

April 18, 2016

Answers to frequently asked questions

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

As you are aware, the District obtained an Initial Order under the Companies’ Creditors Arrangement Act, R.S.C. 1985 c. C-36, as amended (the “CCAA”) on January 23, 2015. Deloitte Restructuring Inc. acts as the Monitor (the “Monitor”) in the CCAA proceedings. Those creditors of the District with proven claims or disputed claims that have not yet been settled or adjudicated will be referred to as the “Eligible Affected Creditors”. Other terms, not otherwise defined in this document, are as included in the District’s Plan of Compromise and Arrangement (the “District Plan”) and in the Monitor’s First Report to the Creditors of the District, dated March 28, 2016 (the “Monitor’s Report”).

The following are the answers to some frequently asked questions received by the Monitor related to the District Plan and the package that was recently mailed to you dated March 28, 2016 (the “Information Package”). The Monitor notes that some of these questions and answers appear in an earlier document also entitled Answers to Frequently Asked Questions, dated March 28, 2016, which is included in the Information Package. Where questions have continued to be received, we have duplicated or expanded on them below for ease of reference.

The Monitor

1. What is the Monitor’s role with respect to the District Plan?

The Monitor is not the author of the District Plan. The District Plan has been formulated by the District with input from its counsel, the creditors’ committee for the District (the “District Committee”), the CRO and the Monitor. The Monitor is an officer of the Court, whose role includes providing District Depositors with sufficient information to consider the District Plan and reporting to District Depositors on its view of the reasonableness and fairness of the District Plan.

2. When did Deloitte LLP act as auditor of the District?

As originally disclosed by the Monitor in the Fourth Report of the Monitor dated June 24, 2015 and as disclosed to the Court, Deloitte LLP a related company to Deloitte Restructuring Inc., acted as auditor of the District between 1990 and 1999. For clarity, Deloitte LLP is not released pursuant to the District Plan from any potential liability in relation to any prior audit work performed for the District.

Information Package, Forms and Voting

3. Why is the Information Package so large and do I need to read it all?

The Monitor is required to provide selected Court documents to Eligible Affected Creditors and has provided you with all of the information that it believes you will require to assess the District Plan. The Monitor encourages you to review the documentation provided but notes that the document entitled “The Basics and What you Need to Do” is intended to provide you with a high level overview of what is required and easy access to the forms that you need to fill out.

4. What forms do I need to fill out?

If you are not planning on attending the meeting for the Eligible Affected Creditors to vote on the District Plan, scheduled for May 14, 2016 (the “District Meeting”), you need to fill out one of the following two forms:

- *Form of Proxy – if you wish to appoint someone to attend the District Meeting and vote on your behalf; or*
- *Form of Election Letter – if you wish to submit your vote ahead of the District Meeting.*

If you do not attend the District Meeting or fill out either the Form of Proxy or the Form of Election Letter, you will not have your vote on the District Plan recorded. We note that in order for the District Plan to be approved, 2/3 in value and a majority in number of voting creditors (the “Required Majority”), need to vote in favour of the District Plan.

5. How many witnesses do I need and who can witness my forms for me?

You only need one witness, who should sign and print their name on the form. Any adult can act as your witness.

6. What will happen if I do not fill out my Election Letter correctly?

Upon receipt, the Monitor will review the Election Letter submitted by each Eligible Affected Creditor and, if there is sufficient time before the meeting, will attempt to contact Eligible Affected Creditors where the Election Letter is incomplete or the amount is entered incorrectly.

The Election Letter indicates that should the Eligible Affected Creditor submitting the Election Letter not specify their vote, they will be considered as having voted for approval of the resolution to accept the District Plan.

For clarity, we note the following:

- You must submit an Election Letter (or vote in person or by proxy) in order to have a vote recorded on the District Plan. If you do not submit an Election Letter (or vote in person or by proxy), no vote will be recorded on your behalf and your claim will be excluded from the calculation of the Required Majority. For clarity, if the District Plan is approved by the Required Majority and sanctioned by the Court, the claims of all of the Eligible Affected Creditors will be dealt with as set out in the District Plan regardless of whether or not individual Eligible Affected Creditors submitted Election Letters (or voted in person or by proxy).*
- Should you submit an Election Letter with no vote recorded, the Monitor will attempt to contact you to confirm whether you had intended to further complete the Election Letter. If you submit an Election Letter with no vote recorded and the Monitor cannot reach you, you will be considered as voting in favour of the District Plan.*

