

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

EIGHTEENTH REPORT TO THE COURT

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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JUDICIAL CENTRE
OF CALGARY
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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 February 29, 2012 the stay of proceedings in respect of MCAP Financial Corporation, in relation to Medican (Westbank) Development Ltd., Medican (Westbank) Land Ltd. and Sanderson of Fish Creek (Calgary) Developments Ltd. was extended to May 30, 2012.
3. The Medican Group filed its Plan of Compromise and Arrangement dated November 30, 2011 on December 1, 2011. The Plan did not include the Sanderson Project owned by Sanderson of Fish Creek (Calgary) Developments Ltd. and the Kaleido Project owned by Medican (Westbank) Development Ltd. and Medican (Westbank) Land Ltd.
4. On January 11, 2012, a substantial majority of Affected Creditors voted in favour of the Amended Plan of Compromise and Arrangement (the "Plan") and on January 13, 2012, the Court issued an order (the "Sanction Order") approving the Medican Group's Plan.
5. Capitalized terms not defined in this Eighteenth Report are as defined in all orders previously issued in respect of these CCAA Proceedings and in the Plan.

Purpose of this Report

6. The purpose of this report ("Report") is to:
 - a. Provide an update on the Company's progress since the Court issued the Sanction Order;
 - b. Provide a status update in respect of Sanderson of Fish Creek (Calgary) Developments Ltd. (the "Sanderson Project"); and
 - c. Respectfully recommend that this Honourable Court grant an order extending the CCAA Proceedings for the Sanderson Project and the Kaleido Project from May 30, 2012 to July 27, 2012.

Terms of Reference

7. In developing this Report, the Monitor has relied upon unaudited financial information prepared by the Company's management, the Company's books and records and discussions with its management. The Monitor has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future-oriented financial information relied upon in this Report is based on management's assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material, and as such the Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Monitor in preparing this Report.

Currency

8. Unless otherwise noted all currency references in this Report are in Canadian dollars.

BACKGROUND

9. The Medican Group comprised several private companies engaged in the real estate construction and development business. The Company currently owns, operates and/or manages projects ("Projects") in Alberta.
10. Additional background information is included in previous materials filed with the Court in these CCAA Proceedings, including the previous reports filed by the Monitor. Materials filed with the Court can be found on the Monitor's website at <http://documentcentre.eycan.com/Pages/Main.aspx?SID=196>.

COMPANY'S ACTIVITIES

11. A Summary of the Company's progress since the Monitor's Seventeenth Report to Court dated February 24, 2012 is provided below. Among other things, the Company:
 - a. Accepted offers, with the Monitor's approval, on 13 existing or under-construction residential condominium unit ("Units"). There remain 7 Units listed for sale in three Projects;

- 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;
 - d. Continued to work towards the closing of the arrangement with SuccessorCo pursuant to the Plan; and
 - e. Engaged in ongoing negotiations with various stakeholders in respect of the deficiencies affecting the Sanderson Project such that a plan of compromise and arrangement can be finalized and placed before creditors for consideration.
12. Certain of the above activities are discussed in greater detail herein.

MEDICAN (WESTBANK) LAND LTD.

- 13. The Kaleido Project is a condominium development project located in Westbank, British Columbia. The Company planned to develop a seven-phase, 717 unit condominium complex on the subject lands.
- 14. The Monitor has previously reported to this Honourable Court in respect of the Kaleido Project. Phase 1, 2 and 3 are financed by MCAP Financial Corporation ("MCAP"). Phase 4-7, which is raw land, is financed by Zolton and Margaret Majoros ("Majoros").
- 15. On December 5, 2011, this Honourable Court granted an Order lifting the stay of proceedings and granting leave to MCAP to appoint a receiver in respect of Phase 1, 2 and 3. Phase 1, 2 and 3 are in receivership.
- 16. Majoros is in the process of foreclosing on the Phase 4-7 lands pursuant to an Order granted by this Honourable Court lifting the stay of proceedings and granting leave to Majoros in respect of a foreclosure.
- 17. The only connection that the Kaleido Project has to the Company's CCAA Proceedings is in respect of the allocation matter among the various Medican Projects relating to the Priority Charges which needs to be addressed for the Kaleido Project.
- 18. Accordingly, the Monitor recommends that this Honourable Court extend the CCAA Proceedings for the Kaleido Project from May 30, 2012 to July 27, 2012.

SANDERSON OF FISH CREEK (CALGARY) DEVELOPMENTS LTD.

