Action No. 0901-04199

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

**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**
**FAIRMONT RESORT PROPERTIES LTD., LAKE OKANAGAN RESORT VACATION (2001) LTD., LAKE OKANAGAN RESORT (2001) LTD., AND LL DEVELOPMENTS LTD.**

# NINTH REPORT OF THE MONITOR

**ERNST & YOUNG INC.**

**APRIL 26, 2010**

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## INTRODUCTION

1. On March 30, 2009, FRPL Finance Ltd. ("Finance") and FRPL Management Ltd. ("FRPLM") applied to the Alberta Court of Queen's Bench (the "Court"), with the consent of the Fairmont Group (defined below), to seek and obtain creditor protection for Fairmont Resort Properties Ltd. ("FRP"), Lake Okanagan Resort Vacation (2001) Ltd. ("LORV"), Lake Okanagan Resort (2001) Ltd. ("LOR"), and LL Developments Ltd.("LLD") (collectively the "Fairmont Group") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended, (the "*CCAA*") pursuant to an order of this Honourable Court dated March 30, 2009 (the "Initial Order").

2. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of the Fairmont Group during these *CCAA* proceedings (the "Monitor").

3. The purpose of this ninth report of the Monitor (the "Ninth Report") is to provide this Honourable Court with:

    (a) a restructuring update since the eighth report of the Monitor dated April 12, 2010 (the "Eighth Report") on:

        i. the results of the Finance Investor Meeting (as defined in the Eighth Report) held on April 13, 2010 and the motions filed April 22, 2010 as a result of the decisions taken at that Investor Meeting. These motions seek the following relief:

            (A) an order approving the acceptance of an Offer (defined below) for all of the assets of FRP, LOR and LORV relating to the indebtedness of the Fairmont Group to Finance (the "Secured Debt") acquired by Northwynd LP which includes all security and claims which Finance had against the Fairmont Group, as well as all underlying and related documentation (the "Secured Assets"); and

(B) the lifting of the stay of proceedings in order to allow for the appointment of a Receiver, if necessary, in order to allow the transaction contemplated in the Offer to close.

ii. the liquidation analysis prepared by the Monitor on the Fairmont Group and Fairmont Resort Non-CCAA Debtor's assets.

(b) the Fairmont Group's analysis on the restructuring options available and the best course of action to maximize recovery to its stakeholders;

(c) the revised cash flow projections from April 10, 2010 to May 31, 2010 (the "Forecast Period");

(d) an update on the claims process since the Eighth Report (the "Claims Process");

(e) the Fairmont Group's request for an extension of the Stay Period, as defined in the Initial Order; and

(f) the Monitor's recommendations.

4. Capitalized terms not defined in this Ninth Report are as defined in the Initial Order. All references to dollars are in Canadian currency unless otherwise noted.

**TERMS OF REFERENCE**

5. In preparing this Ninth Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Fairmont Group. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook has not been performed. Future orientated financial information relied upon in this report is based on management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

## BACKGROUND

6. The Fairmont Group and its related companies are a group of privately held companies engaged in the business of acquisition, development and operation of resort based real estate for the ultimate disposition/sale within an interval or time share format. The primary assets are located in Alberta, British Columbia, Hawaii, Belize, Mexico and certain other destination based locations. The primary business of the Fairmont Group and related companies is the acquisition, development, marketing and sale of time share or interval based interests in its resort properties with its secondary/support activities being the development / acquisition of product for future sale and the operation of resort properties, including hotel operations at Kelowna, Belize and Hawaii.

7. FRP is the ultimate parent company to additional entities that are currently not under CCAA protection (the "Fairmont Resort Non-CCAA Debtors"); however these entities are dependent on administration and certain financial support of FRP to operate effectively.

8. Further background to the Fairmont Group and its operations is contained in the materials filed relating to the Initial Order including the March 30, 2009 affidavit of Mr. Gary L. Bentham. These documents, together with other information regarding this CCAA proceeding has been posted by the Monitor on its website at: www.ey.com/ca/frpl.

## RESTRUCTURING UPDATE

### *Summary of April 13, 2010 FRPL Investor Meeting*

9. On April 13, 2010, Finance held a meeting of its investors (the "Investors") to discuss the progress of the Fairmont Group's restructuring efforts, to outline to its Investors the options available to them, and to seek direction from the investors for either a restructuring or liquidation regarding the recovery of amounts owed to Finance by the Fairmont Group.

10. At the Investor Meeting, the Investors were presented with two alternatives believed to be available to them which were:

(a) an orderly liquidation of the Fairmont Group's assets through a receivership or another insolvency process; or

(b) exercise the Finance security on Fairmont's assets in such a way that Fairmont's operations and the assets secured by Finance would ultimately be owned by the Investors under a new ownership structure and reorganized with a view to creating a viable and valuable business (the "Finance Reorganization Plan"). Further, if the Investors elected to proceed with the Finance Reorganization Plan, their existing investment in Finance would be exchanged pursuant to an *Alberta Business Corporation Act* ("ABCA") plan of arrangement for units in a new real estate investment trust, Northwynd Properties Real Estate Investment Trust ("Northwynd REIT"), which would be wholly owned by the Investors and the Finance loans and security would be assigned to Northwynd Limited Partnership ("Northwynd LP"). Northwynd REIT is the sole limited partner of Northwynd LP and Fairwynd Resort Properties Ltd. is the general partner.

11. The Investors voted overwhelmingly in support of the Finance Reorganization Plan, and on April 15, 2010, the ABCA plan of arrangement was approved by this Honourable Court. On April 19, 2010, the Secured Debt and Security (defined below) was assigned to Northwynd LP. A more detailed discussion of the Finance Reorganization Plan can be found in the April 22, 2010 affidavit of Mr. Gary L. Bentham (the "April 22nd Bentham Affidavit").

***Northwynd LP Offer***

12. Northwynd LP has filed a notice of motion returnable April 27, 2010 requesting that this Honourable Court authorize FRP, LOR and LORV to accept an offer (the "Offer") made by Northwynd LP for the Secured Assets and operations of FRP,

LOR and LORV. The Offer is attached as Exhibit C to the April 22nd Bentham Affidavit.

***Summary of the Offer***

13. The main terms of the Offer are:

(a) Northwynd LP wishes to acquire the Secured Assets of FRP, LOR and LORV on a going-concern basis;

(b) in consideration of the Secured Assets being vested to Northwynd LP or its nominee, Northwynd LP will replace or discharge the existing DIP financing and other amounts secured by orders of this Honourable Court and assume responsibility for all unpaid CCAA post-filing obligations for FRP, LOR and LORV;

(c) credit the sum of $43.8 million against the Secured Debt; and

(d) Northwynd LP will acquire the certain receivables that are currently being disputed (the "Disputed Receivables") by Northwynd LP and Resort Funding LLC ("RFI"), subject to any rights RFI may ultimately be found to have in its litigation of the Disputed Receivables.

14. The Secured Assets of FRP, LOR and LORV that form part of the Offer are summarized below:

<u>FRP Secured Assets</u>

(a) Unsold timeshare inventory of 473 equivalent annual weeks. These weeks provide the right-to-use benefits for a period of 40 years to prospective timeshare purchasers, which consist largely of less desirable weeks in inventory;

(b) Water park purchase option. FRP entered into a sale leaseback transaction with Resort International REIT involving a parcel of land of approximately 18,000 square feet, which had been improved with a water park;

(c) Accounts and promissory notes receivable relating to financed sales to customers of FRP for timeshare or Reversionary Program (as defined in the third report of the Monitor dated July 27, 2009) interests;

(d) Management contract executed between FRP and Resort Villa Management Ltd. ("RVM"), which is a wholly-owned subsidiary of FRP, pursuant to which RVM manages the FRP villas and the common areas surrounding the villas for a period equal to at least 99 years;

(e) Shares in the following subsidiaries owned (either directly or indirectly) by FRP:

i. Makaha Hotel and Resort Inc. ("Makaha"), a wholly-owned subsidiary of FRP, is a 193 unit hotel and resort with a 18-hole golf course on Oahu, Hawaii;

ii. Costa Maya Reef Resorts ("Belize"), which is indirectly controlled by FRP, through its wholly-owned subsidiary, Sunchaser Resorts Inc. Belize is a destination resort on Ambergris Cave, Belize. The resort consists of 30 units, of which 27 are operated as time share and hotel rooms;

iii. Lytle Lake Developments Ltd. ("LLD"), is a non-operating wholly owned subsidiary which holds a 71% of an undivided interest on approximately 300 acres of vacant land near Fairmont Hot Springs, B.C.;

iv. Fairmont Rancho Banderas SA de CV, Banderas Corporate Services SA de CV, Rancho Operations SA de CV (collectively, "Rancho"), Rancho is indirectly controlled by FRP through its wholly-owned subsidiary Fairmont International Operations Ltd. ("FIOL"). Rancho currently operates a destination resort in support of the timeshare sales program and supports on-site management of the 50 time share villas and owns vacant lands adjacent to the resort;

v. Fairmont Nevada Inc. ("Nevada") is a wholly-owned subsidiary that owns six units within a residential timeshare property in Mesquite, Nevada known as the Grand Destination Vacation Club at the Oasis Resort;

vi. RVI Holiday de Mexico S d RL de CV ("Mexico") is 99% owned by FIOL and is a wholly-owned subsidiary of FRP. Mexico owns certain lands and improvement in Cabo San Lucas, Mexico including a 12-unit destination resort and adjacent lands available for development. Part of the lands are leased to an unrelated third party , referred to as GRLC – Canada; and

vii. RVM is a wholly-owned subsidiary of FRP, as discussed above.

