



NO. S148656
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*

R.S.C., 1985, c. C-36, AS AMENDED

AND

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF PRETTY ESTATES LTD.**

MONITOR'S SIXTH REPORT TO COURT

JULY 21, 2015



PRETTY ESTATES LTD.
MONITOR'S SIXTH REPORT TO COURT
JULY 21, 2015

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PRETTY ESTATES LTD.
MONITOR'S SIXTH REPORT TO COURT
JULY 21, 2015

BACKGROUND AND PURPOSE OF REPORT

1. On November 10, 2014, Pretty Estates Ltd. (the "**Company**") commenced a proceeding under the *Companies' Creditors Arrangement Act* ("**CCAA**"), and on that same date this Honourable Court granted an Initial CCAA Order (the "**Initial Order**"). G. Powroznik Group Inc. of G-Force Group was appointed as Monitor in the CCAA proceeding (the "**Monitor**").
2. This report represents the Sixth Report ("**Sixth Report**") of the Monitor with respect to the CCAA filing of the Company and should be read in conjunction with the Monitor's Preliminary Report dated November 5, 2014 which included the Company's Cash Flow Statement ("**Original Cash Flow Statement**"), and the Monitor's First Report dated December 5, 2014 ("**First Report**"), the Monitor's Second Report dated January 30, 2015 ("**Second Report**"), the Monitor's Third Report ("**Third Report**") dated February 27, 2015, the Monitor's Fourth Report dated March 31, 2015 ("**Fourth Report**") and the Monitor's Fifth Report dated April 23, 2015 ("**Fifth Report**"). The capitalized terms used in this Sixth Report are defined herein or in earlier reports.
3. Copies of all pertinent reports, Court Orders, and other filings related to this proceeding are posted to the Monitor's website at the following URL: <http://www.g-forcegroup.ca/pretty-estates-ltd/>
4. The purposes of this report are to provide this Honourable Court with:
 - a) an update on the Monitor's activities since the Fifth Report was issued;
 - b) an update on the actual financial performance of the Company during the restructuring period and particularly during the period ending June 30, 2015;
 - c) an update on the third party offers to purchase the shares or assets of the Company and the Company's development of a restructuring plan (the "**Restructuring Plan**") under the CCAA;
 - d) an overall summary of next steps in the process with estimated timing for key milestones that the Company is working toward; and
 - e) the Monitor's recommendations relating to the Company's request for an extension of the stay of proceedings as well as the recommended process to deal with the

Company's creditors' claims in conjunction with the Company's efforts to complete a transaction and formalize its restructuring plan.

5. In preparing this report, the Monitor has relied upon information received from the Company, its legal counsel, Lawson Lundell LLP ("**Lawson**"), IHM, the Company's first and second mortgagees and their respective counsel and third parties potentially interested in acquiring the shares or assets of the Company and/or participating in the Restructuring Plan (the "**Prospects**"). The Monitor was given unobstructed access to information relating to the operations of the Company including financial and operations information.

MONITOR'S ACTIVITIES

6. The following is a summary, without limitation, of the Monitor's activities since the Fifth Report was submitted:
 - a) maintained regular contact with the Company's first mortgagee, First West Credit Union (formerly known as Envision Credit Union) ("**First West**"), represented by Mr. Mohamed Samman, and the Company's second mortgagee and DIP lender, Mr. James Young, and their respective counsel to update them on the status of CCAA proceedings and respond to their queries. This included the Monitor providing the secured creditors with two brief operations reports dated May 22, 2015 and June 22, 2015, respectively, to provide details of the monthly operations and financial results at the Resort. Also, the secured creditors were provided with e-mail reports on the status of the Company's Search Process to find a purchaser or investor dated May 20, May 21, June 19, and June 25, 2015, respectively;
 - b) responded to many enquiries from Mr. Young, who as the DIP Lender and the second mortgagee has made a conscientious effort to carefully monitor the Company's progress under the CCAA including identifying suitable Prospects;
 - c) maintained regular contact with the Company and Lawson to review the improved operating results and the detailed elements and timing of a Restructuring Plan;
 - d) maintained regular contact with IHM to obtain ongoing updates on the Company's operational restructuring activities, the current events at the Resort and the status of operations improvements and financial performance;
 - e) reviewed the financial and operational reports from IHM for April, May and June 2015, and its commentary on early July results, and considered this information in connection with the Cash Flow Statement, and the Company's current position with respect to the DIP Financing;
 - f) managed the process for the Company to identify and consider Prospects, and held meetings with several to determine whether any of them would qualify as a Potential Partner or a Value Investor, hereinafter defined, for the Company;

- g) reviewed with the Company the formal offers received from the Prospects;
- h) worked with the Company in negotiating the terms of two letters of intent; and
- i) assisted the Company in developing a time-line for key milestones as it worked to develop its Restructuring Plan taking into account the feedback from the first and second mortgagees, including developing a claims process ("**Claims Process**") which is discussed later in this report.

SUMMARY OF KEY FINDINGS AND ACTIVITIES

7. The Monitor summarizes its key findings as follows:

- a) For the eight months of their operation ending June 30, 2015, the Company has fallen short of their budgeted results by approximately \$52,200. However, the performance exceeds the Company's results for the same period a year earlier by \$396,000. June 2015 operations were very positive and EBITDA of \$124,800 was recorded, which is approximately 35% better than projections. Early indications are that the Resort's July performance is slightly behind projections primarily due to the very hot weather and unfavourable air quality in the first part of the month. IHM is cautiously optimistic that it can still meet the budgeted operating results for the year ending October 31, 2015 of EBITDA of \$502,000, or an improvement over the prior year of \$772,000;
- b) IHM reports that actual DIP Financing advanced as at June 30, 2015 is \$40,590 less than what was projected at that time. The Company had approximately \$95,000 of borrowing remaining under the DIP financing limit as at the end of June; and
- c) The Company has now received four serious offers to purchase its shares or assets. Two of the offers contain a purchase price that is sufficient to repay the DIP Financing in full, pay the secured debt, and make a meaningful payment to the unsecured creditors, all of which could be embodied in a Restructuring Plan that the Company expects to file by September 30, 2015.

