

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

**IN THE MATTER OF AN APPLICATION UNDER
SUBSECTION 47(1) OF THE *BANKRUPTCY AND INSOLVENCY
ACT*, R.S.C. 1985, c. B-3**

**AND IN THE MATTER OF SECTION 13(2) JUDICATURE ACT
R.S.A. 2000**

B E T W E E N :

HSBC BANK CANADA

Applicant

- and -

**THREE SISTERS MOUNTAIN VILLAGE ULC and
THREE SISTERS RESORT GOLF CORP.**

Respondents

FIRST REPORT OF PRICEWATERHOUSECOOPERS INC.,
in its capacity as interim receiver and receiver and manager of Three Sisters
Mountain Village ULC and Three Sisters Resort Golf Corp.
April 17 2009

I. INTRODUCTION

1. This report is filed by PricewaterhouseCoopers Inc. ("PwC"), in its capacity as interim receiver and receiver and manager (in such capacities, the "Receiver") of all of the assets, undertakings and properties of Three Sisters

Mountain Village ULC and Three Sisters Resort Golf Corp. (collectively referred to as "Three Sisters").

(a) Restrictions

2. Certain information contained in this report is based on information obtained from Three Sisters books and records and discussions with management and staff. The Receiver has not independently verified the accuracy or completeness of such information; accordingly the Receiver does not express an opinion thereon.

(b) Purpose of the Report

3. The purpose of this report is to seek the approval of this Honourable Court for:

- (a) An increase the Receiver's borrowing limits from \$500,000 to \$3,000,000;
- (b) Authority to place Three Sisters Real Estate Ltd., a wholly owned subsidiary, into bankruptcy;
- (c) Approval of the activities of the Receiver as set out in the First Report; and
- (d) Advice and direction relating to the Receiver's proposed plan of action regarding a wildlife corridor on the Three Sisters property.

II. BACKGROUND

(a) Corporate Structure

4. Three Sisters Mountain Village ULC is a private company with four shareholders, the largest of which is Morgan Stanley Real Estate Fund IV

International. Three Sisters Resort Golf Corp. is a wholly owned subsidiary of Three Sisters Mountain Village ULC. Attached as Appendix "A" is a corporate organization chart that outlines the various companies affiliated with Three Sisters.

5. As noted in the organizational chart, Three Sisters owns all of the Class B shares of Stewart Creek Golf Corp. Inc. ("Stewart Creek"), which is the parent of Stewart Creek Inc., the operating company of the Stewart Creek Golf Course in Canmore. Stewart Creek (Blco) Ltd. owns all of the Class A shares in Stewart Creek and Stewart Creek Inc. is current acting as management. Stewart Creek continues to operate as a stand-alone entity with its own financing arrangements and is not in receivership.

(b) Nature of the Business

6. Three Sisters was in the business of developing land for sale to builders or individuals on the Three Sisters property in the Town of Canmore. Three Sisters was not involved in the construction of residential or commercial buildings. As of February 27, 2009, Three Sisters held approximately 1495 acres of land, of which approximately 633 is anticipated to be developable.

(c) Factors Contributing to the Insolvency

7. The insolvency of Three Sisters was a result of several factors, including:

(a) A sharp downturn in the demand for recreational property tied to the current economic crisis, combined with a surplus of both vacant land and

residential properties in Canmore, which together caused a dramatic decline in demand for Three Sisters' properties;

- (b) Because of the lengthy and complex processes associated with developing property in the Canmore area, only a small portion of Three Sisters' total land holdings were available for sale, meaning that cash flow was constrained even before the current downturn;
- (c) Significant funding was required through 2009 to maintain operations, continue development, and complete the construction of the Three Sisters golf course. In late February 2009, Three Sisters' principal shareholder declined to continue funding operating costs.

