Deloitte.

COURT FILE NUMBER	**1501-00955**
COURT	**COURT OF QUEEN'S BENCH OF ALBERTA**
JUDICIAL CENTRE	**CALGARY**
DOCUMENT	**THIRTY-SIXTH 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 JULY 26, 2018

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

Counsel

Cassels Brock & Blackwell LLP
Suite 3810, Bankers Hall West
888 3rd Street SW
Calgary, Alberta T2P 5C5

Attention: Jeffrey Oliver

Telephone/ Facsimile: 403-351-2921/ 403-648-1151
Email: joliver@casselsbrock.com

Monitor

Deloitte Restructuring Inc.
700 Bankers Court, 850 – 2nd Street SW
Calgary, AB T2P 0R8

Attention: Vanessa Allen & Joseph Sithole
Telephone/Facsimile: 587-293-3203/ 403-718-3681
Email: vanallen@deloitte.ca & josithole@deloitte.ca

Table of Contents

Introduction and Notice to Reader	1
Introduction	1
Notice to Reader	2
Court Applications	4
Status of the Applicants' Plans	5
The District Plan	5
The DIL Plan	5
The ECHS Plan	5
The EMSS Plan	5
Alberta Securities Commission	5
Cash Flow and Variance Analysis	7
The District Forecast	7
Cash Flow Related to CEF Operations	8
Cash Flow Related to Other District Operations	9
Monitor's Report on the District Forecast	10
Variance Analysis for the District	10
Conclusion	12

SCHEDULES

Schedule 1	Statement of Projected Cash Flow for the thirteen (13) week period ending October 6, 2018 for the District
Schedule 2	Variance Analysis for the thirteen (13) week period ended July 7, 2018 for the District
Schedule 3	Alberta Securities Commission Notice of Hearing dated June 27, 2018

Introduction and Notice to Reader

Introduction

1. On January 23, 2015 (the "Filing Date"), 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. Depositors to DIL will be referred to as the "DIL Depositors".

3. The Initial Order provided for an initial stay of proceedings (the "Stay") until February 20, 2015. The Court subsequently granted nine (9) extensions of the Stay. The most recent Order was granted at an application on September 2, 2016 and extended the Stay until the earlier of December 31, 2016, or the date on which Certificates of Plan Termination (the "Certificate(s)") were filed signaling the completion of the plans of compromise and arrangement for all of the District (the "District Plan"), DIL (the "DIL Plan"), ECHS (the "ECHS Plan") and EMSS (the "EMSS Plan"), all as subsequently amended (collectively the "Applicants' Plans"). On November 15, 2016, the Applicants' legal counsel wrote a letter to the Court (the "Stay Letter") noting that the Monitor would not be in a position to file the Certificates by December 31, 2016. The Stay Letter also noted that the Sanction Orders granted in respect of the Applicants' Plans extended the Stay until the Certificates were filed and that, as a result, another Court application was not necessary to extend the Stay. On October 25, 2017, the Court granted two Orders partially lifting the Stay (the "Stay Orders") to allow the legal actions undertaken on behalf of participating District and DIL Depositors (the "Representative Actions") to proceed.

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 prepared thirty-five reports dated between February 17, 2015 and April 17, 2018 (collectively, the "Reports"). The Monitor's Thirty-Fifth Report was dated April 17, 2018 (the "Thirty-Fifth Report"). The Thirty-Fifth Report was prepared to provide the Court with the following:

4.1. A general update on the CCAA proceedings;

4.2. The Monitor's report on the statement of projected cash flows for the District for the thirteen week period ending July 7, 2018, including actuals for the period from February 11 to April 7, 2018;

4.3. The Monitor's report on the variance analysis for ECHS and EMSS for the thirteen (13) week period ended February 10, 2018; and

4.4. Information regarding an application by Sage Properties Corp., which was originally scheduled to be heard on April 17, 2018 but was adjourned on terms (the "Sage Application").

5. The Monitor also filed confidential supplements to the Second Report of the Monitor dated March 23, 2015, the Fourth Report of the Monitor dated June 24, 2015, the Fifth Report of the Monitor dated August 24, 2015, the Fifteenth Report of the Monitor dated February 25, 2016, the Seventeenth Report of the Monitor dated March 18, 2016, and the Twenty-Eighth Report of the Monitor dated May 24, 2017 (collectively the "Supplements"). The Supplements have been sealed by the Court.

6. In addition to 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"), a First Report to the Creditors of DIL dated December 8, 2015 (the "DIL Report") and a First Report to the Creditors of the District dated March 28, 2016 (the "District Report"). The Encharis, DIL and District Report were prepared to provide creditors of the corresponding entities with specific information related to the Applicants' Plans.

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 (the "Monitor'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.

10. The financial information of the Applicants has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this report may not disclose all significant matters about the Applicants. Additionally, none of the Monitor's procedures were intended to disclose defalcations or other irregularities. If the Monitor were to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may come to the Monitor's attention. Accordingly, the Monitor does not express an opinion nor does it provide any other form of assurance on the financial or other information

presented herein. The Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.

11. 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. Any use, which any party makes of this report, or any reliance or decision to be made based on this report, is the sole responsibility of such party.

12. All amounts included herein are in Canadian dollars unless otherwise stated.

Court Applications

13. As previously reported, the Sage Application was adjourned on terms to enable further discussions to take place between Sage and the condominium corporation for the Prince of Peace Village (the "Condo Corp."). At a hearing on June 19, 2018 (the "June 19 Hearing"), legal counsel for Sage confirmed that such discussions were ongoing.

14. On March 8, 2018, the Court granted an Order approving the sale of a vacant lot owned by ECHS located at 285011 Luther Rose Boulevard in the Prince of Peace Village (the "Parsonage Lot"). Subsequently, legal counsel for the purchaser of the Parsonage Lot raised a concern surrounding the characterization of the Parsonage Lot as common property in the bylaws of the Condo Corp (the "Bylaws"). To address this concern, the Applicants obtained a further Order at the June 19 Hearing, authorizing ECHS to complete the sale of the Parsonage Lot, notwithstanding the definition of the term "common property" in the Bylaws.

15. This report represents the Thirty-Sixth Report of the Monitor (the "Thirty-Sixth Report"). The Thirty-Sixth Report is being prepared to provide the Court with the following:

    15.1. A general update on the CCAA proceedings;

    15.2. The Monitor's report on the statement of projected cash flows for the District for the thirteen week period ending October 6, 2018, a copy of which is attached hereto as "Schedule 1" (the "District Forecast"); and

    15.3. The Monitor's report on the variance analysis for the District for the thirteen (13) week period ended July 7, 2018 (the "Variance Period"), a copy of which is attached hereto as "Schedule 2".

