

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

AND

IN THE MATTER OF THE BUSINESS CORPORATIONS ACT,  
R.S.A. 2000, c.B-9

AND

IN THE MATTER OF OKANAGAN HILLS DEVELOPMENTS  
CORPORATION, VINEYARD HOMES AT THE RISE LTD., THE  
GOLF CLUB AT THE RISE LTD. and Y-K PROJECTS LTD.

(all referred to hereafter as "OHDC")

**MONITOR'S SECOND REPORT**  
**January 29<sup>th</sup>, 2009**

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## **1. INTRODUCTION**

The Rise is a master planned community development with signature golf course property located within the boundaries of the City of Vernon, British Columbia. The properties are described in the Petition filed in the Supreme Court of British Columbia (“the Court”) referred to below. For the purpose of this report we shall limit the description of the properties to:

1. “The Lands”, being the properties slated for residential development by OHDC, and
2. the golf course referred to as “The Golf Club”.

On December 15<sup>th</sup>, 2008 a Petition was filed in the Court for an order granting a stay of proceedings pursuant to the Companies Creditors Arrangement Act (“CCAA”). OHDC was the Petitioner. The Court granted the Order (the “Initial Order”).

The First Monitor’s Report was provided to the Court on December 23<sup>rd</sup>, 2008 (“the First Monitor’s Report”) for the purposes of providing information concerning the urgent need for Debtor in Possession Financing (“DIP”).

The purpose of this report is to provide information to the Court with respect to the application for an extension of the stay of proceedings provided by the Initial Order.

This report will also provide information pertaining to the replacement of the DIP provider, detailed in the First Monitor’s Report and some minor changes requested by the replacement DIP provider.

## **2. ROLE OF MONITOR**

The Initial Order appointed Abakhan & Associates Inc. as the Monitor of the Petitioners in the CCAA proceedings. The Monitor’s duties include:

- To review the Petitioners’ financial projections and comment on same.
- To review the actual cash receipts & disbursements of the Petitioners subsequent to the date of the Initial Order.
- To report to the Court monthly as to the affairs of the Petitioners indicating their financial position and the status of the restructuring efforts.

- To report to the court in the event that any material change in the financial projections or financial circumstances of the Petitioners comes to its attention.
- To report to the Court in the event that the Petitioners have not materially complied with any of the terms of the Initial Order.
- To assist the Petitioners in formulating, negotiating and finalizing a plan of arrangement if so requested.
- To assist the Petitioners to pursue financing and restructuring options if so requested.

The Initial Order does not empower the Monitor to exercise any management over the Petitioners' affairs. The Order does provide that the Petitioners, their shareholders, officers, directors, agents and employees are to provide the Monitor with the information and records that are required by the Monitor to carry out its duties.

### 3. FINANCIAL PROJECTIONS (December 6<sup>th</sup>, 2008 to January 16<sup>th</sup>, 2009)

- Included in the Petition in support of the application on December 15<sup>th</sup>, 2008, which resulted in the Initial Order being granted, was a Cash Flow projection for the period December 6<sup>th</sup>, 2008 to September 25<sup>th</sup>, 2009 ("the Petition Cash Flow"). As reported in the First Monitor's Report, the Monitor reviewed the Petition Cash Flow projections in some detail with management and concluded that the projections are reasonable.
- The Monitor references below a schedule comparing the Petition Cash Flow projections for the period December 6<sup>th</sup>, 2008 to January 16<sup>th</sup>, 2009 to the actual Cash Receipts & Disbursements for the same period.
- **AS A RESULT OF THE LACK OF DIP FINANCIAL SUPPORT, THE COMPANY HAS BEEN UNABLE TO MAINTAIN THE VERY MINIMUM OF PAYMENTS TO VARIOUS DEEMED ESSENTIAL PAYMENTS FOR EITHER THE GOLF CLUB OR THE LANDS. ONLY PAYROLLS HAVE BEEN PAID TO-DATE. THERE IS NOT ENOUGH CASH ON HAND TO PAY THE GROSS PAYROLL DUE ON JANUARY 30<sup>TH</sup>, 2009.**

