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COURT	**COURT OF QUEEN'S BENCH OF ALBERTA**
JUDICIAL CENTRE	**CALGARY**
DOCUMENT	**THIRTY-SECOND REPORT OF THE MONITOR**

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 LUTHERAN CHURCH – CANADA, THE ALBERTA – BRITISH COLUMBIA DISTRICT, LUTHERAN CHURCH-CANADA, THE ALBERTA-BRITISH COLUMBIA DISTRICT INVESTMENTS LTD., ENCHARIS COMMUNITY HOUSING AND SERVICES AND ENCHARIS MANAGEMENT AND SUPPORT SERVICES

DATED October 19, 2017

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

Counsel

Cassels Brock & Blackwell LLP
Suite 1250, Millennium Tower
440 2nd Avenue SW
Calgary, Alberta T2P 5E9

Attention: Jeffrey Oliver

Telephone/ Facsimile: 403-351-2921/ 403-648-1151
Email: joliver@casselsbrock.com

Monitor

Deloitte Restructuring Inc.
700 Bankers Court, 850 – 2nd Street SW
Calgary, AB T2P 0R8

Attention: Vanessa Allen & Joseph Sithole
Telephone/Facsimile: 587-293-3203/ 403-718-3681
Email: vanallen@deloitte.ca and josithole@deloitte.ca

Table of Contents

Introduction and Notice to Reader

Introduction

1. On January 23, 2015 (the "Filing Date"), Lutheran Church – Canada, the Alberta – British Columbia District (the "District"), Encharis Community Housing and Services ("ECHS"), Encharis Management and Support Services ("EMSS") and Lutheran Church – Canada, the Alberta – British Columbia District Investments Ltd. ("DIL") (collectively the "Applicants" or the "District Group") obtained an Initial Order (the "Initial Order") from the Court of Queen's Bench of Alberta (the "Court") under the *Companies' Creditors Arrangement Act*, *R.S.C. 1985, c. C-36,* as amended (the "CCAA"). Deloitte Restructuring Inc. ("Deloitte") was appointed as the Monitor (the "Monitor") in the CCAA proceedings.

2. For clarity, the District includes the Church Extension Fund ("CEF"), which was originally created to allow District members to loan their money and earn interest in faith-based developments. CEF was operated under the purview of the District's Department of Stewardship and Financial Ministries and was not created as a separate legal entity. As such, depositors to CEF are creditors of the District (the "District Depositors"). Depositors to DIL will be referred to as the "DIL Depositors".

3. The Initial Order provided for an initial stay of proceedings (the "Stay") until February 20, 2015. The Court subsequently granted nine (9) extensions of the Stay. The most recent Order was granted at an application on September 2, 2016 and extended the Stay until the earlier of December 31, 2016, or the date on which Certificates of Plan Termination (the "Certificate(s)") were filed signaling the completion of the plans of compromise and arrangement for all of the District (the "District Plan"), DIL (the "DIL Plan"), ECHS (the "ECHS Plan") and EMSS (the "EMSS Plan"), all as subsequently amended (collectively the "Applicants' Plans"). On November 15, 2016, the Applicants' legal counsel wrote a letter to the Court (the "Stay Letter") noting that the Monitor would not be in a position to file the Certificates by December 31, 2016. The Stay Letter also noted that the Sanction Orders granted in respect of the Applicants' Plans extended the Stay until the Certificates were filed and, as a result, another Court application was not necessary to extend the Stay. The Monitor understands that the Court has not disputed this position and that the Stay will remain in place until the Certificates are filed.

4. Prior to the Initial Order being granted, Deloitte prepared a Pre-Filing Report of the Proposed Monitor dated January 22, 2015 (the "Pre-Filing Report"). The Monitor subsequently prepared thirty-one reports dated between February 17, 2015 and August 30, 2017 (collectively, the "Reports"). The Monitor's Thirty-First Report was dated August 30, 2017 (the "Thirty-First Report"). The Thirty-First Report was prepared to provide the Court with a general update on the CCAA proceedings as well as the Monitor's report on the Applicants' cash flow forecasts for the thirteen (13) week period ending November 11, 2017 and the Applicant's variance analysis for the thirteen (13) week period ended August 12, 2017.

5. The Monitor also filed confidential supplements to the Second Report of the Monitor, dated March 23, 2015, the Fourth Report of the Monitor dated June 24, 2015, the Fifth Report of the Monitor dated August 24, 2015, the Fifteenth Report of the Monitor dated February 25, 2016, the Seventeenth Report of the Monitor dated March 18, 2016 and the Twenty-Eighth Report of the Monitor dated May 24, 2017 (collectively the "Supplements"). The Supplements have been sealed by the Court.