Status of the Applicants' Plans

16. The following is a summary of the status of the Applicants' Plans.

The District Plan

17. The District is continuing its efforts to realize on its interest in approximately 4.08 acres of land in the community of Tuscany in Northwest Calgary (the "Tuscany Lands"). The Tuscany Lands are being marketed by Colliers International ("Colliers"). In May 2018, the list price was reduced from $4.0 million to $3.3 million to reflect challenges surrounding the property's specific location and specialized zoning requirements.

18. Upon the sale of the Tuscany Lands, a final distribution will be made to the District's creditors pursuant to the District Plan.

The DIL Plan

19. As previously reported, a final distribution was released to DIL Depositors in March 2018. In early July 2018, DIL continued to hold Registered Retirement Income Funds ("RRIFs") for approximately ten individuals. DIL has been actively pursuing transfer instructions with respect to the RRIFs (the "RRIF Transfers"). Once the RRIF Transfers have been processed and DIL's bank account has been closed, the Monitor will issue the Certificate evidencing that the DIL Plan has been completed.

The ECHS Plan

20. The sale of the Parsonage Lot has been completed. The Applicants are in the process of paying the final operating expenses for ECHS following which the bank account will be closed and the Certificate for ECHS can be issued.

The EMSS Plan

21. As previously reported, EMSS' CCAA proceedings are complete. The Applicants are in the process of paying the final operating expenses for EMSS. The Certificate for EMSS will be issued upon EMSS' bank account being closed and upon completion of the Sequence of Events set out in Section 7.1 of the District Plan.

Alberta Securities Commission

22. On June 27, 2018, the Alberta Securities Commission (the "ASC") issued a Notice of Hearing (the "ASC Notice") to the District and DIL as well as to the following five individuals:

    22.1. Donald Robert Schiemann;

    22.2. Kurtis Francis Robinson;

    22.3. James Theodore Kentel;

22.4. Mark David Ruf; and

22.5. Harold Carl Schmidt (collectively the "ASC Respondents").

23. A copy of the ASC Notice is attached hereto as "Schedule 3". The ASC Notice relates to a hearing on August 13, 2018 for the purpose of setting a further date for a hearing regarding allegations that the Respondents breached or authorized, permitted or acquiesced in the breach of section 92(4.1) of the *Securities Act*, RSA 2000, c S-4 (the "Allegations").

24. In particular the Allegations indicate that the Respondents made statements or authorized, permitted or acquiesced in the making of statements, in circumstances where they knew or reasonably ought to have known that:

24.1. The statements, as further described in the ASC Notice, were misleading or untrue in the absence of disclosure of certain undisclosed facts; and

24.2. These misleading or untrue statements would reasonably be expected to have a significant effect on the market price or value of the investments in the District and DIL.

25. The ASC Notice further indicates that the ASC will not be seeking any monetary administrative penalties against either the District or DIL in order not to deplete the funds available in the CCAA proceedings for the creditors of the District and the DIL Depositors.

Cash Flow and Variance Analysis

The District Forecast

26. The District Forecast is attached hereto as "Schedule 1". The District Forecast has been broken down to distinguish between cash flow related to CEF and that related to other District operations. The District, including CEF, estimates a total net cash inflow of approximately $406,900 over the Forecast Period and projects that it will have cash on hand of approximately $1.0 million (including marketable securities) at the end of the Forecast Period. The Monitor notes that, of this cash on hand, approximately $487,600 was generated by the District's operations during the CCAA proceedings (the "District Cash"). The District Cash received from mission remittances and restricted donations (collectively, the "Donations") is not available to the District's creditors pursuant to the District Plan.

27. A summary of the District Forecast is included below:

Statement of Projected Cash Flow
For the Thirteen Week Period Ending October 6, 2018

	Total
Cash flow from CEF operations	
Receipts	
Funds held by the District's legal counsel	$ 648,380
Bank interest income	150
Total Receipts	648,530
Disbursements	
CEF salaries and benefits	(21,150)
Distributions pursuant to the District Plan	(1,476)
Operating expenses	(4,050)
Foothills property	(80,000)
Restructuring fees	(90,000)
CRO	(15,750)
Total disbursements	(212,426)
Net cash flow from CEF operations	**$ 436,104**

The District, including CEF (cont'd)
Statement of Projected Cash Flow (cont'd)
For the Thirteen Week Period Ending October 6, 2018

		Total
Cash flow from other District operations		
Receipts		
Mission remittances		99,000
Total receipts		99,000
Disbursements		
Salaries and benefits		(29,422)
Administrative expenses, travel and utilities		(9,000)
Outreach operating expenses		(24,500)
Department of Stewardship and Financial Ministries operating expenses		(9,500)
President's expenses		(8,400)
Rep Action Legal fees		(30,000)
Mission Payments to LCC		(17,400)
Total disbursements		(128,222)
Net cash flow from other District operations		**(29,222)**
Total net cash flow	**$**	**406,882**
Cash and marketable securities on hand		
Beginning balance	$	626,397
Net change (investments & US account)		
Total net cash flow		406,882
Ending balance	**$**	**1,033,279**

Cash Flow Related to CEF Operations

28. The District is forecasting receipts of approximately $648,500 over the Forecast Period related to CEF. Approximately $648,400 of this amount represents the transfer of funds held by the District's legal counsel from various asset realizations to the District (the "District Transfer"). Upon completion of the District Transfer, the District's legal counsel will no longer be holding any funds in trust for the District.

29. The District is forecasting disbursements of approximately $212,400 over the Forecast Period related to CEF. We highlight the following with respect to these disbursements:

29.1. Approximately $21,200 is due for amounts payable to contractors of the District for CEF related activities. The District no longer has any employees related to CEF;

29.2. The District estimates disbursements of $80,000 related to the construction of an emergency access road on the adjacent parcel of land to the Tuscany Lands (the "Sale Lands"). On October 25, 2017, the Court approved a settlement (the "Settlement") whereby the Sale Lands were sold to Rockford Tuscany Inc. ("Rockford"). A term of the Settlement was that the District assume an agreement between Foothills Lutheran Church and the City of Calgary related to the construction of an emergency access road (the "Road Agreement"). Rockford is currently holding $300,000 in trust as a holdback, which will be payable to the District upon them fulfilling the terms of the Road Agreement (the "Road Holdback"). The Road Holdback will reimburse the District for the cost of constructing the emergency access road;

29.3. The District estimates disbursements of $90,000 for professional fees and disbursements payable to the Monitor, the Monitor's legal counsel, the District's legal counsel and legal counsel for the District's creditors' committee over the Forecast Period; and

29.4. The District estimates fees for the CRO of approximately $15,800 over the Forecast Period.

Cash Flow Related to Other District Operations

30. The District is forecasting receipts of approximately $99,000 for the Donations. Pursuant to an Order granted on June 26, 2015, a portion of the Donations are payable to LCC (the "LCC Portion"). For the Forecast Period, the LCC Portion is estimated to be $17,400.

