Action No: 0601-09869

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

BETWEEN:

VECKENSTEDT HOLDINGS INC., HERB VECKENSTEDT, FRED PIPER, JOAN PIPER, LIPOTH CONSULTING, AND PAUL LIPOTH

Plaintiffs

- and -

INTEGRA INVESTMENT SERVICE LTD. AND RUNDLE DEVELOPMENT CO-OPERATIVE

Defendants

SECOND REPORT OF THE INSPECTOR OF

CARLING DEVELOPMENT INC.,
CARLING GROUP CANADA INC. and
CARLING FINANCIAL CORPORATION
(collectively the "Carling Group")

ERNST & YOUNG INC.

FEBRUARY 11, 2008

INTRODUCTION

1. On August 18, 2006, the Plaintiffs in these proceedings applied for and obtained an Order (the "IR Order") pursuant to s. 13(2) of the *Judicature Act*, R.S.A. 2000, c. J-2, as amended. Pursuant to the IR Order, Ernst & Young Inc. was appointed Interim Receiver of certain records of Integra Investment Service Ltd. ("Integra").

2. On September 8, 2006, the Plaintiffs obtained a Receivership Order pursuant to s. 13(2) of the Judicature Act (the "Receivership Order"). Pursuant to the Receivership Order Ernst & Young Inc. was appointed Receiver and Manager (the "Receiver") of the following corporations:

   a. Integra;

   b. Aurora River Towers Inc. ("ART");

   c. Carling Springs Village Inc. ("CSV"); and

   d. Carling Development (B.C.) Inc. ("CDBC")

   (collectively referred to as the "Integra Companies").

3. On May 22, 2007 the Receiver filed its fourth report with the Court (the "Fourth Report") which provided, inter alia, an initial analysis of the investors in the Carling Projects (as defined below) and the pending litigation between the Carling Group (as defined in the Fourth Report) and Integra.

4. On May 23, 2007 a Consent Order (the "Consent Order") was granted appointing Ernst & Young Inc. as Inspector (the "Carling Inspector") of the Carling Group under Part 18 of the Business Corporations Act.

5. On August 16, 2007 the Carling Inspector filed its first report with the Court (the "First Report") which provided this Honourable Court with a detailed background of the issues to be dealt with by the Carling Inspector as provided for in the Consent Order.

6. The purpose of this second report of the Carling Inspector (the "Second Report") is to provide this Honourable Court with an update in respect of:

   a. The meeting of the Fort McMurray Investors;
   b. The Direct Investment Approach vs. Pooled Investment Approach (as defined in the First Report);
   c. An update on the estimated recoveries and timeline for the following scenarios:
      i. Liquidation of the land located in Fort McMurray and Airdrie, Alberta; or
      ii. Development of the Fort McMurray and Airdrie lands;
   d. The Settlement Agreement between the Integra Receiver and the Carling Group;
   e. An update on the claims process and a request that certain claims of investors and creditors be determined by the Court; and
   f. Summary of recommendations, including amending and restarting the role of the Inspector.

7. Capitalized terms not defined in this Second Report are as defined in the Inspector Order, the Inspector's First report, the Seventh Report of the Receiver of Integra, the Settlement Agreement and Proposed Approval Order (attached as Appendix A to the Seventh Report of the Integra Receiver).

8. All references to dollars in this Second Report are in Canadian currency unless otherwise noted.

BACKGROUND

9. The First Report provided a detailed background with respect to the Carling Group, the Carling Projects and the matters which form part of the Consent Order. A copy of the First Report is available on the Carling Inspector's web-site:

   http://documentcentre.eycan.com/pages/main.aspx?SID=28.

10. The Fourth Report of the Receiver of Integra provided a detailed background with respect to the Legal Proceedings between the Carling Group and the Integra Companies. A copy of the Fourth Report is available on the Receiver's web-site:

http://documentcentre.eycan.com/pages/main.aspx?SID=10.

11. The Seventh Report of the Receiver of Integra provides a detailed background with respect to the terms of the Settlement Agreement between the Carling Group and the Integra Receiver. A copy of the Seventh Report is available on the Receiver's web site as indicated above.