6. In addition to the Reports and the Supplements, the Monitor prepared a First Report to the Creditors of ECHS and EMSS dated November 10, 2015 (the "Encharis Report"), a First Report to the Creditors of DIL dated December 8, 2015 (the "DIL Report") and a First Report to the Creditors of the District dated March 28, 2016 (the "District Report"). The Encharis, DIL and District Reports were prepared to provide creditors of the corresponding entities with specific information related to the Applicants' Plans.

7. Capitalized terms not otherwise defined herein shall have the meanings given to them in the Reports and in the Supplements.

8. Information on the CCAA proceedings can be accessed on Deloitte's website (the "Monitor's Website") at www.insolvencies.deloitte.ca under the link entitled "Lutheran Church – Canada, the Alberta – British Columbia District et. al.".

Notice to Reader

9. In preparing this report, the Monitor has relied on unaudited financial information, the books and records of the Applicants, and discussions with the Applicant's employees, the Applicants' Chief Restructuring Officer (the "CRO"), interested parties, and stakeholders.

10. The financial information of the Applicants has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this report may not disclose all significant matters about the Applicants. Additionally, none of the Monitor's procedures were intended to disclose defalcations or other irregularities. If the Monitor were to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to the Monitor's attention. Accordingly, the Monitor does not express an opinion nor does it provide any other form of assurance on the financial or other information presented herein. The Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.

11. The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of this report. Any use which any party makes of this report, or any reliance or decision to be made based on this report, is the sole responsibility of such party.

12. All amounts included herein are in Canadian dollars unless otherwise stated.

Court Applications

13. This report represents the Thirty-Second Report of the Monitor (the "Thirty-Second Report"). The Thirty-Second Report is being prepared to provide the Court with additional information regarding the following applications, which are scheduled to be heard by the Court on October 25, 2017 (the "October 25 Hearing").

    13.1. An application by the creditors' committee established for the District (the "District Committee") to lift the Stay for the limited purpose of allowing steps to be taken in action no. 1603-03142 in the Court of Queen's Bench of Alberta and action no. S1611798 in the Supreme Court of British Columbia, which are those legal actions (the "District Representative Action") being advanced on behalf of participating District Depositors (the "District Representative Class") pursuant to the District Plan (the "District Stay Application");

    13.2. An application by the creditors' committee established for DIL (the "DIL Committee") to lift the Stay for the limited purpose of allowing steps to be taken in action no. 1603-22507 in the Court of Queen's Bench of Alberta and action no. S1611746 in in the Supreme Court of British Columbia, which are those legal actions (the "DIL Representative Action") being advanced on behalf of participating DIL Depositors (the "DIL Representative Class") pursuant to the DIL Plan (the "DIL Stay Application"). The District Stay Application and the DIL Stay Application will collectively be referred to as the "Stay Applications";

    13.3. An application by the District to approve an assumption agreement dated October 16, 2017 (the "Assumption Agreement") between the District, Foothills Lutheran Church of Calgary and Rockford Tuscany Inc. ("Rockford"), a copy of which is attached as "Exhibit I" to the Affidavit of Cameron Sherban sworn on October 17, 2017 (the "Sherban Affidavit"). The Assumption Agreement sets out the settlement (the "FLC Settlement") with respect to the District's interest in approximately 7.81 acres of land in the community of Tuscany in Northwest Calgary (the "FLC Lands"), as further described herein (the "FLC Settlement Application"); and

    13.4. An application by the District to make minor amendments to the District Plan (the "Amendments") in order to update the contact information for the District's legal counsel and the Monitor's legal counsel and to correct a circular reference that was erroneously included in the District Plan, as further described herein (the "District Plan Application").

Change in the Applicants' Legal Counsel

14. On October 13, 2017, Bishop & McKenzie LLP ("B&M"), who has acted as legal counsel for the Applicants throughout the CCAA proceedings, filed a Notice of Withdrawal of Lawyer of Record. The District has retained Fasken Martineau DuMoulin LLP ("Fasken") to replace B&M as their legal counsel for the remainder of the CCAA Proceedings. Fasken has had some prior involvement in the CCAA proceedings as they

represent the District with respect to the FLC Settlement. All of the funds held in trust by B&M are in the process of being transferred to Fasken.