31. The District is forecasting disbursements of approximately $128,200 over the Forecast Period. We highlight the following with respect to these disbursements:

31.1. The District has one remaining employee who is being paid on a bi-weekly basis. Payroll and the corresponding CRA payroll source deduction remittances are anticipated to total approximately $29,400 over the Forecast Period;

31.2. Operating expenses for outreach services are anticipated to total approximately $24,500 over the Forecast Period; and

31.3. Approximately $30,000 is estimated for legal fees related to defending the District and its former directors and officers in the Representative Action.

32. The District had an opening cash balance of approximately $626,400 consisting of a cash balance of approximately $458,300 held in bank accounts with the Bank of Montreal ("BMO"), bonds of approximately $42,500 (as at March 31, 2018) held with FI Capital Ltd. ("FI Capital"), and an investment of approximately $125,600 (as at May 31, 2018) held with Richardson GMP. As discussed above, the District, including CEF, is projected to have a net cash inflow of approximately $406,900 over the Forecast Period. Based on the above, the District appears to have sufficient liquidity to sustain its ongoing operations during the Forecast Period and to fund the District's Restructuring Holdback (as defined in the District

Plan). As previously noted, the District's opening cash balance includes the District Cash, which is not available for the District's creditors pursuant to the District Plan.

Monitor's Report on the District Forecast

33. The Monitor reports as follows with respect to the District Forecast:

33.1. The District Forecast has been prepared by Management for the purposes described in the notes contained therein (the "Notes") using the probable and hypothetical assumptions set out in the Notes;

33.2. The Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied to it by Management and selected employees of the Applicants. Since hypothetical assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the District Forecast. The Monitor has also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the District Forecast;

33.3. Based on the Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:

33.3.1. The hypothetical assumptions are not consistent with the purpose of the District Forecast;

33.3.2. As at the date of the Thirty-Sixth Report, the probable assumptions developed by Management are not suitably supported and consistent with the District Plan or do not provide a reasonable basis for the District Forecast, given the hypothetical assumptions; or

33.3.3. The District Forecast does not reflect the probable and hypothetical assumptions.

33.4. Since the District Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the District Forecast will be achieved. The Monitor further expresses no opinion or other form of assurance with respect to the accuracy of any financial information reported with respect to the District Forecast, or relied upon by it in reporting on the District Forecast; and

33.5. The District Forecast has been prepared solely for the purpose described in the Notes, and readers are cautioned that it may not be appropriate for other purposes.

Variance Analysis for the District

34. Attached hereto as "Schedule 2" is the variance analysis for District for the Variance Period (the "Variance Analysis"). The Variance Analysis is based on the Statement of Projected Cash Flow for the Thirteen (13) Week Period Ending July 7, 2018 for the District, which was dated April 11, 2018. The Variance Analysis

includes information as to timing and permanent variances reported during the Variance Period. The District reported the following permanent variances over $10,000 during the Variance Period:

34.1. A negative variance of approximately $19,400 for operating expenses due to the payment of property taxes for the Tuscany Lands, which were not originally forecast;

34.2. A negative variance of approximately $46,000 for professional fees and disbursements of the Monitor, the Monitor's legal counsel and the Applicant's legal counsel (the "District Restructuring Fees"), which were higher than originally forecast. The District Restructuring Fees reflect the payment of invoices going back to December 2017, which were not previously invoiced or paid;

34.3. A positive variance of approximately $18,100 in Donations as a result of member congregations making greater contributions than anticipated; and

34.4. Variances to reflect the receipt of approximately $47,200, which was specifically provided for the purpose of funding the District's annual convention (the "Convention") and corresponding expenses of approximately $19,200 related to the planning of the Convention.

Conclusion

35. The Thirty-Sixth Report has been prepared to provide the Court with a general update on the CCAA proceedings, the Monitor's report on the District Forecast and the Variance Analysis.

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

____
Vanessa Allen, B. Comm, CIRP, LIT
Senior Vice-President

Schedules

Schedule 1

The District, including the Church Extension Fund
Statement of Projected Cash Flow
For the Thirteen Week Period Ending October 6, 2018

Week ending	**14-Jul-18**	**21-Jul-18**	**28-Jul-18**	**4-Aug-18**	**11-Aug-18**	**18-Aug-18**	**25-Aug-18**	**1-Sep-18**	**8-Sep-18**	**15-Sep-18**	**22-Sep-18**	**29-Sep-18**	**6-Oct-18**	**Total**	**Specific Notes**
Cash flow from CEF operations															
Receipts															
Funds held by the District's legal counsel				$ 648,380										$ 648,380	1
Bank interest income				50				50					50	150	2
Total Receipts	-	-	-	648,430	-	-	-	50	-	-	-	-	50	648,530	
Disbursements															
CEF salaries and benefits	(4,600)			(3,150)	(4,600)			(2,100)		(4,600)			(2,100)	(21,150)	3
Distributions pursuant to the District Plan	(1,476)													(1,476)	4
Operating expenses	(100)			(1,250)		(100)		(1,250)		(100)			(1,250)	(4,050)	5
Foothills property						(80,000)								(80,000)	6
Restructuring fees	(30,000)				(30,000)					(30,000)				(90,000)	7
CRO	(5,250)				(5,250)					(5,250)				(15,750)	8
Total disbursements	(41,426)	-	-	(4,400)	(39,850)	(80,100)	-	(3,350)	-	(39,950)	-	-	(3,350)	(212,426)	
Net cash flow from CEF operations	**(41,426)**	**-**	**-**	**644,030**	**(39,850)**	**(80,100)**	**-**	**(3,300)**	**-**	**(39,950)**	**-**	**-**	**(3,300)**	**436,104**	
Cash flow from other District operations															
Receipts															
Mission remittances	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	8,000	8,000	8,000	99,000	9
Total receipts	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	8,000	8,000	8,000	99,000	
Disbursements															
Salaries and benefits	(9,211)					(9,211)				(11,000)				(29,422)	10
Administrative expenses, travel and utilities		(500)		(2,500)		(500)		(2,500)		(500)			(2,500)	(9,000)	11
Outreach operating expenses		(7,500)	(500)				(7,500)	(500)			(7,500)	(500)	(500)	(24,500)	12
Department of Stewardship and Financial Ministries operating expenses		(8,500)								(1,000)				(9,500)	13
President's expenses		(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(8,400)	
Rep Action legal fees					(15,000)					(15,000)				(30,000)	14
Mission Payments to LCC		(5,800)					(5,800)				(5,800)			(17,400)	9
Total disbursements	(9,211)	(23,000)	(1,200)	(3,200)	(15,700)	(10,411)	(14,000)	(3,700)	(700)	(28,200)	(14,000)	(1,200)	(3,700)	(128,222)	
Net cash flow from other District operations	**(1,711)**	**(15,500)**	**6,300**	**4,300**	**(8,200)**	**(2,911)**	**(6,500)**	**3,800**	**6,800**	**(20,700)**	**(6,000)**	**6,800**	**4,300**	**(29,222)**	
Total net cash flow	**$ (43,137)**	**$ (15,500)**	**$ 6,300**	**$ 648,330**	**$ (48,050)**	**$ (83,011)**	**$ (6,500)**	**$ 500**	**$ 6,800**	**$ (60,650)**	**$ (6,000)**	**$ 6,800**	**$ 1,000**	**$ 406,882**	
Cash and marketable securities on hand															
Beginning balance	$ 626,397	$ 583,260	$ 567,760	$ 574,060	$ 1,222,390	$ 1,174,340	$ 1,091,329	$ 1,084,829	$ 1,085,329	$ 1,092,129	$ 1,031,479	$ 1,025,479	$ 1,032,279	$ 626,397	
Net change (investments & US account)															
Total net cash flow	(43,137)	(15,500)	6,300	648,330	(48,050)	(83,011)	(6,500)	500	6,800	(60,650)	(6,000)	6,800	1,000	406,882	
Ending balance	**$ 583,260**	**$ 567,760**	**$ 574,060**	**$ 1,222,390**	**$ 1,174,340**	**$ 1,091,329**	**$ 1,084,829**	**$ 1,085,329**	**$ 1,092,129**	**$ 1,031,479**	**$ 1,025,479**	**$ 1,032,279**	**$ 1,033,279**	**$ 1,033,279**	15

