

RSM Richter

**Sixth Report to Court of
RSM Richter Inc. as CCAA Monitor of
The Medican Group of Companies**

RSM Richter Inc.
Calgary, September 27, 2010

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**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c.C-36, AS AMENDED AND *THE JUDICATURE*
ACT, R.S.A. 2000, c. J-2, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
MEDICAN HOLDINGS LTD., MEDICAN DEVELOPMENTS INC., R7 INVESTMENTS
LTD., MEDICAN CONSTRUCTION LTD., MEDICAN CONCRETE INC., 1090772
ALBERTA LTD., 1144233 ALBERTA LTD., 1344241 ALBERTA LTD., 9150-3755
QUEBEC INC., AXCESS (GRANDE PRAIRIE) DEVELOPMENTS LTD., AXCESS
(SYLVAN LAKE) DEVELOPMENTS LTD., CANVAS (CALGARY) DEVELOPMENTS
LTD., ELEMENTS (GRANDE PRAIRIE) DEVELOPMENTS LTD., HOMES BY
KINGSLAND LTD., LAKE COUNTRY (SITARA) DEVELOPMENTS LTD., MEDICAN
(EDMONTON TERWILLEGAR) DEVELOPMENTS LTD., MEDICAN (GRANDE
PRAIRIE) HOLDINGS LTD., MEDICAN (KELOWNA MOVE) DEVELOPMENTS
LTD., MEDICAN (LETHBRIDGE – FAIRMONT PARK) DEVELOPMENTS LTD.,
MEDICAN (RED DEER – MICHENER HILL) DEVELOPMENTS LTD., MEDICAN
(SYLVAN LAKE) DEVELOPMENTS LTD., MEDICAN (WESTBANK)
DEVELOPMENT LTD., MEDICAN (WESTBANK) LAND LTD., MEDICAN
CONCRETE FORMING LTD., MEDICAN DEVELOPMENTS (MEDICINE HAT
SOUTHWEST) INC., MEDICAN ENTERPRISES INC. / LES ENTREPRISES
MEDICAN INC., MEDICAN EQUIPMENT LTD., MEDICAN FRAMING LTD.,
MEDICAN GENERAL CONTRACTORS LTD., MEDICAN GENERAL CONTRACTORS
2010 LTD., RIVERSTONE (MEDICINE HAT) DEVELOPMENTS LTD., SANDERSON
OF FISH CREEK (CALGARY) DEVELOPMENTS LTD., SIERRAS OF EAUX
CLAIRES (EDMONTON) DEVELOPMENTS LTD., SONATA RIDGE (KELOWNA)
DEVELOPMENTS LTD., SYLVAN LAKE MARINA DEVELOPMENTS LTD., THE
ESTATES OF VALLEYDALE DEVELOPMENTS LTD., THE LEGEND (WINNIPEG)
DEVELOPMENTS LTD., and WATERCREST (SYLVAN LAKE) DEVELOPMENTS
LTD. (COLLECTIVELY, "THE MEDICAN GROUP OF COMPANIES")**

**SIXTH REPORT OF RSM RICHTER INC.
AS CCAA MONITOR OF
THE MEDICAN GROUP OF COMPANIES**

September 27, 2010

INTRODUCTION

1. On May 26, 2010, the Court of Queen's Bench of Alberta ("Court") issued an order ("Initial Order") granting The Medican Group of Companies ("Medican Group" or the "Company") protection pursuant to the *Companies' Creditors Arrangement Act* ("CCAA") (the "CCAA Proceedings"). RSM Richter Inc. was appointed monitor ("Monitor") under the Initial Order.
2. Pursuant to a Court order made on August 12, 2010, the stay of proceedings under the Initial Order was extended to September 30, 2010.
3. The primary purposes of the CCAA Proceedings are to protect Medican Group's business and operations, to allow Medican Group an opportunity to realize value from its construction and development projects and to facilitate a restructuring of its credit facilities, all under a Court-supervised process.

Purpose of this Report

4. The purpose of this report ("Report") is to:
 - a) Provide an update on the Company's restructuring efforts;
 - b) Summarize the results of the sale processes carried out by the Company and the Monitor in respect of the "Terwillegar" Phase 2 and 3 lands and the "Axxess Sylvan Lake" Phase 2 and 3 lands;
 - c) Provide a status update on certain of the Company's development and construction projects, including proposed sale processes;
 - d) Support the Company's request for an extension of the CCAA Proceedings to December 2, 2010; and
 - e) Respectfully recommend that this Honourable Court grant orders:
 - Vesting in Monarch Land Ltd. ("Monarch") or its nominee, as of closing, title to the "Axxess Sylvan Lake" Phase 2 and 3 lands, free and clear of all liens, charges, security interests and other encumbrances and directing the Registrar of Land Titles to register title to the property in Monarch's name or in that of its nominee;

- Approving the Sale Process (defined below) in connection with the Phase 2 and 3 lands of the Riverstone Project and the Sonata Ridge Lands, as described in this Report;
- Approving an Offer to Finance (“Financing Offer”) from 1554670 Alberta Ltd. to Homes By Kingsland Ltd. (“Kingsland”) for construction financing related to a project known as “Edgewood Brooks”, as described in this Report;
- Approving an amended offer to purchase from Cypress College (“Cypress”) for the Company’s property located at #3 7th Street SE, Medicine Hat, Alberta (“7th Street Property”);
- Approving an offer for the “River Ridge Property” owned by R7 Investments Ltd. (“R7”), as described in this Report;
- Allowing the claim of Condominium Corporation 9812578 (“Condo Corp.”) to be filed in these CCAA proceedings, notwithstanding that the claim was filed after the Claims Bar Date, as defined in the Claims Procedure Order granted by this Honourable Court on June 11, 2010;
- Approving an increase of \$750,000 under the Administration Charge pursuant to the Initial Order; and
- Extending the stay of proceedings under the Initial Order to December 2, 2010.

Terms of Reference

5. In developing this Report, the Monitor has relied upon unaudited financial information prepared by the Company’s management, the Company’s books and records and discussions with its management. The Monitor has not performed an audit or other verification of such information. An examination of the Company’s financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future-oriented financial information relied upon in this Report is based on management’s assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material, and as such the Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Monitor in preparing this Report.

