

**TRUSTEE'S REPORT TO CREDITORS
ON PRELIMINARY ADMINISTRATION**

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August 15, 2016

A. Background and Causes of Financial Difficulty

Pre-2014 Difficulties

Historically, the operation at the Mount Baldy Ski Resort (the “**Resort**” or “**Mount Baldy**”) was a small ski operation/resort located near Oliver, B.C. at the southern tip of the Okanagan Valley near the U.S. border. Originally, it evolved out of local ski clubs over 50 years ago and eventually was acquired by the prior owners in 2004 (“**Former Owners**”). The Former Owners set up a corporate structure where a parent holding company, Winter Recreation, ULC, owned the shares of two subsidiary operating companies, Mount Baldy Ski Corporation (“**Baldy Ski Corp.**”) and Mount Baldy Real Estate, ULC (“**Baldy Real Estate**”). Baldy Ski Corp. was the entity that operated and managed skiing activities at the Resort. Baldy Real Estate would be responsible for developing and selling the real estate at the Resort.

The Former Owners embarked upon a comprehensive planning and capital improvement program to position the Resort as a quality four-season resort. The buoyant real estate market in Western Canada and the U.S. in the run-up to 2008 provided encouragement to the development strategy.

Since 2008, the real estate market had been significantly impaired and the competition from other local ski hills intensified. The Resort’s expansion and development plan was hit hard by the recession starting in 2008 and has continued to the present day. The current owners have been enterprising in raising equity and loans to replace original lenders over the past several years and running the ski operation on a very modest budget. Various attempts had been made to raise additional equity after 2009 without success. Finally, the lack of cash reserves did not allow management of Baldy Ski Corp. to reopen the ski operation for the 2013-2014 season so it has been closed since April 2013, the end of the 2012-2013 season. Table 1 below illustrates the heavy operating losses incurred by Baldy Ski Corp. after the 2008 global downturn. The company averaged losses of over \$200,000 per year in the five year period ending April 30, 2013, and only managed to turn a small profit in the 2010-11 ski season.

Table 1 – Five Year EBITDA Summary 2009-2013

Mt. Baldy Ski Corporation					
Five year summary of Earnings before interest, taxes, depreciation and amortization					
Prepared as at August 25, 2014 (UNAUDITED)					
	2009	2010	2011	2012	2013
Operating revenue	601,826	601,070	576,885	578,664	671,456
Direct Costs	- 101,283	- 76,789	- 51,307	- 63,503	- 77,519
Gross margin	500,543	524,281	525,578	515,161	593,937
Expenses**	- 1,229,574	- 690,488	- 513,875	- 561,142	- 690,814
EBITDA	- 729,031	- 166,207	11,703	- 45,981	- 96,877
**Expenses do not include interest, depreciation/amortization and income taxes.					

In June 2013, the Former Owners were referred to G-Force Group by their corporate legal counsel who were aware of G-Force’s experience in successfully restructuring going-concern operations that have become insolvent. After unsuccessfully attempting to complete a sale, the Former Owners finally contacted G-Force Group in late November 2013 to review the circumstances of the Resort and consider options to deal with the insolvency of the Resort and to restart its operations.

Attempt to Sell Resort – Summer/Fall 2014

G-Force Group prepared its initial draft Restructuring Plan in mid-January 2014 and reviewed it with the Former Owners and their legal counsel. Thereafter, G-Force Group was introduced to the U.S. legal counsel for Stark BC Venture, LLC (“**StarkCo**”), the largest secured creditor and who had a priority charge on most of Mount Baldy’s assets. Due to StarkCo’s priority and significant position, it was the secured creditor who was the logical one to fund the implementation of the Restructuring Plan. In March 2014, StarkCo commenced a foreclosure action (“**Foreclosure**”), in which G-Force Group was planned to be appointed as a receiver.

The formal Foreclosure process finally was launched in the Supreme Court of B.C. (“**Court**”) in June 2014. Initially, counsel to Stark LLC and G-Force Group suggested that a lower cost way to launch the marketing and sale plan would be to have StarkCo appoint

a “Marketing Agent” (“**Marketing Agent**”) for the Resort’s assets. On July 14, 2014, G-Force Group was in fact appointed as Marketing Agent by Order of the Court. On that same date, StarkCo was granted an Immediate Order for Conduct of Sale in the foreclosure.

The Marketing Agent proceeded through the summer and fall of 2014 attempting to find a suitable buyer for the Resort who could also operate it for the 2014-15 ski season. In early November 2014, the Marketing Agent reported the results of the marketing and sales process to the Court and informed the Court that a conditional buyer, Baldy Capital Corp. (“**BCC**”) for the Resort had been found. Part of the restructuring plan called for the appointment of a receiver over the Resort to provide the ultimate purchaser authority to recommence ski operations at the Resort for the 2014-15 ski season while it worked to complete its purchase of the assets.

Receivership of Baldy Ski Corp. and Baldy Real Estate and Sale of Assets

On December 19, 2014, Baldy Ski Corp. and Baldy Real Estate were placed into receivership and G. Powroznik Group Inc. of G-Force Group, a licensed insolvency trustee under the Bankruptcy and Insolvency Act (“**BIA**”), was appointed as Receiver and Manager (“**Receiver**”) over the two entities.