Prepared as at the 24th day of July, 2018.

The District, including the Church Extension Fund
Statement of Projected Cash Flow
For the Thirteen Week Period Ending October 6, 2018

Purpose:

This Statement of Projected Cash Flow (the "Cash Flow") has been prepared by management pursuant to section 10(2)(a) of the *Companies' Creditors' Arrangement Act* ("CCAA"). It is being filed specifically for the purposes contemplated in that section and readers are cautioned that it may not be appropriate for other purposes. The Cash Flow has been prepared based on the hypothetical and probable assumptions described in the general and specific notes. In addition the Cash Flow has been prepared based on assumptions regarding future events; therefore actual results may vary from the estimates presented herein and these variances may be material.

The Lutheran Church - Canada - The Alberta British Columbia District

Per: Cameron Sherban, Chief Restructuring Officer

Notes & Assumptions - General:

1. Unless otherwise stated, amounts are based on historical data and management estimates.
2. All amounts include applicable GST.
3. CEF placed a moratorium on depositor redemptions effective January 2, 2015.
4. The District filed a plan of compromise and arrangement (the "District Plan") in the CCAA proceedings, which was approved by the Court pursuant to an Order granted on August 2, 2016.

Notes & Assumptions - Specific:

1. Fasken Martineau DuMoulin LLP, legal counsel to the District, is transferring approximately $648,400 generated by net realizations from the sale of the District's assets to fund CEF's operations during the remainder of the CCAA proceedings and/or be distributed to the District's creditors.
2. Represents the interest earned on the balance in CEF's accounts held with Bank of Montreal.
3. Represents amounts payable to contractors retained to assist with CEF related matters.
4. Represents outstanding distributions to the District's creditors pursuant to the District Plan.
5. Represents operating expenses such as rent, general and administrative expenses and accounting services.
6. Represents payments related to the construction of an emergency access road on a parcel of land in the Tuscany area of Calgary.
7. Represents anticipated amounts payable to the District's legal counsel, the CCAA Monitor, the CCAA Monitor's legal counsel and representative counsel for the creditors' committee that was established for the District.
8. Includes amounts payable to Kluane Partners as the Chief Restructuring Officer.
9. Represents the anticipated weekly amount of mission commitments received from the churches throughout the District a portion of which is payable to Lutheran Church-Canada as set out in the Order granted by the Court of Queen's Bench of Alberta on June 26, 2015.
10. Includes monthly salary, benefits and pension amounts. The District is WCB exempt.
11. Includes information technology, general office expenses and travel.
12. Program funding given to churches within the District. Churches can access this program by applying for specific funding with all amounts being reviewed by the Outreach Department and approved by the District's board of directors.
13. Monthly amount sent to the Lutheran Church Canada for use of the services of the LCC gift planner, who is assigned to the District.
14. Legal fees relating to defending the Representative Action for the District, for which the District will seek reimbursement from their insurer.
15. This amount includes cash held by the District in various accounts with Bank of Montreal, including approximately $2,100 held in a U.S. dollar account, which has been converted at an exchange rate of $1:00 US: 1.31 CDN. This amount also includes marketable securities held with FI Capital and Richardson GMP with respective fair market values of $42,500 (as at March 31, 2018) and $125,600 (as at May 31, 2018) as well as the Restructuring Holdback, as such term is defined in the District Plan. $487,600 of this amount comprises mission remittances and restricted donations received by the District during the CCAA proceedings and is not available to the District's creditors pursuant to the District Plan.

Schedule 2

The District, including CEF

Variance Analysis

For the period from April 8 to July 7, 2018

	Total Forecast	Total Actual	Variance (A-F)	Notes
Cash flow from CEF operations				
Receipts				
Bank interest	$ 600	$ 130	$ (470)	1
Total Receipts	600	130	(470)	
Disbursements				
Distributions pursuant to the District Plan	(5,676)	296.26	5,972	2
CEF salaries and benefits	(26,400)	(23,078)	3,322	1
Operating expenses	(4,325)	(23,731)	(19,406)	3
Restructuring fees	(196,475)	(242,487)	(46,012)	1
CRO	(10,354)	(15,225)	(4,871)	1
Total disbursements	(243,230)	(304,225)	(60,995)	
Net cash flow from CEF operations	(242,630)	(304,095)	(61,465)	
Cash flow from other District operations				
Receipts				
Mission remittances	104,000	122,113	18,113	1
Agency funds/donations/ miscellaneous	-	47,975	47,975	4
Total receipts	104,000	170,088	66,088	
Disbursements				
Salaries and benefits	(27,633)	(29,549)	(1,916)	1
Agency funds/ restricted	-	(19,162)	(19,162)	4
Administrative expenses, travel and utilities	(9,000)	(11,880)	(2,880)	1
Legal fees (Representative Action)	-	(7,099)	(7,099)	5
Outreach operating expenses	(24,500)	(25,650)	(1,150)	1
Parish and school services operating expenses	-	(350)	(350)	1
Department of Stewardship and Financial Ministries operating expenses	(9,000)	(15,000)	(6,000)	1
President's expenses	(8,400)	(10,521)	(2,121)	1
Mission to LCC	(17,400)	(27,252)	(9,852)	1
Total disbursements	(95,933)	(146,462)	(50,529)	
Net cash flow from other District operations	8,067	23,626	15,559	
Total net cash flow	**$ (234,563)**	**$ (280,469)**	**$ (45,907)**	

The District, including CEF

Variance Analysis

For the period from April 8 to July 7, 2018

Cash and marketable securities on hand			
Beginning balance	**$ 910,790**	**$ 910,790**	**$ -**
Total net cash flow	(234,563)	(280,469)	(45,907)
Net change (investments & US account)	-	(3,924)	(3,924)
Ending balance	**$ 676,227**	**$ 626,397**	**$ (49,830)**

Notes:

1. Permanent variances as a result of receipts/ disbursements being higher/ lower than originally forecast.
2. Timing related variances, which are expected to reverse themselves in future weeks.
3. Permanent variance due to payment of property taxes on the Tuscany Lands, which were not originally forecast.
4. Permanent variance due to receipt/disbursement of funds from/to third parties related to the District's annual convention.
5. Permanent variance due to legal fees incurred in relation to the Representative Action, which were not originally forecast.

