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.

TWELFTH REPORT OF THE MONITOR

ERNST & YOUNG INC.

JULY 28, 2010

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INTRODUCTION

1. On March 30, 2009, FRPL Finance Ltd. 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 twelfth report of the Monitor (the "Twelfth Report") is to provide this Honourable Court with:

   (a) a restructuring update since the eleventh report of the Monitor dated June 17, 2010 (the "Eleventh Report");

   (b) an update regarding the July 29, 2010 application involving Resorts International Real Estate Investment Trust ("RI REIT") and LLD;

   (c) an update regarding the Fairmont Group's operating cash flow since the Eleventh Report, including

      i. the budget to actual variance analysis of the cash flows of the Fairmont Group for the period of June 12, 2010 to July 27, 2010 (the "Reporting Period"); and

      ii. the fees and disbursements of the Monitor and its counsel;

   (d) the activities of the Monitor in accordance with the provisions of the Initial Order and CCAA; and

(e) the Monitor’s recommendations.

4. Capitalized terms not defined in this Twelfth 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 Twelfth 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 was 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 have been posted by the Monitor on its website at: www.ey.com/ca/frpl.

RESTRUCTURING UPDATE

Foreclosure Agreement & closing documents

9. Since the Eleventh Report, the Monitor understands that the Fairmont Group and Northwynd LP (as defined in the Ninth Report)) completed the various terms and conditions set out in the Foreclosure Agreement dated as of June 15, 2010 and entered into by the FRP, LOR, LORV and Northwynd LP (the "Foreclosure Agreement").

10. On June 22, 2010, an order was granted by this Honourable Court (the "Vesting Order") to allow the vesting of and transferring of title to, the various foreclosed assets of FRP, LOR and LORV (the "Foreclosed Assets") in favour of Northwynd LP or the Northwynd Affiliated LPs (as defined in the Eleventh Report). The Vesting Order was filed with this Honourable Court on July 5, 2010.

11. The Monitor understands that the following documents and agreements were executed in accordance with the various provisions of the Foreclosure Agreement:

    (a) Vesting Statement, dated July 5, 2010, whereby, FRP, LOR and LORV (with confirmation by the Monitor), confirmed the amounts outstanding in relation to the debtor-in-possession payment (the "DIP Payment"), the key employee retention plan payment ("KERP Payment"), and the administration charge as defined in the Initial Order (the "Administration Payment");

    (b) Monitor's Certificate, dated and filed July 6, 2010; signed by Northwynd LP confirming that all of the conditions for the benefit of

Northwynd LP to the vesting of the Foreclosed Assets have been met;

(c) Certificate, dated July 6, 2010, signed by the Monitor, acknowledging pursuant to Article 7 of the Vesting Order that the Monitor's Certificate was filed with this Honourable Court; and

(d) Acknowledgement and Direction to Pay Agreement, dated July 7, 2010, and signed by Northwynd LP, FRP, LOR, LORV and the Monitor; whereas the Monitor authorized and directed Schinnour Matkin Pichette ("SMP") to pay the amount of the KERP Payment ($741,994.09) and the Administrative Payment ($146,303.98) directly to FRP and further directed FRP to make the payments to the relevant parties. The Monitor obtained confirmation that these payments were made to the respective parties in accordance with the Foreclosure Agreement.

12. As a result of the above documents and orders being executed and granted, the KERP Payment, DIP Payment and Administration Payment being paid from the exit facility obtained by Northwynd LP, and the Foreclosed Assets having been transferred and vested into Northwynd LP, the Monitor understands that all of the conditions of the Foreclosure Agreement have now been satisfied.

Validity and priority of charges

13. As discussed above and as indicated in paragraph 37 of the Initial Order, there are three priority charges (the "Priority Charges") totaling to a minimum of $850,000 that rank ahead in priority to all other interests, statutory or otherwise namely:

(a) Administration Charge to a maximum amount of $750,000;

(b) DIP Lender Charge; and

(c) Directors' Charge to a maximum of $100,000.

14. As indicated in the Vesting Statement and the Acknowledgement and Direction to Pay Agreement Direction to Pay (as discussed above), the Monitor confirms that these Priority Charges have been paid in full, with the exception of any fees incurred by the Monitor, its counsel and the Fairmont Group's counsel in relation to preparing this Twelfth Report and the termination order (as discussed further below).

OPERATIONAL UPDATE

General operations

15. The Fairmont Groups' operations have continued with no material adverse changes since the date of the Eleventh Report.

DIP Financing

16. The table below reconciles the current DIP Loan position:

DIP Loan Reconciliation **As at July 27, 2010**	**FORECAST** **$000**	**ACTUAL** **$000**	**VARIANCE** **$000**
Opening balance	2,647	2,647	-
Borrow on DIP - during Reporting Period	100	147	47
Principal repayments	(2,747)	(2,794)	(47)
Ending DIP Balance	**-**	**-**	**-**

17. As shown in the above table, since the Eleventh Report to July 27, 2010, FRP has drawn approximately $147,000 under the DIP Loan and has made payments of approximately $2,794,000, resulting in an ending DIP Loan obligation of $NIL and the DIP Loan is now extinguished.