Currency

6. Unless otherwise noted, all currency references in this Report are in Canadian dollars.

BACKGROUND

7. Medican Group is a private group of companies in the real estate construction and development business. The Company currently owns, operates and/or manages over 30 projects in British Columbia, Alberta, Manitoba and Quebec.
8. Medican Group comprises two divisions:
 - a) A residential development division (“Medican Projects”) which develops condominium complexes mainly in western Canada; and
 - b) A construction division (“Medican Construction”) operating as a general contractor for several customers, including Medican Projects.
9. Medican Projects operates two types of residential construction:
 - a) Development of residential real estate as the owner of the land and the assets being developed (“Development Project”); and
 - b) Construction of real estate projects under “Cost-Plus” contracts on behalf of third-party owners of the land on which the project is being built (“Cost-Plus Project”).
10. A Development Project and a Cost-Plus Project are sometimes referred to individually as a “Project” and collectively as the “Projects”.
11. Additional background information is included in previous materials filed with the Court in these CCAA Proceedings, including the previous reports filed by the Monitor. Materials filed with the Court can be found at the Monitor’s website at www.rsmrichter.com.

COMPANY'S ACTIVITIES

12. A summary of the Company's progress since the Monitor's Fifth Report to Court dated September 3, 2010 ("Fifth Report") is provided below. Among other things, the Company:
- a) Accepted offers, with the Monitor's approval, on seven existing or under-construction residential condominium units ("Units"). A schedule identifying Unit sales from the date of the Initial Order is provided as Appendix "A" to this Report. In total, the Company has accepted 68 offers to date¹;
 - b) Completed the Court-approved transaction with T&E Ventures Inc. ("T&E") for construction financing related to the Development Project known as "Sierras of Michener Hill";
 - c) Received an increased offer for the sale of the 7th Street Property;
 - d) Received an increased offer for the sale of the "River Ridge Property";
 - e) Assisted the Monitor with the sale process in respect of "Terwillegar" and "Axxess Sylvan Lake" and with the ongoing sale process in respect of the Phase 4-7 lands of the "Kaleido Project";
 - f) Reduced pricing of certain Units, with secured lender consent, in order to increase sales activity;
 - g) Continued to meet with third parties respecting the development or sale of the Company's interests in certain Development Projects; and
 - h) Continued to provide stakeholders with updates on its restructuring efforts.
13. The above activities are discussed in greater detail in the balance of this Report.

¹ Ten Units were inadvertently duplicated in the schedule appended to the Fifth Report.

TERWILLEGAR AND AXCESS SYLVAN LAKE SALES PROCESS

14. As referenced in prior reports to this Honourable Court, the Phase 2 and 3 lands (the “Terwillegar Lands”) owned by Medican (Edmonton Terwillegar) Developments Ltd. (“Terwillegar”) and the Phase 2 and 3 lands (the Axxess Sylvan Lake Lands”) owned by Axxess (Sylvan Lake) Developments Ltd. (“Axxess Sylvan Lake”) are financed by way of secured lending facilities with Monarch with estimated balances of \$5 million and \$3.1 million (including bonus amounts) plus accrued interest, respectively. Monarch’s loans are secured in first priority against these two properties.
15. Monarch’s loans are cross-collateralized on the Phase 4-7 lands of the Kaleido Project (described below) and on all phases of the Sanderson Project (described below). The Monitor's counsel has conducted an independent review of the validity and enforceability of the Monarch security, and has determined that the Monarch security forms a valid and enforceable charge against the Kaleido Project and the Sanderson Project.
16. MCAP Financial Corporation (“MCAP”) has a second secured charge against the Terwillegar Lands.
17. CIBC Mortgages Inc. (“CIBC”) has a second secured charge against the Axxess Sylvan Lake Lands.
18. On a confidential basis, Monarch provided the Monitor with appraisals of both the Terwillegar Lands and the Axxess Sylvan Lake Lands. The appraised values are less than the balances owing to Monarch. The Monitor has received independent review reports of each of the appraisals which generally support the valuations in Monarch’s appraisals.

19. Pursuant to Court orders dated July 29, 2010 (“Bid Procedure Orders”), the Monitor carried out sale processes (“Sale Processes”) in respect of the Terwillegar Lands and the Axxess Sylvan Lake Lands. Under the Bid Procedure Orders, among other things, Monarch has the right to credit bid for the properties at an amount equal to or higher than the appraised value. Additionally, any sale is subject to a reserve for the Priority Charges under the Initial Order and subject to approval of this Honourable Court.
20. A summary of the results of the Sale Processes is as follows:
- The marketing process commenced on August 10, 2010;
 - The properties were marketed on an “as is” basis as bare lands for future development. Due to their geographic proximity and for cost reasons, the properties were marketed to the same prospective purchasers;
 - An interest solicitation letter (“ISL”) was prepared containing a description of the properties, their attributes and potential development opportunities. The ISL was sent to 114 potential purchasers;
 - On August 16, 2010, advertisements were placed in *The Globe and Mail, Calgary Herald* and *Edmonton Journal* outlining the acquisition opportunities;
 - Eight prospective purchasers executed confidentiality agreements;
 - The Monitor followed up with prospective purchasers and responded to requests for additional information; and
 - The Monitor advised parties of the September 7, 2010 bid deadline.
21. No bids were submitted to the Monitor for either of the properties by September 7, 2010.
22. An offer was submitted subsequent to the bid deadline for the Terwillegar Lands. The purchase price of the offer is consistent with the appraised value. The offer is conditional and contemplates a closing date of January 31, 2011. Medican Group accepted the conditional offer recognizing that it is still the subject of discussion with the Monitor and Monarch.

23. Monarch has agreed to the Axxess Sylvan Lake Lands being transferred to it or its nominee, at the appraised value in return for a reduction of its loan balance. The transfer is subject to a reserve for the charges under the Initial Order equal to 5% of the appraised value (\$34,500). Accordingly, the Monitor respectfully recommends that this Honourable Court make an order substantially in the form attached to the Company's September 27, 2010 motion materials.