III. ACTIVITIES OF THE RECEIVER

(a) Taking Possession and Control of the Property

8. On February 27, 2009, the Receiver took possession and control of three leased premises occupied by Three Sisters.

9. By March 1, 2009, the landlord of the Three Sisters' sales office had changed the locks and terminated the lease at that property. The Receiver is dealing with the landlord to resolve a dispute over the remaining furniture and equipment in the premises. The leasehold improvements and furniture are the property of Three Sisters Real Estate Ltd. ("Three Sisters Reality") and the Receiver believes that in order to gain complete control of the assets and to deal with the landlord, it requires the ability to place Three Sisters Reality in bankruptcy. This entity operated a real estate brokerage with an office in the Three

Sisters property, had 3-4 employees and had various leasehold improvements in those premises, among other minor assets.

(b) Books and records

10. At the time of the receivership, the accounting system used by Three Sisters was incorporated within the internal accounting system of East West Partners, the project managers, whose servers and head office is located in Colorado.

11. As a result of the receivership and the termination of East West Partners engagement as project managers, Three Sisters has no accounting system. East West Partners have provided the Receiver with a complete electronic copy of all the accounting data and the Receiver is in the process of acquiring an accounting system that will be able to utilize all of the data provided by East West Partners.

12. The Receiver has removed all of the Three Sisters business records and documents from the sales office seized by the landlord and secured all of the books and records located in the other premises.

(c) Termination of Employees

13. Following its appointment the Receiver terminated the employment of all of the employees of Three Sisters, and has re-hired three former employees to assist it with the receivership. In addition, acting under a Unanimous Shareholders Agreement (“USA”) of Three Sisters Reality, the Receiver terminated the employment of all the employees of Three Sisters Reality.

14. The Receiver has advised the former employees of Three Sisters of their rights under the *Wage Earner Protection Program Act* (the “WEPPA”).

15. The Receiver is in the process of accumulating the information to determine the employee’s claims for priority for wages and other amounts under the Alberta Employment Standards Code.

(d) Inventory of Assets

16. The Receiver has conducted an inventory and evaluation of all of Three Sisters’ assets. The categories of assets and their values as reflected in the books and records of Three Sisters are as follows:

<u>Asset</u>	<u>Book Value \$</u>
Restricted Cash	243,721
Accounts Receivable, Prepaid and Other	479,105
Property and Fixtures	664,850
Golf Course Under Construction	18,440,133
Undeveloped Land,	169,161,804
Capitalized Development Costs	15,959,638
Investment in Subsidiaries	115,923,203
TOTAL	<u>320,872,454</u>

Restricted Cash

17. Restricted cash represent funds that may be subject to trust or other priority claims. The Receiver is reviewing the claims against those accounts.

Accounts Receivable, Prepaid and Other

18. The majority of the accounts receivable related to funds owing from purchasers of land within the Three Sisters property. The Receiver is in the process

of reviewing these accounts and will be pursuing collection of any outstanding amounts.

Property and Fixtures

19. The majority of this category of assets relates to leasehold improvements on Three Sisters' three leased premises. The Receiver is currently maintaining two of the premises and, as noted above, is in discussions with the landlord regarding the third premises.

Golf Course Under Construction

20. The more than \$18 million in this category represents the amount spent to date on the construction of the Three Sisters Resort golf course. Approximately 11 of the 18 holes are mostly complete and the Receiver has been advised that the costs to complete the balance of the 18 holes would be approximately \$3.5 million. This amount does not include the costs of providing road access to the golf course (the course is being constructed in an undeveloped portion of the Three Sisters land), a clubhouse or required maintenance facilities.

21. The Receiver intends to suspend construction of the golf course but will be implementing a maintenance plan to preserve the value of the work completed.