(f) The Wildside building. This building is a one story building with basement, consisting of approximately 5,296 square feet of net leasable area that lies on approximately half an acre of land, which houses a gift shop as well as several small offices in Fairmont Hot Springs, BC;

(g) Development land at Fairmont, BC. Approximately 2.33 acres of development land that is currently vacant and the current zoning density would permit construction of approximately 64 units;

(h) Residential lot located within the community of Fairmont Hot Springs. A serviced lot that is approximately 3/10ths of an acre in size;

that is zoned for a single family dwelling; and

(i) The reversionary interests; and

(j) Certain houseboats subject to satisfactory arrangements with the holder of a lien to release the lien in consideration for title to a fixed number of vessels.

LOR Secured Assets

(a) Building 1000 and 1100. Buildings that each comprise 24 residential condominium style units within a 3-storey wood frame building;

(b) Hotel units. The units consist of 64 units dispersed throughout numerous buildings on the resort complex. The ownership of the hotel units is mixed, as some units are owned by LOR through a trustee arrangement, strata interests and other, subject to rental pool agreements with third party owners;

(c) Undeveloped land. Vacant land, except for a 500,000 gallon concrete reservoir, consisting of 198.6 acres;

(d) Developed land. Land consisting of 22.47 contiguous acres of land within the Central Okanagan Regional District;

(e) A management contract to manage the timeshare interests of leaseholders at LORV; and

(f) Amenities located at the property including a swimming pool, restaurants, conference facilities, a nine-hole executive golf course, tennis court facilities, a marina and riding stables.

LORV Secured Assets

(a) Unsold timeshare inventory of approximately 750 equivalent annual weeks. These weeks provide the right-to-use benefits for a period of

40 years to prospective timeshare purchasers, which consist largely of less desirable weeks in inventory;

(b) Accounts and promissory notes receivable relating to financed sales to customers of FRP for timeshare or Reversionary Program interests; and

(c) the reversionary interests.

15. The following unresolved matters will be settled after the Offer is closed (should the Court approve the acceptance of the Offer):

(a) REIT C Loan. The Offer to allow Northwynd LP to purchase the Secured Assets has no impact on a recovery of the loan FRP has with FRPLM ("REIT C Loan") of approximately $13 million;

(b) Post-CCAA advances of approximately $2.8 million by FRP to Makaha during these CCAA proceedings. As part of the Offer, the Monitor understands that Northwynd LP is negotiating a settlement with FRPLM on the recovery of these funds back to its Investors; and

(c) The mortgage held by RI REIT over the real property owned by LLD will remain in place until certain restructuring steps are completed with respect to the RI REIT.

16. The current registered timeshare owners of LORV and FRP will not be affected by the Offer and will continue to have the rights afforded to them under their original timeshare agreements, with the exception of the LORV timeshare holders who have asserted they were provided certain inducements or undocumented additional rights to acquire further timeshare interest as discussed in the seventh report of the Monitor (the "Seventh Report") as these "rights" were repudiated by the LORV on March 10, 2010; and

17. RVM will continue to provide management services to FRP and Northwynd LP

will continue to provide management services to timeshare owners of LORV. The 2010 maintenance fees that have been collected by RVM and LOR from the timeshare owners will not be affected by the Offer.

***Northwynd Receivership Application***

18. Northwynd LP understands that the Court, in addressing the Offer, will consider whether it is necessary to terminate these CCAA proceedings and appoint a receiver and manager of FRP, LOR and LORV (the "Receiver") to conduct a sale of their operations and the Secured Assets. Accordingly, Northwynd LP filed a motion seeking leave to lift the stay of proceedings in order to be in a position to appoint a Receiver. Northwynd LP, as holder of the Secured Debt and the Security, also holds various consents of FRP, LOR, and LORV as described in greater detail in the April 22nd Bentham Affidavit, including a consent to the appointment of a Receiver. Further discussion of the Northwynd LP Receivership application is contained in the April 22, 2010 receivership affidavit of Mr. Gary L. Bentham (the "April 22nd Bentham Receivership Affidavit) and the April 22nd Bentham Affidavit.

***Liquidation analysis***

19. As previously reported, the Fairmont Group engaged the services of Ernst & Young Real Estate Services Inc. ("EYR"), an affiliate to the Monitor, to allow the Fairmont Group's and the Fairmont Resort Non-CCAA Debtors' assets to be independently valued for the purposes of determining their liquidation value.

20. The Monitor and EYR, with the assistance of the Fairmont Group, prepared a detailed liquidation analysis to determine the estimated recovery for the Fairmont Group's secured creditors in both an orderly liquidation and a forced liquidation scenario (the "Liquidation Analysis"). The Orderly Liquidation Analysis assumed that the liquidation would commence March 1, 2010 and continue up to and including February 28, 2011. The Forced Liquidation Analysis assumed that the liquidation would commence March 1, 2010 and be completed by May 31, 2010.

21. The preparation of the Liquidation Analysis was complex given a number of factors including:

(a) the location of the assets (e.g. Hawaii, Mexico, Belize and British Columbia);

(b) the nature of the assets (e.g. time share, reversionary interests, fractional interests, resort property);

(c) tax considerations;

(d) organizational structure;

(e) secured debt structure and priority of claims;

(f) disputed claims; and

(g) estimating the time horizon to sell the assets.

22. On February 18, 2009 FRP, LOR and LORV granted to Finance and FRPLM general security over all the present and after acquired personal property of those entities (the "GSA"). The GSA was granted as part of a forbearance agreement entered into between Finance, FRPLM, FRP, LOR and LORV. The GSA encumbers significant un-mortgaged assets of FRP, LOR and LORV. The liquidation analysis assumes that the GSA, along with the various mortgages held by Finance and FRPLM (the "Security") are valid and enforceable, as the Monitor obtained a security opinion from its legal counsel dated July 3, 2009 concluding that the Security held by Finance and FRPLM creates legal, valid and binding obligations of the Fairmont Group enforceable in accordance with their terms and that the security granted therein creates a valid security interest which has been perfected to the extent capable of perfection by registration.

23. The security provided for under the GSA is currently being challenged by Resort Funding LLC ("RFI") on the basis that the GSA was granted at a time when FRP, LOR and LORV were insolvent and is a preference. The Monitor understands

that there are no other parties that have advanced any arguments in this regard.

24. The Liquidation Analysis was used by the Fairmont Group management as part of its presentation to the Investors in order to compare the estimated recoveries the Investors may achieve through liquidation to the Finance restructuring plan.

25. The following table summarizes the estimated recoveries of the Fairmont Group's secured lenders on an orderly liquidation basis. Attached at Appendix A is the detailed Orderly Liquidation Analysis including the material assumptions used in the analysis:

**Orderly Liquidation Recovery Analysis per entity**
**Analysis as at February 28, 2011**
**('000's) CDN**

| | | CCAA | | | | Non CCAA | | Assets held under GSA |
|---|---|---|---|---|---|---|---|---|
| | **Notes** | **FRP** | **LOR** | **LORV** | **LLD** | **Makaha** | **Belize** | **Assets** |
| Total net asset sale proceeds | a,b,c | 5,634 | 20,458 | 993 | 1,694 | 118 | 2,592 | 9,896 |
| Total adjustments to proceeds (add / (deduct) ) | d | 8,166 | (3,904) | (1,093) | (578) | (3,706) | (282) | (1,675) |
| Available funds to liendholders/priority claims | | 13,800 | 16,554 | (100) | 1,116 | (3,588) | 2,310 | 8,221 |
| Estimated liens / priority claims | e | (5,595) | - | (35) | - | - | - | - |
| Available funds to secured creditors | | 8,205 | 16,554 | - | 1,116 | - | 2,310 | 8,221 |
| Secured Debt | f | (10,998) | (28,113) | - | (12,641) | - | - | (13,218) |
| ***Deficiency to secured creditors*** | | ***(2,793)*** | ***(11,559)*** | ***-*** | ***(11,525)*** | ***-*** | ***2,310*** | ***(4,997)*** |
| Unsecured creditors | g | N/A | N/A | N/A | N/A | N/A | (2,310) | N/A |
| Remaining funds available | | - | - | - | - | - | - | - |

26. The entities described above represent the legal entities within the Fairmont Group and the Fairmont Resort Non-CCAA Debtors and the assets they own that form part of the Northwynd LP and FRPLM security. The "Assets held under GSA" column represent certain assets of FRP, LOR and LORV in which Northwynd LP has a secured interest, as well as certain other assets owned by the various Fairmont Resort Non-CCAA Debtor entities in which Northwynd LP has a security interest.

