



COURT FILE NUMBER 1501-00955

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

DOCUMENT SEVENTEENTH 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 MARCH 18, 2016

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Table of Contents

Introduction and Notice to Reader	2
Introduction	2
Notice to Reader	3
Court Applications	4
The Creditors' Report	5
Additional Asset	7

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 (“EMSS”) and Lutheran Church – Canada, the Alberta – British Columbia District Investments Ltd. (“DIL”, collectively the “Applicants” or the “District Group”) obtained an Initial Order (the “Initial Order”) from the Court of Queen’s Bench of Alberta (the “Court”) 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. For clarity, the District includes the Church Extension Fund (“CEF”), which was originally created to allow District members to loan their money and earn interest in faith-based developments. CEF was operated under the purview of the District’s Department of Stewardship and Financial Ministries and was not created as a separate legal entity. As such, depositors to CEF are creditors of the District (the “District Depositors”). Depositors to DIL will be referred to as the “DIL Depositors”. The District Depositors and the DIL Depositors will collectively be referred to as the “Depositors”.
3. The Initial Order provided for an initial stay of proceedings (the “Stay”) until February 20, 2015. The Court has now granted six extensions of the Stay. The most recent Order was granted at an application on January 20, 2016 and extended the Stay until April 29, 2016.
4. 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 following reports:
 - 4.1. the First Report of the Monitor dated February 17, 2015;
 - 4.2. the Second Report of the Monitor dated March 23, 2015 (the “Second Report”);
 - 4.3. the Third Report of the Monitor dated June 16, 2015;
 - 4.4. the Fourth Report of the Monitor dated June 24, 2015 (the “Fourth Report”);
 - 4.5. the Fifth Report of the Monitor dated August 24, 2015 (the “Fifth Report”);
 - 4.6. the Sixth Report of the Monitor dated September 9, 2015;
 - 4.7. the Seventh Report of the Monitor dated October 20, 2015;
 - 4.8. the Eighth Report of the Monitor dated October 30, 2015;
 - 4.9. the Ninth Report of the Monitor dated November 26, 2015;

- 4.10. the Tenth Report of the Monitor dated December 22, 2015;
 - 4.11. the Eleventh Report of the Monitor dated January 11, 2016;
 - 4.12. the Twelfth Report of the Monitor dated January 27, 2016;
 - 4.13. the Thirteenth Report of the Monitor dated February 4, 2016;
 - 4.14. The Fourteenth Report of the Monitor dated February 18, 2016 (the “Fourteenth Report”);
 - 4.15. The Fifteenth Report of the Monitor dated February 25, 2016; and
 - 4.16. The Sixteenth Report of the Monitor dated March 14, 2016 (together with the Pre-Filing Report, the reports listed in 4.1 to 4.16 will collectively be referred to as the “Reports”).
5. The Monitor also filed a confidential supplement to the Second Report dated March 25, 2015, a confidential supplement to the Fourth Report dated June 25, 2015, a confidential supplement to the Fifth Report dated August 26, 2015 and a confidential supplement to the Fifteenth Report dated February 26, 2016 (collectively the “Supplements”). The Supplements have been sealed by the Court.
 6. In addition to the Pre-Filing Report, the Reports and the Supplements, the Monitor prepared a First Report to the Creditors of ECHS and EMSS dated November 10, 2015 (the “Encharis Report”) and a First Report to the Creditors of DIL dated December 8, 2015 (the “DIL Report”). Both the Encharis Report and the DIL Report were prepared for the purpose of providing creditors of the corresponding entities with specific information related to the respective plans of compromise and arrangement for ECHS and EMSS, as amended and for DIL, as amended (the “DIL Plan”).
 7. Capitalized terms not otherwise defined herein shall have the meanings given to them in the Reports and in the Supplements.
 8. 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

9. 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, the Applicant’s Chief Restructuring Officer (the “CRO”), interested parties and stakeholders. The Monitor has not performed an independent review or audit of the information provided.
10. 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.
11. All amounts included herein are in Canadian dollars unless otherwise stated.