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The actual Cash Flow for the period shows a positive variance of \$367,394 when compared to the Petition Cash Flow projections for the same period. In summary:

**Receipts & Disbursements December 6<sup>th</sup> 2008 to January 16<sup>th</sup>, 2009:**

	<b>Petition Cash Flow</b>		
	<u>Projections</u>	<u>Actual</u>	<u>Variance</u>
Cash Beginning	100,861	100,861	
Receipts	81,000	116,521	35,521
Disbursements	<u>523,513</u>	<u>191,640</u>	<u>331,873</u>
Net Cash Flow	(442,513)	(75,119)	367,394
Cash Ending	<u>(341,652)</u>	<u>25,742</u>	<u>367,394</u>

Explanations for the major variances (negative variances in brackets) are as follows:

*GOLF CLUB*

• Accounts receivable collections	\$ 6,900	
• Bonus payments not paid	26,685	
• Timing of source deductions and benefits payments	11,411	
• Operating costs not paid	20,927	
• Existing lease and finance costs not paid	9,162	
• Discretionary payments not made	<u>20,364</u>	
Total Golf Club Favourable Variance:		95,449

*OHDC*

• Account receivable	\$ 20,000	
• Receipts from house sales and miscellaneous	8,621	
• Timing of source deductions payment	20,656	
• Monitor, legal and DIP financing fees not paid	100,000	
• Operating costs not paid	78,009	
• Discretionary payments not made	<u>44,659</u>	
Total OHDC Favourable Variance:		<u>271,945</u>
<b>Total favourable variance, as above:</b>		<b><u>\$367,394</u></b>

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- The current cash on hand is not adequate to meet the gross payroll on Friday, January 31, 2009. There will have to be a voluntary allocation of salary reductions, to be determined.
- The Monitor has extrapolated a new Cash Flow based on the cash available on January 30, 2009 and assuming availability of the DIP Loan immediately afterwards (*see attached summary, Exhibit "A"*). Details of the underlying buildup of costs and revenue are available upon request.

**4. FINANCIAL POSITION AND ESTIMATED REALIZABLE VALUE ON LIQUIDATION**

- Based on the Valuations provided to the Monitor, per the Griffin Appraisal Reports provided to the Court on the filing of the Petition, it would seem that there is more than enough to pay all the Creditors, even leaving equity to the Shareholders. However, the state of the economy has deteriorated since the preparation of the Valuations. Consequently there is some doubt surrounding the current accuracy of the Griffin Appraisal Reports.
- CBR Richard Ellis ("CBRE") advises that there is considerable interest in this development (The Golf Club and Lands) as a whole. Separate sales of The Lands and The Golf Club would seriously reduce the overall value.
- At this early stage, it is impossible to assess final dividends to the various classes of Creditors, which classes themselves still have to be defined.
- It should be noted that there may be significant tax losses/protection available to a successful purchaser/joint venturer/investor in the OHDC Group of Companies, which would be lost in bankruptcy. The Monitor is pursuing advice from the OHDC accountants on this asset.
- The aforementioned tax losses would be significantly reduced or even lost altogether in the event that the properties are divided up and sold separately.

**5. STATUS OF RESTRUCTURING PLAN**

- The Petitioners have anticipated the need to cut costs and prior to the filing of the CCAA entered into a program that has saved almost \$200,000 per month in expenses, for a potential yearly savings of \$2,100,000 (*see attached Exhibit "B"*).
- The details of a Restructuring Plan will become apparent as potential investors and/or purchasers and/or joint venturers come forward through the services of CBRE and OHDC's advisors and consultants.

