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CALGARY

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JUDICIAL CENTRE
OF CALGARY

IN THE MATTER OF THE COMPANIES' CREDITORS' ARRANGEMENT ACT, RSC 1985, c-36, AS AMENDED AND IN THE MATTER OF UBG BUILDERS INC., ALBERTA BUILDERS CAPITAL INC., ALPINE HOMES (2006) INC., AMERICAN BUILDERS CAPITAL (US) INC., EGewater AT GRIESBACH INC., ELITE HOMES (2006) LTD., EVOLUTION BY GREENBORO INC., GREENBORO COMMUNITIES (2006) INC., GREENBORO ESTATE HOMES (2006) LTD., GREENBORO HOMES (2006) LTD., GREENBORO LUXURY HOMES INC., HIGH POINTE INC., MOUNTAINEERS VILLAGE (2006) INC., MOUNTAINEERS VILLAGE II INC., ORIGINS AT CRANSTON INC., SOUTH TERWILLEGAR VILLAGE INC., THE BRIDGES MANAGEMENT INC., THE LEDGES INC., TIMBERLINE LODGES (2006) INC., TODAY'S COMMUNITIES (2006) INC., TODAY'S HOMES (2006) INC., TUSCANY DEVELOPMENTS (2006) INC., UBG ALBERTA BUILDERS (2006) INC., UBG ALPINE HOMES (2006) LTD., UBG BRIDGES INC., UBG BUILDERS (USA) INC., UBG COMMERCIAL INC., UBG LAND INC., UBG LOT DEPOSIT CORP., UBG 4500 CALGARY INC., UBG 75 CANMORE INC., UBG 808 CALGARY INC., UNITY INVESTMENTS (2012) INC., VALMONT AT ASPEN STONE INC., VALOUR PARK AT CURRIE INC., VILLAGE AT THE HAMPTONS INC., VILLAGE ON THE PARK INC., WILDERNESS HOMES BY RIVERDALE INC., WILDERNESS RIDGE AT STEWART CREEK INC. (COLLECTIVELY, THE "UBG GROUP OF COMPANIES")

DOCUMENT

SIXTH REPORT OF ERNST & YOUNG INC. AS CCAA MONITOR OF THE UBG GROUP OF COMPANIES

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INTRODUCTION

1. On May 9, 2012, the Court of Queen's Bench of Alberta ("Court") issued an order ("Initial Order") granting the UBG Group of Companies ("UBG" or the "Company") protection pursuant to the *Companies' Creditors Arrangement Act* ("CCAA") (the "CCAA Proceedings"). Ernst & Young Inc. ("EY") was appointed monitor ("Monitor") under the Initial Order.
2. Pursuant to a Court Order made on September 14, 2012, the stay of proceedings under the Initial Order was extended to December 14, 2012.
3. The Company has made applications to this Honourable Court on July 10, August 20 and September 14, 2012 and Court Orders were granted approving Protocol Agreements ("Protocols") between the Company and; Alberta Treasury Branches ("ATB"), The Bank of Nova Scotia ("Scotiabank"), ICI Capital Corporation ("ICI"), The Toronto-Dominion Bank ("TD") and Sterling Bridge Mortgage Corp. ("Sterling Bridge").
4. The primary purposes of the CCAA Proceedings are to protect UBG's business and operations, to allow UBG an opportunity to realize value from its construction and development projects and to facilitate a restructuring of its credit facilities, all under a court-supervised process.
5. Capitalized terms not defined in this Sixth Report are as defined in all orders and/or Monitor's Reports previously issued in respect of these CCAA Proceedings.

Purpose of this Report

6. The purpose of this report (the "Sixth Report") is to:
 - a) Provide a status update on certain of the Company's activities;
 - b) Summarize the proposed terms of the memorandum of understanding with Canadian Western Bank ("CWB") in respect of Valour Park at Currie Limited Partnership (the "Valour Park Project") such that the Valour Park Project can proceed (the "CWB Protocol"); and
 - c) Respectfully recommend that this Honourable Court make an order approving:
 - i. the interim financing arrangements in respect of the CWB Protocol; and
 - ii. the Signature Order (as defined below) in respect of the Valour Park Project condominium plan.

Terms of Reference

7. In developing this Report, the Monitor has relied upon unaudited financial information prepared by the Company's management, the Company's books and records and discussions with its management. The Monitor has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future-oriented financial information

relied upon in this Report is based on management's assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material, and as such the Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Monitor in preparing this Report.

