Court File No. CV-20-00640266-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF SECTION 101 OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, C. C-43, AS AMENDED

AND IN THE MATTER OF THE ADMINISTRATION OF CARRIAGE RIDGE OWNERS ASSOCIATION

Applicant

PROPOSED ADMINISTRATOR'S PRE-FILING REPORT
BDO CANADA LIMITED

April 30, 2020

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Listing of Appendices

1.0 DISCLAIMER

1.1. In preparing this report, BDO Canada Limited ("BDO") has relied upon the Company's books and records, unaudited and draft financial information available, certain financial information obtained from third parties, and discussions with various individuals (collectively, the "Information"). BDO has not audited, or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("CAS") pursuant to the Chartered Professional Accountants of Canada Handbook and, accordingly, BDO expresses no opinion or other form of assurance contemplated under the CAS in respect of the Information.

1.2. This report dated April 30, 2020 has been prepared for the use of this Court to provide general information and background relating to these proceedings (the "Report"). This Report should not be relied upon for any other purpose. BDO will not assume any responsibility or liability for losses incurred as a result of the circulation, publication, reproduction, reliance on or use of this Report contrary to the provisions of this paragraph.

2.0 INTRODUCTION AND BACKGROUND

2.1 Introduction and Background

2.1.1 The Carriage Ridge Resort (the "Ridge Resort") is a time-share resort located in Horseshoe Valley, Township Oro (now part of Barrie), Ontario. The Ridge Resort consists of 78 residential resort units (each a "Unit") in three residential buildings. The Ridge Resort also has common recreational facilities consisting of an indoor pool, sauna, gym and playground. The Ridge Resort was built on approximately eight acres of real property (the buildings and real property are collectively the "Property").

2.1.2 The Ridge Resort was constructed in 2004 by Carriage Hills Resort Corporation ("CHRC"), as developer. CHRC was a subsidiary of Shell Vacations, LLC ("Shell"). CHRC marketed and sold "time-share" intervals in the Ridge Resort to individuals based on a time-share agreement (the "TSA") dated August 8, 2003. Pursuant to the TSA, purchasers of the time-share intervals (the "Owners") purchased a proportionate ownership interest as tenants-in-common in the Ridge Resort real property.

2.1.3 The Carriage Ridge Owners Association (the "Association") was established as a not-for-profit entity and incorporated by letters patent on August 7, 2003, as a corporation without share capital under the Corporations Act (Ontario) to manage the Ridge Resort. Pursuant to the Association by-laws, the Association has a volunteer board of directors who are elected or appointed from the Owners.

2.1.4 The Association entered into a management agreement dated November 30, 2006, as amended (the "Management Agreement"), with Carriage Hills Hospitality, Inc. (the "Manager"), another subsidiary of Shell. The Management Agreement governs the management of the Ridge Resort.

2.1.5 In 1997, CHRC began construction of the first phase of the Carriage Hills Resort (the "Hills Resort"), a similar resort on lands adjacent to the Ridge Resort that shares some common amenities with the Ridge Resort. In addition, the common recreational facilities at the Ridge Resort can be used by owners of the Hills Resort and vice versa. The Hills Resort is larger than the Ridge Resort, but is governed by a time-share agreement and a management agreement that are substantively similar to the Ridge Resort contractual framework. The Hills Resort is also managed by the Manager. The Hills Resort and Carriage Resort also have a significant number of Owners in common. The common ownership is discussed in greater detail below.

2.1.6 In 2012 Shell sold its vacation ownership club and property management businesses to Wyndham Worldwide Corporation ("Wyndham") resulting in Wyndham becoming the ultimate parent company and controlling shareholder of CHRC and the Manager.

2.2 Intervals and Owners

2.2.1 Each Owner purchased at least one time share interval (an "Interval"), which consists of:

- An ownership share in the Property;

- The right to use a Unit for a period of one-week on a fixed or floating time basis; and,
- Membership in the Association.

2.2.2 There are three types of Intervals, as follows:

- Those with the right to use a Unit for one week every year (an "Every Year Interval");
- Those with the right to use a Unit for one week every other year on the odd years (an "Odd Year Interval"); and,
- Those with the right to use a Unit for one week every other year on the even years ("Even Year Interval").

