



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 NINTH REPORT TO COURT

FEBRUARY 24, 2016



PRETTY ESTATES LTD.
MONITOR'S NINTH REPORT TO COURT
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PRETTY ESTATES LTD.
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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 Ninth Report (“**Ninth 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**”), the Monitor's Fifth Report dated April 23, 2015 (“**Fifth Report**”), the Monitor's Sixth Report dated July 21, 2015 (“**Sixth Report**”), and the Monitor's Seventh Report (“**Seventh Report**”) dated September 28, 2015, and the Monitor's Eighth Report (“**Eighth Report**”) dated December 9, 2015. The capitalized terms used in this Ninth 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 offer to purchase the shares of the Company and the Company's development of a restructuring plan (the “**Restructuring Plan**”) under the CCAA;
 - b) a summary of the steps required to complete the Restructuring Plan and conclude the CCAA proceeding;
 - c) the Monitor's recommendations relating to:
 - i. the Company's request for an extension of the stay of proceedings to allow for the creditors meeting to vote on the Restructuring Plan and conclude the CCAA process;

- ii. the Company's request to allow for additional advances under the DIP Facility; and
 - iii. the creditors' acceptance of the 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 Monitor's legal counsel, Borden Ladner Gervais LLP ("**BLG**"), the Company's first and second mortgagees and their respective counsel and third parties potentially interested in acquiring the Company or its assets and/or participating with the Company in its Restructuring Plan. The Monitor was given uninhibited access to information relating to the operations of the Company including financial and operations information.

MONITOR'S ACTIVITIES

6. The following is a brief summary, without limitation, of the Monitor's activities since the Eighth 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, including details of the Company's progress and the Monitor's activities to obtain acceptable offers by December 31, 2015 with the terms set out in the order dated December 17, 2015 (the "December 2015 Order") that could close quickly, and respond to their queries;
 - b) maintained regular contact with the Company and Lawson to review the improved operating results and the detailed elements and timing of a Restructuring Plan;
 - c) maintained regular contact with IHM to obtain ongoing updates on the Company's operational restructuring activities, current events at the Resort and the status of operations improvements and financial performance;
 - d) facilitated and assisted the process for the Company to execute a Share Purchase Agreement ("**SPA**") with a preferred bidder (the "**Share Purchaser**"), as well as facilitated and assisted the process for the Company to execute an Asset Purchase Agreement ("**APA**") with a back-up bidder (the "**Asset Purchaser**"). A SPA and an APA, respectfully, were successfully executed by the Company prior to close of business on December 31, 2015;
 - e) on December 31, 2015, filed a Monitor's Certificate with the Court, as directed in the December 2015 Order, confirming the Company had entered into a purchase agreement;
 - f) in conjunction with the Company, facilitated and assisted with the respective due diligence processes of the Share Purchaser and the Asset Purchaser, and received

confirmation on February 19, 2016 that the Share Purchaser had removed its subject conditions and placed its non-refundable deposit into trust (discussed further in this report);

- g) assisted the Company in developing its Plan of Arrangement ("**Plan**"); and
- h) assisted the Company in developing a time-line for key milestones for its Plan including closing the sale transaction, paying creditors, and completing the CCAA process.

STATUS OF SALE PROCESS AND RESTRUCTURING PLAN

7. On Friday, February 19, 2016, the Share Purchaser confirmed waiver of its subject conditions resulting in an unconditional offer. Furthermore, it placed the remainder of its deposit, now totalling \$1,000,000, into trust as non-refundable, pursuant to the SPA. Accordingly, the Company is now in a position to proceed with presenting a Restructuring Plan to its creditors for their consideration.
8. The closing of the sale transaction is to occur no later than five days after the 21 day appeal period expires following Court approval of the Restructuring Plan. Accordingly, closing is expected to occur on or about April 5, 2016.
9. The Monitor has reviewed the Company's Restructuring Plan and summarizes it as follows:
 - a) The following claims are excluded ("**Excluded Claims**") under the Restructuring Plan and, as such, will not vote on the Restructuring Plan:
 - i. claims of the secured creditors, First West, James Young, 0700256 BC Ltd., and Betty Anne Faulkner (as a secured creditor);
 - ii. the balance under the DIP Facility (provided by Varsity Capital Corp.) at the time of closing; and
 - iii. the unsecured claims of parties related to the Company, Betty Anne Faulkner and Charlotte Faulkner ("**Related Party Creditors**").
 - b) The claims of the first, second and third¹-ranked secured creditors and the DIP lender will be paid in full in the ordinary course after closing of the sale. It is unlikely there will be any recovery for the secured claim of Betty Anne Faulkner. The unsecured claims of the Related Party Creditors will be settled or extinguished by a written release;
 - c) There will be one class of creditors, namely a class comprised of arm's length unsecured creditors ("**General Creditors**"), who will be entitled to vote on the

¹ The third secured creditor, 0700256 BC Ltd., may suffer a shortfall on its secured claim, depending on the final amount of prior charges at the time of closing of the sale.