STATUS OF OPERATIONS IMPROVEMENTS AND COST CONTAINMENT MEASURES

- 8. Included as **Appendix "A"** to this Report is the IHM Operations and Cash Flow Report for June 2015 including the following exhibits: Exhibit 1 - Status of Operations Initiatives (including Exhibit 1A - Revenue Enhancement Initiatives); Exhibit 2.0 - Monthly Cash Flow - Period Ending June 30, 2015; and Exhibit 2.1 - Summary Operating Statement - Period ending June 30, 2015 (collectively, the "**IHM June Report**").
- 9. In summary, the IHM June Report contains details on the Resort's financial performance for the month of June 2015, as well as for the eight months ending June 30, 2015 including its actual performance compared to projected cash flows to June 30, 2015, and

status of borrowings under the DIP Financing. The IHM June Report also contains a summary of the status of the various cost containment and operations improvements initiatives that IHM has implemented since its appointment.

10. The Monitor has reviewed the IHM June Report and has discussed it with IHM and the Company. The Monitor recommends that stakeholders review the IHM June Report as it contains a significant amount of information about the Resort's operations since the commencement of the CCAA to June 30, 2015, and also contains brief commentary about estimated projected operating results for the month of July 2015. A brief summary of the Resort's June 2015 financial results follows.

COMPANY'S FINANCIAL RESULTS - JUNE 2015 AND EIGHT MONTHS TO JUNE 30, 2015

11. As part of its review of the IHM June Report, the Monitor has reviewed the Resort's actual to budgeted cash flows and operating (income) statements, both for the month of June 2015 and for the eight month period ending June 30, 2015.
12. The IHM June Report summarizes the variances in actual results compared to the projections included in the Cash Flow Statement. The results as reported in the IHM June Report are self-explanatory and will not be repeated by the Monitor except to highlight the most significant financial results at a high level as follows:
 - a) for the month ending June 30, 2015, the Resort's actual earnings before interest, taxes, depreciation and amortization ("**EBITDA**") of \$124,800 is approximately \$32,700 better than the budgeted EBITDA of \$92,100 for the month;
 - b) for the month ending June 30, 2015, the Resort's EBITDA of \$124,800 was \$59,000 better than the prior year's June EBITDA (loss) of \$65,800; and
 - c) for the eight month period ending June 30, 2015, the Resort's EBITDA (loss) of (\$78,900) is approximately \$396,000 improved compared to the prior year's equivalent period's EBITDA (loss) of (\$474,900). These operating results evidence the fact that IHM's cost control and revenue initiatives have gained significant traction at the Resort, evidenced by the substantially improved monthly results this year, compared to prior years, during the first eight months of operations for the current fiscal year.
13. Also, IHM's early view is that the Resort is approximately \$20,000 behind target for the projected EBITDA of \$181,900 for July 2015. This is primarily due to unseasonably hot weather in the first half of July which reduced the number of golf rounds played. Also, the extreme forest fire conditions in British Columbia, and the resulting heavy smoke and poor air quality in the first part of July, deterred people from golfing and participating in other outdoor activities generally. July results will be known in the first half of August 2015.

14. The Monitor observes that IHM has made advancements in all key operations areas in its management of the Resort, and that all of its planned initiatives have now been commenced. It is clear that the initiatives, both for cost containments, and also for revenue enhancements, have been successful. Despite the projected negative EBITDA variance for July, at the time of writing this report, IHM is cautiously optimistic that it will meet its budgeted EBITDA results for the year ending October 31, 2015 of \$502,000.

UPDATE ON OFFERS TO PURCHASE THE SHARES OF THE COMPANY

15. The key objectives of the Restructuring Plan were set out in paragraph 21 of the Monitor's Fourth Report. The Company's dramatic turnaround in its operating results has resulted in clearly demonstrating that there is considerable appreciation in value occurring during the CCAA process or perhaps better described as a 'firming up' of the underlying value of the Company's going-concern business and Assets. A universal assessment by virtually everyone who has expressed interest in the Company's Resort business and Assets acknowledges that the property is uniquely attractive, likely with upside development potential over the longer term.
16. Since May 2015, the Company has run, with the assistance of the Monitor, the Search Process (as defined in the Fourth Report) to find an investor or a buyer. Thirteen parties, not including the secured creditors, executed confidentiality agreements in order to examine confidential information relating to the Search Process and purchase opportunity. From that point, several more serious Prospects were identified ("**Serious Prospects**"). After additional due diligence by the Serious Prospects and their discussions with the Monitor and the Company, the Company received by May 20, 2015 three initial formal letters of intent ("**LOI**"). These were communicated to the secured creditors at the time by the Monitor and periodic updates to the secured creditors have been provided since then. Two LOIs involved the purchase of the shares of the Company and the third LOI involved the purchase of the Assets. One of these parties had been in contact with the Company prior to the CCAA filing while the other two were attracted during the Search Process. There were additional components in two of these offers that provided a significant on-going involvement of and financial benefit to Ms. Faulkner.
17. In the case of two of the initial LOIs, there were sufficient proceeds to retire all of the secured debt, including the secured debt owed to Ms. Faulkner personally, and to her Company, 0700256 B.C. Ltd., but significantly different amounts would be available for the unsecured creditors under a Restructuring Plan. In the Monitor's opinion, the initial offers represented the upper range of the market value for the Company and its Assets. As a result, the Company and its shareholder accepted the Monitor's recommendation that the formal search process for additional Prospects be curtailed in favour of determining which of the offers would best support an early submission of the Company's Restructuring Plan.
18. The Monitor assisted the Company and Ms. Faulkner in receiving clarification from the Prospects with the two best offers over a three week period in order to determine which offer to accept. During this period, the amount offered by the Prospects with both the

second and third best offers was increased significantly. During this time, a fourth substantial offer was also received by the Company.