27. The significant assumptions that were used to prepare the Orderly Liquidation Analysis were:

(a) the orderly liquidation process is assumed to have started on March 1, 2010 and end on or about February 28, 2011 (the "Orderly Liquidation Period") to sell the assets of the Fairmont Group and the Fairmont Resort Non-CCAA Debtors (the "Consolidated Fairmont Assets"), with the exception of Makaha, which sale process would end on or about September 30, 2010. The Orderly Liquidation Period is lengthy due to the complexity and nature of the assets (discussed above);

(b) during the Orderly Liquidation Period, the Fairmont Group and the Fairmont Resort Non-CCAA Debtors will continue to operate as a going-concern;

(c) 'total net asset sale proceeds' represents the estimated gross proceeds on liquidation less the applicable marketing, selling and administrative costs;

(d) 'total adjustments to proceeds' relates primarily to the repayment to FRP from the other Fairmont Group entities for advances made to them in order to fund their operations during the CCAA proceedings;

(e) 'estimated lien / priority claims' relate to claims against FRP and LORV that were considered to be in priority to the Finance security and therefore would be paid The security that RFI claims is included in these priority claims, not due to any conclusions of the Monitor as to the validity of RFI's claims, but rather to show on a conservative basis what the recovery would be for Northwynd LP if it was determined by this Honourable Court that RFI's security is valid, enforceable and in priority to the Secured Debt;

(f) 'Secured Debt' includes debts of approximately $65 million (including principal and interest) as at March 31, 2010. These secured obligations are summarized below:

i. Series B Bond Loan. Finance (now Northwynd LP) issued Series B Bonds for proceeds of approximately $14.4 million in 2005 (the "Series B Bond Loan"). Finance in turn advanced the Series B Bond Loan to FRP in 2005 and took mortgages on certain parcels of FRP lands in the Kootenay District of British Columbia and Osoyoos Division of Yale District of British Columbia as security;

ii. Series 1 & 2 Bond Loan. Finance issued Series 1 & 2 Bonds for proceeds of $27 million in 2006 (the "Series 1 & 2 Bond Loan"). Finance then advanced the Series 1 & 2 Bond Loan to FRP in 2006 and took mortgages on certain parcels of FRP lands in the Osoyoos Division of Yale District of British Columbia as security;

iii. REIT A & B Lease and Sale Agreements. Resorts International Real Estate Investment Trust ("RI REIT") issued Series A & B Trust Units for total proceeds of approximately $12.3 million US that were used to acquire and enter into fractional vacation interests units (i.e. title is held by the RI REIT) from Makaha and Belize. The RI REIT leased these units back to the Makaha and Belize entities, charging an annual rent equivalent to 10% of the purchase price. The Series A & B Trust Units in RI REIT do not have security over any assets owned by the Fairmont Group, however it has certain unsecured put options that can be advanced against FRP, Makaha and Belize. The put options are at a 20% premium to the purchase price paid by RI REIT;

iv. REIT C. In 2008, RI REIT issued Series C Trust Units for proceeds of approximately $13.04 million and RI REIT loaned these funds to FRPLM, its administrator. FRPLM advanced these funds to FRP (the "REIT C Loan"). Makaha and LLD guaranteed repayment of the loans and only repaid approximately $1.3 million. REIT C has mortgages over lands held by Makaha and LLD;

v. Security granted under the GSA dated February 18, 2009, as discussed above; and

(g) The unsecured claims represent third party trade claims of approximately $0.5 million and the unsecured put option claims of approximately $1.7 million that are expected to be advanced by the REIT A & B owners.

28. The following table summarizes the estimated recoveries of the Fairmont Group's secured lenders on a forced liquidation basis. Attached at Appendix B is the detailed Forced Liquidation Analysis including the material assumptions used in the analysis:

| Forced Liquidation Recovery Analysis per entity<br>Analysis as at February 28, 2011<br>('000's) CDN | | CCAA | | | | Non CCAA | | Assets held under GSA |
|---|---|---|---|---|---|---|---|---|
| | **Notes** | **FRP** | **LOR** | **LORV** | **LLD** | **Makaha** | **Belize** | **Assets** |
| Total net asset sale proceeds | a,b,c | 5,188 | 14,604 | 1,061 | 1,140 | 76 | 1,954 | 6,234 |
| Total adjustments to proceeds (add / (deduct) ) | d | 1,597 | (2,766) | (1,674) | (367) | (3,705) | (212) | (7) |
| Available funds to liendholders/priority claims | | 6,785 | 11,838 | (613) | 773 | (3,629) | 1,742 | 6,227 |
| Estimated liens / priority claims | e | (5,693) | - | (35) | - | - | - | - |
| Available funds to secured creditors | | 1,092 | 11,838 | - | 773 | - | 1,742 | 6,227 |
| Secured Debt | f | (5,461) | (30,472) | - | (12,641) | - | - | (16,395) |
| ***Deficiency to secured creditors*** | | ***(4,369)*** | ***(18,634)*** | ***-*** | ***(11,868)*** | ***-*** | ***1,742*** | ***(10,168)*** |
| Unsecured creditors | g | N/A | N/A | N/A | N/A | N/A | (2,310) | N/A |
| Remaining funds available | | - | - | - | - | - | - | - |

29. The significant assumptions that were used to prepare the forced liquidation analysis were:

(a) The forced liquidation process is assumed to have commenced on March 1, 2010 and end on or about May 31, 2010 (the "Forced Liquidation Period"). The shorter time frame for the Forced Liquidation Period reflects the assumption that, absent any external funding during the liquidation, the assets would have to be sold relatively quickly given the negative cash flow;

(b) during the Forced Liquidation Period, the Fairmont Group and the Fairmont Resort Non-CCAA Debtors will cease operations;

(c) same as note c above in paragraph 27 (c);

(d) same as note d above in paragraph 27 (d);

(e) same as note e above in paragraph 27 (e);

(f) same as note f above in paragraph 27 (f); and

(g) same as note g above in paragraph 27 (g)

30. Liquidation Analysis under both scenarios indicates that the estimated recoveries to the Finance Investors are significantly less than the secured debts outstanding.

## ANALYSIS OF RESTRUCTURING ALTERNATIVES

### *Overview*

30. As discussed in the fifth report of the Monitor dated January 22, 2010 (the "Fifth Report"), the Fairmont Group, with the assistance of the Monitor and input from Finance and FRPLM, assessed the various restructuring options available for the Fairmont Group and its creditors in order to adequately assess whether or not a plan of arrangement and/or compromise could be achieved under these CCAA proceedings.

31. The Monitor is of the view that the Fairmont Group has provided credible efforts in identifying the various restructuring options available to it, developing a comprehensive five year business plan and financial models, with the assistance of the Monitor and participation of Finance and FRPLM, while continuing to reduce its operating costs and focusing on working towards operating in a positive earnings basis.

32. Initial restructuring considerations included whether a balance sheet restructuring could have been possible for the Fairmont Group based on a refinancing of the Secured Debt and a new injection of capital either by way of new secured loans or equity. Due to the current negative earnings from the Fairmont Group, the Liquidation Analysis and given that the future earnings are not forecast to be sufficient to service the Secured Debt, a balance sheet restructuring with a plan of arrangement was not considered to be a viable restructuring option for any entity within these CCAA proceedings.

33. Based on the recent application from Northwynd LP and the results of the Investor Meeting, the Fairmont Group, with the assistance of the Monitor, has determined that there are three possible restructuring alternatives available to maximize stakeholder value, namely:

(a) initiate a sales process of the Secured Assets under the CCAA proceedings or under receivership proceedings;

(b) accept the Offer of Northwynd LP within the CCAA proceedings; or

*(c)* terminate the CCAA proceedings, appoint a Receiver over the Secured Assets to accept the Offer and close the transaction contemplated therein, subject to approval of this Court.

***Alternative #1: Sales process***

34. In deciding whether to initiate an expedited sales process under the CCAA or receivership the following matters need to be considered:

(a) Given the complexity of the Secured Assets (as discussed above) the proper period of time for an orderly sale process is estimated to be nine to twelve months. An expedited sale process could be achieved over three to four months; however, the estimated recovery under the shorter time frame is significantly worse than under the longer Orderly Liquidation Period. The length of time to conduct a sale process would incur substantial professional costs;

(b) Currently the Fairmont Group's cash flows are positive due to the ongoing sale of capital assets (i.e. time share inventory and reversionary interests) which effectively is cannibalizing the Fairmont Group's existing assets in order to allow it to continue to operate. If the Fairmont Group had to stop selling assets that were subject to specific security and instead obtain new debtor-in-possession financing ("New DIP"), the quantum of the New DIP is estimated to be approximately $1 million for each month that is needed to complete a sale process and close with a buyer(s). Assuming a nine month sale process, that would result in the need for $9 million of New DIP;

(c) in the event a receivership order is granted, the Receiver may not be able to continue with the sale of time share and reversionary interests due to certain regulatory restrictions. This would require the Receiver to borrow funds in order to operate the business and run a sale process;

(d) there is a risk of losing management and key employees to run the sales process. In order to entice the key employees to stay during the sale process a new retention program may be required which would add to the overall costs; and

(e) the estimated recoveries under the Liquidation Analysis are significantly less than the Secured Debt. Therefore, the potential of achieving a sale of the Secured Assets that is greater than the Secured Debt is very low and the costs associated with seeking such a sale are significant.

