

December 14, 2007

BC Supreme Court
Law Courts
800 Smithe Street
Vancouver, BC V6Z 2E1

Attention: Justice Grant Burnyeat

Dear Sirs:

**Re: In the Matter of the Receiverships of Cook and Katsura Homes Inc. &
Chandler Homer Street Ventures Ltd.**

1. Introduction

The Bowra Group Inc. was appointed Receiver-Manager of the assets, undertakings and property of Cook and Katsura Homes Inc. & Chandler Homer Street Ventures Ltd. pursuant to two separate Orders of the Supreme Court of British Columbia on November 28, 2007. The purpose of this letter is to provide the Court with a preliminary status report on the receivership.

The two companies are involved in the development of condominium properties in the Lower Mainland. Cook and Kastura Homes Inc. is in the process of building a 108 unit condominium tower in Richmond, BC known as Garden City. Chandler Homer Street Ventures Ltd. is in the process of building a 192 unit condominium development in downtown Vancouver known as Homer & Helmcken Yaletown ("H&H")

A total of 64 of the 108 units in the Garden City project are subject to pre sale agreements and 179 of the 192 units in H&H are pre-sold. The Garden City project is the second phase of a two phase development. The first phase is almost complete. There are still two unsold condominium

units in the first phase, along with five commercial units which the Receiver-Manager completed the sale of on December 12, 2007.

2. Status of Construction

Garden City

There is approximately \$283K in unpaid invoices outstanding and \$346K on additional work to be done on phase 1 of the Garden City project.

The November 28, 2007 report of the quantity surveyor Altus Helyar estimates that the current cost of completion of phase 2 of Garden City as at October 31, 2007 is approximately \$14.1M. Based on total construction costs of \$38.2M, it is estimated that this project is 63% complete as at October 31, 2007.

H&H

The H&H project total cost was \$83M. As at October 31, 2007 Altus Helyar estimates the construction cost to complete is \$24M. It is estimated that this project is 71% complete.

On the early morning of Monday, December 10, 2007 damage was done to phase 2 of the Garden City project by an unknown individual. The damage which at this stage is estimated to be at least \$100K, relates to deliberate flooding of the units by turning on the water mains. As at the date of this report we are unable to determine the exact amount of the damage (which is covered by insurance), however, as a result the drywall and tiling in the units will have to be replaced, causing a certain amount of delay to the completion of the project.

Both projects are scheduled to be completed in July 2008.

In conjunction with Management and the quantity surveyor we are currently in the process of completing a review and assessment of the estimated cost to complete both projects.

3. Trades and Suppliers

The October progress draw which was payable at the end of November, was paid by the Receiver-Manager on Monday, December 3, 2007.

All trades continue to work at both sites and we have yet to encounter any problems with ongoing work at the sites. The next progress draw for trades and suppliers relating to work done

in November is due December 20, 2007. The quantity surveyor is completing their report for the November work and should be in a position to recommend approval of payment of the November draw by December 14, 2007.

4. Holdbacks

There is a total of approximately \$973K in holdbacks on phase 2 of the Garden City project and a further \$24K on phase 1 of Garden City. Holdbacks totalling \$1.85M are outstanding on the H&H project. We have paid one holdback in the amount of \$259K which was due on December 12, 2007. None of the other holdbacks are due and payable until February of 2008.

Upon our appointment we froze various bank accounts belonging to the Companies which included \$248K in Garden City and a further \$468K in H&H. These funds have since been transferred to the Receivers bank account.

5. Liens

There are two liens filed on the projects. One is in the amount \$259K on the H&H project which we have since paid. Another lien of \$20K, which was registered on phase 1 of Garden City, has been paid from the proceeds of the sale of five commercial units which the Receiver-Manager completed on December 12, 2007.