**6. DEBTOR IN POSSESSION FINANCING ("DIP")**

- The First Monitor's Report detailed the necessity of DIP financing being made available to the Petitioners. Pursuant to that application, the Court made an Order enabling OHDC to obtain a \$1,000,000 preliminary advance out of a \$2,500,000 DIP Loan.
- Arrangements had been made to obtain financing from Regal RV Resorts Inc. ("Regal").
- Business Development Corporation ("BDC") filed a Notice of Motion for leave to appeal the DIP Order on January 8, 2008, and advised Regal that they would lend at their own peril.
- On January 13<sup>th</sup>, 2008, Regal advised that it was unable to finance the DIP Loan.
- The Monitor has not received any leave to appeal documentation from BDC.
- A replacement financier, Pencor Capital Corp. ("Pencor"), was located and arrangements have been made with said new financier that they will replace Regal as the DIP financier on substantially the same terms.
- One term that is different is that Pencor, has requested that sales of lots, net of priorities and disbursements, be held in trust by the Monitor until such time as the CCAA proceeding is completed.

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- At time of writing, the Monitor has established that all other requirements of the replacement DIP Loan have been met, and it is only subject to Court approval as a replacement DIP Lender. The Monitor understands that there will be an application on January 30<sup>th</sup>, 2009 that will replace Regal with Pencor, as above described (*see Pencor Term Sheet, Exhibit "C"*).
- The Court should be advised that BDC still maintains opposition to the DIP Loan ranking in priority to its security on The Golf Club.

**7. MARKETING THE LANDS AND THE GOLF CLUB**

The Monitor has met with Marshall McLeod of CBRE, who has been retained to secure an investor/joint venturer/purchaser of the OHDC and The Golf Club. Mr. McLeod is of the opinion that The Golf Club and the Lands must be marketed together.

- On questioning by the Monitor, Mr. McLeod is of the opinion that if The Golf Club ceased operations in 2009, it would be “disastrous” and “substantially reduce the value of both The Golf Club and the development”.
- Mr. McLeod has brought forward 3 potential investor candidates for the Petitioners to consider. Discussions are very much in a preliminary stage and will need contemplations of joint venturing and compromise by the various classes of creditors (still to be determined).
- The three interested parties have emphasized to Mr. McLeod the importance of having The Golf Club and The Lands restructured together.
- The three interested parties are all in the business of developing residential/golf club developments. There are obvious synergies to be expected where potential joint venturers, investors/purchasers who have multiple golf courses of their own. The synergetic effect must be identified to reflect in any final consideration reached under this process.

**8. REVIEW OF THE OKANAGAN HILLS DEVELOPMENT CORPORATION (“OHDC”)**

- OHDC, otherwise known as The Rise, has a site overlooking Lake Okanagan, covering 735 acres, west of Vernon.

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- The current plan incorporates 210 low-density residential and resort tourist commercial units encompassing a Boutique Hotel and 380 acres of parks and open space. It also encompasses an 18 Hole 6900 yard Fred Couples Signature Golf Course.
- The Property envisages a Beach Club and Winery, utilizing beach frontage with an anticipated 20 acre vineyard and wine club for The Rise residents.

*STATUS OF EXISTING LOTS*

- There exist 91 units available for sale.
- One unit, a Show Home, is designated to complete in February, 2009.
- There have been 282 units produced to-date in total.
- The Rise has the capacity to hold another 928 residential units under the existing master development plan.

*SALE OF THE SHOW HOME*

*Lot 20, Section 31, Township 9, Osoyoos Division Yale District Plan KAP78952.*

The sale of the Show Home is scheduled to be completed on February 16, 2009 for an amount of \$1,318,000.

- There is a deposit of \$150,000 held in trust with Nixon Wenger.
- There are 11 Claims of Builder's Liens registered against this property by various creditors (*see attached Exhibit "D"*). All of these Liens have been registered after the registration of the mortgages.
- EBA Engineering Consultants Ltd. ("EBA"), has registered a Claim of Builder's Lien of \$49,046 against Lot 20.
- The Monitor has had discussions with EBA with a view to finalizing the projected sale of the Lot 20 – Show Home on February 16, 2008, in accordance with the Petition Cash Flow.
- EBA has stated that they will need to issue a Schedule CB Building Permit required, at a cost of \$1,500 to the City of Vernon in order to allow an Occupancy Permit to be issued.
- The Monitor has undertaken negotiations with EBA to allow this sale to proceed on the basis of some limited additional remuneration to EBA.