The Receiver and a sister company to BCC, Baldy Operating Corporation (“**BOC**”) led by Mr. Fred Johnston, executed an operating agreement on December 19, 2014 to allow BOC to manage and operate the Resort during the balance of the 2014-15 ski season while BCC completed its purchase of the Resort and its assets out of receivership. Unfortunately, BCC was unable to complete a purchase transaction, and the Receiver’s agreement with BOC was terminated after the conclusion of the 2014-15 ski season. The Receiver understands that BOC has a number of unpaid creditors relating to BOC’s operation of the Resort during the 2014-15 ski season. Further comments on this will follow below.

In January 2016, the Receiver found and began negotiating with the ultimate buyer for the Resort, 1063205 B.C. Ltd. (“**Purchaser**”). On June 27, 2016, the Court approved a sale of the assets of Baldy Ski Corp. and Baldy Real Estate to the Purchaser by way of a Vesting and Approval Order (“**June 27 Order**”). The Purchaser closed the transaction on July 28, 2016 and it has commenced pre-ski season operations at the Resort. The Receiver is now performing its remaining administrative duties before being discharged by the Court.

Further information on the receivership, including all pertinent Court filings and Orders, can be obtained on the Receiver’s website:

<http://www.g-forcegroup.ca/mount-baldy-ski-resort/>

Status of Baldy Ski Corp.

Prior to the closing of the sale of the Resort and its assets, Baldy Ski Corp. was assigned by the Receiver into bankruptcy on July 26, 2016 under authority provided in the June 27 Order. G. Powroznik Group Inc. was appointed as the licensed insolvency trustee (“**Trustee**”) for the bankrupt estate of Baldy Ski Corp.

Because the Court approved a sale of all the Resort assets to the Purchaser, there are no known remaining assets in Baldy Ski Corp. The purpose of the bankruptcy is to provide an orderly conclusion to the affairs of Baldy Ski Corp. and confirm the priority of remaining Crown claims.

It is important to note that any creditors resulting from BOC's operation of the 2014-15 ski season are not creditors of Baldy Ski Corp. in this bankruptcy. If parties contracted directly with BOC to provide goods or services to the Resort during the 2014-15 ski season, and remain unpaid, they should pursue claims with BOC directly.

Any creditor claims of Baldy Ski Corp. will have arisen prior to December 19, 2014, the date of receivership, and the effective end of Baldy Ski Corp.'s status as an operating entity.

B. Preliminary Evaluation of Assets and Details of Security Interest

The Baldy Ski Corp. Statement of Affairs ("SoA") was prepared prior to the closing of the receivership sale to the Purchaser. Accordingly, the assets of Baldy Ski Corp. had not yet vested in the Purchaser and notional values were provided on the SoA as follows:

- \$500,000 (Estimated) for ski lifts and buildings including the Day Lodge which is the center of guest ski activities at the Resort. These assets were sold to the Purchaser in the receivership sale which closed on July 28, 2016;
- \$10,000 for various chattels and small tools. These items were also sold to the Purchaser in the receivership sale; and
- \$50,000 for a security deposit held by B.C. Mountain Resorts Branch ("Resorts Branch"). This was a known asset and was not included in the receivership sale. However, the Resorts Branch claimed approximately \$12,000 of the security deposit relating to Baldy Ski Corp.'s unpaid fees from prior years. Approximately \$38,000 of the deposit remains and will either flow to StarkCo. or to Vantage One Credit Union ("**Vantage One**"), another secured creditor after allocation of the Receiver's costs. With respect to the net proceeds of the security deposit, as of this time, the priority of entitlement as between StarkCo. and Vantage One is unknown. However, it is clear one of those two secured creditors will receive the net proceeds of this asset and that there is no benefit for the Trustee of the estate of Baldy Ski Corp.

In addition to StarkCo. and Vantage One, BC Opportunity Fund, LLC and Mountain Investments Inc. are other secured creditors of Baldy Ski Corp. These creditors are expected to receive no recoveries and suffer total losses on their secured claims. StarkCo., the priority secured creditor on a majority of assets, has suffered a significant shortfall on its secured loan.

Practically, the secured claims listed in List "B" of the SoA are likely higher due to accruing fees and interest since Baldy Ski Corp. initially failed in 2013. However, there is no benefit

to calculating the additional interest and it only serves to increase the losses to the secured creditors, none of which will be paid.

In any event, as noted above, the assets of Baldy Ski Corp. have vested in the Purchaser as of July 28, 2016, and there are no known assets remaining in the estate. There is no expected recovery for the estate's unsecured creditors. However, the books show a deemed trust claim by Canada Revenue Agency for unremitted employee deductions of approximately \$8,000 which will be paid out of the sale proceeds held by the Receiver.

C. Books and Records

The majority of Baldy Ski Corp.'s known books and records have been stored in an office facility located at the Resort since the time of its receivership. The Receiver has had possession of those records, as well as possession of a number of electronic copies of documents, and has subsequently turned them over to the Purchaser of the Resort. However, the Trustee can obtain access to the records, with co-operation from the Purchaser, if required.