Currency

8. Unless otherwise noted, all currency references in this Sixth Report are in Canadian dollars.

BACKGROUND

Overview

9. UBG is a real estate development group overseeing various homebuilder companies. UBG is involved in residential and commercial real estate development in Alberta, and real estate investment through its investment arms.
10. More detailed background information including a description of the corporate structure and an extensive summary of the divisions and projects within UBG can be found in the May 8, 2012 affidavit of Robert Friesen (the "May 8th Friesen Affidavit") and the Monitor's Second and Fifth Reports.

COMPANY'S ACTIVITIES

11. The Company continues to focus on stabilizing its operations and to address numerous issues in respect of each of its single family and multi-family projects. Those efforts include:
 - a) Continuing to market all projects (excluding UBG USA). In that regard, UBG, has accepted more than 100 offers on existing or under-construction Residential Units since the date of the Initial Order;
 - b) Continuing to close sales of Residential Units;
 - c) Ongoing meetings with certain Company lenders and land developers;
 - d) Holding investor calls and meetings;
 - e) Working closely with the Monitor on numerous matters and developing and updating financial analyses and cash flows in respect of each of its various projects;
 - f) Implemented with the assistance of the Monitor, Protocols with ATB, Scotiabank, ICI, TD and Sterling Bridge (as detailed in the Monitor's prior Reports);
 - g) Implemented the Keswick Agreement;
 - h) Working with stakeholders in various Canmore projects to facilitate an orderly withdrawal from that marketplace;

- i) Negotiated and agreed to financing arrangements and a Protocol with CWB in respect of Valour Park;
- j) Closed the sale of the Ledges Project;
- k) Continued to work with the Monitor in respect of the Claims Process and the Reverse Claims Process;
- l) Worked with its advisors regarding the development of emergence strategies and meetings with various potential strategic partners; and
- m) Continuing to work with its Trade supplies to operate in a business as usual environment in the context of these CCAA Proceedings.

FUNDING PROTOCOL

Canadian Western Bank

- 12. CWB currently provides funding on the Valour Park Project. The Valour Park Project is a three phase multi-family development located in the Currie Barracks area of Calgary. Phase 1 and 2 comprise a total of 24 units. Phase 1 comprises 9 units of which 8 have been pre-sold. The 9 units were under construction up to May 9, 2012. Phase 2 comprises 15 town homes of which 8 have been pre-sold. Construction on this phase has not yet commenced. The lands for Phase 3 have not yet been purchased from the developer.
- 13. Further details in respect of the Valour Park Project are contained in the May 8th Friesen Affidavit and in the Monitor's Second and Fifth Reports.
- 14. The Valour Park Project is financed as follows:
 - a) CWB made available a \$10 million conventional first mortgage construction financing loan. Approximately \$6,600,000 has been committed on Phase 1; and
 - b) An advance from Unity Investments of \$4.5 million all of which is outstanding.
- 15. UBG attempted to obtain new financing from a replacement lender but was unsuccessful. A detailed financial review of the Valour Park Project was undertaken in conjunction with trying to obtain new financing. Such financial review indicated that the Valour Park Project as originally planned was not viable. Costs to build the Valour Park Project were significantly underestimated such that the sales prices of the condominiums sold were less than the costs to build them.
- 16. UBG has developed a new budget. In order to make the Valour Park Project economic for the benefit of CWB, Unity Investments and the Trades, the Valour Park Project will have to be built under a much different pricing structure. The pre-sales agreements in place with the current purchasers will either have to be renegotiated for a higher sales price or new purchasers located, and the existing pre-sales contracts being either rescinded or disclaimed.
- 17. With respect to the deposits provided under the pre-sales contracts, a significant portion of those deposits were used by UBG. Consequently, if a purchaser is not prepared to renegotiate their

contract, there are insufficient funds held to fully refund the deposit. If a pre-sales contract can be renegotiated then there is no need to return the deposit.