FORT MCMURRAY INVESTORS MEETING

12. As provided for in the Court's Memorandum of Judgment dated October 18, 2007, the Carling Inspector held a meeting of the Fort McMurray Investors (Investors in the Aurora River Project) on November 23, 2007 ("Investor Meeting"). The Carling Inspector circulated a Notice of Meeting to the Investors in the Aurora River Project ("ARP Investors") who filed a proof of claim by the claims bar date of November 8, 2007. The Notice of Meeting outlined the main issues that were going to be discussed at the meeting, and provided the ARP Investors with a proxy which they could fill in if they were unable to attend the Investor Meeting.

13. Eighteen of the twenty Fort McMurray Investors who submitted Proofs of Claim to the Inspector attended the Investor meeting.

14. The Carling Inspector also invited the Carling Group, its counsel and counsel for the Carling Inspector to the meeting. The Carling Inspector chaired the meeting and provided the Investors with a presentation that summarized the following:

(a) Background to the litigation and the proposed settlement agreement;

(b) Background to the Inspector's appointment;

(c) Discussion of the Direct Investment Approach compared to the Pooled Investment Approach; and

(d) Estimated recoveries to the Investors in a liquidation scenario and a build-out scenario.

15. The Carling Inspector explained to the ARP Investors that the purpose of the meeting was to provide them with information regarding the Direct Investment Approach as compared to the Pooled Investment Approach so that could make an informed decision as to which approach they wanted to vote upon. The Carling Inspector further explained that the Court was seeking

their input into this matter in accordance with the October 18, 2007 Memorandum of Judgment, and it was critical that they understood the difference between the two approaches.

16. Prior to the meeting the Carling Inspector met with the Carling Group on several occasions to prepare a handout for the Investors which would provide them with an estimate of the recoveries available in a build-out scenario. The build-out scenario based on the assumptions provided by the Carling Group (the validity of which the Inspector has not reviewed or confirmed) provides a payout to the ARP Investors along with Investors in the Carling Springs Village project ("CSV Project") and the Royal Villa Estates Project ("RVE Project").

17. At the Investor Meeting the Carling Group presented the build-out scenario to the ARP Investors and provided a supplementary handout. This handout summarized the recoveries to Investors in a build-out scenario.

18. During the presentation the Carling Inspector and the Carling Group, along with respective counsel fielded questions from the Investor group with respect to the matters outlined above.

19. The Investor Meeting was approximately 2 hours and 30 minutes and there were several questions from the Investors during the course of the Investor Meeting.

20. The ARP Investors who were entitled to vote at the meeting were provided with a ballot which included four questions. The voting was done by closed ballot and the Carling Inspector tallied the votes prior to adjourning the meeting.

21. The results of the vote were as follows:

	For #	Against #	Total #	For $	Against $	Total $	For % in #	Against % in #	For % in $	Against % in $
Are you in favour of the Pooling Investment Approach?	17	1	18	685,000	20,000	705,000	94%	6%	97%	3%
Are you in favour of the Direct Investment Approach?	1	17	18	20,000	685,000	705,000	6%	94%	3%	97%
Are you in favour of building out the Fort McMurray lands?	17	1	18	685,000	20,000	705,000	94%	6%	97%	3%
Are you in favour of liquidating the Fort McMurray lands?	1	17	18	20,000	685,000	705,000	6%	94%	3%	97%

22. The Carling Inspector notes the following with respect to the results of the vote:

(a) 18 of the 20 eligible ARP Investors, representing 90% of the total eligible ARP Investors were in attendance or voted by proxy at the Investor Meeting;

(b) These 18 ARP Investors represented approximately 95% of the total dollars invested in the Aurora River Project; and

(c) 94% in number and 97% in dollar value i.e. 17 out of 18 and $685,000 of $705,000 voted in favour of the Pooled Investment Approach and a build-out of the Fort McMurray lands.

23. The Carling Inspector is of the view that the vote represents overwhelming support by the ARP Investors for the Pooled Investment Approach and the build-out of the Fort McMurray Lands.