7. What will happen if the District Plan is not approved by the Eligible Affected Creditors or the Court?

If the District Plan is not approved by the Eligible Affected Creditors or the Court, further insolvency proceedings will be required. This could involve further proceedings under the CCAA or a subsequent receivership. Should that be the case, foreclosure proceedings will likely be required in order for the District to take possession of the Prince of Peace Properties and the District would not have access to either of the ECHS Assets or the EMSS Assets. In either case, Eligible Affected Creditors would be entitled to participate in any subsequent distributions that may occur pursuant to those subsequent insolvency proceedings, however, the timing, nature and quantum of such distributions would be unknown. The Monitor is of the view that further insolvency proceedings would serve to increase professional fees, reduce realizations and significantly extend the time frame for any recovery to the Eligible Affected Creditors.

The Convenience Payments

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

The Convenience Payment will result in a more limited 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. Absent the Convenience Payment, if all Eligible Affected Creditors received a portion of their pro-rata distribution in the form of NewCo Shares, there would be approximately 2,651 NewCo Shareholders as opposed to approximately 993 NewCo Shareholders (as contemplated following the Convenience Payments under the District Plan). This would mean that the majority of NewCo Shareholders would have small investments in NewCo and would not have a significant economic stake in NewCo's success, which could impede NewCo's ability to obtain direction from the NewCo Shareholders. The Monitor notes that Convenience Payments are regular features in many plans of compromise and arrangement filed in CCAA proceedings.

Estimated Recoveries Pursuant to the District Plan

9. What can I expect to receive pursuant to the District Plan?

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

- *The Convenience Payment, which is a \$5,000 cash 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.*

Distributions will be net of payments pursuant to the Emergency Fund. The Monitor notes that the estimated realizations are based on assumptions regarding future events and, as such, will vary and these variances could be material.

As an example, if you have a proven claim of \$10,000, you can calculate your estimated 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 are estimated to receive between 15% and 20% of your remaining proven claim of \$5,000 in cash 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.

NewCo

10. What will NewCo's Mandate be and who will decide NewCo's Mandate?

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. That mandate 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. As such, Eligible Affected Creditors will be able to vote, based on information and advice prepared by a professional management team, on their preferred mandate for NewCo.

The bylaws and articles of incorporation for NewCo (the "NewCo Articles") indicate that the business of NewCo will be to maximize the value of the NewCo Assets for the benefit of NewCo Shareholders. For clarity, this does not limit the mandate that may ultimately be chosen by the NewCo Shareholders for NewCo.

11. Will NewCo incur indebtedness that could put my investment at risk?

The NewCo Assets are being transferred to NewCo free and clear (i.e. without any corresponding debt or claims attaching to them). As detailed in the Monitor's Report, following negotiations between the District, the District Committee and the Monitor, the NewCo Articles were created and are attached as "Schedule E" to the District Plan. The NewCo Articles include a provision providing that NewCo cannot incur indebtedness for more than 10% of the net value of the NewCo Assets, unless that threshold is amended in a resolution approved by two-thirds in value of the NewCo Shareholders (i.e. Eligible Affected Creditors with claims over \$5,000) who are voting on the resolution (a special resolution).

Whether NewCo will need to incur additional indebtedness in the future is uncertain as it would be dependent on a number of factors that are unknown at this time, such as the mandate that is ultimately chosen for NewCo. What is certain, however, is that NewCo

would not be able to incur indebtedness for more than 10% of the net value of the NewCo Assets without significant support from NewCo Shareholders.

12. 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.

13. 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.*

Representative Action

14. Who will sit on the Representative Action Subcommittee and what is the Subcommittee's role?

The Subcommittee will be made up of three to five individuals and all members of the Subcommittee will be chosen by the District Committee. The District Committee was established in April 2015 and is made up of three District Depositors who have significant claims or were chosen by congregations with significant claims, and three District Depositors who were elected by District Depositors at large. The District Committee serves in a fiduciary capacity on behalf of the District Depositors.

All members of the Subcommittee will be District Depositors (or a committee, trustee or personal representative of a District Depositor), who elect to participate in the Representative Action and do not have any conflict of interest with respect to the

Representative Action. For clarity, no potential named defendant in the Representative Action would be eligible to serve on the Subcommittee.

The Subcommittee will serve in a fiduciary capacity to all District Depositors who are participating in the Representative Action (the "Representative Class"). They will conduct themselves in accordance with the principles laid out in the Order appointing them (described in detail on pages 22-24 of the Monitor's Report) with a mandate to take reasonable steps to maximize the amount of funds that is ultimately available for distribution to the Representative Class.