DEVELOPMENT PROJECTS

24. An update on the status of certain of the Development Projects is provided below. More detailed descriptions of the Development Projects are provided in reports previously filed by the Monitor.
25. Overall, the Company and the Monitor have observed that activity levels in the geographic markets where the Company owns Units or single-family dwellings have slowed in the last month. The Company, in conjunction with real estate agents that represent it, monitors sales trends, site traffic and other market conditions. The Company has been or may be adjusting pricing of certain Units, with secured lender consent, in order to accelerate sales.

Medican (Red Deer – Michener Hill) Developments Ltd.

26. The Development Project known as "Sierras Michener Hill" ("Michener Project") is located in Red Deer, Alberta, which will consist of 148 Units and 38 duplexes upon completion of construction. The Company is optimistic that closing on Units could potentially begin in early 2011 as construction at the site has resumed.

27. Pursuant to a Court order dated September 8, 2010, the Company completed a financing transaction with T&E for construction of the Michener Project. The transaction has resulted in:
- Repayment of the secured debt registered by Paragon Capital Corporation (“Paragon”) against the Michener Project lands of approximately \$2.6 million;
 - Partial repayment of \$1.4 million against the charge registered by 933680 Alberta Ltd. (“933680”) against the Michener Project lands;
 - Payment of \$1.76 million to critical suppliers being issued;
 - Payment of \$200,000 in respect of the Priority Charges (as defined in the Initial Order); and
 - Additional advances are being made to the Company in connection with the resumption of construction.

Sanderson of Fish Creek (Calgary) Developments Ltd.

28. The project known as “Sanderson of Fish Creek” is a residential Development Project located in Calgary, Alberta, which consists of five phases with a total of 352 Units (“Sanderson Project”). The Sanderson Project was established in multiple phases referred to as Phases 1, 2, 3, 4A and 4B. The Company also owns certain adjacent lands (“Church Lands”).

Phases 1 and 2

29. On August 6, 2010, the Company terminated its onsite sales team. A new sales team with Re/Max First has been in place since August 20, 2010. Among other things, a new Unit pricing structure has been implemented along with other new marketing initiatives. The sales team expects offers for three Units in the next week.

Phases 3 and 4B

30. The Monitor previously reported that the Company received an offer on August 27, 2010 for construction financing related to Phases 3 and 4B of the Sanderson Project. The offer has been rejected. The Company continues to explore opportunities to develop these phases with input from the stakeholders.

Phase 4A

31. CIBC advanced \$1 million to the Company to complete construction of Phase 4A of the Sanderson Project. The funds were deposited with Fraser Milner Casgrain LLP (“FMC”), the Company’s counsel.
32. Construction of Phase 4A of the Sanderson Project is approximately 35% complete. Construction is expected to be completed by November 15, 2010.

Church Lands

33. The Company received an offer on the Church Lands in August, 2010. The offer was not acceptable to the Company and its stakeholders and consequently it was rejected. The Company is discussing options and opportunities for the Church Lands with the stakeholders.

Medican (Westbank) Land Ltd.

34. The Company’s Development Project known as “Kaleido at Westwind” (“Kaleido Project”) is a condominium development project located in Westbank, British Columbia. The Company planned to develop a seven-phase, 717 Unit condominium complex on the subject lands.

35. The Monitor is in the process of carrying out the Court-approved sale process in respect of the Phase 4-7 lands of the Kaleido Project. A bid deadline of October 18, 2010 has been established.

The Legend (Winnipeg) Developments Ltd.

36. The Company is developing a condominium real estate project (“Legend Project”) located in Winnipeg, Manitoba, which consists of three phases. The Company completed and sold all Units in Phase 1 in 2008.
37. The Company has construction and development approvals for two additional phases of the Legend Project consisting of 56 Units each. A total of 48 Units in Phase 2 and 9 Units in Phase 3 have been sold or pre-sold.
38. Pursuant to a Court order granted on June 25, 2010 (“Legend Order”), MCAP, Legend’s first ranking secured creditor, was given a senior Court-ordered charge for all further funding of up to \$1.853 million provided to Legend to complete construction of Phase 2.
39. Construction of Phase 2 continues to progress, which is facilitating Unit closings and occupancy by purchasers. MCAP has advanced approximately \$970,000 since the date of the Legend Order.
40. Due to softness in the Winnipeg real estate market, the Monitor understands that the Company has revised its projections for the Legend Project. The revised projections reflect a shortfall to the secured creditors ranking subordinate to MCAP, which principally includes trade suppliers with registered security interests. The Company and the Monitor are assessing a plan for completion of construction.

Sonata Ridge (Kelowna) Developments Ltd.

41. The project known as “Sonata Ridge” currently consists of bare land in Lake Country, British Columbia (the “Sonata Ridge Lands”) upon which the Company had planned to construct a 213 Unit condominium complex.
42. The Sonata Ridge Lands were acquired with funding from Laurentian Bank of Canada (“Laurentian”), which is owed approximately \$3.8 million, and from Carry Investments Ltd. (“Carry”). Carry has claimed a balance owing of \$9.68 million. This loan is cross-collateralized with the Riverstone Project, as described below.
43. The Monitor previously reported that the Company received an unsolicited offer and two listing proposals for the Sonata Ridge Lands. The Company was also in advanced discussions with another prospective purchaser for the sale of the Sonata Ridge Lands.
44. Upon reviewing the offers and proposals with Laurentian and Carry and discussing available options for the sale of the Sonata Ridge Lands, the Company, Laurentian and Carry have agreed that the Sonata Ridge lands be marketed for sale pursuant to the sale process in the form previously approved by this Honourable Court related to other Development Projects in these CCAA Proceedings (the Terwillegar, Axxess Sylvan Lake and Kaleido lands).
45. The description of the proposed sale process in respect of the Sonata Ridge Lands is included with the Company’s motion materials.
46. As the proposed sale process is consistent with the process employed to market other Medican Group bare land Development Projects and has the support of Laurentian and Carry, the Monitor respectfully recommends that it be approved in connection with the Sonata Ridge Lands.

Riverstone (Medicine Hat) Developments Ltd.