35. Based on the above considerations, the Monitor believes that a sales process under either these CCAA proceedings or in a receivership is not likely to produce

a result that is better than the Offer. In addition, the Monitor considers that a sale process could result in significant additional costs with no additional benefit resulting in a far lower recovery than the Offer.

***Alternative #2: Accept the Offer within the CCAA***

36. Given the Liquidation Analysis and the risks and costs associated with a sale process, the Monitor believes that accepting the Offer in these CCAA proceedings allows for the maximum recovery to the major secured stakeholder as compared to the alternative of a sale under liquidation or bankruptcy.

37. While these CCAA proceedings were commenced prior to the enactment of certain amendments to the CCAA, which became effective September 18, 2009, the Monitor considered it prudent to assess whether accepting the Offer in these CCAA proceedings would be appropriate if the applicable new amendments were applied. The relevant section that would be applicable in considering the acceptance of the Offer is s. 36 of the CCAA.

38. Specifically, s. 36(3), lists the following factors that need to be considered by the court for the granting of the authorization to accept the Offer:

(a) whether the process leading to the proposed sale or disposition was reasonable in the circumstances;

(b) whether the Monitor approved the process leading to the proposed sale or disposition;

(c) whether the Monitor filed with the Court a report stating that in their opinion the sale or disposition of the assets would be more beneficial to the creditors than a sale or disposition under a bankruptcy;

(d) the extent to which the creditors were consulted;

(e) the effects of the proposed sale or disposition on the creditors and other interested parties; and

(f) whether the consideration to be received for the assets is reasonable and fair, taking into account their market value.

39. The Monitor has assessed the above factors and has addressed each requirement as follows:

(a) the process that was initiated by the Fairmont Group and the Monitor to consider a sale or disposition began in late summer 2009. The process included a review of the restructuring options (discussed above), completing the Liquidation Analysis, the development of a five year business plan, seeking the input of the major secured stakeholders (Finance, FRLPM and RFI), assessing the extent of unsolicited interests expressed by third parties (no credible unsolicited interests were received during these proceedings) and assessing the time, costs and effort to initiate and complete asset sales (the "Process"). The Monitor considers that the Process is within the intent of s. 36 and is reasonable in the circumstances;

(b) pursuant to the Amended and Restated Initial Order dated February 2, 2010, the Monitor had extensive oversight and involvement in the Fairmont Group restructuring and approved all aspects of the Process;

(c) the Ninth Report contains the opinion of the Monitor that the Offer would be more beneficial to the creditors than a sale or disposition under a bankruptcy;

(d) the Monitor consulted with major secured creditors (Finance, FRPLM and RFI) and the largest unsecured creditor, Mr. Knight (who we understand also advised Cedarpoint Estates Ltd. of the Process);

(e) the effects to the creditors were considered by the Monitor and the Fairmont Group. The basic effect of the Offer is that the subordinate secured creditors to the Secured Debt will receive no recovery; and

(f) The Monitor believes that the consideration to be received for the assets under the Offer is reasonable and fair, taking into account their market value given the work performed in the Liquidation Analysis.

40. The Monitor also reviewed s. 36(4) of the CCAA, regarding additional factors to be considered in the case of a proposed sale to related persons. The Monitor is of the view that this section does not apply, as Northwynd LP is not considered to be a related person for the purposes of s. 36(4). The Monitor further believes that, to the extent Northwynd LP was a related party, the additional factors set out in s. 36(4) have also been met.

***Alternative #3: Sell assets to Northwynd LP through receivership process***

41. As discussed above, Northwynd LP has brought forward an application to this Honourable Court, indicating that if this Honourable Court does not accept its Offer, Northwynd LP may seek the appointment a receiver over the assets and property of FRP, LOR and LORV. A Consent Order to lift the stay of proceedings for Northwynd LP to appoint a receiver over its secured assets has been consented to by the Fairmont Group and the Monitor.

42. If this Honourable Court believes that it would be more appropriate to sell the Secured Assets under receivership proceedings, the Monitor understands that Northwynd LP would submit the Offer to the proposed Receiver and request that the Receiver immediately seek an Order approving acceptance of the Offer.

43. The Monitor believes that selling the Secured Assets to Northwynd LP through a receivership process would need to be concluded on an urgent basis given the fact that the proposed Receiver is not able to sell time share inventory or reversionary interests and would likely need additional funding to operate during the time period to get to a closing.

44. Should the Court prefer the option to have the Offer accepted in a receivership, the Monitor would recommend an extension of the Stay Period under these

CCAA proceedings to allow for the time necessary to finalize definitive documents in order to allow for an immediate closing of the Offer upon the granting of the receivership order. Effectively, a receivership would be sought at the time when Northwynd LP is able to close the Offer.

***Conclusion***

45. In evaluating the three restructuring options, the Monitor believes that accepting the Offer in the CCAA proceedings will allow for the maximum recovery to the economic stakeholders which is better than the estimated recovery in liquidation or bankruptcy.

46. In addition to the reasons discussed above, should this Honourable Court authorize the acceptance of the Offer within the CCAA proceedings, the following benefits would be achieved:

    (a) Northwynd LP will continue operating the majority of the existing business of the Fairmont Group as a going-concern;

    (b) the retention of employees' jobs will continue for many of its staff;

    (c) the management and administration of the Fairmont Group and the remaining Fairmont Resort Non-CCAA Debtor entities will continue without significant interruption;

    (d) timeshare usage will be essentially unchanged for the more than 15,000 time share owners who have purchased timeshare interests from the Fairmont Group; and

    (e) Northwynd LP will take the responsibility (as contemplated in the Offer) for the repair of the Building 7000.

**REVISED CASH FLOW FORECAST THROUGH MAY 31, 2010**

47. Attached as Appendix "C" to this Eighth Report is a copy of the revised cash flow forecast for the period from April 3, 2010 through May 31, 2010 (the "Forecast Period") as prepared by the Fairmont Group, with the assistance of the Monitor. Management has prepared the forecast based on the most current information available.

48. For purposes of this Forecast Period, the Fairmont Group continued to combine all proceeds received under the Reversionary Program with cash from operations, as the use of funds from the Reversionary Program and operations are being applied during the course of the Forecast Period against the Amended DIP Loan.

49. The Fairmont Group extended the cash flow forecast that was presented to this Honourable Court in the Eighth Report. The cash flow forecast was developed by management on the basis that it will require an extension of the stay of proceedings for one month to complete the sale of the Secured Assets to Northwynd LP, if approved by this Honourable Court.

50. The Fairmont Group's operations have continued with no material adverse changes since the date of the Eighth Report. The Fairmont Group has been able to retain its core employees and arrange for the continuation of services from its suppliers, allowing the Fairmont Group to continue to operate in the normal course and no material adverse change to its financial reporting has been noted.

51. The table below summarizes the Forecast Period cash flow:

| **Fairmont - Revised Forecast April 3, 2010 to May 31, 2010** | **Forecast $000** |
|---|---|
| Receipts | 2,923 |
| | |
| *Disbursements* | |
| Disbursements from operations | 2,050 |
| Intercompany transfers - Non-CCAA entities | 300 |
| Restructuring costs | 950 |
| DIP interest payments | 55 |
| Total disbursements | 3,355 |
| | |
| Net change in cash | (432) |
| Less: funds transferred out to building 7000 trust | (160) |
| Adjusted net change in cash | (592) |
| | |
| Opening cash balance - operations | 443 |
| DIP advances/(repayments) - net | 234 |
| Adjusted net change in cash - operations | (592) |
| Ending cash balance - operations | 85 |
| | |
| Opening available cash - building 7000 trust | 1,055 |
| Add: funds transfered in for building 7000 trust | 160 |
| Ending available cash - building 7000 trust | 1,215 |
| | |
| **DIP Loan Reconciliation** | |
| Opening balance | 1,732 |
| Borrowings on DIP | 1,300 |
| Principal repayments | (1,066) |
| Ending DIP Balance | 1,966 |
| | |
| ***DIP Availability as at May 30, 2010*** | |
| Maximum borrowing limit | 3,353 |
| Availabilty | 1,387 |

52. As summarized above, the Fairmont Group is projecting total cash receipts of approximately $2.9 million, cash disbursements from operations of approximately $3.3 million, transfer of operating funds to the Building 7000 Trust Account of approximately $160,000 and a net decrease in cash from operations of approximately $592,000 in the Forecast Period.

53. The Monitor has reviewed the assumptions supporting the forecast with the Fairmont Group's management and believes the assumptions to be reasonable.

