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

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 NINETEENTH REPORT TO THE COURT

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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## 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. (now Ernst & Young Inc.) was appointed monitor ("Monitor") under the Initial Order.
2. Pursuant to a Court order made on May 30, 2012 the stay of proceedings in respect of MCAP Financial Corporation, in relation to Medican (Westbank) Development Ltd., Medican (Westbank) Land Ltd. and Sanderson of Fish Creek (Calgary) Developments Ltd. was extended to July 27, 2012.
3. The Medican Group filed its Plan of Compromise and Arrangement dated November 30, 2011 on December 1, 2011. The Plan did not include the Sanderson Project owned by Sanderson of Fish Creek (Calgary) Developments Ltd. and the Kaleido Project owned by Medican (Westbank) Development Ltd. and Medican (Westbank) Land Ltd.
4. On January 11, 2012, a substantial majority of Affected Creditors voted in favour of the Amended Plan of Compromise and Arrangement (the "Plan") and on January 13, 2012, the Court issued an order (the "Sanction Order") approving the Medican Group's Plan.
5. Capitalized terms not defined in this Nineteenth Report are as defined in all orders previously issued in respect of these CCAA Proceedings and in the Plan.

### **Purpose of this Report**

6. The purpose of this report ("Report") is to:
  - a. Provide an update on the Company's progress since the Court issued the Sanction Order;
  - b. Provide a status update in respect of Sanderson of Fish Creek (Calgary) Developments Ltd. (the "Sanderson Project"); and
  - c. Respectfully recommend that this Honourable Court grant an order extending the CCAA Proceedings for the Sanderson Project and the Kaleido Project from July 27, 2012 to August 31, 2012.

## **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. All currency references in this Report are in Canadian dollars.

## **BACKGROUND**

9. The Medican Group comprised several private companies engaged in the real estate construction and development business. The Company currently owns, operates and/or manages projects ("Projects") in Alberta.
10. 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 <http://documentcentre.eycan.com/Pages/Main.aspx?SID=196>.

## **COMPANY'S ACTIVITIES**

11. A Summary of the Company's progress since the Monitor's Eighteenth Report to Court dated May 28, 2012 is provided below. Among other things, the Company:
  - a. Accepted offers, with the Monitor's approval, on two existing or under-construction residential condominium unit ("Units"). There remain four Units listed for sale in three Projects (Sanderson Project – one Unit, Sylvan Lake Project – one Unit and Sitara Project – two Units);

- b. Provided regular reporting on Sanderson Unit sales to Harbour Mortgage Corp. (“Harbour”), Imor Capital Corp. (“Imor”), and the Canadian Imperial Bank of Commerce (“CIBC”);
  - c. Continued to provide stakeholders with updates as required;
  - d. Continued to work towards the closing of the arrangement with SuccessorCo pursuant to the Plan; and
  - e. Engaged in ongoing negotiations with various stakeholders in respect of the deficiencies affecting the Sanderson Project such that a plan of compromise and arrangement can be finalized and placed before creditors for consideration.
12. Certain of the above activities are discussed in greater detail herein.

#### **MEDICAN (WESTBANK) LAND LTD.**

- 13. The Kaleido Project is a condominium development project located in Westbank, British Columbia. The Company planned to develop a seven-phase, 717 unit condominium complex on the subject lands.
- 14. The Monitor has previously reported to this Honourable Court in respect of the Kaleido Project. Phase 1, 2 and 3 are financed by MCAP Financial Corporation (“MCAP”). Phase 4-7, which is raw land, is financed by Zolton and Margaret Majoros (“Majoros”).
- 15. On December 5, 2011, this Honourable Court granted an Order lifting the stay of proceedings and granting leave to MCAP to appoint a receiver in respect of Phase 1, 2 and 3. Phase 1, 2 and 3 are in receivership in a separate proceeding.
- 16. Majoros is in the process of foreclosing on the Phase 4-7 lands in a separate proceeding.
- 17. The only connection that the Kaleido Project has to the Company’s CCAA Proceedings is in respect of the allocation matter among the various Medican Projects relating to the Priority Charges which needs to be addressed for the Kaleido Project. It is unlikely this matter can be addressed until such time as the Kaleido Project Phases are sold.

18. Accordingly, the Monitor recommends that this Honourable Court extend the CCAA Proceedings for Medican (Westbank) Development Ltd. and Medican (Westbank) Land Ltd. from July 27, 2012 to August 31, 2012.

### **SANDERSON OF FISH CREEK (CALGARY) DEVELOPMENTS LTD.**

19. The Project known as "Sanderson of Fish Creek" is located in Calgary, Alberta. It is to consist of five phases with a total of 352 Units. The Sanderson Project was established in multiple phases referred to as Phases 1, 2, 3, 4A and 4B. The Sanderson Project also included certain adjacent lands ("Church Lands").
20. Several lenders hold various forms of security against the Sanderson Project and unsold Units. Monies are also owed to unsecured lenders and trade suppliers.
21. The Company's marketing of the Units has resulted in several sales such that all but one Unit have now been sold. All Units were sold; however, one Unit sale was rescinded due to the purchaser being unable to obtain financing. Five Unit sales have not yet closed but are anticipated to close by August 15, 2012.