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- The Monitor has received information that EBA is not prepared to compromise its lien position on the Show Home at this time. The Monitor intends to take the matter up further with Senior Management of EBA in Vancouver, BC. It may be necessary to obtain a Court Order to have EBA produce the above Survey Certificate.
- As reported earlier, the DIP financier requires all revenue, except prior charges, to be placed in trust. The DIP financier is also prepared to allow \$285,000 to be paid to Arres Capital, the first chargeholder on the Lot 20 property.

*COMPLIANCE DEPOSITS*

There are 138 individuals, corporations, etc. that have put up deposits of one sort or another, to meet the requirements that the Lot owners will either landscape or build in accordance with their Sales Agreement, (see "Exhibit E").

- A total of \$706,000 is listed as owing. There is an amount of \$262,144 (including interest) that is in Trust.
- The above balance in Trust does not include all interest accrued, as information available indicates interest only to October 31<sup>st</sup>, 2008.
- The Monitor is in the process of obtaining names and addresses of the depositors and will be notifying them of the CCAA proceedings immediately.
- Many of the depositors have not complied with their agreements and obligations, and in the opinion of OHDC, have forfeited their right to the deposits. The Monitor has requested further information and verification as to each deposit.

*THE TANNINS (parcel of Lots within The Lands)*

- At the time of filing, OHDC had a vendor take-back mortgage for \$1,500,000 on a sale of building lots. The vendor take-back mortgage was supposed to be paid on December 31, 2008. It has not been paid.
- No steps have been undertaken at this point to recover the properties or the cash for the benefit of OHDC.
- The First Chargeholder, Arres, and the Second Chargeholder, Echo Merchant Fund Ltd., have commenced Foreclosure Proceedings.

*MARKETING OF OHDC*

- During the Monitor's discussion with Mr. McLeod of CBRE, Mr. McLeod indicated that the foreclosure of The Tannins created an opportunity for an investor in OHDC, as Arres had indicated that the Tannins lots could be added to the whole package.
- As reported above, Mr. McLeod of CBRE, has identified three potential purchasers/ investors/joint venturers for The Golf Club and The Lands.

*TAX LOSS*

- The Monitor has not investigated the availability of tax losses available within the Petitioners. There should be significant tax losses available to a joint-venturer/partner. This will be evaluated in due course. Initial indications are that the tax losses will be in excess of \$14,000,000.

*CREDITORS*

- OHDC General Creditors (*see attached Exhibit "F"*) \$4,193,629
- The Monitor has had reference that some claims may be understated.

**9. REVIEW OF THE GOLF CLUB AT THE RISE "The Golf Club"**

Further to the Monitor's First Report, we would advise as follows concerning The Golf Club:

*CREDITORS*

- **The Golf Club Creditors** are made up as follows:
  1. Secured Creditor – Business Development Bank ("BDC") \$5,000,000
  2. 21 Founding Members (*Exhibit "G"*) 2,085,660
  3. General Trade Creditors, inclusive of the Founding Members above (*Exhibit "H"*) 536,000
  4. Time-Purchase Contracts (*Exhibit "I"*) not available
- **BDC** has mortgage security on The Golf Club. The property comprising The Golf Club is compromised by at least the following:
  - The temporary golf club house is not located on The Golf Club property.

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- Parts of 15 of the 18 holes of The Golf Club impinge on OHDC Lands.
  - Similarly, parts of five holes of The Golf Club titled lands impinge on property originally set aside for The Golf Club not being used as part of the Golf Course.
  - The easements have not been fully established.
  - Golf cart pathways have not been fully established.
- **The Founding Members** (*see attached Exhibit "G"*) were previously understood to be equity shareholders of The Golf Club. In fact, a review of the documentation reveals that the Founding Members' indebtedness are loans, repayable by The Golf Club after the indebtedness to BDC has been paid off. The loans do not carry interest. The Founding Members' interests have not been registered on The Golf Club titles. The Founding Members will not get an interest in land until BDC is paid off and Y-K option paid for.
  - **The General Trade Creditors** (*see attached Exhibit "H"*) amount to \$536,000. It is possible that there could be more trade creditors as the Monitor has not circulated a request for confirmation at this time.
  - **The Time-Purchase Contracts** (*see attached Exhibit "I"*). The exact amount of indebtedness to these creditors is not available at this time. The Monitor estimates that the total obligation is at least \$600,000.
  - **Related Creditors** According to the latest financial statements there is recorded to related investors/creditors, approximately \$5,400,000.

