

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. c-36, AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE AND
ARRANGEMENT OF W.C. WOOD CORPORATION, LTD. and W.C. WOOD
CORPORATION INC. (together the "Applicants" or "W.C. Wood")

**SEVENTH REPORT OF BDO DUNWOODY LIMITED
IN ITS CAPACITY AS MONITOR**

Dated October 2, 2009

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SUPERIOR COURT OF JUSTICE
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IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. c-36, AS AMENDED

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ARRANGEMENT OF W.C. WOOD CORPORATION, LTD., W.C. WOOD
CORPORATION, INC. AND W.C. WOOD HOLDINGS, INC.
(together the "Applicants")

**SEVENTH REPORT OF BDO DUNWOODY LIMITED IN ITS CAPACITY AS
MONITOR**

Dated October 2, 2009

INTRODUCTION

1. By Order of this Honourable Court dated May 19, 2009 (the "Initial Order"), W.C. Wood Corporation Ltd., the Canadian operating company ("Wood Canada"), and W.C. Wood Corporation, Inc., the United States operating company and parent of Wood Canada, ("Wood US") (together the "Companies"), obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, ("CCAA Proceedings").
2. On May 25, 2009, this Honourable Court issued an amendment to the Initial Order adding W.C. Wood Holdings, Inc., the parent of Wood US, to the CCAA Proceedings and approving a debtor in possession credit facility (the "DIP Facility") to be provided by the Applicants' current lenders (the "DIP Lenders") in order to finance the working capital requirements of the Companies.
3. On May 29, 2009, the Monitor filed petitions with the United States Bankruptcy Court (the "US Court") for each of the Applicants for the entry of an order recognizing the CCAA Proceedings as "foreign main proceedings," or in the alternative, "foreign non-main proceedings" pursuant to Chapter 15 of the United States Bankruptcy Code.
4. On June 18, 2009, the US Court entered an Order recognizing the CCAA Proceedings as foreign main proceedings, giving the Initial Order and the Amended Initial Order full force and effect in the US, including,
 - (a) approving of the DIP Facility; and

- (b) extending the stay of proceedings against the Monitor, the Applicants and the Applicants' former, current or future officers and directors in the US.
- 5. By Order of this Honourable Court dated June 19, 2009, revisions to the DIP Facility were approved.
- 6. By Order dated July 28, 2009, this Honourable Court approved of a sale of the interest of Wood US of its Mexican Business (as defined in the Initial Order) and revisions to the DIP Facility.
- 7. By two Orders of this Honourable Court both dated August 28, 2009:
 - (a) the Initial Order was further amended to, among other things;
 - (i) halt the sale process of the Mexican Business;
 - (ii) increase the Monitor's powers to include, without limitation, the power to control the Companies' receipts and disbursements and deal with the sale of the Companies' assets;
 - (iii) create a fifth-ranking charge in favour of the Monitor; and
 - (iv) provide broader protection to the Companies' current and former officers and directors;
 - (b) the stay period was extended until September 30, 2009;
 - (c) the First Report of the Monitor dated May 24, 2009, the Second Report of the Monitor dated June 16, 2009, the Third Report of the Monitor dated July 22, 2009, the Fourth Report of the Monitor dated August 25, 2009, and the Monitor's activities set out therein, were approved; and
 - (d) the fees of the Monitor and its counsel through August 14, 2009 and August 15, 2009, respectively, were approved.
- 8. By Order of this Honourable Court dated September 28, 2009, the stay period was extended to October 30, 2009 so that the Companies could proceed with entering into an agreement of purchase and sale with one of the offerors involved in the Companies' Going Concern Sales Process, as defined in the 6th report of the Monitor dated September 25, 2009 (the "Sixth Report"), which is to be completed no later than October 30, 2009.
- 9. The purpose of this Report is to provide this Honourable Court with information in respect of the sale of the Companies' Dehumidifier Business and the Applicants' request for Approval and Vesting Orders as defined below.