47. Riverstone developed a Development Project located in Medicine Hat, Alberta. The Company had planned to complete a three-phase, 136 Unit condominium complex (“Riverstone Project”) restricted to residents over 30 years of age.
48. The Company completed construction of Phase 1 and has five remaining Units. The Units in Phase 1 are now listed for sale with Royal LePage Community Realty.
49. Phases 2 and 3 of the Riverstone Project are bare land. The Company does not intend to develop Phases 2 and 3. Phases 2 and 3 are financed by way of a secured lending facility from Carry. Carry has claimed a balance owing of \$9.68 million (this loan is cross-collateralized with the Sonata Ridge lands). The Monitor understands that the Carry loan for the Riverstone Project is subordinate to a loan with CIBC charging the Riverstone Project lands.
50. The Monitor engaged an appraiser to report on the fair market value of Phases 2 and 3 of the Riverstone Project. The Monitor has discussed the valuation with the Company and Carry with respect to a sale process relative to Phases 2 and 3 of the Riverstone Project.
51. The Company and Carry suggested that Phases 2 and 3 of the Riverstone Project be marketed for sale in the same format as the proposed sale process related to the Sonata Ridge lands described above.
52. The description of the proposed sale process is included with the Company’s motion materials.

53. As the proposed sale process is consistent with the process for marketing other bare land Medican Group Development Projects and has the support of Carry, the Monitor respectfully recommends that it be approved in connection with Phases 2 and 3 of the Riverstone Project.

Sylvan Lake Marina

54. Sylvan Lake Marina is a single phase condominium project, located in Sylvan Lake, Alberta (the “Sylvan Lake Marina Project”). The Sylvan Lake Marina Project is owned by 933680.
55. The Monitor previously reported that it engaged an independent appraiser with respect to the Sylvan Lake Marina Project to assist in determining whether the Company’s sale to 933680 in April, 2010 was at fair market value.
56. Based on a review of the Sylvan Lake Marina Project transaction and numerous discussions with the appraiser and 933680, the Monitor is satisfied that the consideration received by the Company pursuant to the transaction was at or near fair market value. The Monitor is not recommending that any further steps be taken in respect of this transaction.

Sylvan Lake – Dipert Lands

57. Pursuant to an approval and vesting order dated August 12, 2010, this Honourable Court approved a purchase and sale agreement (“PSA”) between Lamont Lands Inc. (“Lamont”) and Medican Developments Inc. for the Company’s property (“Dipert Lands”) near Sylvan Lake, Alberta.

58. In accordance with the PSA, Lamont paid a deposit of \$100,000. The conditions pursuant to the PSA are to be waived by October 11, 2010². Provided this occurs, closing is to occur within two weeks.
59. The Monitor will provide a further update regarding the sale of the Dipert Lands in a subsequent report to this Court.

Edgewood Brooks

60. “Edgewood Brooks” is a Development Project comprising a two-phase, 11 unit townhouse development located in Brooks, Alberta (the “Edgewood Brooks Project”). Construction of the Edgewood Brooks Project was halted due to a lack of funding.
61. The Company has received an offer to refinance (“Offer to Finance”) the Edgewood Brooks Project from 1554670 Alberta Ltd. (“1554670”). The proposed financing is necessary to complete the Edgewood Brooks Project. The Offer to Finance is attached to the affidavit of Tyrone Schneider sworn September 27, 2010 (“Schneider Affidavit”).
62. The Offer to Finance contemplates that 1554670 will advance up to \$633,000 to complete the Edgewood Brooks Project, consisting of an initial advance and several additional advances. The initial advance of approximately \$196,000 will be used to pay the existing creditors for work completed to date in order to gain their cooperation to complete construction and to pay the owner for the purchase of the land (the Company does not own the land). Additional advances will be made as required to complete construction. The loan interest rate is 10% per annum and 1554670 will also be entitled to a \$14,000 per Unit bonus upon sale of each Unit.

² The Monitor understands that environmental testing was completed to Lamont’s satisfaction.

63. The Company projects profit of approximately \$65,000 after payment of the amounts noted above from the Edgewood Brooks Project, which funds should be available for the benefit of the Company's stakeholders.
64. In the Monitor's view the terms of the Offer to Finance are fair and reasonable in the circumstances, as financing is necessary to complete construction of the Edgewood Brooks Project. The Monitor respectfully recommends that the Offer to Finance be approved by this Honourable Court.

7th Street Property

65. The 7th Street Property is a commercial building located in Medicine Hat, Alberta, owned by R7. The 7th Street Property was listed for sale at \$448,000.
66. Pursuant to the Fifth Report, the Monitor recommended that an offer accepted by the Company from Cypress for the 7th Street Property ("7th Street Offer") with a purchase price of \$430,000 be approved by this Honourable Court. At the return date of the Company's motion seeking such approval, a party subject to an intent to lease the 7th Street Property requested an opportunity to make an offer as well. Pursuant to a direction made by this Honourable Court, both parties were given to September 20, 2010 to submit their highest and best offer.
67. Both parties submitted unconditional offers. Cypress made a revised offer with a purchase price of \$460,000, which represents the highest offer. The revised 7th Street Offer is appended to the Schneider Affidavit.
68. As previously reported, Bank West holds a mortgage against the 7th Street Property and is owed approximately \$131,000. The sale of the 7th Street Property will generate a surplus of approximately \$290,000.

69. The Monitor respectfully recommends that the revised 7th Street Offer be approved by this Honourable Court. In the Monitor's view, a further marketing of the 7th Street Property would not yield a materially higher recovery.

Other R7 Properties

70. The Company and the Monitor have reviewed R7's real estate holdings, which are principally located in Medicine Hat, Alberta.
71. The Company has listed the majority of the properties for sale, including six unencumbered single-family sized lots - five at \$45,000 each and one at \$70,000. The status of an additional commercial property owned by R7 is being reviewed.

River Ridge Property

72. Pursuant to the Fifth Report the Monitor recommended that an offer ("Kornelson Offer") from Gerald and Marjorie Kornelson ("Kornelsons") in the amount of \$292,000 to purchase a property located at 435-29 River Ridge Drive NW ("River Ridge Property") be approved by this Honourable Court. The River Ridge Property was listed for sale with Signature Service Real Estate at \$295,000.
73. The River Ridge Property is subject to a mortgage with Scotia Mortgage Corporation ("Scotia") with a balance of approximately \$278,000. The net proceeds to be realized from the Kornelson Offer were insufficient to fully repay the Scotia mortgage after payment of priority amounts (property taxes, condominium fees, realtor commissions and the priority charges pursuant to the Initial Order).
74. The Kornelsons increased the purchase price under the Kornelson Offer to \$297,000, which is now sufficient to repay the Scotia mortgage and the priority amounts.