54. Significant assumptions made by management with respect to the Forecast are:

(a) Management has forecasted receipts collections based on time share and Reversionary Program receipts during the Reporting Period;

(b) Cost of goods sold, marketing and general administrative expenses were based on estimated revenues over the Forecast Period as well as historical results from prior periods. As part of the Fairmont Group's cost-cutting measures, FRP notified its houseboat club time share members on April 9, 2010 that it was not economically possible to operate the houseboats on a go-forward basis and that the 2010 and 2011 bookings in the Shuswap Lake Vacation Club and Shuswap Lake Resort Club were cancelled immediately. As a result, the Fairmont Group will reimburse the maintenance fees paid by its time share houseboat members that it received after March 30, 2009 (date of the Initial Order). The cost of this reimbursement is approximately $200,000 and has been forecast in general administrative expenses during the Forecast Period;

(c) Approximately $300,000 in inter-company transfers to Makaha will be required during the Forecast Period. These advances are required to cover general and operating costs that will be subject to additional discussion and consideration by the DIP Lender and the Monitor;

(d) Interest relating to the DIP Loan is estimated at approximately $55,000. It is anticipated that as part of the Northwynd LP sales offer, Northwynd LP will arrange for an exit facility to pay the anticipated outstanding balance on the DIP Loan of approximately $2 million;

(e) Professional fees during the Forecast Period have been estimated at approximately $950,000, which includes catch up payments of costs incurred prior to the Forecast Period and costs expected to be incurred during the Forecast Period; and

(f) Approximately $160,000 in fund transfers to the restricted Building 7000 Trust Account.

55. The Fairmont Group, along with the Monitor, will continue to assess prior to any transfer of funds from a CCAA entity to a Fairmont Resort Non-CCAA Debtor (including Makaha), whether the Fairmont Group is adequately secured in terms of the eventual recovery of the advances, including:

(a) evaluating the nature and quantum of the requirement for the advance and whether the advances to Fairmont Resort Non-CCAA Debtors enhance or preserve value for the Fairmont Group;

(b) ensuring sufficient equity exists such that the advances to the Fairmont Resort Non-CCAA Debtor will be fully recoverable; and

(c) those creditors in priority to the contemplated advances to Fairmont Resort Non-CCAA Debtors agree to subordinate their respective security to the advances.

56. The Monitor is of the view that if the stay extension is granted by this Honourable Court, no stakeholders other than Finance will be prejudiced and/or materially adversely affected, based on the projected cash flows over the Forecast Period.

57. Based on the Fairmont Groups' assumptions, the Revised Forecast indicates that the Fairmont Group will continue to have sufficient funds to meet its current obligations through the Forecast Period.

## UPDATE ON THE LOR AND LORV CLAIM PROCESS

### *Overview*

58. As previously discussed, this Honourable Court granted the Claims Process Order on March 18, 2010 for LOR and LORV.

59. The Fairmont Group, with the support of the Monitor, believes that based on the Liquidation Analysis, the Offer and the restructuring options available to the Fairmont Group, continuing the Claims Process as set out in the Claims Procedure Order is no longer appropriate  Therefore, the Monitor recommends that this Court immediately terminate the Claims Process.

## FAIRMONT GROUP'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD

60. Pursuant to the Initial Order, as amended, the Stay Period continues until and including April 30, 2010.  The Fairmont Group is seeking an extension of the Stay Period until and including, May 31, 2010 (the "Stay Extension").

61. The Stay Extension is necessary to allow:

    (a) the Fairmont Group complete its sale of the Secured Assets to Northwynd LP, should this Honourable Court grant an order approving the acceptance of the Offer;

    (b) to allow for the Fairmont Group and the Monitor to establish an expedited sale process that would be provided to this Court for approval; or

    (c) the time to finalize definitive documents for the sale contemplated by the Offer and for a sale to be completed immediately upon the granting of a receivership order.

62. The Monitor understands that Finance and FRPLM support the offer presented by

Northwynd LP to buy the Secured Assets from the Fairmont Group within the CCAA proceedings.

63. If this Honourable Court should decide to grant acceptance of the Offer in either these CCAA proceedings or in a receivership proceeding, upon closing of the Offer, the Fairmont Group will seek an order terminating the CCAA (the "Termination Order"). The Termination Order will need to address the following:

   (a) Director's Charge;

   (b) Administration Charge;

   (c) DIP Lender's Charge;

   (d) KERP Charge;

   (e) discharge of the Monitor and CRO;

   (f) the expected application by RI REIT of an offer for the LLD lands secured by their mortgage whereby RI REIT would seek a vesting order to have the lands transferred to RI REIT or its nominee in consideration for the mortgage; and

   (g) other administrative matters.

64. In the Monitor's view, the Fairmont Group is acting in good faith and with due diligence during the CCAA proceedings. The Monitor is of the view that the Stay Extension is appropriate in the circumstances.

**RECOMMENDATIONS**

65. The Monitor recommends that this Honourable Court:

(a) approve the acceptance of the Offer in these CCAA proceedings;

(b) in the alternative to paragraph 30(a), lift the stay of proceedings to allow Northwynd LP to appoint a receiver at a time when Northwynd LP is prepared to proceed to close the Offer, direct the proposed receiver to accept the Offer and take all steps necessary to close the transaction contemplated therein forthwith;

(c) terminate the Claims Procedure Order; and

(d) approve the Stay Extension.

All of which is respectfully submitted this 26th April 2010.

**ERNST & YOUNG INC.**
**in its capacity as Court Appointed**
**Monitor of the Fairmont Group**

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

Orest Konowalchuk, CA
Manager

# APPENDIX A

Orderly Liquidation Analysis

**Fairmont Group and Fairmont Resort Non-CCAA Debtors**
**As at February 28, 2011**

## Orderly Liquidation Recovery Analysis per entity

| | Note | Total | FVV | LOR | LORV | LL | Makaha | Belize | Assets held under the GSA |
|---|---|---|---|---|---|---|---|---|---|
| | | | CCAA | | | | Non CCAA | | |
| **Net Proceeds from Assets** | | | | | | | | | |
| Timeshare Inventory | | **1,788,878** | **45,430** | **-** | **607,500** | **-** | **118,378** | **655,500** | **362,070** |
| Remainder Program | | **726,750** | **61,599** | **-** | **242,008** | **-** | **-** | **-** | **423,143** |
| Undeveloped and development lands | | **11,351,831** | **-** | **7,113,600** | **-** | **1,694,400** | **-** | **1,650,000** | **893,831** |
| Buildings / Hotel units | | **13,790,738** | **-** | **13,344,000** | **-** | **-** | **-** | **-** | **446,738** |
| Notes Receivables | | **3,685,923** | **460,806** | **-** | **106,968** | **-** | **-** | **286,553** | **2,831,596** |
| Accounts Receivable | | **301,885** | **208,903** | **-** | **37,354** | **-** | **-** | **-** | **55,628** |
| Notes Receivable - RFI | **13** | **4,812,192** | **4,812,192** | **-** | **-** | **-** | **-** | **-** | **-** |
| Other | | **4,928,250** | **45,750** | **-** | **-** | **-** | **-** | **-** | **4,882,500** |
| **Total net sales proceeds on assets** | **1** | **41,386,447** | **5,634,680** | **20,457,600** | **993,830** | **1,694,400** | **118,378** | **2,592,053** | **9,895,506** |
| | | | - | - | - | - | *0* | - | - |
| **Adjustments to proceeds ( Add / (deduct) )** | | | | | | | | | |
| Cash flow from operations | **2** | | 197,969 | - | 909,269 | - | - | - | 74,223 |
| Intercompany reimbursement | **3** | | 368,439 | (295,000) | 278,554 | - | (2,318,086) | (75,000) | 63,137 |
| Makaha Inter company | **4** | | 1,016,441 | - | - | - | - | - | (1,016,441) |
| Restructuring costs | **5** | | 3,322,417 | (1,740,109) | (598,883) | (288,249) | - | (207,369) | (381,938) |
| Corporate cost payment and allocation | **6** | | 1,339,537 | (1,035,436) | (356,360) | (171,520) | - | - | 253,871 |
| DIP principle/interest payment and allocation | **7** | | 1,920,732 | (713,585) | (245,590) | (118,205) | - | | (667,446) |
| Remaining unsecured Makaha obligations | **8** | | - | - | - | - | (1,547,658) | - | - |
| Other adjustments | **9** | | - | (120,000) | (1,080,000) | - | 159,849 | - | - |
| **Total adjustments to proceeds (add / (deduct) )** | | **(3,072,436)** | **8,165,535** | **(3,904,130)** | **(1,093,010)** | **(577,974)** | **(3,705,895)** | **(282,369)** | **(1,674,593)** |
| | | | - | - | - | - | - | | - |
| **Net change in proceeds** | | *38,314,012* | *13,800,215* | *16,553,470* | *(99,180)* | *1,116,426* | *(3,587,516)* | *2,309,685* | *8,220,913* |
| | | | - | - | - | - | - | - | - |
| **Available funds to lienholders/priority claims** | | **42,000,708** | **13,800,215** | **16,553,470** | **-** | **1,116,426** | **-** | **2,309,685** | **8,220,913** |
| **Lien / Priority claims** | **10** | | | | | | | | |
| Total lien / priority claims | | 817,780 | 782,981 | - | 34,799 | - | - | - | - |
| RFI obligation | | 4,812,192 | 4,812,192 | | - | | | | |
| | | 6,447,752 | 5,595,173 | - | 34,799 | - | - | - | - |
| **Available funds to secured creditors** | | **35,552,956** | **8,205,042** | **16,553,470** | **-** | **1,116,426** | **-** | **2,309,685** | **8,220,913** |
| Secured Debt | **11** | 64,969,777 | 10,997,511 | 28,113,412 | - | 12,640,933 | - | - | 13,217,921 |
| **Available funds to unsecured creditors** | | **-** | **-** | **-** | **-** | **-** | **-** | **2,309,685** | **-** |
| Repayment of "put options" to REIT A & B | **12** | 1,766,719 | - | - | - | - | - | 1,766,719 | - |
| Repayment to Belize unsecured creditors | **12** | 542,966 | - | - | - | - | - | 542,966 | - |
| **Remaining funds available** | | **- -** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

