



COURT FILE NUMBER 1501-00955

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

DOCUMENT THIRD 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 June 16, 2015

**ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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Introduction and Notice to Reader

Introduction

1. On January 23, 2015, Lutheran Church – Canada, the Alberta – British Columbia District (the “District”), Encharis Community Housing and Services (“ECHS”), Encharis Management and Support Services and Lutheran Church – Canada, the Alberta – British Columbia District Investments Ltd. (“DIL”, collectively the “Applicants” or the “District Group”) obtained an Initial Order from the Court of Queen’s Bench of Alberta (the “Court”) for an Order (the “Initial Order”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”). Deloitte Restructuring Inc. (“Deloitte”) was appointed as Monitor (the “Monitor”) in the CCAA proceedings.
2. The Initial Order provided for an initial stay of proceedings (the “Stay”) until February 20, 2015. The Court has now granted two extensions of the stay of proceedings with the most recent Order being granted on March 27, 2015 (the “March 27 Hearing”), which extended the Stay until June 26, 2015 (the “Extension”).
3. 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 filed the First Report of the Monitor dated February 17, 2015 (the “First Report”) and the second report of the Monitor dated March 23, 2015 (the “Second Report”). The Monitor also filed a confidential supplement to the Second Report dated March 25, 2015 (the “Confidential Supplement”), which was provided to the Court in advance of the March 27 Hearing. The Confidential Supplement provided the Court with additional detail with respect to the District Group’s application for approval of the sale of four parcels of land referred to in the Second Report as the Chestermere Lands, the St. Albert Lands, the Faith Lands and the Village Condo (collectively the “Sale Lands”). The Confidential Supplement was sealed by the Court in order to avoid tainting any future sale process that may be required should any of the transactions involving the Sale Lands fail to be completed.
4. The Pre-Filing Report, the First Report, the Second Report and the Confidential Supplement will collectively be referred to as the “Reports”. Capitalized terms not otherwise defined herein have the meanings given to them in the Reports.
5. The Reports and other information on the CCAA proceedings can be accessed on Deloitte’s website at www.insolvencies.deloitte.ca under the link entitled “Lutheran Church – Canada, the Alberta – British Columbia District et. al.”

Notice to Reader

6. 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, interested parties and stakeholders. The Monitor has not performed an independent review or audit of the information provided.
7. 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.
8. All amounts included herein are in Canadian dollars unless otherwise stated.

Background

9. The activities of both the Monitor and the Applicants leading up to the March 27 Hearing are detailed in the Reports.
10. At the March 27 Hearing, the Court granted Orders, which included the following relief:
 - 10.1. Approving the Extension;
 - 10.2. Appointing Kluane Financial Services Inc. as the chief restructuring officer (the “CRO”) for the District and DIL, approving the terms of engagement of the CRO, and extending the Directors’ and Officers’ indemnification and charge and the administration charge (the “Administrative Charge”) granted in the Initial Order to the CRO;
 - 10.3. Approving the transactions involving the Sale Lands, save and except for the following issues:
 - 10.3.1. The realtor commission payable for the Faith Lands, which is being held in trust pending further Order of the Court; and
 - 10.3.2. A portion of the realtor commission payable for the Chestermere Lands, which is being held in trust pending further Order of the Court.
 - 10.4. Subject to the approval of the District’s creditors’ committee, upon receiving a request from a pastor or church worker, the Court authorized the District to set off funds respecting that pastor or church worker in the mileage reserve fund against the car loan owed by that pastor or church worker to the District; and
 - 10.5. Sealing the confidential affidavit of Mr. Kurtis Robinson which was provided to the Court in advance of the March 27 Hearing to provide additional information related to the transactions involving the Sale Lands.
11. The following applications to be heard at the March 27 Hearing were adjourned to the next scheduled Court application to be heard on June 26, 2015 (the “June 26 Hearing”):
 - 11.1. Confirming that legal costs incurred by the Applicants in dealing with the Alberta Securities Commission and the British Columbia Securities Commission are included as part of the Administrative Charge;
 - 11.2. Authorizing the District to make payment of a portion of the mission remittances received by the District to the Lutheran Church – Canada; and

- 11.3. Authorizing the future sale of lands owned by ECHS within the Prince of Peace Development which are subject to life leases in the event that the life lease resident were to terminate or surrender their interest in the life lease.
12. Prior to the June 26 Hearing, the Monitor will be filing a further report including a fulsome update on the District Group's activities since the March 27 Hearing and the Applicant's ongoing restructuring efforts.
13. This report represents the Third Report of the Monitor (the "Third Report"). The Third Report is being filed in order to provide the Court with additional information in respect of an application by Mr. Randy Kellen to be heard on June 18, 2015 (the "Kellen Application") seeking the following relief:
 - 13.1. Lifting the Stay as against the officers and directors of the Applicants in order to permit the commencement of proceedings as against them for alleged breaches of fiduciary duties and negligence in the performance of their duties to Randy Kellen and other investors, depositors (the "Depositors") and creditors of the Applicants; and
 - 13.2. Varying paragraph 46 of the Initial Order to disclose the contact information of the investors and creditors of the Applicants.