15. The Monitor has discussed the Applicant's change in legal counsel with the CRO, who is of the view that it is not prejudicial to the Applicants given the late stage of the CCAA Proceedings and the fact that there are a limited number of matters to be completed pursuant to the Applicants' Plans.

The Stay Applications

16. As described above, at the October 25 Hearing, the District Committee and the DIL Committee will be making the Stay Applications to lift the Stay for the limited purpose of allowing steps to be taken in the District Representative Action and the DIL Representative Action.

17. In April 2017, the District Subcommittee brought a similar application to the District Stay Application. As detailed in the Twenty-Seventh Report of the Monitor filed on April 17, 2017 (the "Twenty-Seventh Report"), at that time, the Monitor expressed reservations with respect to the limited lifting of the Stay. However, as further described below, the Monitor is now satisfied that the concerns described in the Twenty-Seventh Report have been addressed for the following reasons:

    17.1. When the Twenty-Seventh Report was prepared, Encon Group Inc. ("Encon"), who provides the directors' and officers' insurance for both the District and DIL, had not yet acknowledged the claims being pursued in the District and DIL Representative Actions (the "Representative Action Claims") and had not yet retained legal counsel to represent them with respect to the Representative Action Claims. This was also true of Northridge General Insurance Corporation ("Northbridge"), who provides the directors' and officers' insurance for both ECHS and EMSS. As such, if the Representative Action Claims were to proceed, the Applicants would need to retain legal counsel to represent them (the "Retained Counsel"). The Retained Counsel may have taken different strategic steps than would have been taken by legal counsel retained by Encon or Northbridge. The Monitor was concerned that this could have been used as a basis for a potential denial of coverage by Encon or Northbridge. Encon has now retained Singleton Urquhart LLP ("S&U") to represent the District and DIL and Northridge has now retained Scott Venturo Rudakoff LLP ("SVR") to represent ECHS and EMSS with respect to the Representative Action Claims. S&U and SVR have been put on notice of the Stay Applications. As such, the concern raised by the Monitor in the Twenty-Seventh Report has been addressed.

    17.2. Also in the Twenty-Seventh Report, the Monitor expressed the concern that the limited lifting of the Stay may place additional stress on the District's staff, who may resign prior to the District and DIL Plans being fully completed. While this continues to be a possibility, the Monitor notes that there are few outstanding matters pursuant to the Applicants' Plans. As such, the Monitor believes that any additional stress will be limited and is of the view that any corresponding issues will be manageable.

    17.3. Lastly, the Monitor was initially concerned that the limited lifting of the Stay would require amendments to be made to the District Plan and the corresponding Orders. The Monitor has consulted with its legal counsel on this matter, who has also consulted with legal counsel for the District and the legal counsel for the District Committee ("District Committee Counsel"). As a result

of these consultations, the Monitor is now satisfied that the Orders sought pursuant to the Stay Applications are sufficient to allow for the limited lifting of the Stay. No related amendments to the District Plan or any corresponding Orders will be required other than those amendments already being made to the District Plan.

18. For the reasons described above the Monitor is supportive of the Stay Applications and is of the view that there is no prejudice to any party as a result of the relief requested in the Stay Applications.

The District Plan

The Amendments

19. As set out above, the October 25 Hearing includes the District Plan Application, pursuant to which the District is seeking to make some minor amendments to the District Plan (defined above as the "Amendments"). The Amendments are set out in the Sixth Amended Plan of Compromise and Arrangement, which is attached as Exhibit "K" to the Sherban Affidavit and are summarized below:

    19.1. The contact information for legal counsel for the District has been updated from B&M to Fasken;

    19.2. The contact information for legal counsel for the Monitor has been updated to reflect a change in address of the Monitor's legal counsel, Cassels Brock & Blackwell LLP;

    19.3. Section 4.4 (5) has been added to set out that any pool of funds generated by the Representative Action (the "RA Pool") will be distributed by the legal counsel chosen to represent the District Representative Class in the District Representative Action (the "District Representative Counsel") in accordance with the instructions of the Monitor, on a pro-rata basis. The wording makes it clear that those distributions may be made following the date on which the Monitor has issued the Certificate in respect of the District Plan;

    19.4. Section 7.4 has been added to further clarify that the implementation of the District Plan is not conditional on the continuation of completion of the District Representative Action or the distribution of the RA Pool to the District Representative Class; and

    19.5. Section 7.1(g) of the District Plan, which detailed the sequence of events to be followed in implementing the District Plan has been deleted. This section contemplated that the District Representative Action would be completed and the RA Pool would be distributed to the District Representative Class prior to the Certificate for the District having been issued. As absent the District Stay Application, the District Representative Action could not proceed until the Certificate was issued for the District, this section of the District Plan created a circular reference, which has been corrected by the Amendments.