**Notes to the Orderly Liquidation Recovery Analysis per Entity**

General assumptions & comments:

- If a decision was made to liquidate the Fairmont Group of companies ("Fairmont Group"), an orderly liquidation of the Fairmont Group's assets under the CCAA would commence March 1, 2010. It is further assumed that the liquidation process with respect to the assets within each of the entities will end on or about February 28, 2011, with the exception of Makaha Hotel and Resort Inc. ("Makaha"), which will end on September 30, 2010.

- Net proceeds available from the sale of the Fairmont Group assets would first be distributed to any lien/priority claims and then to all valid secured creditors. It is expected that Northwynd LP will not fully recover on their security. Other than in CMRR (as defined below), the remaining unsecured creditors would receive $NIL. It is assumed that the General Security Agreemend dated on or about February 18, 2010 (the "GSA") is valid as against Northwynd LP and the recovery from the GSA will go all towards satisfaction of certain Northwynd LP secured debt.

- Liquidation analysis for Makaha assumes that all security holders and unit owners will hold on to their security and investments and will not sell. The proceeds from the sale of the remaining unencumbered assets of Makaha will not be sufficient to cover current and future outstanding obligations. This liquidation analysis assumes that Makaha will be in foreclosure and a formal filing will ensue (i.e. Chapter 7, etc.).

- Assets charged by the GSA include, but are not limited to, certain unencumbered buildings in Fairmont Resort Properties Ltd. ("FRP or FVV"), management contracts, development and undeveloped lands in FRP and Fairmont Rancho Banderas SA de CV ("Rancho"), certain notes receivables, accounts receivables and remainder program proceeds.

- Monies held aside on the sale of remainder and regular inventory sales in FVV of $400/door will continue to be placed in the "Building 7000" trust account (the "Trust Account"). As at December 18, 2009 there is approximately $707,000 in the Trust Account and it is anticipated that the balance as at February 28, 2011 will be approximately $1,707,000. It is assumed that approximately 400 leaseholders would be contacted for the remainder program (per month) and FVV would close on 50% of them. In addition, FVV assumes that it will sell approximately 150 old timeshare weeks from March 1, 2010 to February 28, 2011.

**Notes to the Orderly Liquidation Recovery Analysis per Entity**

Specific notes (1 - 8):

**1** Total net proceeds from the sale of assets were derived from a "desk top" valuation conducted for the Fairmont Group by Ernst & Young Real Estate Services Inc. ("EYR"). The valuation is based on orderly liquidation analysis of the assets available within the Fairmont Group as at February 28, 2011.

**2** Cash flow from operations relates to the net cash flows earned from March 1, 2010 to February 28, 2011 that is available for distribution to each of the entities creditors upon liquidation.

**3** Intercompany reimbursement mainly relates to the reimbursement of operating funds back to FRP from FRP's subsidiary companies during the CCAA process. FRP is the parent company that provides management leadership, accounting and administrative services for all of its direct and indirect subsidiaries and from time to time FRP paid certain costs (ie. payroll, other costs, etc) on behalf of its subsidiaries. It is assumed that these costs will be reimbursed back to FRP as at February 28, 2011.

**4** Makaha intercompany reimbursement relates to FRP's proportionate share of funds borrowed by Makaha during the CCAA process that is being reimbursed back to FRP before Northwynd LP (i.e. REIT C) recovers any amounts under the GSA. REIT C has a first mortgage on certain units in Makaha and given that it is anticipated that the unit holders/secured creditors will not recover any (or limited) return on their investment in Makaha and that REIT C has a GSA on the various unencumbered assets in the Fairmont Group, before any funds are distributed to REIT C under the GSA, the intercompany obligation that occurred during the CCAA proceedings will be paid back to FRP.

**5** Restructuring costs from March 30, 2009 to February 28, 2010 (estimated) were paid by FRP and these costs have been allocated on a pro-rata basis based upon the value of the assets within each entity (excluding Makaha). Forecast restructuring costs from March 1, 2010 to February 28, 2011 are paid by each individual entity based on the value of the assets held, adjusted for remainder program sales made from June 2009 to December 31, 2010. FRP is expected to be reimbursed for these restructuring costs from the participating entities during this period.

**6** Corporate costs are anticipated to be approximately $4 million from March 1, 2010 - February 28, 2011 and are allocated on a pro-rata basis similar to restructuring costs above (excluding Makaha). Corporate costs incurred from March 30, 2009 to February 28, 2010 were paid by FRP and have already been recovered from the individual entities and reflected in prior cash flows.

**7** DIP principal/interest payments are anticipated to be approximately $2.8 million and are expected to be paid in full between March 1, 2010 - February 28, 2011. These payments have been allocated on a pro-rata basis similar to the restructuring costs as outlined above (excluding Makaha).

**8** Remaining unsecured obligations in Makaha relate to anticipated payables outstanding as at September 30, 2010 (i.e. severance, excise tax, and other obligations, etc).

**Notes to the Orderly Liquidation Recovery Analysis per Entity**

Specific notes (9 - 13):

**9** Other adjustments mainly relate to an anticipated secured loan made from Lake Okanagan Resort Vacation (2001) Inc. ("LORV") to Lake Okanagar Resort (2001) Inc. ("LOR") during March 1, 2010 - February 28, 2011 to provide LOR with the funds necessary to make certain cosmetic repairs and maintenance required on its assets in order to effectively liquidate them by the end of February 28, 2011. In consideration for this loan, LORV would earn a 10% interest fee on the face of the loan and is to be paid back to LORV upon the sale of the majority of LOR's assets. It is assumed that this interest payment to LORV will have a priority charge over LOR's secured creditor (FRPL's Series 1&2 creditors).

**10** Lien / priority claims of certain lien holder's and priority claimants that were made against FRP and LORV prior to these CCAA proceedings are anticipated to be paid (assuming such liens are valid) prior to the secured lenders receiving any of the remaining proceeds from the liquidation of the Fairmont Group's assets.

**11** The Secured Debt of approximately $65 million (including principal and intereset) as at March 31, 2010 are: Series B, Series 1 and 2, REIT A & B, REIT C and security granted under the GSA as described in the Ninth Report. The amounts outstanding to these security holders of Northwynd LP, relate to their principal and interest amounts owing as at March 31, 2010 that have been pro-rated amongst the various Fairmont Group entities over which they hold security. FRPLM unit holders (REIT A & B) are not considered secured creditors as they own specific units in Makaha and Costa Maya Reef Resorts ("CMRR"), but the unit holders may have a valid put option. If the put option is valid and is called by the REIT A & B, it would be an unsecured claim against Makaha and CMRR; however, if REIT A & B do not call on their put option, it is assumed that REIT A&B will continue to own their units at these locations. ***Please note that at this time, the Monitor has not obtained a legal analysis of the exercise of the put option by the unitholders from American counsel. As a result, no definitive analysis can be conducted on the effect of the put option on the secuity of the unitholders.***

**12** Liquidation analysis for CMRR assumes that the proceeds from the sale of assets will be distributed to the unsecured creditors of Belize. This unsecured creditor group consists of the REIT A & B put option claim for the full value of their investment (including the 20% premium) and intercompany claim amounts owing to FRP. As discussed in point 11 above, although the Monitor has not conducted a specific review as to the validity of this "put" option, for purposes of this analysis, it is assumed that the "put" option is valid and an unsecured claim. Payables incurred are paid in full and are part of the cash flows. Currently, there are no known secured creditors of Belize.

**13** This note receivables balance relates to the remaining value that Resort Funding LLC ("RFI") is entitled to as at February 28, 2011 regarding its security for the outstanding debt owed by FRP to RFI. It is further assumed that once the "cross-over" occurs on FRP's outstanding debt with RFI and on the remaining RFI secured notes receivables (estimated to occur on or around March 30, 2010), the notes receivable will be assigned back to RFI and amounts owing to RFI from FRP will be a "wash".

