

COURT FILE NUMBER 1001-07852
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY

Clerk's Stamp

APPLICANTS **IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED AND *THE JUDICATURE ACT*, R.S.A. 2000, c. J-2, AS AMENDED MEDICAN HOLDINGS LTD., MEDICAN DEVELOPMENTS INC., R7 INVESTMENTS LTD., MEDICAN CONSTRUCTION LTD., MEDICAN CONCRETE INC., 1090772 ALBERTA LTD., 1144233 ALBERTA LTD., 1344241 ALBERTA LTD., 9150-3755 QUEBEC INC., AXCESS (GRANDE PRAIRIE) DEVELOPMENTS LTD., AXCESS (SYLVAN LAKE) DEVELOPMENTS LTD., CANVAS (CALGARY) DEVELOPMENTS LTD., ELEMENTS (GRANDE PRAIRIE) DEVELOPMENTS LTD., HOMES BY KINGSLAND LTD., LAKE COUNTRY (SITARA) DEVELOPMENTS LTD., MEDICAN (EDMONTON TERWILLEGAR) DEVELOPMENTS LTD., MEDICAN (GRANDE PRAIRIE) HOLDINGS LTD., MEDICAN (KELOWNA MOVE) DEVELOPMENTS LTD., MEDICAN (LETHBRIDGE – FAIRMONT PARK) DEVELOPMENTS LTD., MEDICAN (RED DEER – MICHENER HILL) DEVELOPMENTS LTD., MEDICAN (SYLVAN LAKE) DEVELOPMENTS LTD., MEDICAN (WESTBANK) DEVELOPMENT LTD., MEDICAN (WESTBANK) LAND LTD., MEDICAN CONCRETE FORMING LTD., MEDICAN DEVELOPMENTS (MEDICINE HAT SOUTHWEST) INC., MEDICAN ENTERPRISES INC. / LES ENTREPRISES MEDICAN INC., MEDICAN EQUIPMENT LTD., MEDICAN FRAMING LTD., MEDICAN GENERAL CONTRACTORS LTD., MEDICAN GENERAL CONTRACTORS 2010 LTD., RIVERSTONE (MEDICINE HAT) DEVELOPMENTS LTD., SANDERSON OF FISH CREEK (CALGARY) DEVELOPMENTS LTD., SIERRAS OF EAUX CLAIRES (EDMONTON) DEVELOPMENTS LTD., SONATA RIDGE (KELOWNA) DEVELOPMENTS LTD., SYLVAN LAKE MARINA DEVELOPMENTS LTD., THE ESTATES OF VALLEYDALE DEVELOPMENTS LTD., THE LEGEND (WINNIPEG) DEVELOPMENTS LTD., and WATERCREST (SYLVAN LAKE) DEVELOPMENTS LTD. (COLLECTIVELY, "THE MEDICAN GROUP OF COMPANIES")**

DOCUMENT **TWELFTH REPORT TO THE COURT OF RSM RICHTER INC. AS CCAA MONITOR OF THE MEDICAN GROUP OF COMPANIES DATED JULY 27, 2011**

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RSM Richter

TWELFTH REPORT TO COURT OF RSM RICHTER INC. AS CCAA MONITOR OF THE MEDICAN GROUP OF COMPANIES

July 27, 2011

INTRODUCTION

1. On May 26, 2010, the Court of Queen's Bench of Alberta ("Court") issued an order ("Initial Order") granting The Medican Group of Companies ("Medican Group" or the "Company") protection pursuant to the *Companies' Creditors Arrangement Act* ("CCAA") (the "CCAA Proceedings"). RSM Richter Inc. was appointed monitor ("Monitor") under the Initial Order.
2. Pursuant to a Court order made on May 31, 2011, the stay of proceedings under the Initial Order was extended to July 28, 2011.
3. The primary purposes of the CCAA Proceedings are to protect Medican Group's business and operations, to allow Medican Group an opportunity to realize value from its construction and development projects and to facilitate a restructuring of its business, all under a Court supervised process.

Purpose of this Report

4. The purpose of this report ("Report") is to:
 - a) Advise the Court of the terms and conditions of a settlement agreement ("Settlement Agreement") between the Medican Group and 933680 Alberta Ltd. ("933"); and
 - b) Respectfully recommend that this Honourable Court grant orders:

- Approving the Settlement Agreement; and
- Approving an Offer to Purchase (the “670 Offer”) from 1554670 Alberta Ltd. (“670”) for the “Ranch Lands” owned one-half by R7 Investments Ltd. (“R7”) and one-half by Medican Construction Ltd. (“Construction”), located in south eastern Alberta and legally described as Plan 9512561, Block 1, Lot 1, and vesting in 670, at closing, title to the Ranch Lands, free and clear of all liens, charges, security interests and other encumbrances other than those as set out in the 670 Offer and directing the Registrar of Alberta Land Titles to register title to the Ranch Lands in the name of 670 or in that of its nominee.