*BUILDERS' LIEN PAYABLES*

The Monitor is aware of two Claims of Builders' Lien on The Golf Club:

- EBA Engineering Consultants Ltd. - who have registered their Claim of Builder's Lien behind the other secured charges; and
- Blackpaw Construction Ltd. ("Blackpaw") – The Monitor is advised that Blackpaw has filed a Claim of Builder's Lien of \$423,666.69. No action has been commenced within the timeframe allowed, and as such, this claim is probably invalid. Blackpaw is owned by one of the shareholders of The Golf Club.

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*GOLF CLUB OPERATIONS*

- There are 28 Golf Club Members who have purchased their Membership at the time of purchasing a lot in the development.
- In 2008, The Golf Club commenced operations on June 18<sup>th</sup>, closing on September 30<sup>th</sup>. It is intended to operate The Golf Club from April 17<sup>th</sup>, 2009 through September 30<sup>th</sup>, 2009; 166 days, an increase of 66 days, an approximate 40% increase in the number of golf playing days compared to 2008.
- The Golf Club has based its budget on approximately 22,000 rounds of golf. The Monitor has reviewed the budget and questioned the General Manager of The Golf Club. In 2008, the number of rounds was 9,800 over the shorter period. The General Manager of The Golf Club has reviewed his initial targets and reduced his expectations by 20% and the cash flow is reflective of same. The cash flow/budget reflects the necessity to maintain essential people in the administration, such as the Golf Pro, General Manager, the head grounds people familiar with the course, in order to ensure maximum achievement of the budget.
- The current Golf Clubhouse comprises two temporary Britco trailers and a double-wide trailer located on land that is not owned by The Golf Club. The Monitor understands that the intent is to eventually re-locate and replace this temporary Clubhouse with a permanent Clubhouse on Golf Club lands, as and when the permanent Golf Clubhouse is going to be built.
- The Monitor has reviewed the overall Golf Club budget, including the Food and Beverages section, which ran at some significant loss in the previous year. The General Manager has assured the Monitor that he is keenly aware of the need to be profitable and will be administering this part of the golf operations closely.
- On an overall basis, the Monitor does not find there is sufficient evidence to declare that The Golf Club operations will not substantially be self-financing at this stage, except for servicing of the BDC debt. It remains to be seen whether the normal increase in the Vernon Spring/Summer population of 250,000 visitors, as indicated by Griffin Report, will be substantially reduced as a result of the current economic morass.

*THE GOLF CLUB FRED COUPLES SIGNATURE COURSE AGREEMENT ("the Agreement")*

- The Golf Club has contracted with Fred Couples Enterprises Inc. to use the Fred Couples' name in the golf course design, in the promotional literature and golf course marketing strategies.

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- Management regard this Agreement as having considerable added value in it's attempts to attract investors/joint venturers/purchasers.
- The Monitor has reviewed the Agreement and is concerned that Clause 6.2 of the Agreement could become operative in the event that "the developer ..... makes an assignment for the benefit of it's creditors, or if a receiver is appointed for it's property and business .... (see attached Exhibit "M").

### *GOLF CLUB ENCROACHMENTS*

When The Golf Club was being constructed, the greens and fairways were not positioned according to the original Lot designations, because of design changes put forward by The Golf Club builder and The Golf Club architect based on terrain and the visible impact of the course itself. This has resulted in encroachments by The Golf Club onto the development by some 16 acres versus reductions on The Golf Club by approximately 9.38 acres (see attached Exhibit "J").