Court Applications

12. This report represents the Seventeenth Report of the Monitor (the “Seventeenth Report”). The Seventeenth Report is being prepared to provide the Court with additional information in advance of a hearing scheduled for March 21, 2016 (the “March 21 Hearing”) at which the following applications are being heard:
 - 12.1. The District’s application seeking an Order (the “District Meeting Order”) authorizing and directing the District to present their plan of compromise and arrangement (the “District Plan”) to their creditors for approval; and
 - 12.2. An application by the Monitor to seal the Confidential Supplement to the Seventeenth Report dated March 18, 2016, which is being provided to the court in advance of the March 21 Hearing (the “Confidential Supplement”).
13. The Confidential Supplement has been prepared to provide the Court with a DRAFT version of the Monitor’s First Report to the Creditors of the District, tentatively dated March 25, 2016, without the schedules (the “Creditors’ Report”), which is attached thereto as “Schedule 1”. The Monitor does not wish to disclose the Creditors’ Report prior to it being finalized as it includes assumptions regarding the outcome of the March 21 Hearing and is subject to change. The Monitor wishes to provide the Creditors’ Report to the Court for their information ahead of the March 21 Hearing.
14. The Monitor further intends to offer to provide to both Errin Poyner of Sugden McFee and Roos LLP (“Sugden”) and Allen Garber of Allen Garber Professional Corporation (“Garber”), a copy of the Confidential Supplement for their information ahead of the March 21 Hearing, subject to them undertaking to keep the contents of the Creditors’ Report confidential. The Creditors’ Report is being provided to Sugden and Garber ahead of the March 21 Hearing as they have previously expressed concerns regarding the extent of the disclosure that will be provided to the District’s creditors related to the District Plan.

The Creditors' Report

15. The Monitor intends to provide the Creditors' Report to the District's creditors as part of the information packages to be provided to the District's creditors in advance of the meeting of the District's creditors to consider the District Plan. The Creditors' Report includes much of the information contained in the Fourteenth Report but is updated to reflect recent happenings and minor amendments to the District Plan and also attempts to provide the District's creditors with a more fulsome discussion of some of the issues involved.
16. The Monitor notes one change, which is described in the Creditors' Report. An additional process surrounding the valuation of shares in a new company (the "NewCo Shares") into which the assets referenced in 16.1 to 16.4 below will be transferred has been established. As previously reported, should the District Plan be approved by the creditors and sanctioned by the Court, the District's Eligible Affected Creditors (as such term is defined in the District Plan) are to receive a portion of their distributions in NewCo Shares with the value of the NewCo Shares being based on the following:
 - 16.1. The forced sale value of the Harbour and Manor seniors' care facilities, which will be based on an appraisal of the Harbour and Manor seniors' care facilities prepared by CWPC Seniors' Housing Group as at November 30, 2015 (the "CWPC Appraisal");
 - 16.2. The forced sale value of the remaining properties within the Prince of Peace development, which will be based on an appraisal prepared by Colliers International as at October 15, 2015 (the "Colliers Appraisal");
 - 16.3. The estimated value of the assets held by ECHS, which would be transferred to NewCo pursuant to the ECHS Plan, which include working capital, computer hardware, equipment, furniture and fixtures and a water treatment plant (the "ECHS Assets"). This will be based on the actual value of cash held by ECHS at the date of transfer and discounted book values for the remaining ECHS Assets; and
 - 16.4. The estimated value of the assets held by EMSS, which would be transferred to NewCo pursuant to the EMSS Plan, which include working capital, furniture and fixtures, computer equipment, medical equipment and a vehicle (the "EMSS Assets"). This will be based on the actual value of cash held by EMSS at the date of transfer and discounted book values for the remaining EMSS Assets.
17. As previously reported, it is possible that Deloitte LLP, a related company to Deloitte, may be named as a defendant in a future legal action or actions, which may be undertaken on behalf of DIL Depositors

and District Depositors respectively by way of a class proceeding or otherwise (the “Representative Action”) related to prior work that was undertaken as auditor of the District (between 1990 and 1999) and of DIL (between 1998 and 1999). As the value of the NewCo Shares will determine the shortfall to District Depositors, which will also be the amount that District Depositors can pursue in the Representative Action, the Monitor intends to implement the following additional process related to the valuation of the NewCo Shares.