Resort Funding LLC ("RFI")

18. Since the Eleventh Report, the Monitor understands that Northwynd LP and RFI finalized a settlement agreement as to their respective priority claims, which was a condition precedent to implementation of the Foreclosure Agreement.

RI REIT APPLICATION

Background

19. As discussed in the first report of the Monitor (the "First Report"), LLD is a non-operating Alberta Corporation (wholly-owned subsidiary of FRP) that currently has a 72.83% undivided ownership interest (the "Co-Owners' Agreement") in a future development site (approx. 300 acres) near Fairmont Hot Springs, British Columbia (the "LLD Lands").

20. The title to the LLD Lands is registered in the name of Lyttle Lake Co-Ownership Holding Corporation (the "Trustee") and the Trustee holds the Lands beneficially for all the co-owners of the LLD Lands, pursuant to a Trust Declaration dated October 28, 2005.

21. Further background to LLD and related security interests in those lands are discussed in detail in the July 26, 2010 affidavit of Mr. Edward Nycholat (the "July 26th Nycholat Affidavit").

22. As set out in the July 26th Nycholat Affidavit, the sole secured creditor over the LLD lands is RI REIT and it has issued a Notice of Enforcement dated July 21, 2010 (the "Notice of Enforcement") to LLD and the Trustee, giving notice of its intention to enforce the Co-Ownership Assignment (as defined in the July 26th Nycholat Affidavit) and to take control over and ownership of the co-ownership interest originally held by LLD. RI REIT is owed approximately $13 million.

23. The Monitor is not aware of any other security interests in the LLD Lands.

24. The LLD Lands were valued by the Monitor, with the assistance of Ernst & Young Real Estate Services Inc., on January 15, 2010 on a forced liquidation basis with a range of value between $1.35 million to $1.14 million.

Application

25. The Monitor understands that an application will be made by RI REIT (the "RI REIT Application") to lift the stay of proceedings in order for RI REIT to enforce the Co-Ownership Assignment, to approve the Notice of Enforcement, declare RI REIT to be an owner of a 72.83% undivided interest in the Lands and directing the Trustee to acknowledge RI REIT's ownership of the co-ownership interest.

26. Based on the sizeable deficiency between the Monitor's appraised value of the LLD Lands and the value of the security held by RI REIT, the Monitor is of the view that no prejudice will occur to any stakeholders as a result of the RI REIT Application as RI REIT is the only stakeholder with any economic interest in the LLD Lands.

BUDGET TO ACTUAL RESULTS – JUNE 12, 2010 TO JULY 27, 2010

27. The cash flow budget to actual presented at Appendix "A" for the Reporting Period (June 12, 2010 to July 27, 2010) contains the actual cash receipts and disbursements relating to the Fairmont Group and its net investment in Fairmont Resort Non-CCAA Debtors that include, Makaha Hotel and Resort Inc. ("Makaha"), Fairmont Rancho Banderas S.A. de C.V; Banderas Corporate Services S.A. de C.V; Rancho Operations S.A. de C.V; and Costa Maya Reef Resort as compared to the cash flow forecasts previously provided to this Honourable Court in the Eleventh Report (the "Eleventh Report Forecast"). The table below provides a summary of the budget to actual cash flow:

Actual to Budget Variance June 12, 2010 to July 27, 2010 (the "Reporting Period")	FORECAST $000	ACTUAL $000	VARIANCE $000
Receipts	**4,158**	**6,203**	**2,045**
Disbursements			
Disbursements from operations	1,305	2,754	(1,449)
Intercompany transfers - Non-CCAA entities	-	507	(507)
Restructuring costs	430	544	(114)
DIP interest payments	15	47	(32)
Total disbursements	**1,750**	**3,852**	**(2,102)**
Net change in cash	2,408	2,351	**(57)**
Opening cash (including Building 7000 Trust Account)	1,529	1,529	-
Building 7000 Trust Account	(1,233)	(1,233)	-
DIP advances/(repayments) - net	(2,647)	(2,647)	-
Ending available cash	**57**	**-**	**(57)**

28. Receipts for the Reporting Period totalled approximately $6.2 million, representing a positive variance of approximately $2 million from the receipts set out in the Eleventh Report Forecast. This positive variance was primarily due to:

(a) a positive variance in receipts from the Reversionary Program accounting for approximately $166,000;

(b) higher than forecast unanticipated recoveries from operations of approximately $1.3 million relating to the collection of outstanding receivables owed by Resort Villa Management Ltd. ("RVM") and LOR during the course of the CCAA;

(c) higher than forecast timeshare sales of approximately $381,000; and

(d) higher than forecast receipts from hotel operations and fees of approximately $214,000.

29. Disbursements for the Reporting Period totalled approximately $3.8 million representing an unfavourable variance of $2.1 million. This negative variance was primarily due to:

    (a) negative variance of approximately $1.4 million for:

        i. the timing of approximately $32,600 in certain operating expenses;

        ii. the timing of approximately $578,00 in KERP and final payroll related costs of the Fairmont Group; and

        iii. unanticipated property transfer tax payments within LOR and FRP of approximately $800,000;

    (b) negative variance of approximately $506,000 in higher than expected intercompany transfers to the Fairmont Resort Non-CCAA Debtors; and

    (c) negative variance of approximately $118,000 in restructuring costs relating to higher than anticipated invoices outstanding.