The Kellen Application

14. The Monitor has reviewed the material related to the Kellen Application, including the application and the affidavit of Randy Kellen, both filed on May 21, 2015.
15. The Monitor has requested but has not yet received the following additional information from Mr. Kellen's legal counsel:
 - 15.1. A final copy of the intended Statement of Claim (the "Statement of Claim") Mr. Kellen wishes to file so that the Monitor may consider and advise the Court and stakeholders in relation to the nature and extent of the claims being advanced by Mr. Kellen (the "Kellen Claims"); and
 - 15.2. Clarification as to the specific parties against whom Mr. Kellen wishes to lift the Stay and the other parties against whom Mr. Kellen intends to advance the Kellen Claims.
16. The Monitor does not support the Kellen Application at this time, based on the following:
 - 16.1. The Monitor is unable to consider the full extent and nature of the Kellen Claims because it has not yet been provided with a complete Statement of Claim clearly naming the parties against whom relief will be sought. Without this information, the Monitor is unable to:
 - 16.1.1. Determine the complete extent to which the subject matter of the Kellen Claims may be subject to compromise within the CCAA proceedings. To the extent that the Kellen Claims (in whole or in part) are subject to compromise under the CCAA, the Monitor is of the view that the Stay should not be lifted in relation to such claims in order to allow the Applicants the time necessary to address such matters in their plans of arrangement (the "Plans"). The Applicants, with the assistance of the CRO and in cooperation with the Monitor, are actively working towards formulating the Plans;
 - 16.1.2. Fully assess the impact of the Kellen Application on the CCAA proceedings and on the Applicants' ability to restructure. If the Kellen Claims are against individuals who continue to be employed by the District and are currently assisting in the ongoing operations of the District Group and the formulation of the Plans, this could negatively impact the Applicant's restructuring efforts by forcing those parties to redirect their attention to defending themselves against the Kellen Claims. It is unclear at this time whether the CRO would have the capacity to assume any additional duties from such individuals.
 - 16.2. Further to the Court Order granted on February 20, 2015, creditors' committees have been appointed for each of the District and DIL (the "Committees") and representative legal

counsel have been chosen for each of the Committees. Should statements of claim need to be filed to preserve limitation periods related to the Kellen Claims, it may be more appropriate and efficient for these statements of claim to be filed by the Committees on behalf of all Depositors. The Committees serve in a fiduciary capacity to all creditors, and their mandate is to maximize the amount of money that is available for distribution to creditors.

- 16.3. The Monitor is not aware of any prejudice that Mr. Kellen would suffer in the event that the Kellen Application is not granted at this time. Pursuant to paragraph 21 of the Initial Order, parties may take action where such action must be taken in order to comply with statutory time limitations in order to preserve their rights at law, provided that no further steps are taken, except in accordance with the provisions of the Initial Order and upon Notice to the Monitor. In the circumstances, Mr. Kellen is therefore permitted to file a Statement of Claim in the event that it is required to preserve a limitation period. Further, the Monitor is not aware of any urgency in relation to the prosecution of the Kellen Claims that would require that the Stay be lifted at this time.
- 16.4. The Monitor has had discussions with representative counsel for each of the Committees and understands that they are reviewing the potential claims against the current and former directors and officers of the District Group and that they may recommend, among various other options, an approach of negotiating with the Applicant's existing provider of directors' and officers' insurance. This may provide additional recovery to Depositors pursuant to the Plans. Should the Kellen Application be approved, it may impact their ability to undertake such negotiations.
- 16.5. The Monitor is concerned that, should the Kellen Application be granted, it may cause additional confusion for Depositors, the majority of whom are seniors. Many Depositors have already expressed to the Monitor that they find the CCAA proceedings overwhelming. Should paragraph 46 of the Initial Order be varied such that the contact information of Depositors is disclosed and should Mr. Kellen or class action counsel issue correspondence to the Depositors, some Depositors may have difficulty distinguishing between the Kellen Application and the CCAA proceedings. The prosecution of the Kellen Claim while the CCAA Proceedings are ongoing could negatively impact the ability of both the Applicants and the Monitor to communicate with Depositors and advance the Plans.

Conclusion

17. The Monitor believes that the Kellen Application should be adjourned pending the following:
 - 17.1. The provision of further information as to the nature and extent of the Kellen Claims and as to the specific parties against whom Mr. Kellen wishes to lift the stay and the other parties against whom relief is being requested; and
 - 17.2. The Applicants having filed the Plans and meetings of creditors having been held in the CCAA proceedings to consider the Plans.

DELOITTE RESTRUCTURING INC.,
In its capacity as proposed 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



Jeff Keeble CA, CIRP, CBV
Senior Vice-President