18. UBG's plan for those purchasers who refuse to renegotiate their pre-sales contract, will be to disclaim those contracts and address the refund of the related deposit either through the deposit provided pursuant to the new sales of units or in the plan of arrangement or compromise in connection with Valour Park.
19. UBG has been in discussions with the Monitor and CWB regarding the continued financing, development and sales in respect of Phase 1 of the Valour Park Project. The discussions have resulted in an interim financing agreement and the CWB Protocol between Valour Park and CWB which will provide for, among other things, funding for construction completion of Phase 1.
20. The CWB Protocol is intended to achieve the following:
 - a) CWB would be provided with a charge in its favour ranking in priority to the Administration Charge and the Directors' Charge (all defined in the Initial Order) on Phase 1 of the Valour Park at Currie Barracks' assets for all advances; and
 - b) Establish a mechanism to i) fund and complete construction of homes under construction albeit pursuant to a revised budget and pricing structure; ii) pay Trades amounts owed to them for materials and services provided prior to and subsequent to May 9, 2012 (with such prior to May 9, 2012 trade amounts claimed subject to being proved in accordance with the Claims Procedure Order); and iii) repay the secured indebtedness to CWB on as timely a basis as possible.
21. The CWB Protocol, which remains subject to Court approval, was executed on October 4, 2012. A copy of the CWB Protocol is attached to the October 12, 2012 affidavit of Robert Friesen filed in these CCAA Proceedings.
22. CWB is aware of the current economics of the project, the new pricing structure, the need for either renegotiating or disclaiming the pre-sales contracts and how deposits on new sales will be treated.
23. The Monitor is aware that some purchasers are taking the position that as they entered into a pre-sales contract with the Company their pre-sales contract should not be renegotiated and that UBG must build and deliver their homes pursuant to the pre-sales contract. Clearly, based on the current economics of the project, UBG is not in a position to obtain financing, build Valour Park and deliver homes as agreed. Either renegotiating or disclaiming the pre-sales contracts is required or the project will likely never be built by UBG and several stakeholders will experience significant losses.
24. The Monitor is in support of the CWB Protocol (and the re-pricing strategy to be undertaken by UBG) and respectfully recommends that this Honourable Court make an order approving the CWB Protocol for the following reasons:
 - a) Homes in Phase 1 of the Valour Park Project can be completed so that recoveries can be maximized;

- b) Trades will be confident that they will be paid for materials and services provided on an ongoing basis;
 - c) A mechanism has been established to pay amounts owed to Trades pre May 9, 2012 (subject to proven claims pursuant to the Claims Procedure Order);
 - d) Other lenders and stakeholders who have no involvement with Valour Park at Currie Barracks Project will not be prejudiced; and
 - e) UBG has developed a process such that if purchasers do not want to renegotiate their pre-sales contracts their deposits will be addressed in full.
25. As part of the development of Phase 1 of the Valour Park Project, it is necessary for Valour Park to register a condominium plan against title to the lands (the "Plan") on a timely basis so that continued development of the Valour Park Project is not negatively impacted.
26. The Monitor understands that certain sections of the *Land Titles Act*. (Alberta) (the "LTA") require that prior to registering the Plan it must be signed by those parties having an interest registered against the lands. The Monitor further understands that the LTA provides that where signatures of those parties having an interest registered against the lands cannot be obtained, an application may be made to the Court for an order dispensing with the signature(s) on any terms and conditions this Honourable Court may impose on the applicant.
27. Title to the Phase 1 lands indicates that at least 12 signatures (as a result of liens being filed against the lands) from various encumbrancers would be required to comply with the LTA. It is unlikely that UBG would be able to obtain the 12 signatures on a timely and cost effective basis or at all given the nature of the encumbrances registered on title. Accordingly, the Company is seeking an order from this Honourable Court dispensing with UBG's requirement to obtain 12 signatures so that the Plan can be registered (the "Signature Order").
28. The Monitor supports UBG's application for the Signature Order dispensing with the signature requirement in order to register the Plan, as all existing encumbrances will not be prejudiced as they will survive the registration of the Plan. Moreover, timely registration of the Plan such that funds can flow and Trades can be paid will enhance the recovery for all stakeholders.

MONITOR'S ACTIVITES

29. In addition to the activities referenced in this Report, the Monitor's activities since the Fifth Report include:
- a) Continuing its review of the Company's financial information;
 - b) Preparing detailed financial analyses of the Company's Projects;
 - c) Meeting with and corresponding with the Company's lenders;
 - d) Reviewing the Company's cash flow;
 - e) Preparation, review, execution and Court approval of funding Protocols;
 - f) Regular communications with creditors and stakeholders;

- g) Administration of the claims process and the reverse claims process;
- h) Participating in calls and meetings with the Unity Investors;
- i) Posting documents filed in these proceedings on its website;
- j) Corresponding with Fraser Milner Casgrain LLP, the Company's legal counsel and Bennett Jones LLP, the Monitor's legal counsel;
- k) Assisting the Company in all of the activities noted above; and
- l) Preparing this Report.

CONCLUSION AND RECOMMENDATION

30. The Monitor supports the Company's request for the relief detailed in this Report for the following reasons:
- a) The Company is acting in good faith and with due diligence in its restructuring efforts; and
 - b) The CWB Protocol will enable construction to continue on Phase 1 of the Valour Park Project.
31. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make an order granting the relief set out in Paragraph 6 c) of this Report.

* * *

All of which is respectfully submitted this 15th day of October 2012.

**ERNST & YOUNG INC.
IN ITS CAPACITY AS CCAA MONITOR OF
THE UBG GROUP OF COMPANIES
AND NOT IN ITS PERSONAL CAPACITY**

Per: _____

Robert J. Taylor, CA, CIRP