Schedule 3

ALBERTA SECURITIES COMMISSION

Docket: ENF-010583
Date: 20180627

Citation: Re Lutheran Church-Canada, the Alberta-British Columbia District, 2018 ABASC 102

NOTICE OF HEARING

To: Lutheran Church–Canada, the Alberta-British Columbia District
Lutheran Church–Canada, the Alberta-British Columbia District Investments Ltd.
Donald Robert Schiemann
Kurtis Francis Robinson
James Theodore Kentel
Mark David Ruf
Harold Carl Schmidt
(collectively, the **Respondents**)

Notice: The Alberta Securities Commission (the **Commission**) will convene at **10:30 a.m. on Monday, August 13, 2018** (**Set Date**), at Calgary, Alberta, to set a date for hearing regarding the allegations in this Notice. At the hearing, the Commission will consider whether it is in the public interest to make orders against you under sections 198, 199, and 202 of the *Securities Act*, RSA 2000, c S-4, as amended (***Act***).

Location: Alberta Securities Commission, 5th Floor, 250 – 5 Street SW, Calgary, Alberta.

Procedure:

1. You may obtain disclosure and particulars of the allegations in this Notice from Janet McCready, c/o Alberta Securities Commission, 600, 250 - 5 Street SW, Calgary, Alberta, T2P 0R4, telephone: 403.297.8049, email: janet.mccready@asc.ca.

2. You may be represented by legal counsel and you or your counsel may make representations and introduce relevant evidence.

3. If you or your counsel fail to attend at the Set Date, or as directed, the hearing may proceed in your absence and an order may be made against you without further notice.

See attached sections 29, 198, 199, and 202 of the Act, and Commission Rule 15-501 – Rules of Practice and Procedure for Commission Proceedings.

Reciprocation: Take notice that orders or settlements made by the Commission may form the basis for parallel orders in other jurisdictions in Canada. The securities laws of some other Canadian jurisdictions may allow orders made in this matter to take effect in those other jurisdictions automatically, without further notice to you. If an order is made or a settlement agreement is reached in relation to this Notice, you should contact the securities regulator of any other jurisdiction in which you may intend to engage in any securities-related activities.

Overview

1. Staff of the Commission allege that the Respondents breached Alberta securities laws in connection with a long-term, large-scale investment program. The program generally was designed to provide a means for church members to invest and earn interest on funds by pooling and loaning them to Lutheran churches and schools for capital improvement projects. However, while representing the investments to be safe, diversified, and "guaranteed", the Respondents placed the overwhelming majority of the invested funds into a high-risk, loan-defaulting, speculative land development project without appropriate disclosure to investors. The program and the corporate Respondents collapsed financially in early 2015, with court protection under the *Companies' Creditors Arrangement Act* (***CCAA***) being sought and granted.

2. Staff allege that the long pattern of positive representations, without including necessary risk-related disclosures, amounted to misleading statements. The Respondents knew or ought to have known that the information withheld from investors was material, and meant that the statements which had been made were misleading. The Respondents knew or ought to have known that the price or value of the securities in issue was dramatically affected by the non-disclosures.

3. Investors in the program have lost many millions of dollars as a result of its collapse, with the exact value not yet determined. In recognition of investors' losses and in order not to deplete assets that may be available in ongoing CCAA proceedings, Staff will seek no monetary administrative penalties against the corporate Respondents.

Allegations

Respondents

4. Lutheran Church–Canada, the Alberta-British Columbia District (the **District**) is a corporation originally formed on or about March 24, 1944, pursuant to the laws of Alberta. The District is a registered charity and at all material times operated out of Edmonton, Alberta.

5. Lutheran Church–Canada, the Alberta-British Columbia District Investments Ltd. (**DIL**) is a not-for-profit company formed by the District on or about December 2, 1996, pursuant to the laws of Alberta.

6. Donald Robert Schiemann (**Schiemann**) is an individual who was at all material times a resident of Alberta. From 2000 to 2015, Schiemann was an officer and a director of the District and DIL, as defined by the *Act*.

7. Kurtis Francis Robinson (**Robinson**) is an individual who was at all material times a resident of Alberta. From 2007 to 2015, Robinson was an officer of the District and DIL, as defined by the *Act*.

8. James Theodore Kentel (**Kentel**) is an individual who was at all material times a resident of British Columbia. From 1997 to 2000, and from 2003 to 2015, he was a director of the District and DIL, as defined by the *Act*. From 2009 to 2015, he was the Chair of the District's board of directors and as such was an officer of the District as defined by the *Act*.

9. Mark David Ruf (**Ruf**) is an individual who was at all material times a resident of Alberta. From 2006 to 2015, he was an officer and director of the District and DIL, as defined by the *Act*.

10. Harold Carl Schmidt (**Schmidt**) is an individual who was at all material times a resident of Alberta. From 2001 to 2015, he was a director of the District and DIL, as defined by the *Act*.

History and Background

<u>Church Extension Fund</u>

11. For decades leading up to January 2015, the District operated the Church Extension Fund (**CEF**). The CEF was an unregistered trade name and ministry designed to facilitate the investment of funds by individual investors and congregations into faith-based developments such as churches and schools in Alberta and British Columbia. At all times this was promoted as an investment opportunity, distinct from any donations made by church members.

12. The District operated the CEF by soliciting and obtaining funds from investors, principally District members. The investments took the form of savings/investment accounts, term deposits, and bonds. The invested funds were pooled and generally loaned to individual church congregations and affiliated entities. Some of the funds were held in cash and marketable securities. Investors were promised set rates of interest on the invested funds. The investments generally had flexible terms that allowed investors to withdraw their funds upon request.

13. The CEF was operated continuously from its inception until approximately January 2015. As of November 30, 2014, over $95 million was invested by over 2,600 investors in the CEF.

<u>District Investments Ltd.</u>

14. The District created DIL in or about 1996 to offer investors similar investment opportunities as were available through the general CEF program, but with the added benefit of providing tax efficiencies through Registered Retirement Savings Plan, Registered Retirement Investment Fund, and Tax Free Savings Account accounts.

15. Under trust agreements with investors, funds invested in DIL were pooled and loaned to individual church congregations and affiliated entities. Security in the form of mortgages was generally taken by DIL over assets of the borrowing church congregations. Some of the funds received from investors were held in cash and marketable securities. As with the general CEF program, investors were promised set rates of interest on invested funds.