19. On June 19, 2015, Ms. Faulkner accepted the best LOI (the "**Accepted LOI**") from the proposed purchaser ("**Proposed Purchaser**"). The Prospect with the second best offer was informed of her decision but was encouraged to maintain its offer as a backup offer in case the sale was not completed with the Proposed Purchaser (the "**Back-up Offer**"). Subsequently, the amount offered by the Prospects with the second and third best offers has been increased again. A formal Backup Offer by the Prospect with the second best offer has been prepared and submitted to the Company's shareholder for signing.
20. The Company and the Monitor have agreed to maintain the confidentiality of both the names of the Proposed Purchaser and the Prospects with the other offers and the specific details of the offers to maintain the integrity of the Search Process and since the final sale documents have not been completed.
21. The Proposed Purchaser's legal counsel provided the first draft of a Share Purchase Agreement ("**SPA**") on July 14, 2015 and is working with the Company and Ms. Faulkner to finalize and execute it by July 27, 2015. The Proposed Purchaser has placed its initial deposit in trust with its lawyer. In conjunction with the preparation of the SPA, the Proposed Purchaser has also commenced its due diligence activities, which will include meeting with IHM and senior personnel from the Company, to support the final documentation required by the SPA. The Proposed Purchaser will have a further period of 53 days from the execution of the SPA to perform additional due diligence and remove conditions. Therefore, it is expected the offer will become unconditional on or before September 18, 2015 at which time a \$1 million deposit is required. The Proposed Purchaser plans to close within 30 days of subject removal from the SPA, subject to the Company's requirements to file its Restructuring Plan and have it approved by the creditors and by the Court. Practically, we would expect the sale to close at a calendar month end to simplify the transition from Vendor the purchaser.

CLAIMS PROCESS AND RESTRUCTURING PLAN

22. The Company cannot file its Restructuring Plan until it has reasonable assurance that the Proposed Purchaser is prepared to complete the purchase, which will occur when the Purchaser's conditions are removed from the SPA on or before September 18, 2015. This means that the Company expects to file its Restructuring Plan with the Court in the latter half of September 2015. Based upon the anticipated time for the Proposed Purchaser to complete the purchase of the shares and Assets of the Company, the Monitor recommends that a Claims Process be undertaken now. Under the Company's proposed Claims Process, the Monitor will be managing the process including sending correspondence to creditors, receiving claims, and adjudicating claims with the assistance of the Company and its management and staff.
23. The Monitor recommends that the Claims Process be commenced in early August 2015 so that all of the creditors' claims can be received and adjudicated prior to the end of September 2015, the time the Company plans to file its Restructuring Plan.

24. The anticipated Claims Process is set out in detail in the Company's materials that are submitted as part of this application.

CONCLUSIONS AND RECOMMENDATIONS

25. The Company's turnaround in operating results during the CCAA process has been impressive so far and credit must be given to IHM and the Company for its support. The actual and projected improved operating results have provided a solid foundation to demonstrate tangible higher value for the Company and its Assets.
26. In the Monitor's opinion, the Search Process generated significant interest in acquiring the Company and its Assets and four solid offers were received by strategic buyers. The SPA for the top offer is expected to be finalized before the end of July and the due diligence completed and conditions removed by the Proposed Purchaser by September 18, 2015. The Monitor expects that the Proposed Purchaser will be able to complete the acquisition by the end of October 2015 subject to the Company's ability to file its Restructuring Plan and get it approved by the creditors and the Court by then.
27. The Monitor recommends that the stay of proceedings be extended to September 30, 2015 to allow the Company and its shareholder the time to complete a transaction with the Proposed Purchaser and begin the process to file its Restructuring Plan and have it approved by the creditors and the Court. The Monitor also recommends that the Company's Claims Process be approved as it will allow for the adjudication of claims in advance of the Company filing its Restructuring Plan in the latter half of September 2015.
28. The Company and its principal, Ms. Faulkner, have been very co-operative with the Monitor and in the Search Process. The Monitor continues to hold the opinion that the Company has acted, and is acting, in good faith and with due diligence during the restructuring process with the intention of preparing and presenting its Restructuring Plan as soon as reasonably possible.

All of which is respectfully submitted this 21st day of July, 2015.

**G. Powroznik Group Inc. of G-Force Group
In its capacity as Court Appointed Monitor
of Pretty Estates Ltd.**



Per: Mr. Gary D. Powroznik
Managing Director

Appendix "A"

IHM Operations and Cash Flow Report for June 2015 (including exhibits)



INTEGRATED HOSPITALITY MANAGEMENT LTD

Memorandum

To: Betty-Anne Faulkner, Pretty Estates Ltd.
CC: G. Powroznik Group Inc. as Court Appointed Monitor of Pretty Estates Ltd.
Bonita Lewis-Hand, Lawson Lundell LLP
From: Ralph Miller, Integrated Hospitality Management Ltd.
Date: July 17, 2015
Re: Pretty Estate Resort – Operations and Cash Flow Report, June 2015

Betty-Anne:

As you are aware, IHM took control of the management of Pretty Estate Resort (the “Resort”) on November 10, 2014, with the mandate to implement cost containment, operations efficiency, and revenue enhancement initiatives, which we originally identified in August 2014 and continue to update the initiatives based on implementation experience. All of the initiatives previously identified have been actioned and as reported in previous months have been integrated into the operation of the Resort.

For the 8 month period ended June 30, 2015 we provide the following summary:

	2015 \$	2014 \$	Improvement \$
Total Revenue	1,291,500	1,170,700	120,800
Labour Costs	776,200	899,500	123,300
Other Costs	<u>594,200</u>	<u>746,100</u>	<u>151,900</u>
EBITDA (Loss) Before Restructuring Costs	<u>(78,900)</u>	<u>(474,900)</u>	<u>396,000</u>

Our revenue enhancement, cost control and mitigation, and efficiency programs are focused on each of the Company’s operations; revenue enhancement initiatives, especially as they related to golf operations appear to be gaining momentum, generating additional revenues.

On a comparative basis for the 8 months period ended June 30, revenues have been increased \$120,800, labour costs have been reduced \$123,300, and other operating costs have been reduced by \$151,900, resulting in a reduction in the operating loss for the 8 month period of \$396,000.

Suite 313, 223 Mountain Highway
North Vancouver, BC V7J 3V3
Telephone: 704.982.0888
Facsimile: 704.982.0999

Box 14, Site 17, RR 8
Calgary, AB T2J 2T9
Telephone 403.719.9777
Facsimile: 403.938.1724

Labour cost, the single most important expense in any hospitality business, is monitored and managed on a daily and weekly basis. When compared against the same period last year, \$123,300 in labour cost savings, approximately 14% of the prior year labour cost, has been achieved in the 8 months ended June 30, 2015 without sacrificing guest satisfaction.