20. The Monitor is supportive of the District Plan Application for the following reasons:

    20.1. The Amendments are minor in nature and serve to clarify the original intention and purpose of the District Plan;

    20.2. There is no prejudice to any party as a result of the Amendments; and

    20.3. The District Committee supports the District Plan Application.

The District Subcommittee

21. As set out in the Thirty-First Report, a process (the "District Subcommittee Reformation Process") was implemented by the Monitor to re-establish the subcommittee (the "District Subcommittee") created pursuant to the District Plan to represent the District Representative Class and retain District Representative Counsel. The Monitor notes the following with respect to the District Subcommitee Reformation Process:

    21.1. As set out in the Thirty-First Report, a notice dated August 29, 2017 (the "Subcommittee Notice") was mailed to the District Representative Class inviting members of the District Representative Class to submit expressions of interest (the "EOI(s)") to participate on the District Subcommittee. The deadline for the District Representative Class to submit EOIs was the close of business on September 22, 2017 (the "Deadline").

    21.2. Four EOIs were submitted to District Committee Counsel by the Deadline and were subsequently reviewed by the District Committee. On September 27, 2017, the Monitor was notified by District Committee Counsel that the two (2) individuals had been newly appointed to the District Subcommittee, which is now comprised of the following members:

        21.2.1. Laurie Schutz;

        21.2.2. Wiley Hertlein;

        21.2.3. Glen Mitchell; and

        21.2.4. Rod Johnson.

    21.3. The Monitor has also been advised by District Committee Counsel that the District Subcommittee is in the process of retaining new District Representative Counsel and anticipates that the District Representative Counsel will be in attendance at the October 25 Hearing.

The DIL Plan

The Kelowna Settlement

22. At the time that the Thirty-First Report was prepared, DIL was finalizing a settlement (the "Kelowna Settlement") with respect to a loan (the "Kelowna Loan") granted to the First Lutheran Church in Kelowna, British Columbia (the "Kelowna Congregation"). The Kelowna Loan was secured by way of a registered mortgage on the church and school, which are in use by the Kelowna Congregation (the "Kelowna Property"). DIL had initiated foreclosure proceedings with respect to the Kelowna Property.

23. The Kelowna Settlement was approved by the DIL Committee and has now been finalized. Pursuant to the Kelowna Settlement approximately $5.6 million was paid to DIL and is currently being held in trust by B&M.

24. The only remaining asset held by DIL is the mortgage on a vacant lot within the Prince of Peace Village, which is currently for sale at a list price of approximately $119,000.

The DIL Distribution

25. Now that the Kelowna Settlement has been finalized, DIL is preparing a further cash distribution to DIL Depositors, which is expected to be released in late October 2017 (the "DIL Distribution"). As at the date of this report, the amount of the DIL Distribution is still being finalized.

26. As with previous distributions, amounts payable to DIL Depositors with the exception of holders of registered retirement income funds ("RRIFs") and locked-in income funds ("LIFs") will be transferred into the accounts previously established for DIL Depositors at Great-West Life Assurance Company. Amounts payable to holders of RRIFs and LIFs will be transferred to registered accounts with a financial institution or investment advisor of the corresponding DIL Depositors choosing.

The FLC Settlement

27. The specifics of the FLC Settlement are described in the Twenty-Ninth Report and the Thirty-First Report and are repeated below for ease of reference:

    27.1. The FLC Lands were transferred from the District to FLC at no cost pursuant to a Land Partnership Agreement (the "Land Agreement") dated February 29, 2008, which included a time requirement for FLC to commence construction of an approved mission development and an option for the District to repurchase the FLC Lands for one dollar if this condition was not met (the "Repurchase Condition"). A copy of the Land Agreement is attached as "Exhibit B" to the Sherban Affidavit". The Repurchase Condition is set out in an Option to Repurchase Agreement dated February 29, 2008, a copy of which is attached as "Exhibit C" to the Sherban Affidavit. Pursuant to the Repurchase Condition, it was agreed that, if the option to repurchase was exercised, the District would pay FLC 25.61% of the net sale proceeds from any future sale of the FLC Lands. The District had registered a caveat against the FLC Lands (the "FLC Caveat") as part of the Land Agreement and to secure the Repurchase Condition.