Sale of the Dehumidifier Business

10. As reported in the Sixth Report, the Companies retained an investment advisor (the “Investment Advisor”) to manage a sales process to sell a self contained manufacturing and sales operation for the dehumidifier products (the “Dehumidifier Business”) of Wood Canada.
11. During June and July, the Investment Advisor prepared and sent sales teasers to approximately 25 parties identified as potential purchasers for the Dehumidifier Business.
12. During July and August, a confidential information memorandum was prepared and sent to those parties who signed a confidentiality agreement. Presentations to interested parties by the Companies’ management were held between August 15 and September 4.
13. Two parties submitted offers to purchase the Dehumidifier Business during the first two weeks of September and Wood Canada entered into an asset purchase agreement on September 25, 2009 (the “APA”) and a transition services agreement on October 1, 2009 (the “TSA”) with Fantech Limited (the “Purchaser”), the party whose offer was significantly higher.
14. The significant terms of the APA are summarized as follows:
 - purchase price of CDN\$2.1 million payable as follows:
 - i. deposit of CDN\$200,000, which was paid to the Monitor on September 25, 2009.
 - ii. holdback of CDN\$200,000 (the “Holdback”) to be paid to the Monitor on closing, which is to be paid to Wood Canada on completion of the TSA.
 - iii. balance of purchase price will, subject to a purchase price adjustment on the final inventories of the Dehumidifier Business, be paid on closing of the sale.
 - assets to be sold (the “Purchased Assets”) consist of specific assets relating to the Dehumidifier Business sold on an “as is, where is” basis, including certain:
 - i. machinery and equipment
 - ii. raw material, finished goods and packaging supplies

- iii. assumed customer supply contracts
 - iv. intellectual property
- Wood Canada and the Purchaser intend to enter into a license agreement prior to closing of the sale for an initial term of three years, where the Purchaser will pay a royalty for the right to use one of the Applicant's trademarks in connection with the sale and distribution of dehumidifier products in Europe.
 - the Purchaser is assuming liabilities related to certain warranty claims for goods sold before or after closing of the sale.
 - the closing of the sale is expected to take place shortly after obtaining Orders from this Honourable Court approving the sale of the purchased assets by Wood Canada and vesting the right, title and interest of Wood Canada in and to the Purchased Assets in and to the Purchaser free and clear of all encumbrances (the "Approval and Vesting Orders"); and recognition of the Approval and Vesting Orders by the US Court.
15. Wood Canada and the Purchaser have entered into the TSA to govern certain transition services (the "Transition Services") during a period of up to thirty days following the closing of the sale. The purpose of the TSA is to allow for continued operations of the Dehumidifier Business prior to removal of the Purchased Assets by the Purchaser. The key terms of the TSA are summarized as follows:
- Wood Canada will carry on certain manufacturing operations of the Dehumidifier Business using the Purchased Assets to complete orders as required by the Purchaser.
 - the Purchaser will reimburse Wood Canada for the costs of out of pocket expenses, the costs of purchased materials, and the cost of production at an agreed to pre-determined rate per unit.
 - invoices for the Transition Services will be issued weekly by Wood Canada to the Purchaser. The Purchaser will advance weekly payments to be applied toward the invoices and a final invoice is to be issued within seven days of the completion of the TSA.

- upon completion of the TSA, the Purchaser is to provide a certificate to the Monitor directing the payment of the Holdback to Wood Canada.

RECOMMENDATION

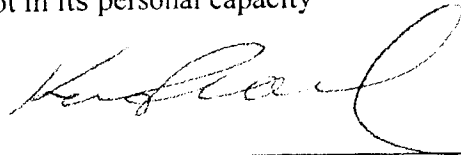
16. The sales process undertaken by the Companies with the assistance of the Investment Advisor identified the most likely parties capable of completing a sale of the Dehumidifier Business.
17. The sales proceeds in the APA significantly exceed the estimated liquidation value of the Purchased Assets included in liquidation proposals obtained by the Monitor.
18. The DIP Lenders are supportive of the sale of the Dehumidifier Business. Since the DIP Lenders have a valid and enforceable priority charge over the assets, property and undertaking of Wood Canada, the proceeds from the sale of the Dehumidifier Business (net of closing costs, commissions and professional fees) will be paid to reduce the Companies' outstanding DIP Facility.
19. Based on the above, the Monitor recommends that the Approval and Vesting Orders be issued by this Honourable Court.

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Dated October 2, 2009

BDO DUNWOODY LIMITED,
in its capacity as Court-Appointed Monitor of
W.C. WOOD CORPORATION, LTD.,
W.C. WOOD CORPORATION, INC. and
W.C. WOOD HOLDINGS, INC.
And not in its personal capacity

Per:

A handwritten signature in cursive script, appearing to read "Ken Pearl", written over a horizontal line.

Ken Pearl
Vice President

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Court File No. CV-09-8194-00CL

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SEVENTH REPORT

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