Other cost savings have been recorded in and across multiple expense classifications. For example, for the 8 months ended June 30, 2015 the cost of food and beverage was 37.4% of food and beverage revenues, 7.4 percentage points better than the 44.8% cost of food and beverage revenues reported in the 8 months ended June 31, 2014 (measured in absolute dollars, the food and beverage cost reduction is approximately \$40,000 over the 8 month period).

Some of our revenue enhancement initiatives were delayed as a result of being appointed in November 2014 rather than in September 2014, eliminating opportunities to leverage on the 2014 Christmas season and winter/spring corporate retreat markets. Our revenue enhancement initiatives are a series of building blocks, which unlike cost containment initiatives, require specific sequencing for each target sector.

In Exhibit 1, we set out our revised initiatives that will carry the Resort through the summer golf season. These revised initiatives include the mid-course corrections we believe necessary to continue to build revenues and better control costs throughout the operation; as with previous reports, highlighted initiatives have been actioned.

Our business and operating philosophy continues to promote changes that improve the business paradigm at the Resort. We operate the business on a go-forward basis making suitable arrangements for the continued operations of the Resort.

Operating Earnings for the Month Ended June 30, 2015

In respect of the financial performance of the Resort, we attach a Statement of Monthly Cash Flow from Operations (Exhibit 2.0) and a Summary Operating Statement (Exhibit 2.1) for the period ended June 30, 2015, and provide the following discussion thereon.

Total Operating Revenue recorded for June 2015 was \$383,400, \$29,200 greater than the projected levels, with golf revenues \$37,900 above expectations and rooms and food and beverage combined to be (\$8,600) below expectations.

The Earnings before Interest Taxes Depreciation and Amortization ("EBITDA") and Restructuring Costs for the month of June 2015 was \$124,800; \$32,900 better than the projected EBITDA and Restructuring Costs of \$92,100. By comparison the Total Operating Revenue and EBITDA reported for the month of June 2014 was \$348,800 and \$65,800 respectfully.

Rooms' department revenue for June was \$37,900, approximately (\$2,800) less than projected levels. 175 guest rooms were sold, (13) less than the projected guest room sales of 188; the average room rate achieved was \$215.87, approximately (\$1.00) worse than the projection of \$216.70.



Food & Beverage department revenues for June were \$173,300, approximately (\$4,800) less than the projected levels.

Golf department revenues for June were \$172,200, approximately \$37,900 more than the golf revenues projected; 3,050 green fee paid rounds and 543 membership/golf card rounds of golf were recorded for a total of 3,593 golf rounds, 893 more golf rounds than projected (2,700 green fee paid and 0 membership/golf card rounds); the average green fee realized was \$40.77, \$5.77 more than \$35.00 green fee projected.

Non-Operating Income for June was \$1,601; \$1,101 more than projected.

Total labour costs for the month of June 2015 were \$136,511, \$958 more than the projected labour costs of \$135,553, and (\$12,200) less than the labour costs incurred in the month of June 2014. For June 2015 labour costs represented 35.6% of total operating revenues, approximately 2.7 percentage points better than the projected labour costs of 38.3% of total projected revenue.

An overall operating earnings, represented by EBITDA before Restructuring Costs, of \$124,800 was recorded for the month of June 2015, \$32,700 better than the projected operating earnings for the month of \$92,100.

On a year to date basis (8 months to June 30, 2015):

- EBITDA (Loss) before restructuring costs of (\$78,900) has been reported; (\$52,200) worse than the projected EBITDA (Loss) before restructuring costs of (\$26,700); but \$396,000 better than the EBITDA (Loss) before restructuring costs of (\$474,900) reported for 8 months ended June 30, 2014.
- Total operating revenues of \$1,291,500 were recorded in the 8 month period, (\$83,200) less than the projected operating revenue, but \$120,800 more than the revenue recorded in the 8 month period ended June 30 2014.

In our report on the operations for May 2015, dated June 17, 2015, we provided an estimate for the anticipated operating earnings for June 2015 at \$92,000 based on the daily revenue and labour cost reporting to June 16, 2015, implemented at the Resort. Actual operating earnings of \$124,800 were recorded, approximately \$32,700 better than the estimate.

Statement of Monthly Cash Flow from Operations

On April 20, 2015 we issued a revised projection for monthly cash flow for the year ending October 31, 2015. The revised projection for monthly cash flow is based on the actual results of operations for the 5 month period from November 1, 2014 to March 31, 2015 and projected operating results for the period from April 1, 2015 to October 31, 2015. These projections were based on the assumption that the Company will continue operations in the normal course, except where otherwise stated, and will incorporate the initiatives outlined in the Integrated Hospitality Management Ltd. report dated August 29, 2014, and revised estimates for debt service requirements (including DIP Financing costs) and restructuring costs.



The Cash Flow from Operations is determined after considering changes in the working capital accounts and before interest, depreciation, and other non-operating items. The EBITDA before Restructuring Costs for June 2015 was \$124,782.

The adjusted cash flow surplus (deficiency) from operations for June 2015 was approximately \$43,675, and consider all of the changes in the working capital accounts for the Resort. Overall, there is a favorable cash flow from operations variance of \$49,322, when compared against the projected operating cash flow requirements, largely as a result of deferring the timing for the annual renewal of corporate insurance policies until August, and the timing of payments on short term trade credit accounts.

Non-Operating cash flow items generally include the cost of capital replacements and all of the costs related to interest payments required to maintain the secured creditor positions and the payments related to restructuring costs. No capital replacements were made in June 2015. Non-Operating cash flow items totaled \$32,771 in respect of capital replacements and debt service and \$83,530 in respect of restructuring costs.

Overall a cash flow deficiency of (\$72,626) was recorded for the month, approximately \$56,700 better than the projected cash flow deficiency of (\$129,326).

On a year to date basis (8 months to June 30, 2015), a cash flow deficiency of (\$793,432) has been incurred, approximately \$118,292 better than the revised projected cash flow deficiency of (\$911,724).