Terms of Reference

5. 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

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

BACKGROUND

7. Medican Group is a private group of companies in the real estate construction and development business. The Company currently owns, operates and/or manages several projects in British Columbia, Alberta and Quebec (“Projects”).
8. Additional background information is included in previous materials filed with the Court in these CCAA Proceedings, including the previous reports filed by the Monitor. Materials filed with the Court can be found on the Monitor’s website at www.rsmrichter.com.

MEDICAN MODULAR (CHARTWELL MEDICINE HAT) DEVELOPMENTS LTD.

9. 933 provided five separate credit facilities to the Medican Group, one of which was used by the Company to purchase a prefabricated home development project located in Medicine Hat, Alberta, commonly known as “Chartwell” (the “Chartwell Project”). The Chartwell Project was purchased in June 2008.
10. Effective May 1, 2009 the Chartwell Project was sold to Live Well. Live Well is a wholly-owned subsidiary of 933 (the “Chartwell Transaction”).
11. Since July 2010, the Monitor and its counsel have been investigating the circumstances surrounding the purchase and sale of the Chartwell Project.
12. The Monitor has reported to the Court as the investigation has progressed and most recently advised the Court that there were several outstanding issues that needed to be resolved prior to concluding its investigation into the Chartwell Transaction.
13. It was clear, based on the investigation to date and the wide disparity in the retrospective appraised value of the Chartwell Project (the Monitor’s appraisal of \$3.5 million

compared to 933's appraisal of \$2.151 million, both from experienced appraisers) that to pursue the investigation to its conclusion would be time consuming, costly and could delay the Company's ability to advance a plan of arrangement and compromise (the "Plan") to its creditors for their consideration.

14. In an attempt to resolve the issues with the Chartwell Transaction in a more timely fashion, the Monitor and the Company proposed settlement options to 933. Through extensive negotiations, the Company and 933 have reached a Settlement Agreement, the terms and conditions of which are summarized below:

- 933 will release and discharge all claims it has against the Medican Group for the sum of \$1.0 million plus \$40,000 in respect of accruing interest and legal fees (the "Settlement Amount");
- The Settlement Amount to be paid will comprise:
 - \$700,000 from the sale of 933's security on the "Ranch House", an asset owned by 1123749 Alberta Ltd., in trust for Solid Rock Trust, neither of which is a party to the CCAA Proceedings;
 - \$300,000 from the sale of the "Ranch Lands" which are owned by R7 and Construction and upon which 933 holds a mortgage; and
 - \$40,000 from the Company's cash flows.
- Court approval by no later than July 28, 2011; and
- Closing will occur by August 15, 2011 or at such later date as set out in the Settlement Agreement.

15. The funds comprising the Settlement Amount (excluding the \$40,000) will be paid by 670 in connection with its collective purchase of the Ranch Lands and the security on the Ranch House pursuant to the 670 Offer. Copies of the Settlement Agreement and the

670 Offer in respect of the Ranch Lands are attached as exhibits to the affidavit of Tyrone Schneider sworn July 27, 2011.

16. The Monitor has reviewed the terms and conditions of the 670 Offer and Settlement Agreement, approves of same and respectfully recommends that this Honourable Court approve the 670 Offer and the Settlement Agreement, for the following reasons:

- Approximately 70% of the Settlement Amount will be funded through the sale of an asset owned by an entity which is not a party to the CCAA Proceedings, thereby benefiting other creditors and stakeholders of the Company;
- 933 has withdrawn its appeal of the November 30, 2010 decision of the Honourable Madam Justice Horner;
- The likelihood of protracted and expensive litigation will be avoided, positively impacting the Company's limited financial resources; and
- The extent of 933's claim against the Medican Group is removed and the Company can proceed with its reorganization.

17. Pursuant to the 670 Offer, the purchase price for the Ranch Lands is \$320,000. The Company recently obtained an appraisal on the Ranch Lands and the purchase price being paid is consistent with the appraised value. \$300,000 will be paid to 933 and \$20,000 will be held by Fraser Milner Casgrain LLP for the benefit of the priority charges established in the Initial Order. Closing the 670 Offer is conditional on 670's concurrent acquisition of 933's mortgage over the Ranch House.

18. The Company recently obtained an appraisal of the Ranch House. The \$700,000 purchase price pursuant to the 670 Offer is consistent with the appraised value.