    27.2. FLC undertook, at its cost, a lengthy subdivision process (the "FLC Subdivision") pursuant to which the FLC Lands were divided into two parcels, one being 3.73 acres (the "FLC Sale Lands") and one being 4.08 acres (the "FLC Remaining Lands").

    27.3. On August 11, 2016, FLC finalized a purchase and sale agreement with Rockford with respect to the FLC Sale Lands (the "FLC PSA"). The FLC PSA reflected a purchase price of approximately $3.8 million. The sale of the FLC Lands has now been completed and net sale proceeds of approximately $3.5 million (the "FLC Sale Proceeds") are being held in trust by FLC's legal counsel.

    27.4. In order to complete the transaction contemplated in the FLC PSA, FLC requested that the District consent to the sale of the FLC Sale Lands by releasing the FLC Caveat and allowing FLC to be reimbursed for its out-of-pocket costs related to the FLC Subdivision, holding costs associated with the FLC Lands, property taxes, maintenance expenses, consulting fees and various other expenses (collectively, the "Subdivision Costs"). FLC further requested that the District assume an agreement between FLC and the City of Calgary related to the construction of an emergency access road (the "Access Road") that was required pursuant to the FLC Subdivision (the "Access Road Agreement"). The City of Calgary had registered a caveat against the FLC Lands with respect to the Access Road Agreement. Rockford is currently holding $300,000 from the FLC Sale Proceeds as a holdback pending the District assuming and fulfilling the Access Road Agreement.

    27.5. As detailed in the Assumption Agreement, the District and FLC have now entered into the FLC Settlement, which includes the following terms:

27.5.1. FLC will be reimbursed for the Subdivision Costs and out-of-pocket costs associated with the Access Road (collectively, the "FLC Costs")). The Monitor notes that the District Committee has approved the set-off of the FLC Costs up to a maximum of $750,000 and that FLC has currently provided acceptable back-up documentation for approximately $654,000 of the FLC Costs. As set-out in the Sherban Affidavit, FLC is seeking reimbursement for approximately $64,000 in additional costs (the "Additional Costs"). FLC has not yet provided satisfactory documentation supporting the Additional Costs. Should the reimbursement of the Additional Costs fall within the agreed upon scope and be approved by the District Committee, the total FLC Costs will be $718,000, which is within the limit originally approved by the District Committee;

27.5.2. The FLC Sale Proceeds net of the FLC Costs will be split with approximately 25.64% being paid to FLC and 74.36% being paid to the District (the "FLC Split");

27.5.3. The Remaining FLC Lands will be transferred to the District and the future net sale proceeds from the Remaining FLC Lands will be split between FLC and the District according to the FLC Split;

27.5.4. In addition to Court approval, the FLC Settlement is subject to approval by the City of Calgary for the assumption of the Access Road Agreement, which the District anticipates will be provided in advance of the October 25 Application.

28. The Monitor currently anticipates that the FLC Settlement will generate approximately $2.0 million from the FLC Sale Lands for the District.

29. The Monitor, as well as the District Committee support the FLC Settlement on the basis that it appears fair and reasonable given the various agreements, supporting documentation, and the history between FLC and the District (as was detailed in the Twenty-Ninth Report).

30. Subject to Court approval of the Assumption Agreement, the Remaining FLC Lands will be listed for sale with the net sale proceeds to be paid according to the FLC Split.

Conclusion

31. The Monitor is supportive of the Stay Applications for the reasons set out herein.

32. The Monitor is supportive of the District Plan Application for the following reasons:

    32.1. The Amendments are minor in nature and serve to clarify the original intention and purpose of the District Plan;

    32.2. There is no prejudice to any party as a result of the Amendments; and

    32.3. The District Committee supports the District Plan Application.

33. Finally, the Monitor, as well as the District Committee, support the FLC Settlement on the basis that it appears fair and reasonable given the various agreements, supporting documentation, and the history between FLC and the District.

DELOITTE RESTRUCTURING INC.,
In its capacity as Court-appointed Monitor of The Lutheran Church – Canada, The Alberta – British Columbia District, Encharis Community Housing and Services, Encharis Management and Support Services and The Lutheran Church – Canada, The Alberta – British Columbia District Investments Ltd. and not in its personal or corporate capacity

Vanessa Allen, B. Comm, CIRP, LIT
Senior Vice-President