

**IN THE MATTER OF THE RECEIVERSHIP OF
T.S. KWON HOLDINGS LTD.**

INTERIM REPORT NUMBER ONE OF THE RECEIVER AND MANAGER

Under subsection 246(2) of the Bankruptcy and Insolvency Act

The Receiver and Manager of T.S. Kwon Holdings Ltd. (the “Company”) hereby delivers its Interim Report Number One:

1. The main asset of the Company, the Traveller’s Inn Downtown Hotel property (the “Hotel”), located at 1850 Douglas Street in Victoria, B.C., was originally seized by a Canada Revenue Agency (“CRA”) Bailiff on the 6th day of April, 2010 relating to payments and enhanced requirements to pay issued previously by the CRA. G. Powroznik Group Inc. of G-Force Group was appointed Interim-Receiver by the Supreme Court of British Columbia (the “Court”), on the 22nd day of April, 2010 and took possession of the assets on this date. The CRA bailiff left the Hotel on that same date. The Hotel has been closed since early April as the first mortgagee was not prepared to fund ongoing Hotel operations.
2. By Order of the Supreme Court of British Columbia dated the 9th day of June, 2010, G. Powroznik Group Inc. of G-Force Group, became the Receiver and Manager (the “Receiver”) in respect of the property, assets, and undertakings of the Company. The Company was concurrently adjudged bankrupt on the 9th day of June, 2010, with G. Powroznik Group Inc. also being appointed Trustee in Bankruptcy.
3. Since taking possession, the Receiver and Manager has:
 - a) Secured the Hotel, changed certain locks, and retained a local security patrol company in Victoria to monitor the Hotel daily;
 - b) Taken a full inventory of the furniture and fixtures of the Hotel;
 - c) Ensured adequate insurance coverage was in place.
 - d) Contacted local suppliers to re-establish critical services to the Hotel, including B.C. Hydro (electricity) and Terasen Gas (natural gas);
 - e) Backed up computer systems and reviewed available books and records.
 - f) Obtained a parking business license from the City of Victoria and set up a monthly parking program to collect parking revenues from individuals who park at the Hotel;
 - g) Initiated an insurance claim with the previous insurer for damage caused by water leaks on the third floor of the building. The amount of the claim is unknown at this time but is estimated to range from \$50,000 to \$100,000.
 - h) Commissioned various reports on the building, including an Appraisal and a Roof Condition Report.

- i) Obtained, through an application to the Court, an increase in borrowing power of the Receiver from \$100,000 to \$615,000 and obtained the power for the Receiver to sell the Hotel
- j) Performed some specific repairs and maintenance to the Hotel and bring the property into compliance with City of Victoria storm sewer bylaws;
- k) Obtain quotes to replace the Hotel's roof and subsequently hired a contractor to perform the roof replacement, which was completed in September 2010.
- l) Held regular conference call meetings with the first mortgagee to develop a plan of action to deal with a variety of issues referred to in this report including a marketing plan for the Hotel and reporting the progress of the receivership;
- m) Performed clean-up work on various Hotel rooms
- n) Initiated sales and marketing initiatives for the sale of the Hotel, including building prospect lists, contacting potential buyers, and preparing preliminary materials for the buyer due-diligence process;
- o) Received unsolicited offers for the Hotel outside of the Receiver's marketing and sale process
- p) Received \$182,000 from the first mortgagee in Receiver borrowings to date to finance the cost of the Receivership in accordance with the Appointment Order dated June 9, 2010 and the Court order for increased borrowing power dated August 24, 2010; and
- q) Continued to pay expenses relating to the Receivership, including utilities, insurance, security, and other ongoing costs.

4. Assets not yet realized upon are as follows:

	<u>Estimated Value</u>	
The Hotel	\$4,475,000	<i>(note 1)</i>
Chattels	\$22,000	<i>(note 2)</i>

***Note 1** – Estimated value is based upon a third party appraisal performed in July 2010 on a going concern basis. The Receiver expects prospective purchasers to discount the estimated going concern value based on the following factors: 1) Current hotel market in Greater Victoria is weak; 2) The Hotel is not currently operating; and 3) likely repairs to be required by a prospective purchaser.*

***Note 2**- Estimated liquidation value*

5. The actions still to be taken by the Receiver are as follows:

- a) Continue to negotiate for a settlement of the insurance claim;
- b) Finalize the clean-up of the building in anticipation of showing the Hotel to prospective buyers by late December 2010/early January 2011;
- c) Continue with a sales and marketing process of the Hotel and attempt to complete a sale in early 2011, to enable a purchaser to ready the Hotel for reopening, in time for the busy tourist season in Victoria, B.C.;
- d) Receive offers to purchase the Hotel and determine the support of the first mortgagee for accepting one of the offers;

- e) Make a Report to Court to report on the Receivers actions to date and to obtain approval for a sale of the Hotel once an offer is accepted by the Receiver
 - f) Finalize all administrative matters and distribute the net proceeds from the sale of the assets;
 - g) Report to the OSB from time to time as required; and
 - h) Apply to the Court for our discharge
6. We attach the Receiver's interim statement of receipts and disbursements to December 9, 2010 as Appendix A.

DATED at Vancouver, British Columbia, this 9th day of December, 2010

G. Powroznik Group Inc. of G-Force Group
solely in its capacity as Court-appointed **Receiver and Manager**
of **T.S. Kwon Holdings Ltd.**
and not in its personal Capacity

Per: Gary D. Powroznik
Managing Director

APPENDIX A

**In the matter of the Receivership of T.S. Kwon Holdings Ltd.
Interim Statement of Receiver's Receipts and Disbursements (Note)
As at December 9, 2010**

	<u>Interim Receiver</u>	<u>Receiver</u>	<u>Consolidated</u>
	\$	\$	\$
Receipts			
Receiver's borrowings	-	182,000	182,000
Parking revenues collected	5,300	11,959	17,259
Advance on account of professional fees and costs - Bancorp	17,230	-	17,230
Advance on account of professional fees - CRA	2,930	-	2,930
Total receipts	<u>25,460</u>	<u>193,959</u>	<u>219,419</u>
Disbursements			
Insurance	-	15,515	15,515
Utilities	46	7,082	7,128
Security services	-	1,478	1,478
Third party reports/consultants	-	16,460	16,460
GST remitted	-	70	70
Bank fees	46	139	184
Interim fee advances to Receiver-Manager	-	33,778	33,778
Interim fee advances to Interim Receiver	11,383	-	11,383
Licenses	-	125	125
Hotel repairs & maintenance	-	65,453	65,453
Administration costs relating to parking program	1,794	1,450	3,243
Parking funds distributed to CRA	3,749	-	3,749
Other disbursements	-	716	716
Total disbursements	<u>17,018</u>	<u>142,265</u>	<u>159,283</u>
Closing cash position December 9, 2010	<u>8,442</u>	<u>51,695</u>	<u>60,136</u>

Note - The interim receivership engagement does not have a separate OSB estate number and the OSB plans to combine it with the receivership engagement for reporting purposes. As such, we report the receipts and disbursements incurred during both the interim receivership period (commenced on April 22, 2010) and the receivership period (commenced on June 9, 2010). We report that the bank account used for the interim receivership is still open and we are in the process of doing a final accounting for that bank account, after which we will close the account.