POOLING INVESTMENT APPROACH VS. DIRECT INVESTMENT APPROACH

24. The Carling Inspector provided a detailed description of the Pooled Investment Approach as compared to the Direct Investment Approach and the issues related to the two approaches in the First Report, paragraphs 135 to 152.

25. The recoveries available to the Private Investors (as defined in the First Report) in the CSV Project and the RVE Project vary significantly depending on whether or not their claims are

pooled and paid out of remaining proceeds or if they are paid out as direct claims against the specific assets.

26. The Carling Inspector provides the following additional comments regarding the Pooled Investment Approach as compared to the Direct Investment Approach:

(a) The ARP Investors, the only Investor group which has the potential to be negatively impacted by a Pooled Investment Approach voted overwhelmingly in favour of the Pooled Investment Approach;

(b) The Carling Group advised the Carling Inspector that it has always been the intention of the Carling Group to make the entire group of Carling Investors "whole". The Pooled Investment Approach provides for the direct participation by the Investors in the RVE Project in the build-out scenario of the Fort McMurray Lands. The Investors in the RVE Project are currently creditors of Carling Development (B.C.) Inc. and therefore under the Direct Investment Approach these Investors would only benefit from surplus funds remaining after payment to all other creditors of Carling Development Inc. ("CDI"), and perhaps others. To make the Investors in RVE Project "whole" the Carling Group would have to pay the shortfall to these Investors from its portion of the equity relating to the build-out of the Fort McMurray Lands, which effectively subordinates the claims of the Investors in the RVE Project to equity status, in the absence of pooling;

(c) The Carling Inspector understands that the Court has already found that CDI is responsible for repayment to the Investors in the RVE Project, which would tend to support the Pooled Investment Approach concept, since as discussed above, the Investors in the RVE Project were not direct creditors of CDI;

(d) Many of the Carling Investors have investments in more than one Carling Project. The effect of these cross-holdings results in many of Carling Investors being supportive of a pooling approach; and

(e) Based on the Carling Inspectors review of the Carling Group bank accounts it is clear that the Carling Group co-mingled the funds from all of the Carling Projects. Not only were these funds co-mingled, but the Carling Group used Investor funds from the CSV

Project and the RVE Project to fund the Applewood project and/or repay Investors in the CSV Project. The Carling Group was essentially treating Investor funds as if they were pooled together. This practice is outlined in Mr. Danny Cheng's affidavit sworn on May 21, 2004 (referenced in the First Report);

27. The Carling Inspector is of the view that the facts presented above support the Pooled Investment Approach.

Consequences of the Pooled Investment Approach

28. In addition to the pooling of the Investors of the Carling Group as stakeholders of CDI and allowing all Investors to share in the proceeds from the build-out of the Fort McMurray Project on a pari passu basis, another consequence of the Pooled Investment Approach is that the Investors should transfer any claims which they may have against Integra Companies to CDI, who will prosecute these claims for the benefit of Investors. Based on the work of the Inspector and the Integra Receiver the Inspector is of the view that the claims that are transferred to CDI will not result in any material recoveries in any event.

ESTIMATED RECOVERIES

29. In the First Report, the Carling Inspector prepared an analysis of the estimated recoveries available to the Investors in each of the Carling Projects based on a liquidation scenario. The Carling Inspector provides an updated analysis below, based on the claims filed pursuant to the Claims Order (defined below) and an analysis of the estimated recoveries in a build-out scenario.

Liquidation Scenario

Direct Investment Approach

30. The Carling Inspector estimates the recoveries from a liquidation under a direct investment scenario as follows:

	Forced Liquidation Amount in $000		Fair Market Value Amount in $000		Notes
	ART	**CSV**	**ART**	**CSV**	
Appraised Value	4,350	2,000	4,833	2,200	
Professional Fees	(500)	(250)	(500)	(250)	1
Secured Creditors	(2,804)	(903)	(2,804)	(903)	2
Disputed Secured Claims	0	(91)	0	(91)	3
Private Investors	(745)	(1,646)	(745)	(1,646)	
Net Proceeds	**$302**	**($890)**	**$785**	**($690)**	
Available to Other Creditors		**$302**		**$785**	
Private Investors		(2,494)		(2,294)	4
Trade Creditors		(354)		(354)	5
Other		(2,061)		(2,061)	6
Potential Shortfall		**($4,608)**		**($3,925)**	
Recovery % to CSV and RVE		**6.1%**		**16.7%**	7

