

March 28, 2016

## **Answers to frequently asked questions**

**For depositors to Lutheran Church – Canada, the Alberta – British Columbia District (the “District”)**

**Re: The new company (“NewCo”) to be formed pursuant to the District’s plan of compromise and arrangement (the “District Plan”)**

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Pursuant to the District Plan, Eligible Affected Creditors with claims over \$5,000, who reside within Canada, will receive a distribution in the form of shares in NewCo (the “NewCo Shares”). The Monitor has prepared this document to answer questions that may be posed by District Depositors related to NewCo and the NewCo Shares. Terms not defined in this document are as defined in the District Plan and in the Monitor’s First Report to the Creditors of the District dated March 28, 2016 (the “Monitor’s Report”).

### **1. What does it mean to be a shareholder of NewCo?**

*Eligible Affected Creditors who receive shares in NewCo will become owners of NewCo. The NewCo Shares will be issued representing that ownership interest.*

### **2. What is the advantage of the Convenience Payment for Eligible Affected Creditors with claims over \$5,000?**

*The Convenience Payment limits the number of Newco Shareholders providing Newco with a more manageable corporate governance structure. It also allows the potential for an improved recovery over time for those Eligible Affected Creditors who receive NewCo Shares depending on the mandate that is ultimately chosen for NewCo and NewCo’s ongoing operating results.*

### **3. Why not sell the Prince of Peace Properties instead of creating NewCo?**

*Should the Prince of Peace Properties be sold in the short-term, the sale proceeds may be negatively affected by the following:*

- The current condition of the Alberta real estate market, which is reflecting reductions in property values in most areas of the commercial market;*

- *The fact that the Prince of Peace Properties are not fully subdivided; and*
- *The fact that the entities selling the Prince of Peace Properties are subject to ongoing insolvency proceedings and, as such, may be viewed by potential purchasers as “needing” to sell the Prince of Peace Properties in the short-term, which could potentially lead to lower sale prices than could otherwise be obtained.*

*The creation of NewCo provides the NewCo Shareholders with options, which are anticipated to allow for an increased recovery as compared to a short-term liquidation. This may include the expansion of the Harbour and Manor seniors’ care facilities, the subdivision and orderly liquidation of all or a portion of the NewCo Assets, a joint venture to further develop the NewCo Assets or other options*

#### **4. Why doesn’t the District Plan offer me a choice as to whether I will receive NewCo Shares or not?**

*As previously communicated, it was originally contemplated that the Eligible Affected Creditors may be offered a choice under the District Plan as to whether they wished to receive NewCo Shares or a discounted cash distribution. Following consultation between the District, the CRO, the Monitor and the creditors’ committee established for the District (the “District Committee”), the District Plan was changed such that all Eligible Affected Creditors with claims over \$5,000 who reside within Canada would receive the Convenience Payment and then participate in pro-rata distributions of cash and NewCo Shares. The reasons for this change were as follows:*

- *The desire to have all Eligible Affected Creditors with substantive investments receive both cash and NewCo Shares and to be eligible to benefit from any increase in the value of the NewCo Shares over time.*
- *As set out in the Monitor’s Report, once formed NewCo will hold a shareholders’ meeting within six months, at which time the NewCo Shareholders may vote on their preferred mandate for NewCo, which could include the expansion of the Harbour and Manor seniors’ care facilities, the subdivision and orderly liquidation of all or a portion of the NewCo Assets, a joint venture to further develop the NewCo Assets or other options (the “NewCo Shareholder Meeting”). As such, Eligible Affected Creditors will be able to vote, based on information prepared by a professional management team, on their preferred mandate for NewCo.*
- *The desire to provide District Depositors with a more simplified version of the District Plan, which provides greater certainty as to the anticipated recoveries*

*under the District Plan than could have been provided in the event that the District Plan included options.*

## **5. What will NewCo's board of directors and management team look like?**

*The CRO has established an initial board of directors and management team, which is further set out in the NewCo Summary Presentation prepared by the CRO and attached as "Schedule 4" to the Monitor's Report.*

*As proposed by the District Committee, NewCo's bylaws will include a clause reflecting that at least 50% of the NewCo Board must be comprised of District Depositors or their nominees. Although NewCo is being created with the purpose of allowing the NewCo Assets to be placed in the hands of a professional management team with appropriate business and real estate expertise, the District Committee wanted to ensure that Eligible Affected Creditors would have representation equal to that of the professional management team on the NewCo Board. The CRO has indicated that they have made arrangements for the positions to be held by District Depositors or their nominees to be filled initially by Elmer Ray, Sandra Jory (also a member of the District Committee) and Stephen Nielson.*

*NewCo Management is anticipated to include Scott McCorquodale who has over 20 years of commercial real estate experience, Monica Kohlhammer who has over 25 years of experience in board governance, strategic planning, evaluation and administration in both the public and private sector, and Tony Chin, who has expertise in accounting, tax and financing for private companies. Both Scott McCorquodale and Monica Kohlhammer will also hold positions on the NewCo Board.*

*The third independent member of the NewCo Board is anticipated to be Lisa Van Hermert, who is currently the Vice President of Canadian Operations with Global Partners LP, a midstream logistics and marketing company and has an extensive business background.*

*The NewCo Board and NewCo Management may be subject to change subject to District Committee approval.*

## **6. What do I need to do and what rights do I have as a NewCo Shareholder?**

*You will receive your pro-rata share of the NewCo Shares as set out in the District Plan. As stated above, these shares represent your ownership interest in NewCo. As a shareholder you have rights, which include the following:*

- *The right to access information regarding NewCo, including the NewCo Articles;*