75. A copy of the revised Kornelson Offer is appended to the Schneider Affidavit.
76. The Monitor respectfully recommends that the revised Kornelson Offer be approved by this Honourable Court as the consideration payable thereunder appears to be reasonable. The proceeds, net of priority amounts and the Scotia mortgage, would be held by FMC pending determination of priority to such funds.

PLAN OF ARRANGEMENT

77. The Company continues to review the viability of several of its Development Projects. The Company believes that, in particular, the Michener Project, the “Cimarron Project” and the completion of Phases 3, 4A, 4B and the Church Lands of the Sanderson Project will be integral components of a plan of arrangement for consideration by its creditors.
78. The Michener Project is expected to produce significant equity once completed and all Units sold. The “Cimarron Project”, which has been detailed in prior reports of the Monitor, is also projected to provide the Company with an ongoing revenue stream once development is under way in the next 12 to 18 months.
79. The Sanderson Project is more complex than the Michener and Cimarron Projects. The Company is working with the Monitor and its stakeholders to determine the best course of action to develop Phases 3, 4B and the Church Lands. The Company expects to have a program in place for completion of the Sanderson Project by October 31, 2010.
80. The Company has identified two new Cost-Plus projects that it expects will commence in mid-2011. These two projects are projected to augment the Company’s cash flows.

Claims Review

81. In order for the Company to advance a plan of arrangement to its creditors, a review of the various creditor claims against the Medican Group companies will have to be undertaken. The Claims Procedure Order made by this Honourable Court required the Affected Creditors (as defined in the Claims Procedure Order) to submit proofs of claim by July 30, 2010 (“Bar Date”). The Monitor has received 585 claims. The Monitor has reviewed the secured claims and is now commencing its review of the unsecured claims.
82. Thirty-seven creditors filed claims with the Monitor subsequent to the Claims Bar Date. Condo Corp., one of those creditors, contacted the Monitor and the Company’s legal counsel seeking relief from the Claims Bar Date.
83. Condo Corp. is claiming damages of \$5 million (the amount of the claim to be admitted will likely be significantly less than \$5 million). Condo Corp. filed a statement of claim against two Medican Group entities on April 30, 2009. (The Company filed a statement of defence on December 4, 2009). It appears that Condo Corp. may have a valid claim against the Company and that its claim was inadvertently filed late. The Monitor is of the view that providing relief from the Claims Bar Date for Condo Corp. is appropriate, subject to determination of the final validity and amount of its claim.
84. The Monitor will review the additional late-filed claims and will be making a recommendation thereon to this Honourable Court in a subsequent report.

CASH FLOW

85. Medican Group previously filed a 13-week cash flow projection for the period ending November 12, 2010. A comparison of the budget to actual results for the period ending September 24, 2010 is provided as Appendix “B”.
86. An updated projected statement of cash flow to the week ending December 10, 2010 (“Projection”) is provided as Appendix “C”. The notes to the Projection should be read in conjunction with the Projection.
87. The Monitor assisted Medican Group with the preparation of the Projection. The Projection is predicated on Medican Group continuing to operate in the normal course in the context of the CCAA Proceedings. The Monitor reviewed the Projection and its underlying assumptions and concluded that it is reasonable in the circumstances.
88. The Projection reflects that Medican Group will require advances of \$357,000 under the debtor-in-possession (“DIP”) financing facility approved by this Honourable Court to continue to operate and fund expenses associated with its restructuring. The DIP facility is projected to be fully drawn to \$3.5 million by the week ending October 29, 2010.
89. The Company derives a significant portion of its cash flow from Medican Concrete Ltd. (“Concrete”). As a result of the inclement weather experienced over the past few months, several of Concrete’s projects have been delayed or cancelled, thereby negatively affecting the Company’s Projection by approximately \$900,000 to the week ending December 10, 2010. Therefore the Company will require the excess proceeds from the sale of the Dipert Lands (this transaction was outlined in the Fourth Report) and a portion of the proceeds from the sale of the 7th Street Property to remain cash flow positive.

90. The DIP financing was provided by Paragon pursuant to lending terms which were reasonable in the circumstances. One of the terms in the lending facility was that the amounts borrowed from Paragon would be repaid by September 30, 2010 (“Maturity Date”). The Company is not in a position to repay the DIP financing by the Maturity Date. Paragon has advised that it is prepared to extend the Maturity Date to December 31, 2010 provided it obtains a 2% fee (\$70,000) on the total amount of the DIP financing facility. The fee will be accrued and payable as at December 31, 2010. The Company and the Monitor believe the fee is reasonable in the circumstances. Accordingly, the Company intends to execute an amending agreement with Paragon to that effect.

ADMINISTRATION CHARGE

91. The Monitor has previously reported to this Honourable Court on the complicated structure of the Company’s business, the complexity of the Projects and their divergent creditor interests, the unique characteristics of the Company’s real estate assets and the substantial number of operational and legal issues addressed since commencement of the CCAA Proceedings. The fees of the Company’s counsel, the Monitor and its counsel have exceeded initial estimates due to the complexity of operational and legal issues and time requirements to address each of the issues to date.
92. The Monitor has reviewed its accounts from the commencement of the CCAA Proceedings as well as those of its counsel and the Company’s counsel. The collective unpaid professional fees exceed \$1.8 million; the Initial Order provides for an administration charge of \$1 million.

93. The Monitor, its legal counsel and the Company's legal counsel have delayed collection of their respective fees as they are greater than initially estimated and because it appears that the Company will be able to advance a plan of arrangement. There will likely be continued delay in the payment of professional fees; however, funds are being set aside to address the Priority Charges pursuant to the Initial Order. To date a total of \$750,000 is being held by FMC in this regard. This amount is not reflected in the Projection. Had these funds been released to the Company it is likely that a lower increase of the Administration Charge would have been recommended.
94. The Projections assume payments in respect of professional fees to the Company's counsel, the Monitor and its counsel totalling \$800,000 from October 1 to December 10, 2010. Additional payments will be made if the Company exceeds the Projections.
95. In the Monitor's view an increase of \$750,000 to the Administration Charge is appropriate in these circumstances and the Monitor respectfully recommends that it be approved by this Honourable Court.