Notes:

1. Estimate of professional fees to the Carling Inspector, its counsel and Carling's counsel to granting of the Approval Order (as described in the Receiver's Seventh Report);

2. Secured Creditors includes mortgages (principal and accrued interest to January 31, 2008), builders' liens and commission fees;

3. Includes the realtor claim, filed in the Carling claims process, secured with a caveat against the Airdrie Lands (described below);

4. Indirect Private Investors includes the shortfall to Carling Springs Direct Private Investors and Royal Villa Private Investors;

5. Trade Creditors determined by claims filed in the Court Ordered claims process. The Inspector has assumed that trade payables rank pari passu with the Investors;

6. Includes the disputed claims, which remain in dispute and are described in further detail below (excluding the realtor claim); and

7. This analysis assumes that equity from these respective projects is available to the Investors of the other entities.

31. In the Direct Investment scenario the first mortgagee with respect to the Aurora River Project, Carling Springs Mortgage Investors and the ARP Investors are paid in full. The Private Investors in the CSV Project and the RVE Project along with other unsecured creditors suffer a significant shortfall.

Pooling Investment Approach

32. The Carling Inspector estimates the recoveries from a liquidation under a pooling scenario as follows:

	Forced Liquidation Amount in $000			Fair Market Value Amount in $000			Notes
	ART	**CSV**	**Total**	**ART**	**CSV**	**Total**	
Appraised Value	4,350	2,000	6,350	4,833	2,200	7,033	
Professional Fees	(500)	(250)	(750)	(500)	(250)	(750)	1
Secured Creditors	(2,804)	(903)	(3,707)	(2,804)	(903)	(3,707)	2
Disputed Secured Claims		(91)			(91)		3
Net Proceeds	**$1,047**	**$756**	**$1,894**	**$1,530**	**$956**	**$2,577**	
Available to Other Creditors			**$1,894**			**$2,577**	
Private Investors			(3,995)			(3,995)	4
Trade Creditors			(354)			(354)	5
Other			(2,061)			(2,061)	6
Potential Shortfall			**($4,517)**			**($3,834)**	
Recovery % to all Carling Investors			**29.5%**			**40.2%**	

Notes:

1. Estimate of professional fees to the Carling Inspector, its counsel the Receiver, its counsel and Carling's counsel to granting of the Approval Order (as described in the Receiver's Seventh Report);

2. Secured Creditors includes mortgages (principal and accrued interest to January 31, 2008), builders' liens and commission fees;

3. Includes the realtor claim, filed in the Carling claims process, secured with a caveat against the Airdrie Lands (described below);

4. Private Investors includes all of the Private Investors in the Carling Projects;

5. Trade Creditors determined by claims filed in the Court Ordered claims process; and

6. Includes the disputed claims, which remain in dispute and are described in further detail below (excluding the realtor claim).

33. The Carling Inspector provides the following summary of recoveries for each of the Investor groups based on the two liquidation scenarios presented above:

	Direct Investment		**Pooling**	
	Forced Sale	Fair Market	Forced Sale	Fair Market
Secured Creditors	100%	100%	100%	100%
Private Investors				
ARP	100%	100%	30%	40%
CSV	52%	68%	30%	40%
RVE	6%	17%	30%	40%

Build-out Scenario

34. The Carling Inspector estimates the recoveries under a build-out scenario as follows (based on the assumptions provided by the Carling Group, which the Inspector has not reviewed or verified); a detailed analysis is on the Inspector's web site (http://documentcentre.eycan.com/pages/main.aspx?SID=28):

	000's
Net Present Value of Potential Cash Flow	**$20,400**
Other Claims filed	
Professional Fees	(750)
Unsecured	(354)
In dispute	(2,061)
Other Claims	**(3,165)**
Payouts to Investors	
Aurora River Tower	
First Mortgage holders	(1,871)
Liens	(715)
Investors	(931)
Interest to Investors	(415)
	(3,933)
Carling Springs Village	
Investors	(2,468)
Interest to Investors	(1,167)
Royal Villa Estates	
Investors	(2,406)
Interest to Investors	(1,009)
Total Payouts to Investors	**(10,983)**
Equity Available	**6,253**