# APPENDIX B

Forced Liquidation Analysis

**Fairmont Group and Fairmont Resort Non-CCAA Debtors**
**As at May 31, 2010**

## Forced Liquidation Recovery Analysis per entity

| | Notes | Total | CCAA | | | | Non CCAA | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | **FVV** | **LOR** | **LORV** | **LL** | **Makaha** | **Belize** | **Assets held under GSA** |
| **NET PROCEEDS FROM ASSETS** | | | | | | | | | |
| Timeshare Inventory | | **1,748,093** | **59,472** | **-** | **580,500** | **-** | **75,843** | **593,750** | **438,528** |
| Remainder Program | | **1,440,000** | **122,054** | **-** | **479,520** | **-** | **-** | **-** | **838,426** |
| Undeveloped and development lands | | **7,938,453** | **-** | **5,168,160** | **-** | **1,140,480** | **-** | **1,080,000** | **549,813** |
| Buildings / Hotel units | | **9,770,250** | **-** | **9,436,800** | **-** | **-** | **-** | **-** | **333,450** |
| Notes Receivables | | **3,055,817** | **70,174** | **-** | **1,027** | **-** | **-** | **281,092** | **2,703,524** |
| Accounts Receivable | | **19,046** | **14,074** | **-** | **-** | **-** | **-** | **-** | **4,972** |
| Notes Receivable - RFI | **13** | **4,910,137** | **4,910,137** | **-** | **-** | **-** | **-** | **-** | **-** |
| Other | | **1,377,500** | **12,500** | **-** | **-** | **-** | **-** | **-** | **1,365,000** |
| **Total net sales proceeds on assets** | **1** | **30,259,295** | **5,188,411** | **14,604,960** | **1,061,047** | **1,140,480** | **75,843** | **1,954,842** | **6,233,713** |
| | | | - | - | - | - | - | - | - |
| **Adjustments to proceeds ( Add / (deduct) )** | | | | | | | | | |
| Cash flow from operations | **2** | | (978,214) | - | 69,579 | - | - | - | (1,839,431) |
| Intercompany reimbursement | **3** | | 521,034 | (295,000) | 278,554 | - | (2,318,086) | (75,000) | 255,706 |
| Makaha Inter company | **4** | | - | - | - | - | - | - | (345,164) |
| Restructuring costs | **5** | | 1,264,382 | (1,433,795) | (574,701) | (223,926) | - | (136,897) | 1,193,785 |
| Corporate cost payment and allocation | **6** | | (1,023,860) | (180,825) | (72,479) | (28,241) | - | - | 1,335,498 |
| DIP principle/interest payment and allocation | **7** | | 1,929,891 | (736,161) | (295,072) | (114,971) | - | | (607,781) |
| Remaining unsecured Makaha obligations | **8** | | - | - | - | - | (1,547,658) | - | - |
| Other adjustments | **9** | | - | (120,000) | (1,080,000) | - | 159,849 | - | - |
| **Total adjustments to proceeds (add / (deduct) )** | | **(7,018,984)** | **1,713,232** | **(2,765,781)** | **(1,674,119)** | **(367,138)** | **(3,705,895)** | **(211,897)** | **(7,387)** |
| | | | *116,416* | - | - | - | - | | *(0)* |
| **Net change in proceeds** | | *23,240,312* | *6,901,644* | *11,839,179* | *(613,072)* | *773,342* | *(3,630,052)* | *1,742,945* | *6,226,326* |
| | | | *116,416* | - | - | - | - | - | - |
| **Available funds to lienholders/priority claims** | | **27,483,436** | **6,901,644** | **11,839,179** | **-** | **773,342** | **-** | **1,742,945** | **6,226,326** |
| **Lien / Priority claims** | **10** | **817,780** | **782,981** | **-** | **34,799** | **-** | **-** | **-** | **-** |
| Total lien / priority claims | | 817,780 | 782,981 | - | 34,799 | - | - | - | - |
| RFI obligation | | 4,910,137 | 4,910,137 | | - | | | | |
| | | 6,545,697 | 5,693,118 | - | 34,799 | - | - | - | - |
| **Available funds to secured creditors** | | **20,937,738** | **1,208,525** | **11,839,179** | **-** | **773,342** | **-** | **1,742,945** | **6,226,326** |
| Secured Debt | **11** | 64,969,777 | 5,460,671 | 30,472,686 | - | 12,640,933 | - | - | 16,395,487 |
| **Available funds to unsecured creditors** | | **-** | **-** | **-** | **-** | **-** | **-** | **1,742,945** | **-** |
| Repayment of "put options" to REIT A & B | **12** | 1,766,719 | - | - | - | - | - | 1,766,719 | - |
| Repayment to Belize unsecured creditors | **12** | 542,966 | - | - | - | - | - | 542,966 | - |
| **Remaining funds available** | | **- -** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

**Notes to the Forced Liquidation Recovery Analysis per Entity**:

General assumptions & comments:

- If a decision was made to immediately liquidate the Fairmont Group, a forced liquidation of the Fairmont Group's assets under the CCAA would commence March 1, 2010. It is further assumed that the liquidation of the assets in each of the entities will end on or about May 31, 2010.

- Net proceeds available from the sale of the Fairmont Group assets would first be distributed to any lien/priority claims and then to all valid secured creditors. It is expected that Northwynd LP will not fully recover on their security. Other than in CMRR, the remaining unsecured creditors would receive $NIL. It is further assumed that the GSA is valid as against Northwynd LP and the recovery from the GSA will go all towards satisfaction of certain Northwynd LP secured debt.

- Liquidation analysis for Makaha, assumes that all security holders and unit owners will hold on to their security and investments and will not sell. The proceeds from the sale of the remaining unencumbered assets of Makaha will not be sufficient to cover current and future outstanding obligations. This liquidation analysis assumes that Makaha will be in foreclosure and a formal filing will ensue (i.e. Chapter 7, etc.).

- Assets charged by the GSA include, but are not limited to, certain unencumbered buildings in Fairmont Resort Properties Ltd. ("FRP or FVV"), management contracts, development and undeveloped lands in FRP and Fairmont Rancho Banderas SA de CV ("Rancho"), certain notes receivables, accounts receivables and remainder program proceeds.

- Monies held aside on the sale of remainder and regular inventory sales in FVV of $400/door will continue to be placed in the Trust Account. As at December 18, 2009 there is approximately $707,000 in the Trust Account and it is anticipated that the balance as at May 31, 2010 will be approximately $1 million. It is assumed no sales of remainder or timeshare inventory would take place during March 1, 2010 to May 31, 2010.

**Notes to the Forced Liquidation Recovery Analysis per Entity:**

Specific notes (1 - 8):

**1** Total net proceeds from the sale of assets were derived from a "desk top" valuation conducted for the Fairmont Group by EYR. The valuation is based on a forced liquidation basis on the assets available within the Fairmont Group as at May 31, 2010.

**2** Cash flow from operations relates to the net cash flows earned from March 1, 2010 to May 31, 2010 that is available for distribution to each of the entities creditors upon liquidation.

**3** Intercompany reimbursement mainly relates to the reimbursement of operating funds back to FRP from FRP's subsidiary companies during the CCAA process. FRP is the parent company that provides management leadership, accounting and administrative services for all of its direct and indirect subsidiaries and from time to time FRP paid certain costs (ie. payroll, other costs, etc) on behalf of its subsidiaries. It is assumed that these costs will be reimbursed back to FRP as at May 31, 2010.

**4** Makaha intercompany reimbursement relates to FRP's proportionate share of funds borrowed by Makaha during the CCAA process that is being reimbursed back to FRP before Northwynd LP (i.e. REIT C) recovers any amounts under the GSA. REIT C has a first mortgage on certain units in Makaha and given that it is anticipated that the unit holders/secured creditors will not recover any (or limited) return on their investment in Makaha and that REIT C has a GSA on the various unencumbered assets in the Fairmont Group, before any funds are distributed to REIT C under the GSA, the intercompany obligation that occurred during the CCAA proceedings will be paid back to FRP.

**5** Restructuring costs from March 30, 2009 to May 31, 2010 (estimated) were paid by FRP and these costs have been allocated on a pro-rata basis based upon the value of the assets within each entity (excluding Makaha). Forecast restructuring costs from March 1, 2010 to May 31, 2010 are paid by each individual entity based on the value of the assets held, adjusted for remainder program sales made from June 2009 to May 31, 2010. FRP is expected to be reimbursed for these restructuring costs from the participating entities during this period.

**6** Corporate costs are anticipated to be approximately $700,000 from March 1, 2010 - May 31, 2010 and are allocated on a pro-rata basis similar to restructuring costs above (excluding Makaha). Corporate costs incurred from March 30, 2009 to February 28, 2010 were paid by FRP and have already been recovered from the individual entities and reflected in prior cash flows.

**7** DIP principal/interest payments are anticipated to be approximately $2.8 million and are expected to be paid in full between March 1, 2010 - May 31, 2010. These payments have been allocated on a pro-rata basis similar to the restructuring costs as outlined above (excluding Makaha).