16. Although legally distinct from the District, DIL was operated in effect as a division of the District. Further, on some occasions District management, the board of directors and staff used the expressions "Church Extension Fund" and "CEF" to include DIL.

17. DIL was operated continuously from its inception until approximately January 2015. As of November 30, 2014, over $37 million was invested by over 900 investors in DIL.

<u>Investments Constituted Trades in Securities</u>

18. Investments in the District's CEF program and investments in DIL constituted securities as defined in the *Act* (the **District and DIL Securities**).

Respondents' Actions

Promotional Practices and Statements

19. For decades leading up to January 2015, investment in the CEF and DIL was regularly promoted through announcements and bulletins at churches within the District, at District conventions, in advertisements in District publications, and in various other congregation publications (the **Promotional Practices**).

20. As an element of the Promotional Practices, the District and DIL engaged representatives from congregations to market the investments to members of their respective congregations. The representatives were provided with copies of a Church Extension Manual by the District and were trained to be information resources and contact persons for investors. This manual identified that "the primary goal of Church Extension is to provide loans with reasonable interest rates to congregations that need property/buildings in order to carry out the ministry of reaching souls for Christ". This was relayed by the representatives to prospective investors.

21. The Church Extension Manual also promoted investments in the CEF and DIL as "guaranteed", and included descriptions of the loan eligibility requirements, criteria, and conditions under which investors' funds were to be loaned. These conditions included, among other things, obtaining "security documentation appropriate to the size and conditions of the loan". As part of the Promotional Practices, representatives referred to these requirements, criteria, and conditions.

22. The Promotional Practices also included, but were not limited to, the following statements (the **General Statements**):

22.1 Church Extension has been operating for over 80 years and no one has ever lost a penny in Church Extension.

22.2 Your investment in Church Extension is guaranteed by ABC District of Lutheran Church Canada which has in excess of 30 million dollars of assets.

22.3 The guarantee of the Church is much more certain than the guarantee of a government whose indebtedness is among the 30 Countries in the world with the highest debt ratio per capita.

22.4 Church Extension investments are used to provide loans to congregations. No congregation has ever defaulted on its loan. If a congregation is struggling to make its payments, the ABC District works with it to ensure that the loan is paid off.

22.5 Is my investment safe? Your investment in Church extension is probably safer than in any commercial financial institution. Church Extension has been in operation since 1921 and no one has ever lost a penny. Your investment is guaranteed by the Church.

22.6 CEF interest rates have remained consistently higher than the "Big Five" commercial banks (BMO, CIBC, Bank of Nova Scotia, TD Canada Trust and Royal Bank) over the past year.

22.7 We would like you to know that CEF continues to maintain a strong capital position to support growth and operations to protect our investors against losses.

22.8 Our position of liquidity is healthy, with an investment portfolio of $20 million very marketable securities and an additional $80 million plus invested throughout the District with congregations in the form of loans for land and buildings. … In fact, with our loan portfolio - made up of loans to congregations and other ministries - we are experiencing normal repayment histories.

22.9 No investor has ever lost any portion of account principal or interest in the history of ABC District Church Extension - over 88 years.

22.10 With more than 130 million in assets today, CEF is presently assisting more than 50 congregations throughout Alberta & British Columbia with loans to help.

23. In addition, in or about early 2013, Schmidt made a statement to individual investors that the CEF was an excellent investment and a safe place to invest funds (the **Individual Statement**). Relying on the Individual Statement and knowing that he was a member of the District Board of Directors, these investors invested $300,000 into the CEF in February, 2013.

Effect of the Promotional Practices

24. The Promotional Practices, General Statements and Individual Statement resulted in the sale of many millions of dollars' worth of District and DIL Securities. Promotion and sales of District and DIL Securities continued until approximately mid-2014, with the amounts invested constantly fluctuating as investors deposited and withdrew funds. More particularly:

24.1 The total outstanding balance of securities issued to investors by the District was valued at approximately $27 million in 2000, $74 million in 2006, $96 million in 2010, $108 million in 2012, and $95 million in early 2015; and

24.2 The total outstanding balance of securities issued to investors by DIL was valued at approximately $2.7 million in 2000, $17 million 2006, $28 million in 2010, $34 million in 2012, and $37 million in early 2015.

Exposing Investor Funds to Increased Risk

25. In or about the early to mid-1990s, the District and DIL began loaning investor funds in support of the Prince of Peace Lutheran "community" development. This development began with a church and school east of Calgary, Alberta (the **Prince of Peace Church and School**), with plans to add substantial seniors' housing projects for independent living and assisted living, and, eventually, dementia care (the **Prince of Peace Development**).

26. Over the next several years, the District and DIL placed increasing amounts of investors' funds into the Prince of Peace Development, such that by late 2014 approximately 90% of investors' funds in the CEF, and approximately 75% of investors' funds in both the CEF and DIL combined, were invested in this project.

27. The increasing concentration of investors' funds into the Prince of Peace Development included the following steps:

27.1 In 1997, the District authorized its treasurer to obtain a $6.5 million bank loan for construction of the Prince of Peace Village (**Village**), a 174 unit independent living seniors' facility within the Prince of Peace Development.

27.2 In 2001, despite receiving a marketing report recommending delaying construction, the District began construction of the Prince of Peace Manor (**Manor**), a 132-unit senior assisted-living residence within the Prince of Peace Development.

27.3 In 2001, the District authorized its treasurer to apply for a $14.5 million bank mortgage to support the operational budget of the Prince of Peace Development.

27.4 In 2002, the District authorized a loan of up to $15 million for construction of the Prince of Peace Development by way of a loan from the Bank of Montreal, a loan from the CEF, or a combination of the two.

27.5 In 2004, the District assumed responsibility for the Village and Manor, relieving the Prince of Peace Lutheran Church congregation from responsibility in order to focus its ministry on the Prince of Peace Church and School.

27.6 In 2004, the District approved a loan of up to $900,000 for the Prince of Peace Church and School to address operational shortfalls.

27.7 In 2005 and early 2006, under the guidance of the District, Encharis Community Housing and Services (ECHS) and Encharis Management and Support Service (EMSS) were incorporated to own and manage the Village and Manor, as well as an additional District-supported seniors' housing project known as the Shepherd's Village located in Valleyview, Alberta. ECHS and EMSS (collectively, **Encharis**) and the District-appointed representatives to ECHS and EMSS were accountable to the District.

27.8 In 2005, the District approved a $45 million line-of-credit for Encharis.

27.9 In 2005, the District used nearly $1.5 million to purchase approximately 101 acres of real property on the south border of the town of Chestermere for unspecified future land development or alternatively for future sale. These lands, together with the lands and other assets associated with the Village and Manor, were transferred to ECHS in 2006 in return for the assumption by ECHS of life-leases and other contractual debt, plus a $38 million vendor take-back mortgage.