- An additional problem exists in that the 16<sup>th</sup> Hole on Lot 9, Plan KAP 78317, is almost entirely outside The Golf Club and owned by Bella Vista Services Ltd. ("BVSL"), which is not an entity party of the CCAA Proceedings but is a wholly-owned subsidiary of OHDC. In addition, it is not encumbered by any mortgage charges but there are numerous easements, rent charges and restrictive covenants. BVSL was set up to perform maintenance on the home sites, boulevards and common areas of development. As such, the easements, rent charges and restrictive covenants are important to the continuing function of BVSL. The Monitor, in reviewing this situation, was informed that if BVSL was not used in this way, that each Lot in the development would require all the easements, rent charges and restrictive covenants to be registered against each individual Lot as they became developed. The Monitor has not fully satisfied itself as to the importance of this practice.
- It is the opinion of Monashee Surveying and Geomatics, a company that is well familiar with The Golf Club and The Lands, the aforementioned easements, rent charges, etc., are vitally important to the continuing function of BVSL and the upkeep/look and feel of the Development as a whole.
- Hole 16 essentially is water and is a "Signature Hole". If The Golf Club is sold separately, significant costs would have to be undertaken to re-survey all the Lots and enter and record all the potential easements, golf paths, etc. necessary to maintain access to the Golf Course. The estimated cost by the Petitioner is \$200,000. In view of the numerous encroachments by both entities, this number needs to be clarified.

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- The lake at Hole 16, or Lot 9, was planned to be available for use by The Golf Club as a secondary source of watering for both The Golf Club and The Lands.
- The Monitor was recently advised by Senior Manager of OHDC that it's development advisors and then legal counsel, recommended that a separate legal entity be created to hold all the easements, rent charges and restrictive covenants to prevent having to create said easements, etc. on each Lot as they were developed.
- The Monitor has been assured that there has never been any attempt to deny BDC its mortgage security on The Golf Club.
- In discussion with Management of OHDC it may be possible to reposition all the covenants, etc. on to a portion of Lot 9 that is not being used as part of the 16<sup>th</sup> Hole. It was reported to the Monitor that this would require a subdivision.
- The OHDC Management are concerned that this may open a Pandora's Box of new requests for roads/easements, etc. to Lot 9 as a whole from the Vernon City Planners.
- It seems the easiest way out of this conundrum would be to develop an agreement within the Restructuring Plan, sanctioned by the Court, that sets out the entitlements of each of the stakeholders and the registrations on The Golf Club in perpetuity. This will clarify each stakeholders' rights without the attendant costly legal disharmony, when the parties are basically working to the same end.

**10. REVIEW OF VINEYARD HOMES AT THE RISE LTD. ("Vineyard")**

- The Vineyard was incorporated for the purpose of building homes on behalf of Lot owners to the standards set out by The Rise. This project was not successful and sustained losses.
- The Accounts Payable (*see attached Exhibit "K"*) represent the unpaid suppliers.

**11. REVIEW OF Y-K PROJECTS LTD. ("Y-K")**

- Y-K is the registered owner of the lands encompassing The Golf Club and The Lands.
- Y-K has granted options to both OHDC and to The Golf Club to purchase their respective properties on a long-term basis. These options have not been maintained and are in default. At this point, the options are immaterial in that the mortgages registered against the properties

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of The Golf Club and OHDC have priority. There are no financial statements available of Y-K at this time and the Monitor understands there are no other payables by Y-K other than the mortgages of Arres and BDC.

- From a brief review by the Monitor of legal titles, it appears there may be two other GSA registrations which the Monitor needs to evaluate.
- Y-K has also guaranteed the obligation to Arres and BDC.

## 12. REACTION OF CREDITORS

### *SECURED CREDITORS*

#### **Arres:**

- Arres is owed approximately \$50,000,000.
- Interest accrues at approximately \$650,000 per month.
- Arres holds first charge on all real estate of OHDC with the exception of The Golf Club and Lot 9 referred to above.
- Arres appears to be supportive of these CCAA proceedings.
- Arres is not supportive of having the DIP Loan ranking only in priority to its charge.