COMPANY'S REQUEST FOR AN EXTENSION OF THE CCAA PROCEEDINGS

96. The Monitor supports the Company's request for an extension of the stay of proceedings from September 30, 2010 to December 2, 2010 for the following reasons:
- a) The Company is acting in good faith and with due diligence in its restructuring efforts;
 - b) The Company continues to make progress in: i) selling Units in the ordinary course; ii) identifying non-core assets and arranging for their disposition; and iii) advancing or completing transactions intended to form part of a strategy to emerge from the CCAA Proceedings pursuant to a plan of compromise and arrangement; and
 - c) The Monitor does not believe that an extension of the stay will adversely affect or prejudice any group of creditors.

MONITOR'S ACTIVITIES

97. In addition to the activities referenced in this Report, the Monitor's activities since the date of the Fifth Report include:

- Continuing to attend at the Company's head office premises on a near daily basis to carry out its duties under the Initial Order and subsequent orders;
- Reviewing the Company's cash flow;
- Reviewing claims resulting from the Court-approved claims process;
- Participating in meetings with the Company and certain senior lenders;
- Reviewing and approving offers for the Company's Units;
- Discussing the valuation of certain properties owned or previously owned by the Company with appraisers engaged by the Monitor;
- Continuing to communicate with creditors;
- Corresponding with certain real estate agents representing the Company; and
- Drafting this Report.

CONCLUSION AND RECOMMENDATION

98. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make orders granting the relief detailed in Section 4 e) of this Report.

* * *

All of which is respectfully submitted this 27th day of September, 2010.



**RSM RICHTER INC.
IN ITS CAPACITY AS CCAA MONITOR OF
THE MEDICAN GROUP OF COMPANIES
AND NOT IN ITS PERSONAL CAPACITY**

Medican Group of Companies
Summary of Unit Sales from May 26, 2010
As at September 24, 2010
(Unaudited, \$C)

Appendix "A"

Date	Site	Phase	Closing	Suite	Asking Price	Accepted Price
5/28/2010	Terwillegar	1	6/18/2010	304	230,000	222,869
5/28/2010	Terwillegar	1	6/25/2010	104	225,000	217,776
5/29/2010	Canvas @ Millrise	4	7/9/2010	2127	224,900	214,900
5/31/2010	Canvas @ Millrise	4	7/30/2010	2129	224,900	209,677
5/31/2010	Canvas @ Millrise	4	7/30/2010	2121	224,900	214,900
5/31/2010	Canvas @ Millrise	4	7/30/2010	2125	224,900	214,900
6/1/2010	Canvas @ Millrise	4	7/23/2010	2122	179,900	169,900
6/1/2010	Legend @ Creekbend	2	6/30/2010	315	256,000	254,000
6/2/2010	Terwillegar	1	7/15/2010	102	249,000	240,311
6/2/2010	Canvas @ Millrise	3	7/21/2010	2108	179,900	169,900
6/2/2010	Canvas @ Millrise	4	7/25/2010	2134	184,900	174,900
6/2/2010	Sanderson	2	10/1/2010	B306	491,612	468,700
6/2/2010	Canvas @ Millrise	4	7/16/2010	2124	179,900	169,900
6/2/2010	Canvas @ Millrise	4	6/30/2010	2139	204,900	194,900
6/4/2010	Legend @ Creekbend	2	9/1/2010	431	171,491	172,491
6/4/2010	Canvas @ Millrise	4	6/30/2010	2131	224,900	214,900
6/8/2010	Terwillegar	1	7/5/2010	228	225,000	218,024
6/10/2010	Canvas @ Millrise	4	7/19/2010	2231	259,900	249,900
6/14/2010	Canvas @ Millrise	3	8/1/2010	2217	249,000	234,496
6/24/2010	Axxess @ Terwillegar	1	7/23/2010	106	173,000	164,000
5/29/2010	Sanderson Ridge	4A	10/1/2010	F140	560,300	504,300
6/7/2010	Sanderson Ridge	3	pre sale	A013	471,900	419,805
6/14/2010	Sanderson Ridge	2	9/3/2010	B308	393,830	356,850
6/19/2010	Canvas @ Millrise	4	7/30/2010	2126	259,622	254,400
6/19/2010	Canvas @ Millrise	3	7/30/2010	2412	279,900	264,900
6/19/2010	Canvas @ Millrise	4	9/30/2010	2128	256,622	241,350
6/21/2010	Canvas @ Millrise	3	7/2/2010	2135	249,900	239,900
6/22/2010	Legend @ Creekbend	2	7/28/2010	219	198,000	204,000
6/23/2010	Legend @ Creekbend	3	pre sale	143	199,000	189,000
6/23/2010	Sanderson Ridge	3	pre sale	A202	499,900	438,650
6/24/2010	Legend @ Creekbend	3	pre sale	338	289,900	279,000
6/25/2010	Axxess @ Terwillegar	1	7/5/2010	314	213,000	203,489
6/26/2010	Canvas @ Millrise	4	7/21/2010	2410	224,900	214,900
6/29/2010	Canvas @ Millrise	4	8/25/2010	2137	239,900	229,900
6/30/2010	Canvas @ Millrise	3	8/16/2010	2131	224,900	214,900
7/5/2010	Cercle des Cantons	2	7/10/2010	105	210,000	170,000
7/7/2010	Canvas @ Millrise	4	9/30/2010	2423	269,900	257,000
7/8/2010	Legend @ Creekbend	3	pre sale	243	201,000	191,000
7/14/2010	Sanderson Ridge	3	pre sale	A317	699,900	641,155
7/15/2010	Canvas @ Millrise	4	8/18/2010	2325	259,900	242,000
7/15/2010	Canvas @ Millrise	3	8/3/2010	2130	199,900	189,900
7/17/2010	Axxess @ Terwillegar	1	8/23/2010	414	210,000	198,644
7/21/2010	Canvas @ Millrise	3	8/4/2010	2230	209,900	199,900
7/22/2010	Cercle des Cantons	2	8/6/2010	100	295,000	250,000
7/25/2010	Cercle des Cantons	2	8/6/2010	307	390,000	325,000