Our cash flow projections anticipated that no changes would be made to the Envision Line of Credit, which was effectively fully drawn down as at November 10, 2014. As at June 30, 2015 cash balances in the Royal Bank accounts totaled \$111,417, including \$27,023 related to wedding and event customer deposits received since November 10, 2014, which are segregated from regular operating funds and held in trust in anticipation of the booked events.

DIP Financing

As at June 30, 2015 DIP Financing totaling \$867,008 had been advanced, approximately (\$40,590) less than the \$907,598 estimated in the revised projection. Our DIP Funding cycle is estimated semi-monthly in advance and the timing of any specific month-end can indicate potential over/under borrowing or additional short term cash flow deficiencies. As at June 30, 2015, unrestricted cash balances of \$84,394 were available in the Royal Bank of Canada accounts, and approximately \$24,627 was available on the Envision Financial Line of Credit.

As at July 15, 2015 DIP Financing totaling \$867,008 had been advanced; allowing for the July 2015 DIP interest, and the three month interest reserve, there is approximately \$95,000 in remaining borrowing available under the approved DIP Financing of \$1,000,000.

On July 15, 2015 IHM requested a \$95,000 advance of the available DIP Financing in order to expedite the settlement of outstanding accounts for professional fees to the corporate legal advisors



and the court approved monitor. Notwithstanding that the funding request was within the court approved limits of the DIP Financing, the DIP Lender has reserved the decision on whether to provide the requested \$95,000 in additional DIP Funding.

The DIP Lender's reservation in funding creates a short term operational inconvenience, causing additional management focus on daily cash flow management, at a time when all eyes should be on daily operations management. We anticipate that by the time a funding decision is finally made, we will have made other accommodations in order to settle the professional fee accounts.

Outlook for July 2015

According to the revenue and labour cost tracking/monitoring systems installed at the Resort, as of July 15, 2015, the Resort is reporting an actual revenue to projection deficiency in the range of (\$16,000) month-to-date, and an actual labour cost to projection overage in the range of (\$9,000) month-to-date. During the first half of July, weather conditions have been unseasonably warm and forest fires have created unpleasant air quality, all of which have had the effect of reducing golf play. Booking and reservation activity indicates very good but not exceptional golf and non-golf revenues for the last half of the month. For July 2015 we projected EBITDA of \$181,900; based on the experience to July 15, 2015 we now anticipate achieving monthly EBITDA in the range of \$160,000, approximately (\$22,000) less than the projection.

Projected Cash Flow for the Year ending October 31, 2015

For the 8 months ended June 30, 2015, EBITDA before restructuring costs of (\$78,900) has been reported; (\$52,200) worse than the projected EBITDA before restructuring costs of (\$26,700). However, based on the operating performance achieved since November 10, 2014, and our experience with the financial impacts of the operational changes introduced, we remain cautiously optimistic that the financial projection for annual EBITDA before restructuring costs of \$502,700, presented in November 2014, is still achievable in total over the balance of the year ending October 31, 2015.

Conclusion

The foregoing represents our report on the operations and cash flow for the Resort for June 2015 and the 8 months then ended.

We are pleased to report a \$396,000 improvement in the 8 month period EBITDA (before restructuring costs), when compared to the same 8 month period of 2014. This improvement in EBITDA is more than 3 times the IHM operational restructuring fees recorded in the 8 month period.

We are pleased to review our report with you, the Monitor, or the Resort's legal advisors, at your convenience.

If you have any questions related to this memorandum please do not hesitate to contact me directly by email or at 403.619.9767 (mobile).





Exhibit 1

Pretty Estate Resort

Schedule of Cost Containment, Operations Efficiency and Revenue Enhancement Initiatives Related to August 2014 Operations Review, Recommendations

Status as of July 15, 2015

Initiative

Customer Service Standards

Continue to support operationally efficient customer service standards for each area of the operation:

1	Update training materials & procedures to support enhanced customer service levels for all departments.	Distributed a revised Employee Handbook to all employees; Identified customer service training needs. Developed and introduced Emergency preparedness policies & procedures.
2	River's Edge Restaurant - address timeliness of food service.	Customer feedback has identified areas of service shortcomings. Additional staff training is scheduled over the next few weeks to address the issues.
3	Golf Pro Shop service	Service enhancements for 2015 golf season include: new Rowena's guest reception area provides additional support to the Pro Shop staff level. Customer engagement sessions are scheduled to help promote golf events and encourage social media postings.
4	Ensure continuous senior management presence on a daily basis throughout the peak season.	Duty Manager schedule has been developed to ensure management coverage during busy periods.

Sandpiper Golf Course Operation

1	Provide enhanced F&B items for service in Pro Shop retail. (i.e. Latte Lounge Express coffee server, muffins & sandwiches)	Coffee service is in place and operational.
2	Maintain Pro Shop merchandise levels to essentials and proven high volume/margin items utilizing "Just In Time" ordering practices.	Peak season product has been ordered. Inventories are augmented as required
3	Incentivize on-line bookings for tee times	Continuing to promote the website as a the access to flex pricing.
4	Optimize revenue & average green fee rates with yielding of flex pricing template	Golf pricing by tee time and day of the week continues to have positive impact on paid green fee realization.
5	Continue to pursue partnerships with accommodators, vacation property providers and corporate enterprises with wholesale pricing opportunities.	Specific initiatives include offers to owners/residents of Springs RV Resort in Harrison Hot Springs and guests at the Hampton Inn Chilliwack. We continue to explore partnership opportunities within the lower mainland and Fraser valley.
6	Enhance league play programs (F&B features, attendance and performance prizes)	Men's, Ladies, and Couples League play commenced May 6 & 7. F&B programs and prize structures are in place, some sponsorship arrangements are in place.