#### **BDC:**

- BDC has a first charge on The Golf Club and is owed approximately \$5,000,000.
- BDC has not been supportive of the CCAA proceedings.
- BDC is opposed to the CCAA and the DIP Loan taking priority over its mortgage security.
- BDC is also distressed at the apparent lack of security that has been registered on its behalf on The Golf Club, it not being registered against the whole golf course.
- BDC has taken action to file a Certificate of Pending Litigation against Bella Vista Landscaping Services and Lot 9 (*see attached Exhibit "L"*).

### *OTHER CREDITORS*

- All other creditors including Lien Holders, Founding Members, Members of The Golf Club, Lot Owners, Deposit Holders and General Trade Creditors appear to have been supportive of the CCAA proceedings. There have been isolated requests for further information or

clarification of the process, and requests for confirmation of the status of deposits made pursuant to Owner obligations. These questions raised are being addressed by the Monitor on a day-to-day basis.

### **13. OTHER MATTERS**

#### *INTERDEPENDANCY*

As noted above, the success of The Golf Club is dependent on the number of people who will ultimately live at The Rise.

- Management of the Petitioners and the prospective investors located by CBRE maintain that the success of The Rise is dependent to The Golf Club being linked to each lot purchased.
- It is reasonable to expect there is a high degree of interdependence of the two operations such that the success of one is dependent on the success of the other.

### **14. THE MONITOR'S RECOMMENDATIONS**

- The Monitor recommends The Golf Club and The Lands be marketed together.
- The Monitor recommends that The Golf Club be operated for the 2009 season for the benefit of both BDC and Arres.
- The Monitor recommends that the DIP Loan be a first charge on both The Golf Club and The Lands because the DIP Loan will be supporting The Golf Club operations to at least \$700,000 at the high point, without consideration of costs of re-surveying or costs of CCAA administration.
- The Monitor recommends that the CCAA process be used as a forum to enable a swift resolution to the encroachments problem presently festering stakeholder relationships.
- The Monitor recommends that the services required to complete the sale of the Show Home (Lot 20, Page 9) be mandated under the CCAA process to expedite the sale completion.
- The Petitioners be given an opportunity to finalize discussions with the three potential investors, and others that may arise from time to time.
- The Monitor be given the time to investigate the substance and marketability of the tax losses with the Petitioners.

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- The Monitor be given an opportunity to conclude its investigation with respect to the state of the title of The Golf Club.
- The Monitor recommends that The Golf Club be contained within the CCAA proceedings to preserve the Fred Couples Signature Golf Course Agreement.

**15. CONCLUSION**

The Monitor is of the opinion that the Petitioners have acted and are continuing to act in good faith and with due diligence, and that the Monitor supports an extension of the stay to June 1, 2009.

This concludes the Second Monitor's Report.

Should there be any questions or comments in connection with this report, or in connection with any aspect of these proceedings and the Monitor's role therein, please contact either Mr. George Abakhan or Mr. Philip McCourt at (604) 689-4255 or by facsimile at (604) 689-4277.

**16. RESTRICTIONS**

*In the course of conducting our duties including the writing of this report, we have relied entirely on information supplied by management. We did not conduct procedures necessary to enable us to express an opinion on the financial information contained in this report in accordance with Generally Accepted Auditing Standards. Nor have we conducted a formal valuation of the operating subsidiaries of the Company. Projected financial information and the assumptions on which it is based are solely the responsibility of the company. Since the assumptions relate to the future they may be affected by unforeseen events, we can express no opinion as to how closely the forecasts will correspond to actual results.*

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*Further, since the projections and calculations are based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur and the variances may be material. Accordingly, we express no assurance as to whether the projections or calculated estimated realizations will be achieved.*

Yours truly,

**ABAKHAN & ASSOCIATES INC.**

In its capacity as Monitor of Okanagan Hills Development Corporation,  
Vineyard Homes at the Rise Ltd., The Golf Club at the Rise Ltd. and  
Y-K Projections Ltd., and not in its personal capacity.

Per: 

George Abakhan, CA·CIRP  
President

GA/ss

Attachments