Undeveloped Land

22. Three Sisters owns a total of approximately 1495 acres of undeveloped land. Attached as Appendix "B" is a map of the Three Sisters

property on which these undeveloped lands are highlighted. However, under the current approvals received from the Town of Canmore, which are further discussed hereafter, only there are currently only approximately 276 net developable acres available, which comprise an area called the Resort Centre adjacent to the Three Sisters and Stewart Creek Golf Courses. The majority of the undeveloped lands are in the eastern portion of the property and are referred to as Sites 7, 8, and 9. The Receiver has learned that the development of Sites 7, 8, and 9 is subject to resolution of a wildlife corridor, as discussed later in this report and could represent an additional 357 developable acres.

23. The Receiver is in the process of commissioning two independent appraisals of the undeveloped lands.

Capitalized Development Costs

24. Capitalized development costs are “soft” costs that have been incurred as part of the development process.

Investment in Subsidiaries

25. This category comprises amounts invested in Three Sisters’ subsidiaries, principally:

(a) Okanagan Destinations Ltd. - \$70.8 million

(i) This entity was a holding company that was used in previous acquisitions of the Three Sisters. As per the December 31, 2009

financial statements of Okanagan Destinations Ltd, it has no assets, and a \$70.5 million payable to Three Sisters which offsets the investment.

(b) Three Sisters Property Partnership - \$29.7 million

- (i) This entity was used to move property from Three Sisters to purchasers and has significant intercompany balances with Three Sisters and its other subsidiaries. The partners are Three Sisters (99%) and Stewart Creek Golf Corp. (1%).

(c) Stewart Creek Inc. - \$12.7 million

- (i) This entity owns the Stewart Creek Golf Course.

IV. AREA STRUCTURE PLANS (“ASP”)

26. There are currently two approved ASPs for the Three Sisters property, specifically the Resort Centre ASP and the Stewart Creek ASP (collectively the “Existing ASPs”). See Appendix “C” for an additional map showing the Resort Centre ASP (referred to on that map as The Sanctuary) and the Stewart Creek ASP. There are 276 acres of developable land within the Existing ASPs. The Existing ASPs do not address Sites 7, 8 and 9. The Existing ASPs were approved by the Town of Canmore in September 2004.

27. Following the acquisition of Three Sisters by the current shareholders in the fall of 2007, a process was embarked upon to develop a new

ASP which would encompass changes to the Existing ASPs and obtain an ASP to provide for development of Sites 7,8 and 9. The result of the new proposal was intended to be one master ASP ("Master ASP") for all of the Three Sisters lands. Three Sisters presented an overview of the proposed Master ASP to the Town of Canmore in January 2009, however the Master ASP remains in a draft state and has not been formally presented to the Town of Canmore for approval. It is the intention of the Receiver to notify the Town of Canmore that the Receiver will not be proceeding to seek approval of the Master ASP. The Receiver believes the Master ASP should be formally withdrawn to ensure that any interested purchaser has the ability to pursue its own vision for the undeveloped lands.

V. WILDLIFE CORRIDOR

28. In a November 1992 Decision Report the Natural Resources Conservation Board ("NRCB") approved a development application by Three Sisters Golf Resorts Inc. for the Three Sisters property. The Decision Report addressed the NRCB's requirements in respect of the wildlife and the environment. The NRCB's subsequent Form of Approval detailed the NRCB's requirements for a wildlife corridor on the Three Sisters property.

29. In 1998, the Province of Alberta established the TS Along Valley Wildlife Corridor (the "Existing Wildlife Corridor"), located on the west side, and a portion of the south side, of the Three Sisters property.

30. In 2002, the Province of Alberta's Sustainable Resources Department ("ASRD") proposed a new Wind Valley Wildlife Corridor which

would extend along the remaining portion of the south side of the Three Sisters property. This corridor would encompass approximately 265 acres of the Three Sisters property.

31. Attached as Appendix "D" is a map that highlights the Existing and proposed Wind Valley Wildlife Corridors.

32. Appendix "D" highlights the key concern with the Existing Corridor and proposed Wind Valley Wildlife Corridor, which is that they do not connect fully.