Medican Group of Companies
Summary of Unit Sales from May 26, 2010
As at September 24, 2010
(Unaudited, \$C)

Appendix "A"

Date	Site	Phase	Closing	Suite	Asking Price	Accepted Price
7/25/2010	Cercle des Cantons	2	8/6/2010	204	270,000	230,000
7/31/2010	Axxess @ Terwillegar	1	9/1/2010	113	154,070	153,570
8/1/2010	Cercle des Cantons	2	9/15/2010	201	295,000	241,000
8/3/2010	Axxess @ Terwillegar	1	8/27/2010	327	249,000	237,404
8/3/2010	Cercle des Cantons	2	9/1/2010	110	293,802	259,802
8/4/2010	Legend @ Creekbend	2	11/1/2010	226	257,000	253,000
8/9/2010	Axxess @ Terwillegar	1	9/10/2010	323	167,000	162,000
8/9/2010	Axxess @ Terwillegar	1	9/10/2010	223	166,000	162,000
8/12/2010	Cercle des Cantons	2	8/23/2010	101	295,000	245,000
8/21/2010	Axxess @ Terwillegar	1	9/17/2010	119	154,070	154,070
8/22/2010	Axxess @ Terwillegar	1	10/18/2010	123	162,000	154,070
8/23/2010	Canvas @ Millrise	3	9/23/2010	2408	224,900	214,900
8/23/2010	Axxess @ Terwillegar	1	9/17/2010	128	223,000	215,601
8/26/2010	Canvas @ Millrise	4	10/1/2010	2335	269,900	259,900
8/28/2010	Axxess @ Terwillegar	1	9/15/2010	121	185,000	171,550
8/31/2010	Canvas @ Millrise	3	9/20/2010	2209	264,900	250,900
9/4/2010	Legend @ Creekbend	2	10/1/2010	421	252,000	252,000
9/8/2010	Legend @ Creekbend	3	5/18/2012	237	290,000	280,000
9/10/2010	Cercle des Cantons	2	9/20/2010	113	199,000	185,000
9/10/2010	Canvas @ Millrise	4	10/1/2010	2433	279,900	263,900
9/16/2010	Axxess @ Terwillegar	1	10/15/2010	323	167,000	161,000
9/17/2010	Axxess @ Terwillegar	1	10/28/2010	219	166,000	157,946
9/23/2010	Cercle des Cantons	2	10/3/2010	300	367,000	304,675
Total				68	17,442,619	16,280,575

Medican Group of Companies
Cash Flow Variance - Cumulative Results
18 weeks ending September 24, 2010
Unaudited, C\$

		Budget	Actual	Variance
Receipts	Notes			
Income from Medican Concrete Ltd.	1	1,350,803	815,646	(535,157)
Millrise	2	1,161,651	948,013	(213,638)
Haven	3	-	45,137	45,137
Profits from Extendicare projects	3	390,000	364,598	(25,402)
Estevan	3		54,495	54,495
Michener Hill Proceeds	4	-	1,579,764	1,579,764
Miscellaneous	5	225,913	363,449	137,536
DIP Financing	3	3,500,000	3,142,612	(357,388)
Total receipts		6,628,367	7,313,713	685,346
Disbursements				
Utilities and supplies	3	415,370	421,061	(5,691)
Preauthorized payments	3	359,970	315,512	44,458
Preauthorized payments - Concrete	3	37,882	26,704	11,178
Payroll - Hourly	6	787,148	714,554	72,594
Payroll - Salary	7	772,785	834,504	(61,719)
Payroll - Quebec		3,544	3,544	-
Payroll - Concrete	8	1,220,590	1,050,367	170,223
Payroll - Subcontractors	6	381,725	318,420	63,305
Payroll - Remittances	3	593,925	617,169	(23,244)
WCB		113,732	108,388	5,344
Benefits - GWL/LL	9	167,885	188,211	(20,326)
GST	10	-	53,295	(53,295)
Professional fees	11	1,100,000	720,507	379,493
Accounting fees	3	142,412	108,982	33,430
Service charges		25,416	10,992	14,424
Paragon fees	3	150,785	118,811	31,974
Sanderson trades			39,253	(39,253)
Michener Hill expenses	4		1,041,522	(1,041,522)
Contingency	6, 12	254,578	341,258	(86,680)
Total disbursements		6,527,747	7,033,056	(505,309)
Total cash in/(out)		100,620	280,657	180,037
Opening position		211,033	211,033	-
Closing position		311,653	491,690	180,037

Medican Group of Companies
Cash flow variance - Cumulative Results
18 weeks ending September 24, 2010
Unaudited, C\$

- 1 Receipts are less than projected. This is a combination of timing differences and lost projects due to inclement weather.
- 2 Millrise funds are recorded on a gross revenue basis. Related disbursements are aggregated in utilities and payroll. The project is slightly behind schedule.
- 3 Timing difference.
- 4 Funds received from T&E Ventures in connection with its financing arrangements on the Michener Hill project. Related disbursements are recorded as Michener Hill expenses.
- 5 Consists of refunds received from WCB, certain utilities, and intercompany bank transactions relating to those accounts where cheques cannot be issued.
- 6 Less hourly employees and subcontractors are required than budgeted.
- 7 Additional employees were hired to meet work requirements.
- 8 Fluctuations in Concrete payroll are expected, as they are dependent on the amount of work and on the weather.
- 9 Difference is due to the increase in number of employees eligible for benefits.
- 10 Represents Terwilligar GST collected and remitted to the Monitor's trust account.
- 11 Timing difference with respect to the payment of professional fees.
- 12 One time payments which are mainly related to note 5 above in connection with intercompany accounts.

