This concludes the Trustee’s Preliminary Report to Creditors.

DATED at the City of Vancouver, in the Province of British Columbia, this 15th day of March, 2022.

MNP Ltd.

In its capacity as Licensed Insolvency Trustee
of the Bankrupt Estate of Weatherguard Exteriors Inc.
and not in its personal capacity



Greg Ibbott, CPA, CA, CIRP, LIT
Senior Vice President