30. The Building 7000 Trust Account (as defined in the Fifth Report) has accumulated to approximately $1.2 million, which resulted from setting aside the required $400 for every inventory time share and Reversionary Program week sold within FRP, in trust, for the capital improvements to Building 7000.

31. The ending total available cash balance as at July 27, 2010 was $NIL compared to the forecasted cash balance amount of approximately $57,000, which is due to the variances discussed above.

Related company advances

32. During the Reporting Period, approximately $507,000 has been advanced by FRP to Makaha to cover certain operating, consulting and payroll related costs.

APPROVAL OF THE FEES AND EXPENDITURES OF THE MONITOR AND ITS COUNSEL

33. As per paragraph 29 of the Initial Order, the Monitor and its counsel respectfully request that this Honourable Court approve their incurred and accrued fees and expenses (the "Monitor's Professional Fees") of $1,349,184. Copies of the invoices will be available to the Court at the hearing, if required.

FAIRMONT GROUP'S REQUEST FOR TERMINATION OF CCAA PROCEEDINGS

34. Pursuant to the Initial Order, as amended, the Stay Period continues until and including July 30, 2010. The Fairmont Group is seeking an order to terminate the CCAA proceedings (the "CCAA Termination Order").

35. The proposed CCAA Termination Order seeks to:

   (a) Terminate the Initial Order and CCAA proceedings, except as expressly set out therein;

   (b) Approve the actions and conduct of the Monitor throughout the CCAA proceedings and approve the fees and disbursements of the Monitor and its independent legal counsel; and

   (c) Provide for the Monitor's discharge.

36. The CCAA Termination Order is necessary given, among other things:

   (a) The Foreclosure Agreement, the Vesting Order and all related documents and materials have been executed and granted by this Honourable Court and all of the Foreclosed Assets have now transferred and vest with Northwynd LP;

   (b) The Priority Charges have been paid in full, except as set out in paragraph 14, above, in accordance with Foreclosure Agreement and

Initial Order; and

(c) the Fairmont Group is unable to put forward a plan of compromise or arrangement to its creditors.

RECOMMENDATIONS

37. The Monitor recommends that this Honourable Court approve the:

(a) RI REIT Application;

(b) Termination of the Initial Order and the CCAA proceedings; and

(c) Monitor's discharge and its professional fees and those of its legal counsel.

All of which is respectfully submitted this 28th July 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

Cash Flow Budget to Actual
June 12, 2010 – July 27, 2010

Fairmont Group Budget to actual cash flow June 12, 2010 to July 27, 2010 (the "Reporting Period")	Budget	Actual	Variance
CASH FLOW			
Receipts			
Receipts of timeshare	43,142	423,964	380,822
Receipts of reversionary	120,338	196,841	76,503
Receipts of fees, hotel rooms, golf revenue, etc	102,724	316,532	213,808
Funding from Northwynd LP and other receipts	3,892,000	5,271,125	1,379,125
Total Receipts	4,158,204	6,208,462	2,050,258
Disbursements			
Cost of sales	24,797	57,442	(32,645)
Wages & benefits	184,611	763,389	(578,778)
Marketing & commissions "non reversionary"	22,654	26,200	(3,546)
Marketing & commissions "reversionary"	80,000	76,478	3,522
Professional and consulting	137,433	119,290	18,143
General & administrative expenses	855,411	1,712,103	(856,692)
Operating Expenses Subtotal	1,304,906	2,754,902	(1,449,996)
Intercompany Expenses - Non CCAA Entities			
Makaha	-	506,758	(506,758)
RVM	-	-	-
Other (Mexico, Rancho)	-	-	-
Total Non CCAA - Intercompany	-	506,758	(506,758)
Restructuring Costs	430,000	548,312	(118,312)
DIP Interest payments	15,000	47,058	(32,058)
Total Disbursements	1,749,906	3,857,030	(2,107,124)
Net change in cash from operations	2,408,298	2,351,432	56,866
Open cash - consolidated	1,528,975	1,528,975	-
Net change in cash from operations	2,408,298	2,351,432	56,866
Less: Building 7000 Trust - ending cash	(1,232,913)	(1,233,160)	(247)
DIP Advances / (Repayments)	(2,647,247)	(2,647,247)	-
Ending Cash - consolidated	57,113	-	(57,113)
Use of DIP Loan			
Opening Balance	2,647,247	2,647,247	-
Advances on DIP	100,000	147,057	47,057
Principal repayments on DIP	(2,747,247)	(2,794,304)	(47,057)
Ending Balance	-	-	-

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BLAKE, CASSELS & GRAYDON LLP
Barristers and Solicitors
3500, 855 - 2 Street S.W.
Calgary, Alberta T2P 4J8

Attention: Kelly J. Bourassa
Phone: 403.260.9697
Fax: 403.260.9700

File No: 8431/1358