Medican Group of Companies
Projected Statement of Cash Flow to the week ending December 10, 2010
(Actual cash flows to date also reflected)
Unaudited, C\$

Notes	Actual Cumulative to 24-Sep	Projected										Total									
		1-Oct	8-Oct	15-Oct	22-Oct	29-Oct	5-Nov	12-Nov	19-Nov	26-Nov	3-Dec		10-Dec								
Receipts																					
1	815,646	-	463,009	-	-	-	150,000	25,000	-	-	126,000	40,000	-	-	1,619,655						
2	948,013	-	300,000	-	-	-	150,000	150,000	-	-	-	-	150,000	-	1,548,013						
3	45,137	-	-	-	-	-	-	-	-	-	-	-	-	-	195,137						
4	-	223,000	-	75,000	-	-	-	-	-	-	125,000	-	-	-	473,000						
5	364,598	-	230,000	-	125,000	-	-	-	195,000	-	-	-	-	-	789,598						
6	54,495	-	-	50,000	-	-	-	-	50,000	-	-	-	-	-	154,495						
7	-	54,405	7,394	-	-	-	-	-	-	-	-	-	-	-	61,799						
8	1,579,764	-	-	-	-	-	-	175,000	-	-	-	-	-	-	1,754,764						
9	-	-	-	-	-	250,000	-	-	-	-	-	-	-	-	250,000						
10	363,449	-	-	-	-	-	-	-	-	-	-	-	-	-	363,449						
11	-	250,000	-	-	107,388	-	-	-	-	-	-	-	-	-	363,449						
12	3,142,612	-	-	-	-	-	-	-	-	-	-	-	-	-	3,500,000						
	7,313,713	527,405	470,403	530,000	125,000	232,388	400,000	350,000	495,000	126,000	165,000	150,000	150,000	10,884,909							
Disbursements																					
13	421,061	74,271	20,000	20,000	20,000	20,000	20,250	20,000	20,000	20,000	20,000	20,250	20,000	-	695,832						
14	315,512	40,494	1,527	8,323	24,636	4,416	37,604	2,614	46,737	5,305	3,028	-	-	-	490,197						
14	26,704	11,412	-	3,765	-	-	11,412	-	3,765	-	11,412	-	-	-	68,469						
15	714,554	-	35,000	-	35,000	-	-	-	35,000	-	35,000	-	-	-	889,554						
15	834,504	80,000	-	80,000	-	80,000	-	-	80,000	-	80,000	-	-	-	1,234,504						
15	3,544	-	-	-	-	-	-	-	-	-	-	-	-	-	3,544						
15	1,050,367	104,586	60,000	50,000	40,000	50,000	30,000	156,000	30,000	20,000	5,000	68,750	1,664,703								
15	318,420	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	543,420								
15	617,169	40,697	62,000	20,000	27,000	37,800	62,000	27,000	20,000	62,000	37,800	15,000	1,028,466								
15	108,388	33,000	5,780	-	1,650	-	-	-	-	513	33,000	5,780	188,111								
16	188,211	20,210	-	26,000	-	-	-	-	26,000	-	286,421	-	-	286,421							
17	53,295	2,943	-	-	-	-	-	-	-	-	-	-	-	56,238							
18	720,507	300,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,520,507								
19	108,982	29,340	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	138,322								
19	10,992	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	38,492								
7	118,811	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	41,000	241,811								
7	39,253	22,546	-	-	-	-	-	-	-	-	-	-	-	61,799							
8	1,041,522	413,342	413,342	413,342	413,342	413,342	413,342	413,342	413,342	413,342	413,342	413,342	1,454,864								
20	341,258	27,665	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	468,923								
	7,033,056	989,005	496,807	365,588	159,136	351,366	249,766	318,114	319,002	220,318	323,990	248,030	11,074,178								
Total disbursements																					
	280,657	(461,600)	(26,403)	164,412	(34,136)	(118,978)	150,234	31,886	175,998	(94,318)	(158,990)	(98,030)	(189,269)								
Total cash in/(out)																					
Opening position	211,033	491,690	30,090	3,686	168,099	133,962	14,984	165,218	197,104	373,102	278,784	119,794	211,033								
Closing position	491,690	30,090	3,686	168,099	133,962	14,984	165,218	197,104	373,102	278,784	119,794	211,033									

Medican Group of Companies
Projected Statement of Cash Flow to the week ending December 10, 2010
(Actual cash flows to date also reflected)
Unaudited, C\$

- 1 Estimated based on Medican Concrete expenses paid by Medican Construction.
- 2 Funds are typically collected on the 15th of each month for invoices billed prior to the 25th of the prior month.
- 3 First draw on Haven project. The project is currently underway.
- 4 Estimated draws on the Okotoks project. The project is currently underway.
- 5 The Extencicare funds relate to the Edmonton, Lethbridge, and Red Deer Cost plus projects. The Lethbridge project is expected to be completed by November 2010, the Edmonton project is expected to be completed by August 2011, and the Red Deer project is substantially completed with minor ongoing work.
- 6 The Estevan project is a cost plus project which has started with the first receipts expected in October.
- 7 CIBC and Imor are advancing funds to complete certain units. Going forward, receipts will be equal to expenses and accordingly, they are not reflected in the cash flow.
- 8 Funds received from T&E Ventures in connection with its financing arrangements on the Michener Hill project.
- 9 Sale of the 7th Street property is expected to close at the end of October. Proceeds are expected to be received in early November 2010.
- 10 Sale of the Diepert land is expected to close at the end of October. Proceeds are expected to be received in early November 2010.
- 11 Consists of refunds provided from WCB, certain utilities, and bank transfers from related companies for disbursements by Construction to suppliers.
- 12 DIP financing approved by Paragon.
- 13 Estimated utilities and other Construction expenses including marketing of certain condos. Certain suppliers are paid in advance if credit is not extended.
- 14 Preauthorized payments include insurance, vehicle leases and equipment leases. Concrete preauthorized payments are shown separately as Concrete supplies the funds to make such payments. Payments have increased from prior months as additional insurance was required for construction.
- 15 Estimated payroll based on current employee/subcontractor compliment.
- 16 Ongoing monthly employee benefit payments to Great Western Life and London Life.
- 17 GST is paid directly by the respective development companies.
- 18 Fees of the Company's legal counsel, the Monitor and it's legal Counsel. The amounts will vary depending on the nature of the complexities that arise during the CCAA process. Payment of a portion of the fees and disbursements have been deferred because of cash flow constraints.
- 19 Estimated Meyers Norris Penny LLP accounting fees for preparation of fiscal 2010 financial information.
- 20 Estimated.