**8** Remaining unsecured obligations in Makaha relate to anticipated payables outstanding as at May 31, 2010 (i.e. severance, excise tax, and other obligations, etc).

**Notes to the Forced Liquidation Recovery Analysis per Entity:**

Specific notes (9 - 13):

**9** Other adjustments mainly relate to an anticipated secured loan made from Lake Okanagan Resort Vacation (2001) Inc. ("LORV") to Lake Okanagar Resort (2001) Inc. ("LOR") during March 1, 2010 - May 31, 2010 to provide LOR with the funds necessary to make certain cosmetic repairs and maintenance required on its assets in order to effectively liquidate them by the end of May 31, 2010. In consideration for this loan, LORV would earn a 10% interest fee on the face of the loan and is to be paid back to LORV upon the sale of the majority of LOR's assets. It is assumed that this interest payment to LORV will have a priority charge over LOR's secured creditor (FRPL's Series 1&2 creditors).

**10** Lien / priority claims of certain lien holder's and priority claimants that were made against FRP and LORV prior to these CCAA proceedings are anticipated to be paid (assuming such liens are valid) prior to the secured lenders receiving any of the remaining proceeds from the liquidation of the Fairmont Group's assets.

**11** The Secured Debt of approximately $65 million (including principal and intereset) as at March 31, 2010 are: Series B, Series 1 and 2, REIT A & B, REIT C and security granted under the GSA as described in the Ninth Report. The amounts outstanding to these security holders of Northwynd LP, relate to their principal and interest amounts owing as at March 31, 2010 that have been pro-rated amongst the various Fairmont Group entities over which they hold security. FRPLM unit holders (REIT A & B) are not considered secured creditors as they own specific units in Makaha and Costa Maya Reef Resorts ("CMRR"), but the unit holders may have a valid put option. If the put option is valid and is called by the REIT A & B, it would be an unsecured claim against Makaha and CMRR; however, if REIT A & B do not call on their put option, it is assumed that REIT A&B will continue to own their units at these locations. ***Please note that at this time, the Monitor has not obtained a legal analysis of the exercise of the put option by the unitholders from American counsel. As a result, no definitive analysis can be conducted on the effect of the put option on the secuity of the unitholders.***

**12** Liquidation analysis for CMRR assumes that the proceeds from the sale of assets will be distributed to the unsecured creditors of Belize. This unsecured creditor group consists of the REIT A & B put option claim for the full value of their investment (including the 20% premium) and intercompany claim amounts owing to FRP. As discussed in point 11 above, although the Monitor has not conducted a specific review as to the validity of this "put" option, for purposes of this analysis, it is assumed that the "put" option is valid and an unsecured claim. Payables incurred are paid in full and are part of the cash flows. Currently, there are no known secured creditors of Belize.

**13** This note receivables balance relates to the remaining value that Resort Funding LLC ("RFI") is entitled to as at May 31, 2010 regarding its security for the outstanding debt owed by FRP to RFI. It is further assumed that once the "cross-over" occurs on FRP's outstanding debt with RFI and on the remaining RFI secured notes receivables (estimated to occur on or around March 30, 2010), the notes receivable will be assigned back to RFI and amounts owing to RFI from FRP will be a "wash".

# APPENDIX C

Cash Flow Forecast
April 3, 2010 – May 30, 2010

**Fairmont Group of Companies**
**Rolling cashflow forecast**
**April 3, 2010 to May 31, 2010**

| (000s) CDN $ | Forecast Week 54 9-Apr-10 | Forecast Week 55 16-Apr-10 | Forecast Week 56 23-Apr-10 | Forecast Week 57 30-Apr-10 | Forecast Week 58 7-May-10 | Forecast Week 59 14-May-10 | Forecast Week 60 21-May-10 | Forecast Week 61 31-May-10 | Forecast Cumulative 2-Apr-10 to 31-May-10 |
|---|---|---|---|---|---|---|---|---|---|
| **Receipts** | | | | | | | | | |
| Receipts of timeshare | 73 | 73 | 73 | 73 | 74 | 74 | 74 | 74 | 589 |
| Receipts of reversionary program | 146 | 166 | 166 | 166 | 220 | 220 | 220 | 220 | 1,527 |
| Receipts of fees, hotel rooms, golf revenue, etc | 69 | 72 | 72 | 72 | 118 | 118 | 118 | 118 | 757 |
| Other receipts | 25 | - | - | - | - | - | - | 25 | 50 |
| **Total receipts** | 313 | 312 | 312 | 312 | 413 | 413 | 413 | 438 | 2,923 |
| **Disbursements** | | | | | | | | | |
| Cost of sales | 13 | 13 | 13 | 13 | 19 | 19 | 19 | 19 | 130 |
| Wages & benefits | - | 164 | - | - | 180 | - | 180 | - | 524 |
| Marketing & commisions "non reversionary program" | 12 | 12 | 12 | 12 | 22 | 22 | 22 | 22 | 135 |
| Marketing & commisions "reversionary program" | - | 151 | - | - | - | 140 | - | - | 291 |
| Professional and consulting | 22 | 22 | 22 | 22 | 8 | 8 | 8 | 8 | 121 |
| General, administrative & operating expenses | 271 | 71 | 71 | 71 | 92 | 92 | 92 | 92 | 849 |
| **Operating expenses subtotal** | 318 | 434 | 118 | 118 | 320 | 281 | 320 | 141 | 2,050 |
| **Intercompany transfers - non-CCAA entities** | | | | | | | | | |
| Makaha | 25 | 125 | 25 | 25 | 25 | 25 | 25 | 25 | 300 |
| RVM | - | - | - | - | - | - | - | - | - |
| Other (Mexico, Rancho) | - | - | - | - | - | - | - | - | - |
| **Total non CCAA - intercompany** | 25 | 125 | 25 | 25 | 25 | 25 | 25 | 25 | 300 |
| **Restructuring costs** | - | 450 | - | 100 | - | 200 | - | 200 | 950 |
| **DIP interest payments** | - | - | - | 30 | 6 | 6 | 6 | 6 | 55 |
| **Total disbursements** | 343 | 1,009 | 143 | 273 | 352 | 512 | 352 | 372 | 3,355 |
| **Net change in cash flow - operations** | (30) | (697) | 169 | 39 | 61 | (99) | 61 | 66 | (432) |
| **Less: funds transfered out to building 7000 trust** | (20) | (20) | (20) | (20) | (20) | (20) | (20) | (20) | (160) |
| **Net change in cash available - operations** | (50) | (717) | 149 | 19 | 41 | (119) | 41 | 46 | (592) |
| **Opening cash balance - operations** | 443 | 593 | 159 | 313 | 331 | 179 | 160 | 140 | 443 |
| **Add: DIP advances** | 200 | 600 | - | - | 100 | 300 | - | 100 | 1,300 |
| **Deduct: DIP repayments** | - | (316) | 5 | - | (293) | (200) | (60) | (200) | (1,066) |
| **Net change in available cash - operations** | (50) | (717) | 149 | 19 | 41 | (119) | 41 | 46 | (592) |
| **Ending cash balance - operations** | 593 | 159 | 313 | 331 | 179 | 160 | 140 | 86 | 86 |
| **Opening available cash 7000 trust** | 1,055 | 1,075 | 1,095 | 1,115 | 1,135 | 1,155 | 1,175 | 1,195 | 1,055 |
| **Add: funds transfer in for building 7000 trust** | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 160 |
| **Ending available cash - Building 7000 trust** | 1,075 | 1,095 | 1,115 | 1,135 | 1,155 | 1,175 | 1,195 | 1,215 | 1,215 |
| **Use of DIP Loan** | | | | | | | | | |
| Opening Balance | 1,732 | 1,932 | 2,216 | 2,220 | 2,220 | 2,028 | 2,127 | 2,067 | 1,732 |
| Advances on Dip | 200 | 600 | - | - | 100 | 300 | - | 100 | 1,300 |
| Principal repayments on DIP | - | 316 | (5) | - | 293 | 200 | 60 | 200 | 1,066 |
| Ending Balance | 1,932 | 2,216 | 2,220 | 2,220 | 2,028 | 2,127 | 2,067 | 1,966 | 1,966 |
| Maximun limit under amended DIP loan | 3,726 | 3,616 | 3,617 | 3,617 | 3,515 | 3,445 | 3,424 | 3,353 | 3,353 |
| Available credit under amended DIP loan | 1,795 | 1,400 | 1,397 | 1,397 | 1,487 | 1,318 | 1,357 | 1,387 | 1,387 |

Action No.: 0901-04199

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

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 FAIRMONT RESORT PROPERTIES LTD., LAKE OKANAGAN RESORT VACATION (2001) LTD., LAKE OKANAGAN RESORT (2001) LTD., AND LL DEVELOPMENTS LTD.

**NINTH REPORT OF THE MONITOR**
**ERNST & YOUNG INC.**
**APRIL 26, 2010**

**BLAKE, CASSELS & GRAYDON LLP**
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File No: 8431/1358