#### **Phase 1 and 2**

22. Harbour holds a first charge on the four unclosed Units in Phase 1 and 2. Imor has a second charge on those four Units.
23. The Units in Phase 1 and 2 are in various stages of completion. The budgeted costs to complete the remaining unsold Units approved by Harbour, Imor and this Honourable Court on March 31, 2011, are understated and do not reflect the actual costs being incurred by Medican to complete construction. The primary difference in respect of the costs relates to the time spent by Medican employees on direct and indirect supervision of the Project. Updated costs to complete, totaling approximately \$50,000 more than the initial estimate, were provided to Harbour and Imor (and to CIBC in respect of Phase 4A). Imor has refused to approve the increased costs.
24. Sales of the remaining Units could not close unless construction was completed on those Units. The Monitor was, and remains, of the view that having a contractor other than Medican complete construction on the Units would be much more costly than the updated costs to complete provided by Medican. An alternative contractor would not be familiar with the construction of the project and would likely have to engage alternative sub-trades to complete the Units. Accordingly, the Monitor

requested that Medican complete the Units based on the updated costs to complete so that sales of the Units could be concluded.

25. Sales of the remaining Units in Phase 1 and 2 were impeded due to construction deficiencies totaling approximately \$1.5 million not being rectified and the requirement to withhold \$41,029.41 ( the "Deficiency Withholdings") from the sale of each Unit so that the Sanderson Project Condominium Corporation would issue estoppel certificates on sold Units. Funds held in trust by Medican's legal counsel in respect of the withholding requirement total \$902,647.02. Additional funds will be withheld from the closings on the six remaining Units.
26. The Medican Group continues to provide weekly update reports to Harbour and Imor in respect of sales of Units.

#### **Phase 4A**

27. One Unit has not yet closed and one Unit remains for sale. Sales of the Phase 4A Units have been affected by the same issues affecting the Phase 1 and 2 Units.
28. The Company is providing weekly update reports to CIBC in respect of its sales of Units.

#### **Deficiencies**

29. The Company completed the Court-approved transaction (the "Monarch Transaction") with Monarch in respect of Phase 3 and 4B of the Sanderson Project and the Church Lands in January 2011. As previously reported by the Monitor, the Company's share of net profits on the build out of the Sanderson Project was estimated to be as high as \$4 million with such share of the net profits being available to fund the Sanderson Project's plan of compromise and arrangement. Construction has not commenced on Phase 3 and 4B and financing costs continue to accrue thereon reducing the quantum of net profits available to the Company. It is likely the Company's estimated share of net profits will be in the range of \$1.0 to \$3.0 million.
30. One of the terms and conditions of the Monarch Transaction was that Monarch would fund and complete the deficiencies in respect of the common property up to a maximum of \$600,000. As the Monitor has previously advised this Honourable Court, it was both the Monitor's and the Company's understanding that if the deficiencies exceeded \$600,000, Monarch would fund and complete those deficiencies (the "Additional Deficiencies") and deduct the costs from the Medican



Group's profits to be realized upon the build out and sale of the Units to be constructed in Phase 3 and 4B.

31. An independent assessment of the deficiencies by both Monarch and the Company suggests that the Sanderson Project deficiencies are approximately \$1.5 million, not the \$600,000 initially estimated.
32. Negotiations between the Company and Monarch have continued with the view to reaching some consensus on rectification of the deficiencies; however, no agreement has been reached.
33. The deficiency matters are a priority dispute and are relevant to the amounts that are owed by Sanderson of Fish Creek to the secured creditors. Whether the Deficiency Withholdings rank in priority to the secured creditors is a legal argument that will have to be sorted out before the Court. Monarch has set a Court hearing date of August 15, 2012 to address and attempt to have the Court resolve the rectification of the Sanderson deficiencies including priority to the Deficiency Withholdings.
34. A Plan of compromise and arrangement cannot be advanced in respect of the Sanderson project until such time as the deficiency matter is resolved. Accordingly the Monitor supports an extension of the CCAA Proceedings for the Sanderson Project to August 31, 2012 pending the results of the Monarch Court hearing.
35. In respect of the Monarch Transaction, Monarch has suggested that parking stalls in phases 1, 2 and 4A were oversold, that it was not provided with a sufficient number of parking stalls for Phase 3 and 4B and it should be entitled to additional parking stalls. The parking stalls have not been oversold and there are approximately 45 excess parking stalls remaining in Phase 1, 2 and 4A. Those parking stalls are available for sale and may have a realizable value in excess of \$500,000. It is the Monitor's view that the remaining parking stalls should be sold for the benefit of the Sanderson Project secured creditors and stakeholders and not simply be awarded to Monarch.