19. The Company received an unsolicited offer on the Ranch Lands for a slightly higher price, but because the 670 Offer facilitates a settlement with 933, the 670 Offer was viewed as superior to the unsolicited offer.
20. In respect of the Settlement Agreement, the Monitor is of the view that all parties acted reasonably. As the Monitor supports the Settlement Agreement, and in the current context, the Monitor sees no reason why the investigation should continue.
21. One matter that the Monitor was investigating was in respect of Mr. Manfred Marofke (director of 933) being provided with labour and construction materials by the Company during the construction on a property in Bragg Creek, Alberta owned by 933 and Mr. Marofke (the “Bragg Creek Property”). Mr. Marofke recently provided documents to the Monitor in respect of this matter.
22. The Monitor has confirmed through its review of certain books and records of the Company that some labour and materials were provided by the Company on the Bragg Creek Property as partial repayment of a 933 loan. The 933 loan was reduced by the value of the labour and materials provided by the Medican Group. The Monitor is satisfied that the value of the labour and materials provided (as recorded in the books and records of both the Company and 933) was at normal market rates and was a reasonable business arrangement in lieu of the Company being unable to repay the 933 loan.
23. A second matter that the Monitor was investigating was in respect of a \$50,000 amount paid to Wes Reinheller personally, which the Monitor is advised was a charitable donation. Information in respect of the \$50,000 is attached as Exhibit “A”.


CONCLUSION AND RECOMMENDATION

24. The Monitor is of the view that the Company continues to act in good faith and with due diligence. Accordingly, the Monitor respectfully recommends that this Honourable Court make orders granting the relief detailed in Section 4 b) of this Report.

* * *

All of which is respectfully submitted this 27th day of July, 2011.

**RSM RICHTER INC.
IN ITS CAPACITY AS CCAA MONITOR OF
THE MEDICAN GROUP OF COMPANIES
AND NOT IN ITS PERSONAL CAPACITY**

Per: 

Robert J. Taylor



MEMBERSHIP FIRM

May 17, 2011

Wes Rein heller
1870A – 6th Avenue SW
Medicine Hat, AB T1A 7X5

VIA EMAIL: – wesrein heller@gmail.com

Dear Mr. Rein heller:

We are writing as a follow-up to your telephone message of May 17, 2011.

You have requested a written confirmation of the charitable donations claimed on your and Janice's personal income tax returns for the 2009 and 2010 taxation years. In addition, you requested, a confirmation of the charitable donations specifically made during the period of May 1, 2009 to December 31, 2010.

To confirm, the following charitable donations were claimed on your and Janice's 2009 and 2010 respective personal income tax returns:

1. Wes – 2009 - \$0;
2. Janice – 2009 - \$384,972.74;
3. Wes – 2010 - \$24,066.35; and
4. Janice – 2010 - \$0.

Please note that donations can be claimed in a tax effective manner between spouses and accordingly, the fact that donations are claimed on Wes as compared to Janice's income tax return (or vice versa) does not reflect the actual donee. Specifically, we would state that charitable donations were made and claimed by the Wes and Janice Rein heller household in 2009 and 2010 of \$384,972.74 and \$24,066.35, respectively.

With respect to the donations made after May 1, 2009, it goes without saying that all 2010 donations were made post-May 1, 2009. With respect to the 2009 donations, our office has no support as to the timing of the 2009 donations and accordingly, we are not specifically able to confirm what portion of the 2009 total donations of \$384,972.74 were made in the period from May 1, 2009 to December 31, 2009.

You also have requested that we also confirm several other matters related to your personal income tax affairs and matters related to your shareholder loan balance with Medican Concrete Inc.

Page 2
Wes Reinheller
May 17, 2011

Firstly, we confirm that your 2010 personal income tax return has included \$50,000 of revenue related to a payment from Manfred Maroke. Please note that we apologize if we have spelled Mr. Maroke's last name incorrectly as we are unsure as to the exact spelling. This amount has been included in "Other Income" on line 130 of your personal income tax return. Please note that we have no information related to this amount and any other implications, income tax, GST or otherwise, that may arise but we have simply been provided with this lump sum amount to be included in your income pursuant to a telephone conversation in April 2011.

With respect to your shareholder loan balance owing from Medican Concrete Inc., we understand that you have paid invoices totalling \$81,824 on behalf of Medican Concrete Inc. Based on information forwarded by Mr. Crisp, we understand that these invoice amounts have been coded within Medican Concrete Inc. books and records as expenses with a corresponding credit to your shareholder loan for monies that you have paid on behalf of the company. We have not been provided with any detailed general ledger accounts by Medican Concrete Inc. but we understand that the accounting has been done in a manner to reflect your payments on behalf of the company.

If you have any questions or comments, please do not hesitate to contact the writer at 780-453-5386.

Yours truly,

MEYERS NORRIS PENNY LLP


Les J. Creasy, CA, TEP

LJC/ak