Exhibit 1

Pretty Estate Resort

Schedule of Cost Containment, Operations Efficiency and Revenue Enhancement Initiatives Related to August 2014 Operations Review, Recommendations

Initiative

Status as of July 15, 2015

7	Regular e-blast messages to Resort's data base; on-site print advertising; social media postings; insertion into the Golf & Travel Guide publication (Vancouver Sun & Province).
River's Edge Restaurant	
1	Re-open the Rivers Edge Restaurant with emphasis on more inclusive menu's, pricing and atmosphere.
2	Re-engineer the menu offerings and pricing, taking into consideration kitchen production and storage capabilities as well as competitive market pricing.
3	Ensure appropriate daily supervision and guidance of service staff.
4	Increase golfer utilisation of River's Edge compared to previous years.
5	Monitor food delivery times from River's Edge kitchen to ensure golfer satisfaction.
Rowena's Inn (Food & Beverage)	
1	Utilize Rowena's Inn spaces for private functions and events & meeting space.
2	Utilize Rowena's Inn Dining room as the off-season dining room to take advantage of efficiencies of service.
3	Discontinue a la carte Afternoon Tea Service for the summer months to eliminate cost inefficiencies.
Events and Catering	
1	Monitor Buffet food cost to determine margins and profitability
2	Monitor other costs - labour & beverage to control event expenses.
3	Revitalize satellite kitchen to be more efficient and self sustaining.
	Completed Wedding Buffet analysis indicate that Buffet costings are appropriate and in line with expectations
	Purchase order control of non-alcoholic beverages in place; function schedules reviewed by GM prior to issue.
	Satellite kitchen has been revitalized and is operating efficiently and as required.

Exhibit 1

Pretty Estate Resort

Schedule of Cost Containment, Operations Efficiency and Revenue Enhancement Initiatives Related to August 2014 Operations Review, Recommendations

Initiative

Status as of July 15, 2015

4	Encourage more emphasis on off season function opportunities	Off-season catering program to be updated and promoted through the summer season.
5	Finalize Christmas Party and Corporate Meeting Package inclusions for fall and winter.	Content being reviewed and updated for distribution and social media promotion.
6	Install an ATM in the Guest Reception Lobby of the Pro Shop building.	ATM is on site and operational.
Food & Beverage General		
1	Actual food cost needs to be determined for all a la carte menu items. Ongoing inventory control procedures, including liquor requisitioning system, opening par stocks and ending inventory counts need to be recorded to ensure that all product dispensed is recorded as sales.	Food cost yield tests are ongoing. Recent beef price increases resulted in menu pricing adjustments effective July 1, 2015. Bar control procedures have been reviewed with the responsible managers. Ongoing monitoring and spot checks will be performed throughout the peak season.
3	Ongoing monitoring of scheduling practices and actual labour cost outcomes.	Completed implementation of departmental schedules approval by GM / IHM personnel. Labour requirements continually monitored through the daily report.
Rowena's Inn (Bed & Breakfast)		
Inventory		
1	Monitoring yield management practises to maximize the pricing for all rooms during high demand periods.	New pricing structures and yield management processes have been initiated.
2	Gatehouse room layout to be adjusted, creating a more desirable room type for sale to golf foursomes.	Quotes for re-configuration and additions are pending. Plan will be actioned in June 2015.
3	Linen inventory to be augmented in preparation for peak season.	Seasonal inventory has been received and is in circulation.
Rooms Operations		
1	Conduct daily room inspections to identify maintenance and housekeeping deficiencies, prioritize outstanding maintenance repairs as well as upgrades as capital becomes available.	Inspections identify maintenance and deficiency priorities. Work orders are prepared and attended to on an ongoing basis.
2	Establish a labour schedule to reflect peak business volumes	Addition of part time staff for laundry and room cleaning duties.
3	Weekly monitoring of occupancy levels to identify revenue opportunities.	Room sales initiatives continue to be offered on social media and data base E-blasts as occupancy needs periods are identified.

Exhibit 1

Pretty Estate Resort

Schedule of Cost Containment, Operations Efficiency and Revenue Enhancement Initiatives Related to August 2014 Operations Review, Recommendations

Initiative

Status as of July 15, 2015

4	Explore additional revenue sources and opportunities.	In addition to social media posts, guest service is reaching out to previous guests in promoting needs periods and packages. The Resort is listed on Expedia with limited inventory, to increase exposure of the room product. We received 7 bookings/7 room nights between June 15 and July 15.
5	Improve Laundry efficiency and productivity.	An additional used commercial washer was added in June to handle the additional laundry volume generated from weekend events (table cloths, napkins, etc.) and higher occupancies (guest room linens), decreasing turnover time and eliminating the need for linen rentals.

Technology

1	Continue to upgrade workstations on a rotating basis to ensure efficient operation and dependability.	Priority list of hardware upgrades has been established.
2	Review security CCTV system and upgrade as required to serve staff & guest safety as well as company asset protection.	Quotes are being obtained for CCTV upgrades.

General and Administrative

	Maintain a "Team" culture within the department heads; break down departmental "silos" to achieve operating efficiencies available through the use of effective communication and shared resources.	Continuous; weekly management meetings and team meetings coordinated to encourage collaborative decision making and responsibilities.
2	Maintain a continuous process of goal setting and objectives review to foster collaboration, drive operational success and reinforce accountability.	Weekly objectives and actions needed are discussed at the management meeting.
3	Provide and review monthly financial statements with Department Managers to set short term objectives	Monthly financials are distributed to department managers for their review. GM meets with each manager to discuss the results, current month trend and projections.
4	Develop an incentive program for management level staff.	The Fiscal 2015 Incentive Program has been finalized and distributed to eligible management employees in conjunction with the updated letters of employment.

Sales & Marketing

1	Update the monthly sales action plan focussed on maximizing resort revenues	Weekly reporting by Rooms, Events and Golf departments.
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Exhibit 1

Pretty Estate Resort

Schedule of Cost Containment, Operations Efficiency and Revenue Enhancement Initiatives
Related to August 2014 Operations Review, Recommendations

Initiative

Status as of July 15, 2015

2 Specific Rooms Initiatives

Mid-week room rates were reduced to reflect soft booking trends. New packages have been created with Spa, Golf and Dining inclusions

Specific Food & Beverage / Event Initiatives

Golf & Dine promotions are underway to encourage F&B traffic from the golf course.

Local advertising has been initiated to encourage public use of the Rivers Edge Restaurant

Specific Golf Initiatives

Golf & Dine Packages have been promoted via e-blasts.