35. The build-out scenario includes the following assumptions:

(a) The professional fees of the Carling Inspector, its counsel the Receiver, its counsel, and the Carling Group's counsel to the date of the sale of the Airdrie Lands are paid in full from the proceeds of the sale of the Airdrie Lands;

(b) The first mortgagee with respect to the Airdrie Lands is paid out in full from the sale proceeds (including applicable interest);

(c) The remaining proceeds from the Airdrie Land sale will either remain with the Receiver as a holdback with respect to the disputed claims registered against the Airdrie Lands, or the funds will be released to CDI to be used for operating costs relating to the Fort McMurray build-out;

(d) The professional fees of the Carling Inspector, its counsel and the Carling Group's counsel with respect to the build-out and go-forward matters will be paid by CDI from time to time and any outstanding fees will be paid out in priority to other charges, with the exception of construction financing;

(e) Construction financing will be paid out in priority to all other charges on the Fort McMurray Lands except for the first mortgage on the Fort McMurray Lands in the principal amount of $1.5 million;

(f) The builders' lien holders with respect to the Fort McMurray Lands will be paid out in priority from the build-out proceeds, however, they will be postponed to construction financing;

(g) The unsecured creditors, the ARP Investors, Carling Springs Village Investors and the Royal Villa Estate Investors will all rank pari passu and will be paid out of the build-out proceeds after payment of items 35 (d) to 35 (f); and

(h) The surplus (i.e. the equity) will be distributed to the Carling Group (65%) and the Receiver (35%) in accordance with the Settlement Agreement (as described in the Seventh Report of the Receiver).

36. As discussed above, the ARP Investors voted overwhelmingly to proceed with a build-out of the Fort McMurray Lands. The Carling Group advised these Investors that a committee would be formed to oversee the build-out (the "Investor Committee").

SETTLEMENT AGREEMENT

37. The Integra Receiver and the Carling Group entered into an agreement (the "Settlement Agreement") on February 6, 2008 which effectively resolves all claims and actions between the two parties.

38. The Seventh Report of the Receiver of Integra provides a detailed background with respect to the terms of the Settlement Agreement between the Carling Group and the Integra Receiver and includes a copy of the Settlement Agreement at Appendix A.

39. The Settlement Agreement provides for a number of safeguards for the Carling Investors. Specifically, the Settlement Agreement provides for the creation of a Carling Investors' Committee which are given certain powers as outlined in the Investor Committee Charter which is included with the Settlement Agreement Appendices. In addition, the Settlement Agreement restricts the activities of Carling Development and expands the powers of the Carling Inspector.

40. The Inspector recommends that the Carling Investors carefully review the Settlement Agreement.

Investor Meeting

41. The form of Approval Order included with the Settlement Agreement authorizes and directs the Inspector to call, organize and convene a meeting of the Carling Investors to: a) provide a general update on these proceedings; and b) constituting the Investors' Committee meeting.

42. The Carling Inspector will circulate a Notice of Meeting to the Investors at least two weeks before the meeting date which will include among other things, a nomination form to allow Investors to nominate persons to the Investor Committee.

Revised Inspector Mandate

43. The form of Approval Order included in the Settlement Agreement seeks to restate and amend the role of the Carling Inspector.

44. First, the current Carling Inspector is reduced in two respects. The Inspector's current mandate is now fulfilled as it relates to the Carling Group, and the Inspector seeks approval and confirmation of its actions in that regard to the date d of the Approval Order.

45. Secondly, the Approval Order also terminates the Inspectorship over Carling Group Canada Inc. and Carling Financial Corporation. This termination is appropriate because the combined effect of the Settlement Agreement and the Approval Order is to transfer substantially all of the assets of the Carling Group to CDI, and also to pool all of the Claims of Investors against CDI and its assets. The Inspector is of the view that the assets and activities of Carling Group can be adequately monitored and the interests of Investors adequately safe-guarded if the inspectorship continues in respect of CDI only. There is no need for the Inspectorship to continue in relation to Carling Group Canada Inc. or Carling Financial Corporation.