One of the Subcommittee's first tasks will be to review the qualifications of at least three lawyers and select one to act as Representative Counsel for the Representative Class. The Subcommittee will also work with Representative Counsel to identify a party willing to act as the Representative Plaintiff, work with the Representative Counsel and the Monitor to establish the amount of the Representative Action Holdback and report to the Representative Class on the status of the Representative Action and the Representative Action Holdback.

The Monitor's role with respect to the Subcommittee is limited and includes providing assistance related to the formation of the Subcommittee, facilitating the review of the qualifications of legal counsel who wish to act as Representative Counsel (for clarity, the Monitor will not participate in the selection of Representative Counsel) and reporting to the Representative Class on the Representative Action Holdback. The Monitor would not be subject to any privileged information related to the Representative Action, including any information regarding the defendants to be named in the Representative Action or the claims to be pursued in the Representative Action. For clarity, the District will have no involvement in the Subcommittee.

15. What assurance is there that I will be satisfied with the lawyer chosen to act as Representative Counsel?

The lawyers that will be considered to act as Representative Counsel will specialize in class action proceedings or other forms of litigation. Legal counsel who have expressed an interest in acting as Representative Counsel have already been invited to submit their qualifications with the decision on the selection of Representative Counsel being made by the Subcommittee. For clarity, different legal counsel will be chosen to act as Representative Counsel for the District Depositors and the DIL Depositors pursuant to those group's respective Representative Actions.

As the Subcommittee will be made up of District Depositors who are participating in the Representative Action, their interests will be aligned with other District Depositors in the

Representative Class. Also, as noted above, the Subcommittee will act in a fiduciary capacity in respect of the Representative Class.

The Subcommittee will likely consider multiple factors in choosing the Representative Counsel, including each candidate's experience, fee arrangements (preference will likely be given to legal counsel who may be willing to act on a contingency basis), litigation strategy, etc.

16. How will the Representative Counsel's fees be charged in the Representative Action?

Any fee arrangement will be negotiated between the Subcommittee and Representative Counsel. The Subcommittee will likely give preference to legal counsel who are willing to act mainly on a contingency basis but this decision will ultimately be that of the Subcommittee.

The inclusion of the Representative Action in the District Plan may result in cost savings for District Depositors since it serves to streamline future litigation and avoids a situation where District Depositors are making contributions to multiple legal counsel to pursue the Representative Action Claims. It also may provide for increased recoveries on the basis that defendants will be able to settle claims with confidence that no further litigation from other potential parties related to those claims will be advanced.

17. What is the purpose of the Representative Action Holdback?

The District Plan provides the Representative Action Holdback as a mechanism for District Depositors to share any out-of-pocket costs associated with the Representative Action. For greater clarity, should the lawyer chosen to act as Representative Counsel be willing to act entirely on a contingency basis, it is possible that no Representative Action Holdback will be required. The inclusion of the Representative Action Holdback in the plan is intended to provide the Subcommittee with the flexibility to fund the Representative Action in the most appropriate fashion.

18. What claims will be pursued in the Representative Action?

Although the District Plan contains limited releases, it does not release any claims that could be pursued by District Depositors in the Representative Action. The Representative Action would include claims by District Depositors that are not paid under the District Plan and could involve the naming of a variety of defendants, which may include individuals, corporations or insurers.

The claims that are advanced in the Representative Action will be determined by the Subcommittee in consultation with Representative Counsel. They will likely consider

multiple factors in determining those claims to pursue including the strength of the legal arguments that can be advanced, the availability of evidence and witnesses and the financial ability of any defendants to such litigation to satisfy the claims being advanced against them.

19. Does the Representative Action benefit the potential defendants to the Representative Action?

In the Monitor's view, the Representative Action does not provide a benefit to potential defendants in the Representative Action. To the extent that it provides a streamlined process for the commencement of legal action, whether by way of a class action or otherwise, it may result in potential defendants having to defend only against one group, the Representative Class, as opposed to against multiple groups. This is advantageous for the Representative Class, as increased recoveries may be achieved in settling the Representative Action Claims on the basis that potential defendants can be assured that a settlement with the Representative Class will be a resolution of any and all claims by District Depositors.

Should you have additional questions, please contact the undersigned by telephone at 1-403-298-5955 or via email at 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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