2.2.3 Accordingly, each Unit can be used for fifty-one (51) separate Every Year Intervals or 102 separate Odd Year Intervals and Even Year Intervals. Additionally, each Unit is allocated a one-week service period to perform maintenance and repairs (the "Maintenance Period"). Table 1 below summarizes the breakdown of the types of Intervals at the Ridge Resort and further stratifies the Intervals between those owned by Wyndham and those owned by individuals.

SUMMARY OF INTERVAL & MAINTENANCE PERIODS					Table # 1
Class of Interval	Individual Owners	Wyndham	Total Invervals	Maintenance Periods	Total Interval Periods
Even Year	1,275	112	1,387	-	1,387
Odd Year	1,327	60	1,387	-	1,387
Every Year	2,407	184	2,591	78	2,669
Total	5,009	356	5,365	78	5,443

2.2.4 Of the 5,365 usable Intervals, 5,009 (93%) are owned by 4,126 individuals and 356 (7%) are owned by Wyndham.

2.2.5 Pursuant to the Ridge Resort records, there were 1,647 members, including Wyndham, who owned Intervals in both the Ridge Resort and the Hills Resort (the "Common Owners"). The statistics of the Common Owners are summarized in Table 2 below:

SUMMARY OF COMMON OWNERS						Table # 2
By Number of Heads	Individuals Owners		Wyndham		Total	
	#	%	#	%	#	%
Common Owners	1,646	39.9%	1	100.0%	1,647	39.9%
Non-Common Owners	2,480	60.1%	-	0.0%	2,480	60.1%
Total Owners	4,126	100.0%	1	100.0%	4,127	100.0%
By Number of Intervals	Individuals Owners		Wyndham		Total	
	#	%	#	%	#	%
Common Owners	2,134	42.6%	356	100.0%	2,490	46.4%
Non-Common Owners	2,875	57.4%	-	0.0%	2,875	53.6%
Total Owners	5,009	100.0%	356	100.0%	5,365	100.0%

2.3 Association Revenue Generation and Delinquencies

2.3.1 As set out in the TSA, each Owner is required to contribute to the costs of maintaining and operating the Ridge Resort. Pursuant to the TSA, the Manager (on behalf of the Association) invoices each Owner their pro-rata share of the following year's budgeted operational costs plus an accrual for future repairs and upgrades to the resort (the "Basic Charge") annually in October. Accordingly, Owners pre-pay next year's expenses to use the Ridge Resort in the following year. The Basic Charge is comprised of: (i) operating expenses; (ii) a capital reserve charge; (iii) property taxes; and (iv) applicable HST. The Basic Charge is payable in a lump sum in advance of the operating year. The proceeds received from the Basic Charge are split between operations and reserves for future capital expenditures (for refurbishing or improving the resort). All collections pertaining to the reserve for future capital expenditures are deposited into an account known as the "Savings Account". All other collections are deposited into another account known as the "Operating Account" (and together with the Savings Account the "Accounts"). The Operating Account is comprised of cash while the Savings Account is comprised of cash and short-term investments.

2.3.2 If the Association determines that the Basic Charge is not sufficient to cover the costs of the current year, a supplemental budget is prepared to determine the shortfall. Once the shortfall is determined, the Manager assesses each Owner, on a pro-rata basis, an additional charge to cover the budgeted shortfall (the "Special Charge"). In addition, an Owner may be invoiced for specific charges, such as telephone charges or special cleaning or repairs (the "Personal Charges" and together with the Basic Charge and Special Charge the "Charges").

2.3.3 The 2020 Basic Charge for the Ridge Resort aggregated $5,907,768, broken down as follows:

- Operating expense of $3,990,769;
- Property tax of $269,430;
- Capital reserve of $998,916; and
- HST of $648,653.