46. Thirdly, the role of the Carling Inspector in respect of CDI is enhanced to provide a framework for safeguarding the interests of the Investors during the completion of the Fort McMurray Project. The following is a summary of the restated powers of the Carling Inspector (as indicated in the Approval Order):

(a) monitor the business and affairs of CDI;

(b) terminate all existing bank accounts of CDI and establish such new accounts as may be necessary for the Fort McMurray Project and maintain joint signing authority over all such accounts;

(c) engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Inspector's rights and powers;

(d) serve as chairperson of the Investors' Committee;

(e) participate with, and take direction from, the Investors' Committee;

(f) report to, meet with and discuss with such affected persons as the Inspector deems appropriate on any matters relating to CDI or the Fort McMurray Project;

(g) report to the Court at least annually and also in the event:

  (i) it is directed to do so by the Investors' Committee;

  (ii) a material adverse change event occurs in respect of the Fort McMurray Plan; and

  (iii) the Inspector deems it necessary and appropriate.

(h) register a copy of this Order and any other Orders in respect of this matter on any property of CDI, including the Fort McMurray Lands; and

(i) to take any steps reasonably incidental to the exercise of these powers.

CLAIMS PROCESS

47. On October 4, 2007 this Honourable Court issued an Order (the "Claims Order") which directed that the Carling Inspector conduct a claims process in accordance with the proposed claims process set out in the First Report.

48. In accordance with the Claims Order the Carling Inspector:

(a) Placed an advertisement in the National Post, the Fort McMurray Today, the Edmonton Journal and the Calgary Herald on October 15, 2007; and

(b) Sent out proof of investment and/or proof of claim forms to creditors or Investors on October 15, 2007 and advised of the claim bar date of November 8, 2007 (the "Claims Bar Date").

49. As of the Claims Bar Date, the Carling Inspector received 166 Proofs of Investment and 12 Proofs of Claim. Pursuant to section 2(f) of the Claims Order, the Carling Inspector responded to the Proofs of Investment and Proofs of Claim received.

50. Of the 166 Proofs of Investment received:

(a) 156 Proofs of Investment in a total amount of $6,150,280 were accepted[1]; and

(b) 10 Proofs of Investment in a total amount of $267,568 were disputed.

[1] Some claims were originally disputed by the Carling Inspector, the claimants provided additional documentation and the claims were subsequently accepted. These claims are included in the accepted claims amount.

51. The breakdown of accepted Proofs of Investment is as follows:

	Amount Accepted Secured	Amount Accepted Unsecured	Total
ART	1,500,000	745,000	2,245,000
CSV	656,000	1,646,000	2,302,000
RVE	N/A	1,603,780	1,603,780
	2,156,000	**3,994,780**	**6,150,780**

52. The following is a list of the 11 Proofs of Investment which were disputed. In the Carling Inspector's view none of these claims remain in dispute, since these Investors failed to file a notice of objection or motion materials in accordance with the Claims Order. Therefore, by operation of the Claims Order the following claims have been disallowed entirely by the Inspector, and the Inspector requests the Court approve and affirm those disallowances.

Company	First Name	Family Name	Amount Claimed	Amount Accepted	Amount Disputed
	Robert Scott	Beattie	8,568	-	8,568
	Assis Francis	D'Costa	10,000	-	10,000
	Ewa	Filipowski	40,000	-	40,000
	Pat & Barb Redmond	Mack & Evelyn Hardee	21,000	-	21,000
	Eric	Koester	150,000	100,000	50,000
Petro Safety Ltd	Brent	Polinkas	30,000	-	30,000
	Randy	Rittinger	58,000	-	58,000
	Joanne & Ed	Rooney	20,000	-	20,000
Enerex Inc	Arie	Schalk	20,000	-	20,000
	Paul	Squires	10,000	-	10,000
Total			**367,568**	**100,000**	**267,568**

53. Of the 12 Proofs of Claim received:

(a) Nine (9) Proofs of Claim in a total amount of $1,068,428 were accepted; and

(b) Three (3) Proofs of Claim in a total amount of $2,151,993 were disputed.