19. The Project known as "Sanderson of Fish Creek" is located in Calgary, Alberta. It is to consist of five phases with a total of 352 Units. The Sanderson Project was established in multiple phases referred to as Phases 1, 2, 3, 4A and 4B. The Sanderson Project also included certain adjacent lands ("Church Lands").
20. Several lenders hold various forms of security against the Sanderson Project and unsold Units. Monies are also owed to unsecured lenders and trade suppliers.
21. The Company's marketing of the Units has resulted in several sales such that there are only 3 Units that have not yet been sold.

Phase 1 and 2

22. Harbour holds a first charge on the two remaining Units in Phase 1 and 2 and Imor has a second charge on those two Units.
23. The Units in Phase 1 and 2 are not complete. The budgeted costs to complete the remaining unsold Units approved by Harbour, Imor and this Honourable Court on March 31, 2011, are understated and do not reflect the actual costs being incurred by Medican to complete construction. The primary difference in respect of the costs relates to the time spent by Medican employees on direct and indirect supervision of the Project. Updated costs to complete have been provided to Harbour and Imor (and to CIBC in respect of Phase 4A) for their consideration and approval.
24. Sales of the remaining Units in Phase 1 and 2 were impeded due to construction deficiencies totaling approximately \$1.5 million not being rectified and the requirement to withhold \$41,029.41 from the sale of each Unit so that the Sanderson Project Condominium Corporation will issue estoppel certificates on sold Units.
25. The Medican Group continues to provide weekly update reports to Harbour and Imor in respect of its marketing efforts and sales of Units.

Phase 4A

26. One Unit remains listed for sale. The Company and CIBC continue to work together under protocols established earlier in these CCAA Proceedings. Sales of the Phase 4A Units have been affected by the same issues affecting the Phase 1 and 2 Units.

27. The Company is providing weekly update reports to CIBC in respect of its marketing efforts and sales of Units.

Deficiencies

28. The Company completed the Court-approved transaction (the "Monarch Transaction") with Monarch in respect of Phase 3 and 4B of the Sanderson Project and the Church Lands in January 2011. As previously reported by the Monitor, the Company's share of net profits on the build out of the Sanderson Project is estimated to be as high as \$4 million with such share of the net profits being available to fund the Sanderson Project's plan of compromise and arrangement.
29. 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.
30. 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.
31. Negotiations between the Company and Monarch have continued with the view to reaching some consensus on rectification of the deficiencies. Both the Company's legal counsel and the Monitor have advanced to Monarch proposed mechanisms that would provide for financial participation of several of the Sanderson Project stakeholders (Monarch, CIBC, Harbour, Imor, National Home Warranty and the Sanderson Project Condominium Corporation) in an attempt to resolve the deficiency issues. Unfortunately, Monarch is not prepared to accept any of the mechanisms put forward to them to address the deficiencies at the Sanderson Project.
32. It appears the only way to deal with the current Company/Monarch impasse is to seek direction from the Court. The Company advises it will make application to the Court for a hearing within the next 30 days to attempt to finally resolve rectification of the Sanderson Project deficiencies.

33. It is unlikely a plan of compromise and arrangement can be advanced in respect of the Sanderson Project until such time as the deficiency matter is resolved.
34. The Company advises that subject to Court availability, it will make every attempt to place the deficiency matter before the Court on a very timely basis. Accordingly, given the Company's stated time frame to attempt to address the Sanderson Project deficiencies the Monitor supports an extension of the CCAA Proceedings for the Sanderson Project to July 27, 2012.

PLAN IMPLEMENTATION

35. The Implementation of the Company's Plan is conditional on a number of events set forth in section 7.1 of the Plan. All but one condition has been satisfied, which has delayed the closing of the Plan.
36. The Personal Property Registry reflects that CIBC holds security over Medican Concrete Inc. ("Concrete") and appears to have a personal guarantee from one of the principals currently operating Concrete. Unfortunately, to date CIBC has been unable to produce the documents supporting the security or the personal guarantee. The Monitor has been in regular contact with CIBC and it appears that legal counsel who acted for CIBC in respect of the Concrete security has documents in respect thereof and will be providing same to CIBC once those documents are retrieved from storage. Once the status of CIBC's security is determined, the Company's Plan can be implemented.
37. The Monitor will then commence its review of the Disputed Claims in accordance with the Claims Procedure Order within 60 days of the Plan Implementation Date.
38. The Monitor expects to file with this Honourable Court the Monitor's Certificate in accordance with section 7.3 of the Plan stating that Plan Implementation has occurred in accordance with all its terms and conditions forthwith after closing.