33. In February 2008, the Canmore office of ASRD proposed a further realignment of the Existing Wildlife Corridor which would radically realign the Existing Corridor (the "2008 Proposal"). The 2008 Proposal would have a significant negative impact on the developable areas of Sites 7, 8 and 9. The 2008 Proposal is based in part on the work of the Bow Corridor Ecosystem Advisory Group ("BCEAG"). The Receiver understands that the recommendations of the BCEAG are not applicable to properties such as the Three Sisters properties, where approval has previously been granted by the NRCB.

34. In the spring of 2008, Three Sisters engaged consultants to review all of the existing and proposed wildlife corridors and study the movement of wildlife in the area. The consultants' report, issued in November 2008, proposed a solution to the disconnect between the 1998 Existing Corridor and the Wind Valley Wildlife Corridor, and challenged the 2008 Proposal.

35. Attached as Appendix "E" is a map entitled ASRD Proposed Alignment for Three Sisters Along Valley and Wind Valley Wildlife Corridor which highlights all of the wildlife corridor proposals including the proposed solution to the disconnect.

36. In early 2009, Three Sisters approached the Province of Alberta for assistance in resolving the issue regarding the proposed wildlife corridors. The Province has now engaged George Cuff, as an independent advisor, to review the situation, meet with all of the interested parties and provide a recommendation to the Province by June 2009.

37. AIRSTATE Ltd., which holds a portion of the senior debt and was a previous shareholder of Three Sisters, is of the opinion that the Receiver should not participate in the process set out by the Province to resolve the delineation of the wildlife corridor as outlined in their letter to the Receiver dated March 23, 2009.

38. HSBC, which holds the largest portion of the senior secured debt position on Three Sisters, supports the Receiver in proceeding with the immediate delineation of the wildlife corridor by participating in the process set out by the Province.

39. Based upon its experience, the Receiver is of the opinion that the delineation of the wildlife corridor is a crucial first step to proceeding with a sale of the Three Sisters property, as it is the most expeditious process by which the Receiver can identify the lands which can be offered for sale.

40. The Receiver believes that some form of wildlife corridor will have to be established, based on the wording of Appendix "C" to the NRCB's November 1992 Decision Report, which stated that:

"Three Sisters shall incorporate into its detailed design, provision for wildlife movement corridors in as undeveloped a state as possible and prepare a wildlife aversive conditioning plan, both satisfactory to Alberta Forestry, Lands and Wildlife"

41. The Receiver is gravely concerned that without a delineation of the lands to be sold the number of prospective purchasers could be minimal and any offers would be significantly discounted as a result of the uncertainty surrounding the location and size of the required wildlife corridor.

42. It is not clear that, in any event, the Receiver has a choice in whether to become involved in dealing with Mr. Cuff, as the process may well proceed regardless of whether the Receiver becomes involved on behalf of Three Sisters or not as the Province has indicated that it intends to resolve this matter.

43. The Receiver has re-engaged the environmental consultants used by Three Sisters to review the various wildlife corridors proposals in 2008, and discussed the situation with them. They have advised the Receiver that they continue to support the conclusions reached in their November, 2008, report, but that they believe that there is also a viable alternative proposal for a narrower wildlife corridor which would require less of the Three Sisters property, and result

in Three Sisters having more developable land than under any of the current proposals.

44. The Receiver recommends that it be authorized to proceed to advocate for either the new, narrower wildlife corridor proposed by its consultants, or failing that, a wildlife corridor which is consistent with their November, 2008 proposal, in an effort to obtain a determination and maximization of Three Sisters' developable land, and in any event to seek adequate compensation for any lands proposed to be used for a wildlife corridor beyond the amount contained in the Existing Corridor.

45. The Receiver seeks the advice and direction of this Honourable Court with regard to the Receiver's proposal to participate in the process set out above.