27.10 In 2007, the District approved a $5.85 million loan to Encharis to purchase land in Strathmore. In or about 2008, the District foreclosed on this property and transferred it in whole or part to DIL. The land in Strathmore continued to be held by the District and/or DIL into at least 2015 for rental revenue and speculative land sale purposes.

27.11 In the year prior to January 31, 2009, the District advanced approximately $13.9 million in new funds to Encharis, including funds to be used towards constructing a proposed senior's dementia-care unit known as the Prince of Peace Harbour (**Harbour**).

27.12 In 2009, the District agreed to guarantee an $8.5 million loan taken out by Encharis from the Bank of Montreal, which funds were then used by Encharis to pay the District for delinquent loans.

27.13 In the year prior to January 31, 2010, the District advanced approximately $13.4 million in new funds to Encharis.

27.14 In 2011, the District authorized moving "the appropriate funds" from the District and DIL to Encharis to pay out the 2009 loan from the Bank of Montreal.

27.15 By January 2012, mortgage loans in favour of Encharis amounted to nearly $70 million and represented over 95% of the total mortgage loans payable to the District.

27.16 In 2012, the District authorized lending Encharis a further $7.2 million to complete water servicing of raw land owned by Encharis near the Prince of Peace Development.

27.17 In 2012, 2013, and 2014, the District continued to explore, and cause Encharis to explore, land development as a means to obtain funds necessary to repay the District.

28. From 1997 to 2015, the District became increasingly involved in the management and operation of the Prince of Peace Development and Encharis in particular. Specifics of such involvement include:

28.1 Members of the District board of directors determined that the seniors' ministry elements of the Prince of Peace Development should be separated from the Prince of Peace Church and School.

28.2 Members of the District board of directors arranged for the creation of Encharis to manage and operate the seniors' ministry, but then also acted in management, officer or director roles for Encharis. In particular, each of Schiemann, Robinson, Kentel and Ruf were managers, officers or directors for Encharis during some or all of the time that they were officers or directors, or both, of the District and DIL.

28.3 Management staff from the District, including Robinson, were transferred or seconded to Encharis.

28.4 Key decisions about Encharis were effectively made or imposed by the District's management and board of directors.

29. As a result of such involvement, the District increasingly acted in a serious conflict of interest with respect to the Prince of Peace Development and Encharis, lacking objectivity and independence with respect to financial decisions and compounding the risk to investors.

30. On January 23, 2015, the District and DIL, along with ECHS and EMSS, obtained an initial order from the Court of Queen's Bench of Alberta under the *CCAA* on the basis that these entities were insolvent and sought protection against bankruptcy and other proceedings.

Roles and Responsibility of the Individual Respondents

31. While engaged as an officer or director, or both, of the District and DIL, each of Schiemann, Robinson, Kentel, Ruf and Schmidt was aware of the District and DIL's operations described above, directed or supported them, and oversaw their operation in conjunction with other members of the District's management and board of directors.

32. Further, while engaged as an officer or director, or both, of the District and DIL, each of Schiemann, Robinson, Kentel, Ruf and Schmidt authorized, permitted, or acquiesced in the actions described herein.

33. Further, notwithstanding his position as a director of the District and DIL and the knowledge he held in that capacity, Schmidt personally made the Individual Statement.

The Respondents' Knowledge and Awareness of Risks

34. In or about 1997, the Lutheran Church Synod asked the District to ensure compliance with securities laws.

35. In or about 1998, the auditor for the District and DIL raised significant concerns to management and the board of directors of the District about the accounting and governance practices followed by the District, and the significant volume and complexity of its financial activities. The auditor's recommendations included ensuring that senior member(s) of the board be assigned to review the detailed financial activities of the District and how management accounts for such activities.

36. In 2004, the District's management and board of directors were made aware that the Prince of Peace Development was losing money every month. Significant financial concerns were highlighted, including insufficient occupancy and monthly operating and financing losses. Additional funds from the District were requested for operational expenses, with deficits projected to continue. An independent reviewer expressly cautioned that the Prince of Peace Development might never be able to repay a significant amount of debt to the District, and recommended a full financial review of the Prince of Peace Development.

37. In or about 2005, the District's management and board of directors expressly considered whether to disclose to investors information about the "sizeable investment" in the Prince of Peace Development. No such disclosure was made.

38. In 2008:

38.1 Staff of the District were made aware that Encharis was still not able to pay contractually-required principal repayments of $2 million for each of 2007, 2008, and 2009.

38.2 The Executive Director of Encharis provided a written report to the District's management and board of directors, including all of the individual Respondents, highlighting dire financial circumstances and estimated the District would lose over $10 million if the District "abandoned ship" with respect to Encharis loans at that time.

38.3 The Respondents knew or ought to have known that:

38.3.1 over 80% of District loans were in favour of Encharis;

38.3.2 Encharis was in default respecting principal payments to the District;

38.3.3 ECHS—the property-holding arm of Encharis—had no financial statements;

38.3.4 Encharis was not properly reporting to the District or following the District's guidelines; and

38.3.5 the Encharis assets were not sufficient to pay its liabilities.

38.4 The District retained PricewaterhouseCoopers Inc. to conduct a business review of Encharis in order to assist the District in deciding whether to extend additional funding to Encharis. Citing a lack of information and cooperation from Encharis, as well as weak internal controls and a weak accounting function, PricewaterhouseCoopers Inc. urged caution in dealing with Encharis, including possibly withholding the advancement of future funds until the District has been provided with necessary financial and operational information to make informed decisions.

39. As of 2009, the Respondents had been advised by Encharis management that the only path for potential repayment of the District and DIL investor funds loaned to Encharis was the development of raw land located next to and nearby the Prince of Peace Development.

40. Between spring 2008 and September 2012, the Respondents continued to be aware that Encharis was not making progress in paying down its indebtedness to the District, that the indebtedness continued to grow, and that Encharis was unlikely to earn enough operational income to pay even the interest on the indebtedness in the foreseeable future.

41. From approximately mid-2010 through 2015, Robinson was "seconded" by the District to act as an advisor to Encharis. In this role, he was expected to provide leadership to the Encharis "Workout Committee", while continuing to act as both President of DIL and as Executive Assistant, Stewardship & Financial Ministry Services for the District. In his roles with Encharis, the District and DIL, Robinson was privy to in-depth financial information regarding each of these organizations. Robinson shared relevant knowledge respecting the financial condition of Encharis with the other individual Respondents.

42. In 2010:

42.1 The Respondents adopted an Investment Policy Statement with the stated intention of providing a stable income base without exposing the CEF to an inappropriate level of investment risk. The Investment Policy Statement identified diversification of assets as the most important criteria to reduce the level of risk.

42.2 The District's auditor identified that the fair market value provided for key properties ostensibly securing District loans to Encharis were either out of date or based on estimates, and that new valuations would be required for the 2011 audit. Thereafter, management and the board of directors of the District chose to retain a new auditor for the following year.