2.3.4 Pursuant to the TSA, Owners remain contractually bound for liabilities and obligations associated with the Intervals indefinitely unless the Owners sell their interest in an Interval to another person in compliance with the TSA. Accordingly, Owners are liable for the annual Basic Charge, plus any Special Charges invoiced by the Manager in perpetuity. Over the last number of years, a growing number of Owners have not paid their Charges (the "Delinquent Accounts"). Table 3 below summarizes the Delinquent Accounts (the Charges the Manager has been unable to collect) outstanding as at February 29, 2020, broken down by the year the Charge relates to.

SUMMARY OF DELINQUENT ACCOUNTS (in 000's $CAD)												Table # 3
Year												Cumulative
04 - 09	10	11	12	13	14	15	16	17	18	19	20	Total
$ 98	$ 104	$ 153	$ 219	$ 306	$ 526	$ 793	$ 937	$ 1,193	$ 1,515	$ 2,029	$ 1,751	$ 9,624

2.3.5 By fiscal 2020, Delinquent Accounts represented 29% of the Basic Charge invoicing. The Delinquent Accounts relate to 1,192 Intervals (the "Delinquent Intervals") that are owned by 1,022 Owners (the "Delinquent Owners"). Table 4 below summarizes the number of Delinquent Intervals and Delinquent Owners as of fiscal 2020.

SUMMARY OF INDIVIDUAL OWNER ACCOUNTS						Table # 4
	Class of Interval				Owners	
Status	Even	Odd	Every	Total	#	%
Good Standing	915	1,053	1,849	3,817	3,104	75%
Delinquent	360	274	558	1,192	1,022	25%
Total	1,275	1,327	2,407	5,009	4,126	100%

2.3.6 If an Owner has not paid the assessed Charges, the TSA provides the Association with a lien on the Interval in the amount of the unpaid Charges. Pursuant to the TSA, the Association has various remedies available to it to collect on Delinquent Accounts, including: issuing a notice of default and notice of intent, sending Delinquent Accounts to a collections agent, commencing legal action through small claims court, negotiating payment plans, and foreclosing on Delinquent Intervals. However, pursuing any of these remedies against the Delinquent Owners is costly given the quantum of Delinquent Owners.

2.4 Ongoing Capital Improvements

2.4.1 Pursuant to the TSA, the Association is responsible for planning the capital budget for the Ridge Resort. The capital budget includes replacement of furniture, kitchen appliances, bedding, and the refurbishment of the Units (carpet replacement, deck replacement, painting, redecorating, etc.).

2.4.2 As the Ridge Resort ages, the Association will incur increasing capital expenditures to maintain the Property. In fiscal 2017 and 2018, capital expenditures totaled $0.8 million and $0.7 million, respectively, however, in fiscal 2019, capital expenditures increased to $1.4 million.

2.4.3 The Association engaged Armstrong Consulting Inc. ("Armstrong") to conduct a review of the future capital needs of the Ridge Resort, taking into consideration the replacement of furniture and appliances, refurbishment of the Units and site improvements for the common elements (the "Armstrong Study"). The Armstrong Study reported that the Association is in need of capital expenditures exceeding $8.9 million in the six-year period 2020 through to 2025, with capital expenditures expected to peak at $3.1 million in 2025. Summarized in Table 5 below are the estimated future capital expenditures required and the projected Replacement Fund (as defined below) balances required to fund those capital expenditures pursuant to the Armstrong Study.

SUMMARY OF ARMSTRONG STUDY (in 000's $CAD)						Table # 5
	2020	2021	2022	2023	2024	2025
Capital Requirement, excluding HST	195	1,545	371	2,229	1,491	3,066
Projected Replacement Fund Balance	1,731	1,412	2,406	1,659	1,797	503

2.5 Deteriorating Financial Position

2.5.1 The large increase in Delinquent Accounts or "bad debts", over the last number of years, in conjunction with an increase in capital expenditures, has led to a significant and steep deterioration in the Association's financial position. Summarized in Table 6 below are the bad debt expenses and capital expenditures incurred over the years 2016 to 2019.