6. Home Owners Warranty

We met with Travelers, the insurer that provides the Home Owner Warranty coverage. They have advised us that they do not wish to cancel the Home Owner Warranty coverage on the projects. However, given the fact that the current developer is in Receivership and is unlikely to be around once the development is completed, they will be looking to a third party to provide the indemnity that the developer provided. They have indicated that they would be prepared to accept an indemnity from one of the lenders or alternatively an indemnity from the Receiver-Manager supported by collateral security in the amount of \$1.5M for each project.

Under the terms of the Home Owner Warranty coverage the company is liable for labour and materials for up to 15 months and the building envelope for 5 years. We understand the majority of warranty claims are generated within the first 15 months.

In our opinion it makes more sense for the Receiver-Manager to provide an indemnity by way of a charge on the assets. Once the units have been sold, the Receiver-Manager could hold back the sum of \$1.5M per project for a five year period, pending the expiration of the Home Owner Warranty claims. In the interim, the Receiver-Manager proposes to enter in a contract with a third party service provider to cover any warranty claims once the units have been completed.

Travelers has recently advised us that they are now receiving warranty service calls from owners of other Chandler Group projects including Tribeca and Hamlin. To date these calls have not been dealt with by Chandler Development Construction since they have no funds to deal with the warranty claims. We may have to consider providing warranty service coverage on these units as well in order to ensure that we can maintain warranty coverage on the H&H and Garden City projects.

Cancellation of the warranty coverage by Travelers would result in significant costs being incurred in completing the projects. We can't sell homes without home owner warranty coverage, and would therefore have to engage a new builder developer who is registered with home warranty to complete the projects. That builder developer would have to provide their own indemnity to the insurer to cover the project. Based on previous experience we believe that this would cost far more than the current 3% construction management fee we are proposing to pay to have Mr. Juchymenko's company complete the project.

7. Construction Costs

We are currently reviewing the quantity surveyor's report and the company's budgeted cost to complete as at October 31, 2007 and anticipate reporting to Court shortly on the reasonableness of the budget.

In addition, we are planning to enter into a construction management agreement with the current Vice President of Construction, Mr. Wally Juchymenko and certain other employees for them to oversee completion of both projects.

We see Mr. Juchymenko as critical to the completion of the project. He has had a long standing working relationship with the majority of trades on the job as well as the site and project managers and supervisory crews. We also intend to enter into an agreement with his company as third party warranty service provider post completion of the units.

8. Financing

We have obtained commitment letters from bclMC Construction Fund Corporation ("bclMC") to fund the cost of completion of the construction for both the H&H and the Garden City projects. We have also obtained a commitment from Gibralt Capital Corporation ("Gibralt") to cover the funding of the outstanding holdbacks, receivership fees and indemnities required under the Home Owners Warranty program for both projects.

bclMC is committed to funding the budgeted completion of construction costs of \$25.5M on the H&H project. This amount includes interest on their outstanding loans, together with GST on the construction cost. It is at an interest rate of Prime + 3% and also includes a fee of \$724K. They have also provided commitment financing for \$15M on the Garden City at Prime + 3% plus a fee of \$333K. The funding covers the budgeted construction costs to completion, plus their ongoing interest and GST on the construction costs.

Gibralt has agreed to fund an amount up to \$6M at 3.5% interest rate per month plus a 3% loan fee on all funds advanced. This funding is to cover the liens, holdbacks, indemnities, and Receiver fees & costs on both projects.

The financing commitment of bclMC is conditional on Gibralt fulfilling the various terms and conditions in its lender agreement between itself and Gibralt dated December 3, 2007.

Based on our assessment of the situation we believe we may be able to obtain cheaper financing than that offered by Gibralt. We do not anticipate requiring the Gibralt financing until sometime in January and accordingly intend to approach various parties including current existing secured creditors involved in the H&H project (Cooper Pacific and Daniel Scott) with respect to determining whether or not they are interested in providing funding for the completion of the project.