D. Conservatory and Protective Measures

No unusual conservatory or protective measures have been required to date since there are no known assets remaining in the estate. Baldy Ski Corp.'s main business operations had ceased over three years before the date of bankruptcy.

E. Provable Claims and Description of Creditors

The SoA disclosed a total of \$324,509.75 in unsecured creditors, plus an estimated \$7,286,328.00 in shortfalls from secured claims for an estimated total of \$7,610,837.75 in unsecured debts. The SoA listed a notional \$560,000.00 of secured debts relating to the properties discussed above in Section B. There are also several contingent creditors listed for potential claims of which the nature or amount are not yet known.

The debts of the Company generally fall into the following categories:

- Debts relating to vendors' and suppliers' supply of goods and/or services to Baldy Ski Corp. relating to its historical operation of the ski Resort up to the end of the 2012-13 ski season;
- Debts due to related parties including shareholders for various funds advanced to keep Baldy Ski Corp. funded during its time of active business and mounting losses post-2008;
- Secured loans, including mortgages, like that of StarkCo;
- Shortfalls from secured claims relating to the loans/mortgages noted above; and
- Tax debt relating to unremitted payroll deductions and GST/HST.

As of the date of this Report, the Trustee has not received any proof of claim submissions from creditors. The Trustee suspects that creditors are aware of the receivership and sale

of the Resort and its assets, and aware of the fact there are no remaining assets after secured creditor claims.

F. Legal Proceedings, Reviewable Transactions and Preference Payments

To date, the Marketing Agent and the Receiver have reviewed substantial documentation and made many inquiries of former principals, former employees and other third parties since July 2014. No evidence has been found of preferential payments, settlement or reviewable transaction that the Company may have been a party to prior to its receivership in December 2014. The Trustee estimates that Baldy Ski Corp. had been insolvent for a period of at least four or five years prior to its receivership. A further 20 months has passed since the beginning of the receivership. To our knowledge Baldy Ski Corp. had not settled any liabilities outside the normal course or paid any creditors a significant sum in relation to other creditors. In fact, it effectively ran out of cash well before it decided not to open for the 2013-14 ski season.

The Trustee does not propose to review historical transactions prior to 2014 for preferences as it not funded to do so and the likelihood of finding any issue is very low. Also, even if some asset(s) resulted from a preference or reviewable transaction, the secured creditors of Baldy Ski Corp., currently with an estimated total shortfall of over \$7,000,000, would be entitled to those assets. Therefore, there is no benefit to the estate of performing such a review.

The Trustee is not aware of any legal proceedings against Baldy Ski Corp., other than the foreclosure and receivership proceedings that have been ongoing since mid-2014 and collection actions by other secured creditors e.g. Vantage One.

G. Third Party Deposits

In order to fund the costs of the bankruptcy administration the Trustee has received a pre-filing deposit in the amount of \$15,000 (“**Deposit**”) from StarkCo. This Deposit was disclosed on the Estate Information Summary at the time of the initial filing. To the extent the costs of administration are less than the Deposit, and cannot be funded by recoveries of Baldy Ski Corp. assets, if any, remaining Deposit funds will be returned to StarkCo. at the conclusion of estate administration.

H. Trustee’s Intention to Act for Secured Creditors

As noted above, the Trustee has also acted as the Court-appointed Receiver for Baldy Ski Corp. and its related entity, Baldy Real Estate. The assets of Baldy Ski Corp and Baldy Real Estate have already been sold in the receivership proceeding. As discussed in Section B above, all of Baldy Ski Corp. and Baldy Real Estate’s assets and properties were fully encumbered with mortgages and other claims. All of the secured creditors are expected to suffer significant shortfalls and have residual unsecured claims which will go unrealized in the bankruptcy of Baldy Ski Corp.

I. Projected Distribution and Asset Realization

Unfortunately, as described in Section B above, the Trustee estimates there will be no recovery for the unsecured creditors. The Trustee is funded by way of a fee deposit (see Section G) however if the Trustee's costs exceed \$15,000 they are likely to be unrecoverable absent any further deposit or an unexpected asset recovery in the Estate.

RESTRICTIONS AND QUALIFICATIONS

This Report to Creditors on Preliminary Administration summarizes the Trustee's findings and conclusions from its review of the Company's records and other information received, and from its investigations up to the date of this report. It is subject to change based on subsequent findings or receipt of additional information. Often in an insolvency proceeding, new or changing information surfaces that supersedes previous information that was thought to be correct. Readers are cautioned accordingly.

In conducting our research and preparing our report, we obtained certain information and representations from the former Directors, former employees, creditors and other third parties. Information, data and documentation furnished by others was presumed to be reliable and, except as expressly noted in our report, was not verified. Accordingly, the Trustee or G. Powroznik Group Inc. assumes no responsibility for the accuracy of third party information provided.

G. Powroznik Group Inc.

In its capacity as Licensed Insolvency Trustee
for the bankrupt estate of Mount Baldy Ski Corporation
and not in its personal capacity



Per: Gary Powroznik
Managing Director