SUMMARY OF SELECT STATEMENT OF OPERATION ITEMS (in 000's $CAD)				Table # 6
	audited F'16 (Restated)	audited F'17 (Restated)	audited F'18	unaudited F'19
Bad debts	377	450	622	750
Capital expenditures	372	752	713	1,356

2.5.2 As summarized in Table 6, the Association has incurred significant and increasing bad debts in the last four years totaling $2.2 million and increasing capital expenditures over the same period totaling $3.2 million. This pattern cannot be sustained. The only way for the Ridge Resort to have sufficient funds to pay for the estimated capital expenditures is by continuing to increase the future Charges to the Owners. Over the last five (5) years the Basic Charge has increased $489 dollars or 49%, substantially higher than inflation.

2.5.3 Given the historical trend in rising delinquencies, it is expected that further increases to the Charges will result in more delinquencies, requiring the Association to continue to increase the Charges to compensate for a deteriorating financial position. Eventually, it is expected that the revenues will collapse and the maintenance of the Ridge Resort will deteriorate.

2.6 Difficulties with the Time-Share Agreement

2.6.1 Over the past several years, Owners have become increasingly dissatisfied with the terms of the TSA. The greatest concern cited is that the Owners' obligations to the Ridge Resort last in perpetuity and are automatically assigned to heirs of the Owners' estate. Currently, the only way to release an Owner of their obligations under the TSA is to sell their Interval to another person, in compliance with the TSA. The Association's board of directors has informed us that the market for Intervals has dramatically declined and many Owners have offered to sell their Interval at a nominal value with little interest from purchasers.

2.6.2 The TSA is set up in such a way that the Ridge Resort is expected to operate in perpetuity unless: (i) all Units are destroyed or are condemned; or (ii) if at any special meeting, the Owners of at least 75% of all Intervals vote to declare the resort obsolete (the "Obsolescence Provision"). The Obsolescence Provision does not take into account non-responsive Owners in the voting provision and only allows for the complete closure and sale of the Ridge Resort, not a partial sale and reduced continued operations.

2.6.3 The Association expects that obtaining a 75% vote of all 5,365 Intervals is nearly impossible as most Delinquent Owners are non-responsive, cannot be found and the Association does not have the financial or operational capacity to track them all down. In addition, a substantial number of Owners have indicated to the board of directors of the Association that they want the Ridge Resort to continue in some form. Accordingly, based on the foregoing, an Obsolescence Provision vote would likely not obtain the necessary approval of 75% of all Intervals.

2.6.4 Further, in the event that the Obsolescence Provision was passed, it does not comprehensively address a sales process for selling all or a portion of the Property and what is to be done with the proceeds of any such sale. It is unclear whether the professionals involved in advising with respect to the marketing and a sale would agree to assist given the uncertainty and potential for an adverse reaction by some of the Owners.

3.0 ASSOCIATION ASSETS AND CREDITORS

3.1 Owners that have paid their 2020 Charges are creditors of the Association since they have prepaid for services not yet rendered by the Ridge Resort (i.e. the Owners' use of the Ridge Resort in 2020). The prepaid value declines proportionally to the time remaining in the prepaid year. Other creditors include, but are not limited to, the various parties providing services to the Ridge Resort comprising of: (i) the Manager, (ii) utility and telecommunication providers, (iii) property improvement/maintenance contractors, and (iv) the municipality for property taxes. As at February 29, 2020, the Association reported liabilities totaling $9.0 million, as follows:

- Owners for prepaid services for 2020 ($8.8 million); and
- Contractors and suppliers ($200,000).

3.2 Pursuant to the TSA, the Property is owned by the Owners and not the Association. As such, the assets of the Association primarily consist of cash and investments and the accounts receivable owing from Owners pertaining to the Charges. As at February 29, 2020, the Association reported assets totaling $10.7 million, broken down as follows:

- Accounts receivable ($6.0 million) (net of a provision for bad debts and delinquent accounts that have not been written off);
- Cash ($2.5 million);
- Investments ($2.1 million);
- Other receivables ($0.1 million); and
- Prepaid expenses ($0.1 million).

4.0 POTENTIAL RESTRUCTURING

4.1 As discussed in section 2.5, the viability of the Ridge Resort, arising from accelerating Owner delinquencies and significant capital expenditures over the next five years, is in question. In addition, as discussed in section 2.6, the Owners are increasingly dissatisfied with the terms of the TSA and, in particular, the requirement to pay the operating and capital costs of the Ridge Resort in perpetuity.