VI RECEIVER'S BORROWING LIMIT

46. As described above, there are only minimal liquid assets available for the Receiver to fund the costs of the Receivership. At this point the Receiver has fully drawn the funds available under the Receiver's Certificate authorized in the Initial Order in the amount of \$500,000. The Receiver estimates that it will require an additional \$2.5 million to fund the administration of the Receivership to the end of June 2009, for a total of \$3 million. The following table summarizes the total cash flow projection to June 30, 2009. The cash flow projection on a monthly basis is attached as Appendix "F".

	<u>Total \$</u>
Contractors	138,600
Rents, Utilities & Insurance	80,000
Receiver Fees	735,000
Legal Fees	150,000
3rd Party Consultants	175,000
Property Taxes	1,200,000
Total	<u>\$ 2,478,600</u>

VI SECURED CREDITORS

47. Counsel to the Receiver is currently preparing an independent opinion on the validity of the security granted by Three Sisters.

VII PROPERTY TAXES

48. In March 2009 Three Sisters received the 2009 Annual Assessment Notice for the properties of which Three Sisters was the registered owner. The 2009 assessment was \$98.7 million. The date for appealing the 2009 assessment was April 02, 2009. The actual tax bill will be issued in late May with payment in full due June 30, 2009.

49. The Receiver engaged a property tax advisor who conducted an analysis of the 2009 assessments, the 2008 market values and held meetings with the Town of Canmore's assessor. The Receiver's consultant advised the Receiver that:

(a) In February 2008 Three Sisters entered into a verbal agreement with the Assessor on the assessments for 2008, 2009 and 2010, and that in his view

the market data in the Canmore area supported the values in the February 2008 agreement.

- (b) Because of that agreement, and considering the 2008 market values, an appeal of the 2009 assessment would likely not succeed; and
- (c) The values agreed to by Three Sisters for the 2010 property assessments would be in excess of 2009 market values, on which the 2010 assessments are based, as a result of the recent decline in the market.

50. The Town of Canmore offered to terminate the February 2008 agreement in respect of the 2010 assessment and enter into discussions in June 2009 with the Receiver to establish the basis for the 2010 assessment for the Three Sisters property, on the understanding that the Receiver would not appeal the 2009 assessments. Based on the advice of its consultant the Receiver concluded that entering into that agreement was the most prudent course of action and has agreed not to appeal the 2009 assessments.

VIII RELIEF SOUGHT

51. Based on the foregoing, the Receiver respectfully requests this Honourable Court:

- (a) Increase the Receiver's borrowing limits from \$500,000 to \$3 million;
- (b) Authorize the Receiver to assign Three Sisters Real Estate Ltd. into bankruptcy;

- (c) Authorize the Receiver to proceed with the proposed plan of action set out in paragraph 44 herein regarding a wildlife corridor on the Three Sisters property; and,
- (d) Approve the other activities of the Receiver as set out in this First Report.

All of which is respectfully submitted,



PRICEWATERHOUSECOOPERS INC.,
in its capacity as interim receiver and receiver
and manager of Three Sisters Mountain Village ULC
and Three Sisters Resort Golf Corp. and not in
its personal capacity

Appendices:

- “A” - Corporate organization chart
- “B” - Map of Three Sisters’ undeveloped lands
- “C” – Map of existing ASPs
- “D” – Map of Existing and proposed Wind Valley Wildlife Corridors
- “E” - Map of existing and all proposed wildlife corridors
- “F” – Cash flow projection

Action No.: 0901-03000

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BETWEEN

HSBC BANK CANADA

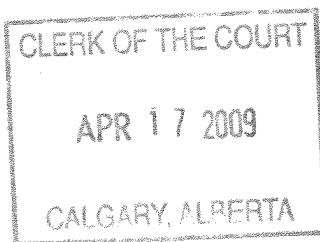
Applicants

- and -

THREE SISTERS MOUNTAIN VILLAGE
ULC and THREE SISTERS RESORT
GOLF CLUB

Respondents

**FIRST REPORT OF
PRICEWATERHOUSECOOPERS INC.
April 17, 2009**



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