3 Develop an effective Social Media Program for each of Golf, F&B and Rooms to create customer demand.

Facebook, Twitter and Instagram are the main components of the Resort's social media program. Trip Advisor is also an important and effective tool. Departmental focus identifying the effectiveness and purpose for each tool will be rolled out in June.

Specific Golf Initiatives

Using Facebook, Twitter and E-Blasts to announce specials, promotions, flex pricing and drive traffic to the website. A 'Golf and Dine' package will be launched in June and offered through the summer.

Using Twitter and Instagram to develop experiential content and photos.

Sandpiper Golf Flex Pricing Facebook promotion encourages more frequent visits to the website resulting in more on-line bookings.

Create 3 to 5 Twitter, Instagram and Facebook 'Share Spots', enabling visitors, golfers and guests to share their story/experience using these social media sites.

Specific Twitter, Instagram and Facebook Initiatives

Specific Rooms Initiatives

Facebook and Trip Advisor will be used to promote the extension of the mid-week 50% off sale for Inn rooms only through to the end of June. This will also serve to drive traffic to the website.

Adding tabs to Facebook allowing direct linking to 'Book A Room' and Trip Advisor reviews.

Specific Food & Beverage / Event Initiatives

Creating content through story telling, experiences and images.

Developing content for a fall Winemaker's Dinner.

Exhibit 1

Pretty Estate Resort

Schedule of Cost Containment, Operations Efficiency and Revenue Enhancement Initiatives Related to August 2014 Operations Review, Recommendations

Initiative

Status as of July 15, 2015

Property Operations and Maintenance

1	Refer to Memorandum dated May 9 on Deferred Maintenance and Capital replacement items.	Significant Remedial work, Capital items and Major replacements have been identified.
2	Schedule general repairs within the weekly activities.	Property maintenance is on-going
3	Department supervision	GM currently provides direct supervision; a suitable working supervisor will need to be identified in the event Chris Lepine does not return.

Internal Control Procedures

1	Monitoring of internal control procedures involving cash handling, inventory control, purchasing and recording of sales.	Monitoring systems in place; Pro Shop safe has been installed to secure cash as volumes increase. Procedures for ATM cash handling and transaction reporting have been finalized. Additional surveillance cameras have been added for ATM location and Pro Shop counter coverage
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General

1	Compliance with Liquor Licensing regulation issues need to be addressed	A meeting with the liquor inspector has resulted in a clarification of regulation deficiencies, appropriate applications are being prepared.
2	Rowena's basement storage area fire hazard mitigation.	Basement storage area to be cleaned and re-organized to provide efficient access to dry stores and equipment; obsolete items should be removed.
3	Monitoring of potential environmental contamination from petroleum storage tanks and turf chemicals.	Ongoing monitoring by GM and Golf Superintendent.

Pretty Estate Resort Ltd.
Statement of Monthly Cash Flow from Operations
for the Period Ended June 30, 2015

	Month Ended June 30, 2015			8 Months Ended June 30, 2015		
	Actual	Revised Projection	Variance	Actual	Revised Projection	Variance
Rooms Occupied	175	188	(13)	1,096	1,238	(142)
Average Room Rate	\$ 215.87	\$ 216.70	\$ (0.83)	\$ 179.54	\$ 199.39	\$ (19.85)
Total Golf Rounds Played	3,593	2,700	893	9,074	6,050	3,024
Golf Average Paid Green Fee	\$ 40.77	\$ 35.00	\$ 5.77	\$ 46.33	\$ 41.20	\$ 5.13
EBITDA before Restructuring Costs	124,782	92,130	32,652	(78,854)	(103,666)	24,812
(Earnings before Interest, Taxes, Depreciation & Amortization)						
Cash Flow Adjustments						
Change Accounts Receivable	(8,656)	(5,313)	(3,343)	(18,277)	(14,484)	(3,793)
Change in Inventory	(12,269)	7,628	(19,897)	28,509	32,521	(4,012)
Change in Prepaid Insurance (P, C, BI)	2,322	(26,877)	29,199	18,576	(10,623)	29,199
Change in Prepaid Insurance (Auto)	0	0	0	856	856	0
Change in Prepaid Property Tax	(44,034)	(44,427)	393	(36,648)	(28,963)	(7,685)
Change in Prepaid Other	297	0	297	(7,859)	(16,288)	8,429
Change in General Accounts Payable	6,885	(21,784)	28,669	59,580	9,431	50,149
Change in Current Crown Claims	6,810	4,796	2,014	(21,550)	(19,427)	(2,123)
Change in Customer Deposits	(32,462)	(11,800)	(20,662)	8,029	273	7,756
Change in Delinquent Crown Claims	0	0	0	(88,056)	(88,000)	(56)
Adjusted Cash Flow from Operations	(81,107)	(97,777)	16,670	(56,840)	(134,704)	77,864
	43,675	(5,647)	49,322	(135,694)	(238,370)	102,676
Non-Operating Cash Flow Items						
Capital Replacements	(5,050)	(16,000)	10,950	(24,046)	(57,491)	33,445
Envision Financial LOC Interest	(1,175)	(1,174)	(1)	(9,404)	(9,327)	(77)
Envision Financial LOC Advance (Repayment)	(2,116)	0	(2,116)	21,843	37,135	(15,292)
Envision Financial - Loan Interest	(6,295)	(6,387)	92	(50,004)	(50,511)	507
Envision Financial - Loan Principal Payment	0	0	0	10,239	10,239	0
Equipment Lease Payments	(3,792)	(8,647)	4,855	(24,322)	(25,788)	1,466
Car Loan Payments	(1,138)	(1,208)	70	11,490	11,246	244
2nd Mortgage Interest	(6,223)	(6,116)	(107)	(50,200)	(49,671)	(529)
DIP Commitment Fee	0	0	0	(19,500)	(19,500)	0
DIP Financing Interest	(6,982)	(7,147)	165	(34,508)	(34,184)	(324)
Shareholder Loans	0	0	0	0	0	0
	(32,771)	(46,679)	13,908	(168,412)	(191,852)	23,440
Restructuring Costs						
Restructuring Legal	12,500	20,000	7,500	204,973	212,387	7,414
Appraisal	0	0	0	0	0	0
Operations Restructuring / Management	14,139	17,000	2,861	121,252	120,690	(562)
CCAA Monitor	56,891	40,000	(16,891)	163,101	148,425	(14,676)
	83,530	77,000	(6,530)	489,326	481,502	(7,824)
Cash Flow Surplus (Deficiency)	(72,626)	(129,326)	56,700	(793,432)	(911,724)	118,292
Cash Balance						
Beginning Cash Balance (RBC Accounts)	142,061	63,041	(79,020)	37,841	37,841	0
DIP Financing Advanced	41,982	100,000	58,018	867,008	907,598	40,590
Ending Cash Balance (RBC Accounts)	111,417	33,715	(77,702)	111,417	33,715	(77,702)
Represented by:						
Unrestricted Cash	84,394					
Post November 10, 2014 Event Deposits, in Trust	27,023					
	111,417					

