

Estate No. 11-252479
Court No. B081818
District 03 - Vancouver Registry



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

**IN THE MATTER OF THE PROPOSALS OF
H.V.TRUONG LTD. & A-1 MUSHROOM SUBSTRATUM LTD.**

**TRUSTEE'S REPORT ON THE
EXTENSION OF TIME FOR FILING PROPOSALS
(Paragraph 50.4(9) of the Act)**

On November 28th, 2008 H.V. Truong Ltd. and A-1 Mushroom Substratum Ltd. (the "Companies") filed Notices of Intention to Make Proposals ("NOI's") pursuant to paragraph 50.4(1) of the *Bankruptcy and Insolvency Act* ("BIA") and on December 8th, 2008 the Companies filed Projected Cash-Flow Statements as required pursuant to paragraph 50.4(2) of the BIA.

The Companies are not in a position to file proposals to their Creditors at this time and accordingly have applied to Court for an extension of time for filing proposals as provided for in paragraph 50.4(9) of the BIA.

As Trustee in the captioned matter we provide this report to the Court on the business and financial affairs of the Companies as required pursuant to paragraph 50.4(7)(b) of the BIA.

Background

H.V. Truong Ltd. ("HV"), a company controlled by Ha Quan Truong, has been operating a successful mushroom farming business since 1986. In 2003 HV constructed new mushroom growing facilities on 19 acres of property owned by Ha Quan Truong.

A-1 Mushroom Substratum Ltd. ("A-1"), a company also controlled by Ha Quan Truong, commenced its composting operation in 2005 from newly constructed facilities at the same location as HV.

Less than 1 year after A-1 commenced operations the floor in one of the buildings collapsed. Since this time A-1 has rebuilt the floors in both buildings at a cost exceeding \$1,700,000. Unfortunately, while re-constructing the floors, A-1 was only able to operate the business at one half of normal capacity significantly reducing the profitability.

On September 5, 2008 a tragic accident occurred that resulted in 3 deaths and 2 serious injuries. We understand the cause of the accident was poisonous gas from bacteria. The A-1 operations were immediately shut down after the accident and have not resumed to this date. Since the accident the Companies have been under constant scrutiny by Worksafe B.C. (“Worksafe”) and the Ministry of Environment (“MOE”).

Worksafe has 24 hour security at the accident site and have blocked access to the accident area. We understand that the 24 hour security will continue until Worksafe has completed their investigation of the accident. Their investigation is currently being stalled until certain material that may be toxic, is removed from the accident site.

The MOE issued an Order on November 8, 2008 detailing the environmental requirements that need to be addressed by the Companies. One of the requirements of the Order is the removal of the potentially toxic material from the accident area. On November 28, 2008 the Companies received a Notice of Non-Compliance from the MOE. The Order states that the operations of both HV and A-1 should not recommence until the requirements of the Order are complied with. We are advised by David Hobbs, counsel for the Companies, that the Order has been appealed and negotiations are currently ongoing with the MOE with respect to a variance or stay of the Order.

The Companies have been trying to address the concerns of Work Safe and the MOE since the date of the accident. Unfortunately the initial clean-up of the accident site by Hazco Environmental & Decommissioning Services was far more costly than expected.

The unexpected costs associated with the accident as well as the recent demands for repayment made by the Bank of Nova Scotia caused the Companies to seek the protection offered under BIA to provide the Companies time to develop restructuring plans.

Current Operations

As mentioned above, HV continues to operate the mushroom growing business which employs approximately 40 people, while A-1 is not operating and will not recommence operations until it is in compliance with all regulatory authorities. Representatives of the MOE have attended the site and are aware that HV is continuing to operate.

Since the filing of the NOI’s the Companies have kept current with their post filing obligations.

The Companies have retained environmental consultants, engineers and health and safety consultants to assist with development and implementation of the work plan that will address the requirements of the various regulatory authorities.

The Companies have also take steps towards arranging financing for the clean-up and remediation work required to achieve compliance with the various regulatory authorities.

Finally the Companies are in the process of preparing a financing package that will be sent out to various financiers, including GE Capital that has already expressed interest in providing financing.

Conclusion

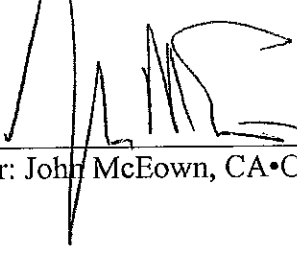
As Trustee, based on our review of the Companies business and financial affairs, we are satisfied that the Companies are continuing to act in good faith and with due diligence. We believe that the efforts currently being made by the Companies towards achieving compliance with the various regulatory authorities are critical to the development of viable restructuring plans and in any event are beneficial to the creditors.

It is our opinion that if the extension being requested is granted the Companies will be able to make viable proposals to their creditors and no creditors would be materially prejudiced.

Dated at Vancouver this 16th day of December, 2008.

Boale, Wood & Company Ltd.

Trustee in the Matter of the Notices of
Intention to File Proposals of
H.V. Truong Ltd. and
A-1 Mushroom Substratum Ltd.



Per: John McEown, CA•CIRP