- *The right to attend meetings, such as the NewCo Shareholder Meeting, which is to be held no later than six months following the District Plan taking effect. The NewCo Shareholder Meeting will allow you an opportunity to hear from NewCo Management as to their views of the proposed mandates available to NewCo; and*
- *The right to vote, such as at the NewCo Shareholder Meeting, where you can vote on the preferred mandate for NewCo.*

*You should attend and vote at the NewCo Shareholder Meeting, which will determine the preferred mandate for NewCo. Following the NewCo Shareholder Meeting, you may have ongoing involvement in future shareholder meetings that are held for NewCo.*

### **7. Do the NewCo Shares have value?**

*Yes, the NewCo Assets are being transferred to NewCo free and clear (i.e. without any corresponding debt). The Prince of Peace Properties have been the subject of recent third-party appraisals. The value of the NewCo Shares is anticipated to be based on the third party appraisals of the Prince of Peace Properties and the estimated value of the other assets held by ECHS and EMSS. The Monitor currently estimates that Eligible Affected Creditors will receive NewCo Shares valued at between 53% and 60% of their proven claim after deducting the Convenience Payment. As detailed in the Monitor's Report, the valuation of the NewCo Shares will also be subject to review by a third party firm and, as such, is subject to change.*

*The Monitor notes that the Prince of Peace Properties, and in particular the Harbour and Manor seniors' care facilities, are considered to be desirable real estate properties.*

### **8. What if I want to sell my NewCo Shares?**

*The NewCo Shares will likely have limited liquidity upon being issued (i.e. you may have a limited ability to sell them); however, this liquidity may improve over time depending on the mandate established for NewCo and NewCo's operating results. All sales of NewCo Shares will be subject to the approval of the NewCo Board and trading restrictions under applicable securities legislation, which contain limitations on who can purchase shares. As such, the sale of NewCo Shares would be subject to the seller finding a suitable and willing purchaser who was eligible to purchase shares under applicable securities legislation.*

### **9. If I don't sell my NewCo Shares, how can I receive money from my NewCo Shares?**

*As NewCo Shareholders, Eligible Affected Creditors may receive cash recoveries over time, through mechanisms that may include the following:*

- *Should NewCo's operations be profitable, dividends may be paid to NewCo Shareholders. For greater clarity, this represents money paid to the NewCo Shareholders from NewCo's profits; and*
- *A pro-rata portion of the NewCo Shares may be redeemed upon the sale of any portion of the NewCo Assets that generates net sale proceeds of over \$5.0 million subject to NewCo meeting the solvency test.*

#### **10. What risks are associated with being a NewCo Shareholder?**

*As detailed in the Monitor's Report, the NewCo Shares are an investment and all investments are subject to various risk factors. Should any of these risks actually occur, NewCo's business, operating results, financial conditions or the value of the NewCo Assets could be adversely affected. In that event the value of the NewCo Shares could decline and Eligible Affected Creditors could lose part or all of their investment in NewCo. Additional risks and uncertainties presently unknown to the Monitor may also have a material effect on NewCo's business, operating results, financial condition or the value of the NewCo Assets and could negatively affect the value of the NewCo Shares.*

*NewCo is also subject to general business risks, which are detailed in the Monitor's Report.*

#### **11. What protections are afforded to me as a NewCo Shareholder?**

*As detailed in the Monitor's Report, following negotiations between the District, the District Committee and the Monitor, the bylaws and articles of incorporation for NewCo (the "NewCo Articles") were created and are attached as "Schedule E" to the District Plan. The NewCo Articles can only be amended upon a resolution being approved by two-thirds of the NewCo Shareholders who are voting on the resolution (a special resolution). The NewCo Articles have been created including the following provisions, which are intended to provide additional protection for the NewCo Shareholders:*

- *NewCo cannot incur indebtedness for more than 10% of the net value of the NewCo Assets, subject to an amendment by a special resolution of the NewCo Shareholders;*
- *A redemption of a pro-rata portion of the NewCo Shares would be allowed upon the sale of any portion of the NewCo Assets that generates net sale proceeds of over \$5.0 million, subject to NewCo meeting the solvency test;*
- *NewCo would establish a secure database whereby NewCo Shareholders wishing to sell their shares to other existing NewCo Shareholders can disclose that they wish to sell their shares subject to restrictions under applicable securities*

legislation. For clarity, any transfer of NewCo Shares is subject to NewCo Board approval;

- The NewCo Shareholder Meeting would be called no later than six months following the effective date of the District Plan for the purpose of having NewCo Shareholders vote on a proposed mandate for NewCo; and
- To provide dissent rights to minority NewCo Shareholders.

## **12. How can I calculate my anticipated recovery under the District Plan?**

*Eligible Affected Creditors with claims over \$5,000 who reside within Canada can anticipate receiving the following:*

- *The Convenience Payment;*
- *A cash distribution, which is currently estimated to total between 15% and 20% of your remaining proven claim after deducting the Convenience Payment; and*
- *A distribution of NewCo Shares, which is currently estimated to be valued at between 53% and 60% of your remaining proven claim after deducting the Convenience Payment.*

*For example, if you have a proven claim of \$10,000, you can calculate your anticipated recovery under the District Plan as follows:*

- *You will receive \$5,000 after which you will have a remaining proven claim of \$5,000;*
- *You will receive between 15% and 20% of your remaining proven claim of \$5,000 being between \$750 and \$1,000; and*
- *You will receive NewCo Shares, which are currently estimated to be valued at between 53% and 60% of your remaining proven claim of \$5,000 i.e. valued at between \$2,650 and \$3,000.*

*Distributions will be net of payments pursuant to the Emergency Fund.*

Should you have additional questions, please contact the undersigned by telephone at 1-403-298-5955 or via email at [vanallen@deloitte.ca](mailto:vanallen@deloitte.ca)

Yours truly,

**DELOITTE RESTRUCTURING INC.**

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



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