Exhibit 2.1

Pretty Estates Ltd.
Summary Operating Statement
For the Period Ended June 30, 2015

	Month End June 30, 2015				8 Months - Ended June 30, 2015							
	Actual	Projection	Variance		Actual	Projection	Variance		Actual	Projection	Variance	
Rooms Available:	270	270	0		2178	2178			2178	2178	0	
Rooms Sold:	175	188	-13		1096	1283			1096	1283	-187	
Occupancy:	65%	70%	(4.8%)		50%	59%			50%	59%	(8.6%)	
ADR:	\$215.87	\$216.70	(\$0.83)		\$179.54	\$199.39			\$179.54	\$199.39	(\$19.85)	
Rooms RevPAR:	\$140.28	\$150.89	(\$10.61)		\$91.07	\$117.45			\$91.07	\$117.45	(\$26.38)	

	Month End June 30, 2015				8 Months - Ended June 30, 2015							
	Actual	Projection	Variance		Actual	Projection	Variance		Actual	Projection	Variance	
Operating Revenue												
Rooms	37,875	40,740	(2,865)	(7.0%)	198,350	255,815	(57,465)	(22.5%)	198,350	255,815	(57,465)	(22.5%)
Food and Beverage	173,317	178,149	(4,832)	(2.7%)	550,963	714,171	(163,207)	(22.9%)	550,963	714,171	(163,207)	(22.9%)
Golf Course	172,212	134,343	37,869	28.2%	537,339	396,715	140,624	35.4%	537,339	396,715	140,624	35.4%
Miscellaneous Income		1,000	(1,000)	(100.0%)	4,857	8,000	(3,143)	(39.3%)	4,857	8,000	(3,143)	(39.3%)
Total Operating Revenue	383,404	354,232	29,172	8.2%	1,291,509	1,374,701	(83,191)	(6.1%)	1,291,509	1,374,701	(83,191)	(6.1%)
Departmental Expenses												
Rooms	12,221	9,428	2,793	29.6%	96,451	70,567	25,883	36.7%	96,451	70,567	25,883	36.7%
Food and Beverage	108,032	116,483	(8,451)	(7.3%)	497,257	557,593	(60,335)	(10.8%)	497,257	557,593	(60,335)	(10.8%)
Golf Course	79,692	73,861	5,832	7.9%	344,768	310,353	34,415	11.1%	344,768	310,353	34,415	11.1%
Total Departmental Expenses	199,945	199,772	174	0.1%	938,475	938,513	(37)	(0.0%)	938,475	938,513	(37)	(0.0%)
Total Departmental Profit	183,459	154,461	28,998	18.8%	353,034	436,188	(83,154)	(19.1%)	353,034	436,188	(83,154)	(19.1%)
Undistributed Operating Expenses												
Administrative and General	30,215	30,274	(59)	(0.2%)	223,726	212,659	11,067	5.2%	223,726	212,659	11,067	5.2%
Information and Telecommunications Systems	2,794	2,652	142	5.4%	25,389	21,216	4,173	19.7%	25,389	21,216	4,173	19.7%
Sales and Marketing	4,858	9,585	(4,727)	(49.3%)	49,232	74,180	(24,948)	(33.6%)	49,232	74,180	(24,948)	(33.6%)
Property Operation and Maintenance	10,735	8,074	2,661	33.0%	55,585	62,124	(6,539)	(10.5%)	55,585	62,124	(6,539)	(10.5%)
Utilities	5,070	5,233	(163)	(3.1%)	43,284	40,865	2,420	5.9%	43,284	40,865	2,420	5.9%
Total Undistributed Expenses	53,672	55,818	(2,146)	(3.8%)	397,217	411,043	(13,826)	(3.4%)	397,217	411,043	(13,826)	(3.4%)
Gross Operating Profit	129,787	98,643	31,144	31.6%	(44,183)	25,144	(69,327)	(275.7%)	(44,183)	25,144	(69,327)	(275.7%)
Income Before Non-Operating Income and Expenses	129,787	98,643	31,144	31.6%	(44,183)	25,144	(69,327)	(275.7%)	(44,183)	25,144	(69,327)	(275.7%)
Non-Operating Income and Expenses												
Income	1,601	500	1,101	220.1%	18,600	4,000	14,600	365.0%	18,600	4,000	14,600	365.0%
Rent	119	-	119	100.0%	238	-	238	100.0%	238	-	238	100.0%
Property and Other Taxes	3,800	4,039	(239)	(5.9%)	30,186	31,927	(1,741)	(5.5%)	30,186	31,927	(1,741)	(5.5%)
Insurance	2,698	2,971	(274)	(9.2%)	22,857	23,890	(1,033)	(4.3%)	22,857	23,890	(1,033)	(4.3%)
Other	(11)	-	(11)	0.0%	(11)	-	(11)	0.0%	(11)	-	(11)	0.0%
Total Non-Operating Income and Expenses	(5,005)	(6,510)	1,494	(22.9%)	(34,671)	(51,817)	17,146	(33.1%)	(34,671)	(51,817)	17,146	(33.1%)
Earnings Before Interest, Taxes, Depreciation, and Amortization	124,782	92,133	32,638	35.4%	(78,854)	(26,673)	(52,181)	(195.6%)	(78,854)	(26,673)	(52,181)	(195.6%)