54. The three (3) Proofs of Claim that remain in dispute are as follows:

(a) Secured Claim filed by 619644 Alberta Ltd. in the amount of $90,950 relating to real estate commissions with respect to a sale of the Airdrie Lands which did not close. This claim will be resolved through the dispute resolution mechanism provided for in the Claims Order. The Carling Inspector notes that this claimant has a caveat registered on the Airdrie Lands. The Settlement Agreement proposes to remove this caveat from title and therefore a holdback from the Airdrie sale proceeds is required to serve as security for this disputed claim;

(b) Secured Claim filed by Roy Jennix and Maxine Cooke in the amount of $1,575,600 described as follows:

(i) $209,600 – interest with respect to the ARP Investors;

(ii) $66,000 – unpaid commissions (project unspecified);

(iii) $850,000 – payments made in respect of the Surrey Lands; and

(iv) $450,000 – legal fees

The Carling Inspector sent a notice of disallowance with respect to this claim, a notice of objection was filed by counsel to the claimants, but a notice of motion, as required by the Claims Order, was never received. The Carling Inspector's counsel followed up with the claimants' counsel requesting that they file a notice of motion and to date no notice of motion with respect to this claim has been filed. The Carling Inspector is of the view that by operation of the Claims Order, this claim should be allowed at the amount provide for on the notice of disallowance which is $Nil; and

(c) Unsecured Claim filed by Harrison Tse & 637388 Alberta Ltd. in the amount of $485,443.21 relates to alleged loans to the Carling Group and alleged commission, management fees and other fees payable to the claimants by the Carling Group. The claimants has failed to follow the appropriate procedure with respect to this claim as it has failed to file a notice of motion as required by the Claims Order. The Carling

Inspector is of the view that this claim should be allowed at the amount provided for on the Notice of Disallowance, which is $135,741.16.

55. The Carling Inspector received six Proofs of Investment for a total amount of $119,000 filed after the Claims Bar Date relating to the investors in the Integra mortgage on the Airdrie Lands (the "Airdrie Mortgage Late Claims").

56. The Receiver filed a claim in the Carling Claims Process related to the Integra Airdrie Mortgage (the "Marker Claim") as the Receiver wanted to be sure that the Investors in the Integra Airdrie Mortgage had a proper claim in the right claims process (i.e. Carling's vs. Integra's).

57. All the Investors in the Integra Airdrie Mortgage have now made claims in the Carling Claims Process if the Airdrie Mortgage Late Claims are permitted and therefore, the Receiver's Marker Claim is redundant.

58. The Inspector notes that including these Airdrie Mortgage Late Claims do not prejudice other creditors/Investors given the presence of the Marker Claim, given the registration of the mortgage against the Airdrie lands, and given that no distribution has taken place. The Carling Inspector recommends that this Honourable Court approve the inclusion of the Airdrie Mortgage Late Claims the Carling Claims Process and the Receiver will withdraw its Marker Claim.

RECOMMENDATION

59. The Carling Inspector recommends the granting of the Approval Order and all the relief contained therein, including but not limited to:

    (a) The approval of the Pooled Investment Approach;

    (b) The three disputed claims described in paragraph 55 of this report be treated as set out in that paragraph;

    (c) The inclusion of the Airdrie Mortgage Late Claims into the Carling claims process; and

    (d) Amending and restating the role of the Inspector as it relates to CDI, and discharging the Inspector entirely as it relates to Carling Group Canada Inc. and Carling Financial Corporation.

All of which is respectfully submitted this 11th day of February, 2008.

ERNST & YOUNG INC.
in its capacity as Court Appointed Inspector
of Carling Development Inc., Carling Group Canada Inc. and
Carling Financial Corporation

H. Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Action No. 0601-09869

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INTEGRA INVESTMENT SERVICE LTD. and RUNDLE DEVELOPMENT COOPERATIVE

Defendants

SECOND REPORT OF THE INSPECTOR OF CARLING DEVELOPMENT INC. and CARLING FINANCIAL CORPORATION (collectively the "Carling Group")

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