- 17.1. Legal counsel for the creditors’ committee established for the District (the “District Committee”) will retain a qualified third party firm to review the proposed valuation of the NewCo Shares. The firm will be provided with the CWPC Appraisal, the Colliers Appraisal and all pertinent information related to the estimated values attributable to the ECHS and the EMSS Assets;
- 17.2. The third party firm will provide a report to legal counsel for the District Committee with respect to their views on the valuation of the NewCo Shares (the “Third Party Report”); and
- 17.3. The District Committee will share the results of the Third Party Report with the Monitor, at which point the Monitor may either accept the valuation or either the Monitor or the District Committee may seek further advice and direction from the Court.

Additional Asset

18. On the evening of March 17, 2016, the Monitor was contacted by the CRO, who indicated that the District had located a further asset in the form of an investment held with Richardson GMP (“Richardson”) in the amount of approximately \$674,400 (the “Richardson Account”), which had not been previously disclosed to the Monitor by the District.
19. The District has indicated that in or around 2005, investments held by the District and DIL were kept in accounts held with multiple brokerage firms. In an effort to consolidate the administration of these accounts, the District decided to transfer all funds to be managed by FI Capital Ltd. (“FI Capital”) The District has indicated that the transfer of the Richardson Account was missed when all other investments were transferred to be managed by FI Capital. The District indicated that they had been receiving statements from Richardson but erroneously thought that the investment was one that was being managed by FI Capital (for which they received multiple investment statements). As such, the Richardson Account was not identified as being a separate asset when the District reported to the Monitor on their marketable securities. The Monitor notes that, historically the District has recorded their investments at book value, although the market value of the investments has been recorded as a note to the financial statements.
20. The Monitor contacted Richardson, who indicated that they could not confirm the exact date on which the account was established but believed it to have been in December 2004. Richardson further confirmed that the last withdrawal from the account had been made in 2012 in the amount of \$250,000. The Monitor requested additional information from the District with respect to this withdrawal and the reason why the Richardson Account was not identified as separate from the accounts held by FI Capital when the withdrawal was made. The District has indicated that the failure to identify the Richardson Account as separate from the investments held with FI Capital was simply an oversight. They have further indicated that the Richardson Account was included in their financial statements at cost but was not reported to the Monitor as an asset as the District believed it was already included in the amounts reported by FI Capital.
21. The Monitor notes that it has been reviewing monthly investment statements from FI Capital as part of its ongoing monitoring of the District’s cash flow forecast, however, the Monitor receives these statements directly from FI Capital and, as such had not previously been aware of the Richardson Account. The Monitor was previously advised that all investments were held by FI Capital.
22. The Monitor is concerned by the detection of such a sizable asset that was not previously disclosed by the District. The Monitor is contacting eight brokerage firms (the “Brokerages”), who they are advised were previously used by the District to determine whether any other accounts may exist that were not

previously disclosed. To date, the Monitor has confirmed with six of the Brokerages that they are not holding accounts on behalf of the Applicants. The Monitor will report further on the results of these inquiries. Despite the Monitor's concerns, the Monitor does not have any information to suggest that the District knowingly failed to disclose the Richardson Account. Upon the Monitor having contacted the final two Brokerages, should any further assets be discovered, the Monitor will report further to the Court.

DELOITTE RESTRUCTURING INC.,

In its capacity as 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



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