- Accordingly, the Association's board of directors has determined that the Ridge Resort requires a restructuring to address the Ridge Resort's viability before it becomes insolvenct. The board of directors continues to assess and consider potential restructuring options, but the principal goals of a restructuring may include:
- Devising a process whereby non-delinquent Owners can "opt-out" of the Association and relinquish their interest in the Ridge Resort, subject to certain terms and conditions;
- Revising the Association's TSA and other related agreements to resolve Owner concerns and accommodate the changes necessary for the Ridge Resort to be economically viable going forward;
- Addressing all Delinquent Owners and the related Delinquent Accounts owing to the Association in a cost effective and timely manner;
- Based on the reduced number of Owners (after dealing with the Delinquent Owners and the Owners that opt-out), determining the excess real property that could be sold and a sale process for such excess real property; and
- Renegotiating supply agreements given the reduced size of the Ridge Resort.

5.0 CASH FLOW PROJECTION

5.1 Cash Flow Projection

5.1.1 The Manager prepared a cash flow projection and list of assumptions in March 2020 for the ten-month period from March to December 2020 (the "Cash Flow"), based upon the 2019 and 2020 fiscal year budgets (the "FY20 Budget") approved by the Association's board of directors, which was reviewed by BDO. A summary of the Cash Flow is attached hereto as Appendix "A".

5.1.2 Key items in the Cash Flow are as follows:

- Total net cash inflow before restructuring costs is $1.4 million, which includes $4.2 million in collections of fiscal 2021 Basic Charges. The 2021 Basic Charges were estimated using a 5% increase from the 2020 Basic Charge;
- The combined Savings and Operating Account closing balance reaches a low of $2.6 million in October 2020, after restructuring costs; and,
- The combined Savings and Operating Account balance is projected to be approximately $5.6 million at the end of December 2020 after collecting the 2021 Basic Charges.

5.1.3 If the 2021 Basic Charge collections of $4.2 million were held in trust (such that 2021 Basic Charge collections could only be used for 2021 expenses), there would be a net cash outflow from operations, before restructuring costs, for fiscal 2020 of $2.8 million. To illustrate this, the Manager prepared an adjusted Cash Flow assuming that 2021 Basic Charge collections could not be used to pay fiscal 2020 expenses (the "Adjusted Cash Flow"). A summary of the Adjusted Cash Flow, which was reviewed by BDO, is attached hereto as Appendix "B".

5.1.4 The Adjusted Cash Flow shows that without the 2021 Basic Charge collections the Operating Account, before restructuring costs, is projected to be in a deficit position of $184,000 in December 2020.

5.1.5 The Adjusted Cash Flow demonstrates that the Association needs to borrow from the 2021 Basic Charges in order to fund current operations through to the end of 2020. The need to use future Basic Charges to meet current obligations in 2020 demonstrates that the Association is in a financial crisis, which is anticipated to grow over time, principally due to the continued increase in Owner delinquencies and capital expenditures.

5.2 Potential Impact of COVID-19 Crisis

5.2.1 Given the current crisis related to the novel coronavirus ("COVID-19"), the Ridge Resort was shut-down until at least May 15, 2020, which may be extended depending on ongoing measures. It is anticipated that the COVID-19 pandemic may also lead to additional defaults in respect of the payment of Charges by the Owners as those Owners are unable to use their Intervals and may experience personal financial hardship.

5.2.2 The Manager has temporarily laid-off ninety (90) non-salaried staff effective April 4, 2020. The Manager is operating a skeleton-staff comprised of 10 salaried employees during the shut-down. Furthermore, the Manager has advised their collection agency collecting the Delinquent Accounts to suspend collection actions until further notice.

All of which is respectfully submitted this 30th day of April, 2020.

