

April 7, 2016

Monitor’s Commentary

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

Re: Information provided related to the new company (“NewCo”) to be formed pursuant to the District’s plan of compromise and arrangement (the “District Plan”)

Pursuant to the District Plan, Eligible Affected Creditors with claims over \$5,000, who reside within Canada, will receive a distribution in the form of shares in a new company (“NewCo”). The Monitor has prepared this document to provide some additional commentary around the financial information provided in the NewCo Summary Presentation (the “NewCo Summary”), which is attached as “Schedule 4” to the Monitor’s First Report to the Creditors of the District dated March 28, 2016 (the “Monitor’s Report”). Terms not defined in this document are as defined in the District Plan and in the Monitor’s Report.

The NewCo Summary has been prepared by the CRO and has not been audited or otherwise verified by the Monitor.

Page 16 of the NewCo Summary is titled “Financial Highlights” and includes adjusted historical financial information (the “Financial Summary”) for Encharis Management and Support Services (“EMSS”). EMSS is a registered charity, which has historically operated the Harbour and Manor seniors’ care facilities for the purpose of providing integrated supportive living services to seniors based on their assessed care needs. The Harbour and Manor seniors’ care facilities will be referred to as the “Facilities”, which term will reference both the corresponding buildings and the operations.

The Monitor notes that, although the Financial Summary reflects historical revenue and expenses related to EMSS’ operation of the Facilities, there will be key differences between the operations of EMSS and those of NewCo, as summarized below:

1. EMSS currently leases the buildings that house the Facilities (the “Buildings”) from Encharis Community and Housing Services (“ECHS”, the “ECHS Lease”). In the Financial Summary, the lease payments to ECHS have been added back to reflect the

fact that NewCo will own the Facilities as well as the surrounding expansion and development lands and the Prince of Peace Church and School (collectively the “Prince of Peace Properties”). The CRO has indicated that the majority of the costs related to the ownership of the Facilities were previously being paid by EMSS and are included in the Financial Summary. The Monitor notes the following, however, with respect to property taxes:

- a. The Financial Summary does not include property taxes for a vacant lot within the Prince of Peace Village, which is currently listed for sale, or land on which a recreational vehicle lot is currently located (collectively the “Lots”) within the Prince of Peace Properties. In 2014 and 2015 respectively, ECHS reported paying property taxes of approximately \$4,900 and \$3,900, respectively, related to the Lots.
- b. Property taxes for the Manor seniors’ care facility have historically been paid by EMSS and are reflected in the Financial Summary. Historically, a partial exemption from property taxes has been granted on this parcel of land based on the level of funding that the Manor seniors’ care facility receives from Alberta Health Services (“AHS”).
- c. The parcel of land that houses the Harbour seniors’ care facility is not currently subdivided and also houses the Prince of Peace Church and School and the expansion and development lands. Historically, a full exemption from property taxes has been granted on this parcel of land, based on the following:
 - i. The level of funding that the Harbour seniors’ care facility receives from AHS; and
 - ii. The fact that a religious organization and a school are housed on this parcel of land.

NewCo may continue to benefit from some of the property tax exemptions described above in the short-term, however, the amount payable for property taxes will change following the further subdivision of the Prince of Peace Properties by NewCo.

2. NewCo will be incorporated under the Alberta Business Corporations Act whereas EMSS is a registered charity. As such, NewCo will be a taxable corporation whereas EMSS is tax exempt. The Monitor notes that, as the owner of the Prince of Peace Properties, NewCo may be able to offset available tax deductions related to the Prince of Peace Properties as against future income tax payable by NewCo.

3. NewCo's mandate will be determined at a meeting of NewCo's shareholders to be held within six months of the District Plan becoming effective. NewCo's mandate may differ significantly from that of EMSS, which may result in additional revenue and expenses being reported by NewCo, beyond what has historically been reported by EMSS. The revenue and expenses associated with a change in NewCo's mandate are unknown and are not reflected in the Financial Summary.
4. Pursuant to the District Plan, assets held by ECHS, including working capital, computer hardware, equipment, furniture and fixtures and a water treatment plant, will be transferred into NewCo. As noted by the CRO in the NewCo Summary, additional revenue and expenses currently incurred by ECHS (the "ECHS Expenses") are not reflected in the Financial Summary including those related to ECHS' provision of water and sewer services. For the 2014 and 2015 fiscal years, ECHS recorded that expenses related to the provision of water and sewer services exceeded the corresponding revenues by approximately \$142,300 and \$107,300 respectively (the Monitor notes that NewCo will likely revisit the current cost structure related to the provision of water and sewer services). The ECHS Expenses would also include minor administrative expenses.
5. Revenue and expenses associated with the lease of the Prince of Peace Church and School to the Rockyview School Division (the "School Lease") have also been excluded. This lease has historically been negotiated between the Prince of Peace Church and the Rockyview School Division. The School Lease is currently subject to renewal. As NewCo is anticipated to be the future lessor, such a renewal would be negotiated subject to the approval of NewCo's management team and the District's creditor committee. The revenues and expenses associated with the School Lease are currently unknown and are not reflected in the Financial Summary.
6. As set out in the NewCo Summary, NewCo is being established with a professional management team, whose compensation will be set by NewCo's board of directors. The amount of this compensation is currently unknown and is not reflected in the Financial Summary.
7. The Financial Summary does not include amounts related to the Prince of Peace Properties that have been capitalized and then depreciated, on the balance sheet for ECHS or EMSS.
8. The Financial Summary includes financial information for EMSS for the 10 month period ended January 31, 2016 (the "2016 Financials"). The 2016 Financials are unaudited and have not been audited or otherwise verified by the Monitor. The 2016 Financials

may be subject to further adjustments, including year-end adjustments. The Monitor notes that, in addition to adding back payments under the ECHS Lease, the following adjustments have been made by the CRO to the 2016 Financials from what was originally reported by EMSS:

- a. Extraordinary income of approximately \$31,500 has been excluded, which the CRO has advised is not reflective of the general operations of the Facilities;
- b. Capital expenditures of approximately \$33,300 have been excluded, which the CRO has advised will be capitalized at year-end; and
- c. Restructuring costs of approximately \$179,200 have been excluded, which relate to the CCAA proceedings.


As described herein, although the Financial Summary reflects historical revenue and expenses related to EMSS, which operates the Facilities, there will be key differences between the operations of EMSS and those of NewCo. As such, the financial results of NewCo will differ from those of EMSS and variances between the two may be material.

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

Yours truly,

DELOITTE RESTRUCTURING INC.

In its capacity as the Court-appointed Monitor of Lutheran Church – Canada, the Alberta – British Columbia District, Encharis Community Housing and Services, Encharis Management and Support Services and Lutheran Church – Canada, the Alberta – British Columbia District Investments Ltd. and not in its personal or corporate capacity



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