## **PLAN IMPLEMENTATION**

36. The Implementation of the Company's Plan is conditional on a number of events set forth in section 7.1 of the Plan. The Monitor reported in its Eighteenth Report that there was one matter remaining relating to missing documentation in respect of certain security held by CIBC over Medican Concrete Inc. ("Concrete") and a personal guarantee from one of the principals currently operating Concrete. The status of CIBC's security has now been determined. The Monitor understands that

the closing documents are with Medican for review and the Company's Plan is expected to be implemented shortly.

37. The Monitor will then commence its review of the Disputed Claims in accordance with the Claims Procedure Order within 60 days of the Plan Implementation Date.
38. The Monitor expects to file with this Honourable Court the Monitor's Certificate in accordance with section 7.3 of the Plan stating that Plan Implementation has occurred in accordance with all its terms and conditions forthwith after closing.

### **CASH FLOW**

39. The Cash Flow in respect of the Sanderson Project is attached as Appendix "A". The Sanderson Project Cash Flows are derived from the sales of Units. The Company incurs certain marketing and administrative expenses in connection with managing and marketing the Units. It is estimated that all Units will close before or shortly after August 31, 2012. Provided the Company recovers its actual monthly costs, the Sanderson Project will be cash flow neutral.
40. The Monitor assisted the Company with the preparation of the Sanderson Project Cash Flow. The Cash Flow is predicated on the Sanderson Project continuing to operate in the normal course in the context of the CCAA Proceedings. The Monitor reviewed the Cash Flow and its underlying assumptions and concluded that it is reasonable in the circumstances.

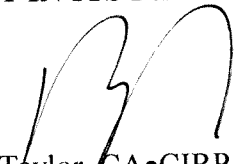
### **CONCLUSION AND RECOMMENDATIONS**

41. The Monitor is of the view that the Company continues to act in good faith and with due diligence in respect of implementing its Plan and in respect of the Sanderson Project.
42. Accordingly, the Monitor respectfully recommends that this Honourable Court make an order granting the relief requested in Section 6 c) of this Report.

\* \* \*

All of which is respectfully submitted this 24th day of July, 2012.

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

A handwritten signature in black ink, appearing to be 'RJ Taylor', written over the typed name below.

Robert J. Taylor, CA•CIRP  
Senior Vice-President

**Sanderson of Fish Creek (Calgary) Developments Ltd.**  
**Projected Statement of Cash Flow to August 31, 2012**  
(\$Cdn, Unaudited)

	Notes	Week Ended							Total
		27-Jul	03-Aug	10-Aug	17-Aug	24-Aug	31-Aug		
<b>Receipts</b>									
Marketing/Administrative fee	1	-	11,196	8,794	13,532	-	1,017	34,538	
Cost to complete reimbursement	2	107,152	39,181	35,175	14,621	-	4,069	200,198	
<b>Total Receipts</b>		107,152	50,376	43,969	28,153	-	5,086	234,736	
<b>Disbursements</b>									
Trades	2	107,152	39,181	35,175	14,621	-	4,069	200,198	
Marketing	3	1,100	-	-	700	-	700	2,500	
Overhead costs	3	2,948	2,948	2,948	2,948	2,948	2,948	17,688	
Utilities and phones	3	-	-	-	350	-	350	700	
<b>Total Disbursements</b>		111,200	42,129	38,123	18,619	2,948	8,067	221,086	
Total Net Cash In/(Out)		(4,048)	8,248	5,846	9,534	(2,948)	(2,981)	13,650	
Opening Cash Position	4	(13,650)	(17,698)	(9,451)	(3,605)	5,929	2,981	(13,650)	
<b>Closing Cash Position</b>		(17,698)	(9,451)	(3,605)	5,929	2,981	-	-	

This schedule should be read in conjunction with the accompanying notes.

**Sanderson of Fish Creek (Calgary) Developments Ltd.**  
**Notes to Projected Statement of Cash Flow to August 31, 2012**  
(\$Cdn, Unaudited)

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1. The \$4,500 administrative per unit holdback was insufficient to cover Medican's overhead costs. CIBC and Harbour have agreed to reimburse Medican for actual costs incurred. Fraser Milner Casgrain currently holds \$19,833.20 in respect of the holdback which is expected to be released to Medican next week.
2. Medican is reimbursed for expenses paid to trades and suppliers to complete construction of units from the unit sales proceeds.
3. Estimated based on Medican's current marketing budget.
4. Actual monthly marketing and administrative costs were greater than the \$4,500 held back from the sale of each unit resulting in a negative opening cash balance. Assuming that Medican will recover its actual monthly marketing and administrative costs in the future, the Sanderson Project will be cash flow neutral.