BDO CANADA LIMITED

Brad Newton

Per: Brad Newton, CA CPA CBV CIRP LIT
Senior Vice President

Appendix A

Carriage Ridge March to December 2020 Cash Flow Overview (in 000's $CAD)	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total Cash Inflows	385	201	111	164	88	85	69	59	3,316	1,067	5,545
Total Cash Outflows	324	484	302	260	401	314	368	410	1,001	256	4,120
Net Cash Inflow / (Outflow) Before Restructuring Costs	**61**	**(283)**	**(190)**	**(96)**	**(312)**	**(229)**	**(300)**	**(351)**	**2,315**	**810**	**1,425**
Operating Account Summary:											
Opening Balance	2,622	2,682	2,379	2,149	2,018	1,661	1,396	1,060	664	2,943	2,622
Net Cash Inflow / (Outflow) Before Restructuring Costs	61	(283)	(190)	(96)	(312)	(229)	(300)	(351)	2,315	810	1,425
Subtotal	**2,682**	**2,399**	**2,189**	**2,054**	**1,706**	**1,432**	**1,096**	**709**	**2,979**	**3,753**	**4,046**
Total Restructuring Costs	-	20	40	36	45	36	36	45	36	36	329
Closing balance after restructuring costs [A]	**2,682**	**2,379**	**2,149**	**2,018**	**1,661**	**1,396**	**1,060**	**664**	**2,943**	**3,717**	**3,717**
Reserve Account Summary:											
Opening Balance	2,115	2,055	1,993	1,983	1,923	1,910	1,910	1,910	1,910	1,860	2,115
Net cash inflow / (outflow)	(60)	(62)	(10)	(60)	(13)	-	-	-	(50)	-	(255)
Closing Balance [B]	**2,055**	**1,993**	**1,983**	**1,923**	**1,910**	**1,910**	**1,910**	**1,910**	**1,860**	**1,860**	**1,860**
Armstrong Benchmark Reserve Account Balance	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	
Target Reserve Account Balance Surplus / (Deficit)	**324**	**262**	**252**	**192**	**179**	**179**	**179**	**179**	**129**	**129**	
Total Cash Balance [A+B]	**4,737**	**4,372**	**4,132**	**3,940**	**3,571**	**3,305**	**2,970**	**2,574**	**4,803**	**5,577**	**5,577**

Appendix B

Carriage Ridge Adjusted March to December 2020 Cash Flow Overview (in 000's $CAD)	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total Cash Inflows	385	201	111	164	88	85	69	59	109	43	1,314
Total Cash Outflows	324	484	302	260	401	314	368	410	1,001	256	4,120
Net Cash Inflow / (Outflow) Before Restructuring Costs	**61**	**(283)**	**(190)**	**(96)**	**(312)**	**(229)**	**(300)**	**(351)**	**(892)**	**(213)**	**(2,806)**
Operating Account Summary:											
Opening Balance	2,622	2,682	2,399	2,209	2,113	1,801	1,572	1,272	921	29	2,622
Net Cash Inflow / (Outflow) Before Restructuring Costs	61	(283)	(190)	(96)	(312)	(229)	(300)	(351)	(892)	(213)	(2,806)
Closing balance before restructuring costs [A]	**2,682**	**2,399**	**2,209**	**2,113**	**1,801**	**1,572**	**1,272**	**921**	**29**	**(184)**	**(184)**
Reserve Account Summary:											
Opening Balance	2,115	2,055	1,993	1,983	1,923	1,910	1,910	1,910	1,910	1,860	2,115
Net cash inflow / (outflow)	(60)	(62)	(10)	(60)	(13)	-	-	-	(50)	-	(255)
Closing Balance [B]	**2,055**	**1,993**	**1,983**	**1,923**	**1,910**	**1,910**	**1,910**	**1,910**	**1,860**	**1,860**	**1,860**
Armstrong Benchmark Reserve Account Balance	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	**1,731**	
Target Reserve Account Balance Surplus / (Deficit)	**324**	**262**	**252**	**192**	**179**	**179**	**179**	**179**	**129**	**129**	
Total Cash Balance [A+B]	**4,737**	**4,392**	**4,192**	**4,036**	**3,711**	**3,482**	**3,182**	**2,831**	**1,889**	**1,676**	**1,676**