In addition, we believe that the Receiver-Manager may be able to provide an indemnity to The Travelers Companies, Inc. ("Travelers") to ensure the continuation of the Home Owners Warranty. The Receiver-Manager is trying to determine whether or not it would provide the indemnity of \$1.5M per project by way of a charge on the assets, rather than provide a letter of credit. Once the units have been sold the charge would be converted to cash, which would remain in the Receiver-Manager's trust account pending expiration of the warranty period.

9. Sales

A number of units in both the projects have been pre-sold. A total of 179 of the 192 units in H&H have been pre-sold. A total of 64 of the 108 units in phase 2 of Garden City have been pre-sold. There remain two condo units in phase 1 that have not been sold. The projected sales value of the units in phase 2 of Garden City is \$43.8M and \$95.5M for H&H.

In our preliminary review of the sales agreements we noticed that a considerable number of the contracts provided for a decorating allowance. In some instances these decorating allowances were as much as \$100K. We are determining what justification there is for providing these decorating allowances. Based on our preliminary review we believe that several of these contracts may not be honoured by the Receiver-Manager unless the decorating allowances are waived.

There are several other contracts that appear to be with related parties that have been entered into at prices significantly below the market value at the time of the sale. We intend to complete a further review of these sales with a view to determining whether or not the Receiver-Manager will complete those contracts.

10. Estimated Equity in Project after Secured Creditors


We have prepared a preliminary assessment of the estimated equity in project based on the information we have available. That assessment is attached as Appendix A to this report. The estimate is subject to change. To the extent we determine that the budgeted construction, sales and marketing costs are understated, the ultimate equity in the projects will decrease.

Our preliminary assessment indicates that before provision of the \$3M indemnity from the home owner warranty there could be a total of \$6.5M of equity in the projects, after payment of the secured creditors, trades and suppliers, liens and holdbacks.

Yours very truly,

The Bowra Group Inc

Receiver-Manager of the assets, undertakings
and property of Cook and Katsura Homes Inc. &
Chandler Homer Street Ventures Ltd.

per: 

David P. Bowra

**Estimated Equity in Chandler Projects
As At November 30, 2007
(Stated in \$000's)**

Appendix A

	Garden City - Phase I	Garden City - Phase II	H&H	Total
Projected revenue	4,110	43,900	95,550	143,560
Current Secured Debt				
BCIMC	0	18,400	47,000	65,400
BCIMC Fee	0	334	724	1,058
Cooper Pacific II MIC	0	0	3,090	3,090
P3 Holdings/ Daniel Scott	0	0	5,200	5,200
Gibralt Capital	0	13,400	4,850	18,250
	0	32,134	60,864	92,998
Costs to complete (see notes below)	346	13,910	23,974	38,230
	346	46,044	84,838	131,228
Equity before additional costs	3,764	(2,144)	10,712	12,332
Additional costs to be funded				
Required Holdback Balance	25	973	1,859	2,857
Outstanding invoices - Phase I	283	0	0	283
Travellers/St Pauls Security Deposits	0	100	193	293
Warranty Service Provider Costs	0	200	300	500
Estimated Professional Fees	0	500	500	1,000
	308	1,773	2,852	4,933
Interest on Receivers Borrowings @ 24% for 6 Months	78	363	466	907
Interest on Cooper Pacific @ 13% for 6 Months	0	0	201	201
Interest on P3 Holdings @ 24% for 6 Months	0	0	540	540
	386	2,136	4,059	6,581
Add: Cash in Receiver Manager Bank Account	3,378	(4,280)	6,653	5,751
	7	248	468	723
Estimated Equity(Shortfall) in Projects before Indemnity	3,385	(4,032)	7,121	6,474

Notes

1. We have yet to determine the accuracy of the budgeted costs to complete. In the event the costs are higher or the project is delayed, costs will increase and the equity in the project will decrease.
2. Sales and Marketing costs to complete the project are included in the cost to complete estimate. If these estimates are not accurate, this would increase the costs to complete in the project.
3. An indemnity of \$3million (\$1.5million on Garden City Phase II and \$1.5million on H&H) is required by Travellers Insurance for Home Owner Warranty.