Restructuring Plan. In total, there are 44 General Creditors with total admitted claims of \$190,839.20;

d) The Company's Restructuring Plan proposes payments to the General Creditors as follows:

- (i) all Proven Claims of General Creditors that are less than \$1,000 will be paid in full; and
- (ii) all Proven Claims of General Creditors that are greater than \$1,000 will be paid as follows:
 - A. the first \$1,000 of the amount owing with respect to each Proven Claim will be paid; and
 - B. twenty (20) percent of the balance owing with respect to each Proven Claim will be paid.

and;

e) All liabilities against the Company will be released.

10. The ultimate sale price achieved was a "going concern" or "market" value that will result in payments in full for the DIP lender, First West Credit Union, Jim Young and all professional costs. It will also allow most if not all of the secured debt of 0700256 BC Ltd. to be paid. The sale proceeds will not provide for any recovery for the unsecured creditors, including Betty Anne Faulkner whose unsecured claim is approximately \$1,793,800. In order to complete the SPA and achieve the going-concern value, Betty Anne Faulkner and/or her holding Company 0700256 BC Ltd. will fund the payments to the General Creditors under the Restructuring Plan. In the Monitor's opinion, the payments to General Creditors proposed under the Restructuring Plan represent a significant improvement over the alternative scenario of an asset sale or foreclosure, which will not produce any recovery for the General Creditors.
11. The Monitor recommends acceptance of the Restructuring Plan because, but for the transaction that has ultimately been achieved in the CCAA process, the property/Resort would be in a foreclosure. A sale in a foreclosure would likely negatively affect the asset values and would have eliminated any possible recovery for the unsecured creditors. Also, in the current transaction, the funds for the unsecured creditors are being contributed by Ms. Faulkner and/or her holding company. If not for Ms. Faulkner's contribution, the recovery for unsecured creditors would be nil. Accordingly, the Monitor's opinion is that the proposed Restructuring Plan is beneficial to the General Creditors.
12. Additionally, the Company seeks to extend the stay of proceedings to April 21, 2016, as this would allow sufficient time to complete all steps under the Restructuring Plan including issuing payments to the creditors after the closing of the sale transaction. The

Monitor concurs and recommends to this Honourable Court that the Stay is extended to that time.

REQUEST TO MAKE ADDITIONAL DRAWS UNDER THE DIP FACILITY

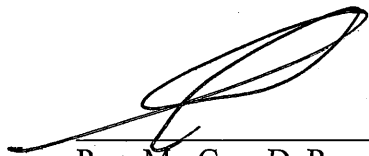
13. The Company has requested the authorization to make additional draws on the DIP Facility, to its maximum of \$1,750,000, to allow it to fund Resort operations to the time of closing of the sale transaction and to pay a portion of the outstanding professional fees which have not been paid since October 31, 2015. The Monitor concurs with, and respectfully recommends acceptance of, the Company's request.

CONCLUSIONS AND RECOMMENDATIONS

14. In the Monitor's view, the expected outcome of the CCAA process will be more favourable for all stakeholders and creditors involved. A foreclosure process would likely have, in all likelihood, produced significantly lower recovery for the secured creditors and no recovery for the unsecured creditors. The Monitor concludes that with acceptance of the Company's Restructuring Plan, various stakeholders will receive a benefit whereas, in the absence of approval of the Restructuring Plan, many creditors would not have received any recovery.
15. The Monitor hereby respectfully recommends that:
 - a) this Honourable Court approves the Company's request to make additional draws on its DIP Facility to a maximum of \$1,750,000, so that the Company can fund its operations to the time of closing of the sale and so that it may pay a portion of outstanding professional fees which have not been paid since October 31, 2015;
 - b) this Honourable Court authorize an extension of the stay of proceedings to April 21, 2016 so that the sale of shares in the capital of the Company can complete, and so that the Company can obtain approval for its Restructuring Plan and make payments to creditors in accordance with the Restructuring Plan; and
 - c) the Restructuring Plan as presented is a fair and reasonable one that presents a very favourable recovery for the General Creditors, and that the General Creditors vote for acceptance of the Restructuring Plan, for the reasons set forth in paragraph 11 above.
16. The Company and its principal, Mrs. Faulkner, have been very co-operative with the Monitor in the process to finalize a SPA or an APA. The Monitor continues to be of the opinion that the Company has acted, and is acting, in good faith and with due diligence during the restructuring process.

All of which is respectfully submitted this 24th day of February, 2016.

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

A handwritten signature in black ink, appearing to be 'Gary D. Powroznik', written over a horizontal line.

Per: Mr. Gary D. Powroznik
Managing Director