CASH FLOW

39. The Cash Flow in respect of the Sanderson Project is attached as Appendix "A". The Sanderson Project Cash Flows are derived from the sales of Units. The Company incurs certain marketing and administrative expenses in connection with managing and marketing the Units. Those costs are approximately \$14,000 per month. The secured creditors of Sanderson have agreed that the Company can pay itself \$4,500 from the sale of each Unit to cover the administrative expenses. Historically, the

\$4,500 holdback has been insufficient to cover the actual costs incurred. Provided that the Company can recover its actual monthly marketing and administrative costs, the Sanderson Project will be cash flow neutral.

40. The Monitor assisted the Company with the preparation of the Sanderson Project Cash Flow. The Cash Flow is predicated on the Sanderson Project continuing to operate in the normal course in the context of the CCAA Proceedings. The Monitor reviewed the Cash Flow and its underlying assumptions and concluded that it is reasonable in the circumstances.

CERCLE DES CANTONS

41. Cercle des Cantons is a 480-unit condominium Development Project, located on the slopes of Bromont Ski Resort in Bromont, Quebec (the "Bromont Project"). There were eight planned phases; Phase 1 and 2 are complete. The Company does not own the lands for the remaining phases.
42. Since the date of the Initial Order, the Company accepted offers on an "as is" basis for the 18 remaining Units. Sales have closed on 17 Units. One sale has not closed as a result of a lien filed against the property.
43. The lien filed by a creditor totals approximately \$17,000. The Monitor is of the view that the lien is invalid. However, the creditor has refused to remove its lien and the Monitor is advised that legal fees to challenge and remove the lien will exceed the quantum of the lien. The company has reached a settlement with the lien holder in the amount of \$10,000 subject to approval by the Monitor. In view of the costs to challenge the lien and to not further delay the closing of the final Bromont Project Unit, the Monitor supports the \$10,000 settlement.

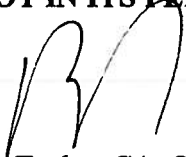
CONCLUSION AND RECOMMENDATIONS

44. 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.
45. 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 28th day of May, 2012.

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

A handwritten signature in black ink, appearing to be 'R. Taylor', written over a horizontal line.

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

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

	Notes	Week Ended							Month Ended		Total
		18-May	25-May	01-Jun	08-Jun	15-Jun	22-Jun	29-Jun	July	Aug	
Receipts											
Marketing/Administrative fee	1	-	81,500	9,000	4,500	4,500	9,000	-	4,500	31,500	144,500
Cost to complete reimbursement	2	-	1,866	12,300	7,500	7,500	63,288	-	36,499	161,706	290,660
Total Receipts		-	83,366	21,300	12,000	12,000	72,288	-	40,999	193,206	435,160
Disbursements											
Trades	2	416	1,450	12,300	7,500	7,500	63,288	-	36,499	161,706	290,660
Marketing	3	1,146	1,100	-	-	1,100	-	1,100	2,200	1,400	8,046
Overhead costs	3	2,500	2,500	2,500	2,500	2,500	2,500	2,500	10,000	12,500	40,000
Utilities and phones	3	-	200	-	420	-	-	-	350	350	1,320
Total Disbursements		4,063	5,250	14,800	10,420	11,100	65,788	3,600	49,049	175,956	340,027
Total Net Cash In/(Out)		(4,063)	78,116	6,500	1,580	900	6,500	(3,600)	(8,050)	17,250	95,134
Opening Cash Position	4	(95,134)	(99,197)	(21,080)	(14,580)	(13,000)	(12,100)	(5,600)	(9,200)	(17,250)	(95,134)
Closing Cash Position		(99,197)	(21,080)	(14,580)	(13,000)	(12,100)	(5,600)	(9,200)	(17,250)	-	-

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

1. Funds of \$81,500 are held in trust at Fraser Milner Casgrain LLP for Medican marketing and administrative costs incurred in respect of sold units. The funds have not yet been distributed to Medican. Medican is allowed \$4,500 per unit from the sales of each unit to cover marketing and administrative costs. Actual costs incurred to date exceed funds held back from the sale of units.
2. Medican is reimbursed for expenses paid to trades and suppliers to complete construction of units from the unit sales proceeds.
3. Estimated based on Medican's current marketing budget.
4. Actual monthly marketing and administrative costs were greater than the \$4,500 held back from the sale of each unit resulting in a negative opening cash balance. Assuming that Medican can recover its actual monthly marketing and administrative costs in the future, the Sanderson Project will be cash flow neutral.