42.3 The Respondents received the District audit committee's recommendation that the District board of directors obtain financial statements, an asset listing, and an appraisal on Encharis by October 31, 2010, along with a clear outline of the risk exposure to the District.

43. In 2011:

43.1 Encharis management reiterated to the Respondents that reduction of the Encharis indebtedness to the District must come primarily from further land development or sale of land.

43.2 The District's new auditor expressed concern to management of the District regarding the ability of Encharis to repay its indebtedness to the District, and that the value of Encharis assets was or may be substantially less than the value of Encharis' outstanding indebtedness to the District.

43.3 Prior to advancing approximately $8 million to Encharis to pay out its 2009 loan from the Bank of Montreal, the Respondents were aware that the Bank of Montreal likely held Encharis to stricter guidelines and covenants than did, or would, the District.

44. In 2012:

44.1 The Executive Director of Encharis advised the Encharis board of directors, which included Schiemann, Kentel, and Ruf, as well as Robinson in his seconded/advisory role, that the existing Encharis operation could not generate enough profit to pay the District interest payments, and that timely development or the sale of property was imperative.

44.2 The District's auditor expressed concern to the Respondents that the assets of ECHS were insufficient to support the amounts borrowed from the District and DIL, and that an impairment write-down of over $24 million and a "going concern disclosure" appeared necessary in respect of the District's financial statements. The Respondents contested the auditor's impairment view, notwithstanding recognition that key ECHS land was "not worth a lot" without development.

45. In 2013, the District's management and board of directors considered a third-party development proposal in respect of the Prince of Peace Development, including an opinion that liquidation at the time would result in a $20 million loss. By the end of 2013, the District's management and board of directors still had not approved financial statements for the fiscal year ending January 31, 2013.

46. In or about July 2014, the District's management and board of directors were advised by financial consultants that the District and DIL were "insolvent".

The Respondents' Failures to Disclose

47. From the early 2000s until January 2015, the Respondents failed to disclose a significant number of facts to existing and prospective purchasers of the District and DIL Securities (the **Undisclosed Facts**). The Undisclosed Facts include, but are not limited to, the following:

47.1 Investors' funds were increasingly concentrated in loans made for the Prince of Peace Development and to Encharis, until by 2014 approximately 90% of investors' funds in the CEF, and approximately 75% of investors' funds in both the CEF and DIL combined, were loaned to Encharis and the Prince of Peace Development.

47.2 Adequate or reasonable security had not been obtained respecting the majority of funds loaned by the District.

47.3 The District did not take reasonable or adequate steps to ensure that assets meant to secure Encharis' indebtedness to the District were of sufficient value to provide such security. Further, when appraisal information was provided to the District, it suggested a significant deficiency in security for Encharis indebtedness.

47.4 The Prince of Peace Development and Encharis were consistently and materially in default on their interest and principal obligations to the District and DIL.

47.5 Notwithstanding the amounts ECHS owed to the District and DIL, the District and DIL did not obtain audited or reviewed financial statements from ECHS until late 2014.

47.6 The only realistic prospect for the District to recover the full amount owing from Encharis was through real estate development of lands within or near the Prince of Peace Development, or through the sale of such lands.

47.7 The District's management and board of directors had repeatedly been cautioned not to provide additional funding to Encharis without improved repayment security.

47.8 The District's management and board of directors frequently did not adhere to internal District policies or guidelines on advancing funds, setting interest rates, or addressing delinquent loans. After 2010, the District's management and board of directors did not adhere to the written CEF Investment Policy Statement.

47.9 The District loaned approximately $8 million to Encharis in 2011 to enable Encharis to pay off a bank loan in circumstances where Encharis was consistently remaining in default of its obligations on previous District loans.

47.10 The District's management and board of directors approved a $7.2 million loan to Encharis in 2012 for the construction of a water pipeline, and advanced at least some of these funds in circumstances where Encharis was consistently remaining in default of its obligations on previous District loans.

47.11 There was substantial overlap in management, ownership and other relationships between the District and DIL, on the one hand, and Encharis on the other hand, that resulted in a stark lender-borrower conflict of interest situation.

47.12 Inadequate or no steps were taken by the District and DIL to ensure that loans to Encharis and other funds advanced for the Prince of Peace Development were adequately secured and were reasonably proportionate to the fair market value of the assets for which the loans were provided.

48. The Undisclosed Facts were material, and the Respondents knew or reasonably ought to have known they were required to be stated in order to make the General Statements not misleading.

49. Further, at the time of making the Individual Statement, Schmidt failed to disclose some or all of the Undisclosed Facts. In the circumstances, he knew or reasonably ought to have known that the Undisclosed Facts were required to be stated in order to make the Individual Statement not misleading.

<u>Harm to Investors</u>

50. On January 23, 2015, the Alberta Court of Queen's Bench made an order under the *CCAA* granting a stay of proceedings against the District, DIL, and others, and appointing Deloitte LLP as the Monitor (the **CCAA Proceedings**). The CCAA Proceedings were initiated as a result of the insolvency of the District and DIL.

51. As of January 23, 2015, CEF had a total of 2,674 investors—1,694 from Alberta and 980 from British Columbia—with a total amount (principal and interest) owing to investors of approximately $96.7 million. Approximately 60% of these investors were over 70 years old.

52. As of January 23, 2015, when the CCAA Proceedings were initiated in court, DIL had 914 investors—660 from Alberta and 254 from British Columbia—with a total amount (principal and interest) owing to investors of approximately $37.1 million.

53. As at the date of this Notice of Hearing, and based on the reports of the Monitor in the CCAA Proceedings, the CCAA restructuring process appears to have provided CEF investors with total cash disbursements of less than $20 million, plus restricted securities in a new corporate entity known as Sage Properties Corp. The value of the securities in Sage Properties Corp. remains uncertain and is disputed by some affected parties.

54. As at the date of this Notice of Hearing, and based on the reports of the Monitor in the CCAA Proceedings, the CCAA restructuring process has provided DIL investors with total cash disbursements of approximately $30.7 million, with no further disbursements anticipated.

Breach of Alberta securities laws

Making misleading statements contrary to section 92(4.1) of the *Act*

55. Staff allege that each of the Respondents breached, or authorized, permitted, or acquiesced in the breach of section 92(4.1) of the *Act.*

56. In particular, each of the Respondents made statements, or authorized, permitted, or acquiesced in the making of statements, in circumstances where they knew or reasonably ought to have known that:

56.1 The General Statements and, in the case of Schmidt, also the Individual Statement, were misleading or untrue in the absence of disclosure of the Undisclosed Facts; and

56.2 These misleading or untrue statements would reasonably be expected to have a significant effect on the market price or value of the securities in the District and DIL.

	)	ALBERTA SECURITIES COMMISSION
Calgary, Alberta, June 27, 2018.	)	
	)	
	)	*"Original Signed By"*
	)	David C. Linder, Q.C.
	)	Executive Director