



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 TWENTY FIRST 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 August 31, 2012 the stay of proceedings in respect of MCAP Financial Corporation, in relation to Medican (Westbank) Development Ltd., Medican (Westbank) Land Ltd. (collectively the "Kaleido Project") and Sanderson of Fish Creek (Calgary) Developments Ltd. (the "Sanderson Project") was extended up to and including November 30, 2012.
3. The Medican Group filed its Plan of Compromise and Arrangement dated November 30, 2011 on December 1, 2011. This Plan did not include the Sanderson Project or the Kaleido Project.
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 Twenty First 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 Monitor's Twentieth Report;
 - b. Provide a status update in respect of 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 November 30, 2012 to May 31, 2013.

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 owned, operated and/or managed projects ("Projects") in Alberta, Quebec and British Columbia.
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 Twentieth Report to Court dated July 24, 2012 includes:
 - a. Continued to market for sale the remaining residential condominium units ("Units") in three Projects. All Sanderson Project Units have sold and closed. The Company continues to market for sale the two remaining Units, one at the Sylvan Lake Project and one at the Sitara Project;

- 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 their 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. 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 in British Columbia.
- 16. Majoros is in the process of foreclosing on the Phase 4-7 lands in a separate proceeding.
- 17. The Kaleido Project’s remaining connection to the Company’s CCAA Proceedings is in respect of the allocation matter among the various Medican Projects relating to the Priority Charges. An agreement on the allocation matter has not been reached and it is unlikely this matter can be addressed until such time as the Kaleido Project Phases are sold.

18. The Monitor understands that MCAP plans to foreclose on Phase 1, 2 and 3 in the next few weeks. The Company and the Monitor will engage in discussions with MCAP in an attempt to settle the allocation matter commensurate with the foreclosure action. Regardless of the foreclosure action, it is the Monitor's view that the DIP Charge (totaling \$2,776,422 repaid to Paragon) must remain provided for either as a charge against the lands or held in trust as proceeds of any disposition on the lands.
19. As a result of the foregoing, the Monitor recommends that this Honourable Court extend the CCAA Proceedings for Medican (Westbank) Development Ltd. and Medican (Westbank) Land Ltd. from November 30, 2012 to May 31, 2013 so the allocation matter can be addressed.

SANDERSON OF FISH CREEK (CALGARY) DEVELOPMENTS LTD.

20. 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").
21. Several lenders hold various forms of security against the Sanderson Project. Monies are also owed to unsecured lenders and trade suppliers.

Phase 1 and 2

22. Harbour held a first charge on several Units in Phase 1 and 2 and Imor held a second charge. Harbour has now been paid in full and consequently Imor's second charge migrated to a first charge. Imor was paid the balance of funds realized on the sale of the remaining Phase 1 and 2 Units once Harbour was paid out in full.
23. Sales of the Units in Phase 1 and 2 (and Phase 4A where CIBC provided the financing) were impeded due to construction deficiencies totaling approximately \$1.5 million not being rectified and the requirement to withhold \$41,029.41 (the "Deficiency Withholding") from the sale of each Unit (including Phase 4A Units) so that the Condo Corp. would issue estoppel certificates on sold Units. Funds held in trust by Medican's legal counsel in respect of the Deficiency Withholding totaled \$1,148,823.48 (prior to the distribution of the \$697,499.97 to Imor which is discussed below).

Deficiencies

24. 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 providing Medican with a net profit interest in the Sanderson Project (the “NPI”). The Company’s share of the NPI once the Sanderson Project has been built out is estimated to be in the range of \$1.0 to \$3.0 million and is a key component of the Sanderson Project’s emergence from the CCAA Proceedings.
25. 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.
26. 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.
27. 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.
28. The deficiency matters are a priority dispute and are relevant to the amounts that are owed by the Sanderson Project to the secured creditors. Whether the Deficiency Withholding ranks in priority to the secured creditors is a legal argument that will have to be sorted out before this Honourable Court.
29. Monarch has entered into a confidential agreement with Imor and the Condo Corp. in respect of certain deficiencies relating to the Deficiency Withholding from the sale of the Phase 1 and 2 Units such that \$697,499.97 of the Deficiency Withholding (\$41,029.41 x 17 Units) was distributed to Imor. The payment was made to Imor with the consent of the Condo Corp. The deficiency matter in respect of the Deficiency Withholding from the sale of the Phase 4A Units financed by CIBC will require determination by this Honourable Court. The Company’s legal counsel holds

\$451,323.51 (\$41,029.41 x 11 Units) in respect of the Deficiency Withholding on the CIBC financed Units.

30. In respect of the Monarch Transaction, Monarch has suggested that parking stalls in Phase 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. One parking stall recently sold for \$20,000. On August 8, 2012 Monarch filed an Application in these CCAA Proceedings seeking a declaration that Monarch is the owner of the approximately 45 parking stalls. It is the Monitor's view that the remaining parking stalls should be sold for the benefit of the Sanderson Project secured creditors and are not owned by Monarch.
31. On or about September 11, 2012, this Honorable Court ordered a trial of an issue in respect of the ownership dispute of the approximately 45 parking stalls.
32. The resolution of the deficiency and parking stall matters and further visibility on the development of the Project directly affects the restructuring of the Sanderson Project. Clearly a Plan of compromise and arrangement cannot be advanced until such time as the two matters are resolved. The Monitor understands that the various parties subject to the litigation will work towards a determination of the priority of the Deficiency Withholding and the parking stall matter in early 2013. Accordingly the Monitor supports an extension of the CCAA Proceedings for the Sanderson Project to May 31, 2013 to allow a fulsome hearing and determination of the issues impacting the Sanderson Project and its ability to advance a Plan of compromise and arrangement to its creditors.

PLAN IMPLEMENTATION

33. The Implementation of the Company's Plan was conditional on a number of events set forth in section 7.1 of the Plan. The Monitor last reported that the section 7.1 conditions had been addressed and that implementation of the Plan was imminent. While Medican has executed all documents necessary to implement the Plan, the Company continues to wait for certain materials from third parties. The Monitor is advised that the third party negotiations have now concluded and final documentation is imminently expected. Medican expects to close the transaction on December 31, 2012 commensurate with the Company's calendar year end.

34. 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.
35. The Monitor expects to file with this Honourable Court in early 2013 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

36. No cash flow has been provided as all Sanderson Project Units have been sold and no further operational cost are being incurred by the Company.

CONCLUSION AND RECOMMENDATIONS

37. 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.
38. 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 22nd day of November, 2012.

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



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