

COURT FILE NUMBER

1201-10691

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 IN THE MATTER OF THE BUSINESS
CORPORATIONS ACT, R.S.A. 2000, c. B-9

AND IN THE MATTER OF LIBERTY CROSSING
LIMITED PARTNERSHIP, LIBERTY CROSSING
GENERAL PARTNER INC., ROCKY VIEW CAPITAL
CORP., ROCKY VIEW ESTATES CORP., SPRUCE
RIDGE CAPITAL INC., SPRUCE RIDGE ESTATES
INC., AND STONEY VIEW CAPITAL INC., STONEY
VIEW CROSSING INC.

DOCUMENT

SEVENTH REPORT OF THE MONITOR

AUGUST 13, 2013

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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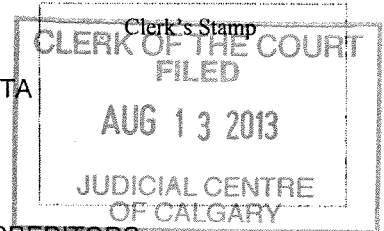


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INTRODUCTION

1. On August 24, 2012, Liberty Crossing Limited Partnership (“Liberty LP”) and Liberty Crossing General Partner Inc. (“Liberty GP”) (collectively “Liberty Crossing”), Rocky View Capital Corp. (“Rocky View Capital”) and Rocky View Estates Corp. (“Rocky View Estates”) (collectively “Rocky View”), Spruce Ridge Capital Inc. (“Spruce Ridge Capital”) and Spruce Ridge Estates Inc. (“Spruce Ridge Estates”) (collectively “Spruce Ridge”), and Stoney View Capital Inc. (“Stoney View Capital”) and Stoney View Crossing Inc. (“Stoney View Crossing”) (collectively “Stoney View”) sought and obtained protection from their creditors under the Companies’ Creditors Arrangement Act, R.S.C. 1985 c. C-36, as amended, (the “CCAA”) pursuant to an order of this Honourable Court (the “Initial Order”).
2. Collectively, Liberty Crossing, Rocky View, Spruce Ridge and Stoney View are sometimes referred to as the “Companies” or the “Debtors”.
3. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of the Companies (the “Monitor”).
4. Pursuant to an order of this Honourable Court dated August 24, 2012, BTM Advisory Services Inc. (“BTM”) was appointed the Chief Restructuring Officer (“CRO”) of the Companies.
5. On February 4, 2013, this Honourable Court granted Orders sanctioning the respective plans of compromise and arrangement (the “Rocky View, Spruce Ridge and Stoney View Plans”) presented to the creditors of each of Rocky View, Spruce Ridge and Stoney View and approved by an overwhelming majority of those creditors. The Rocky View, Spruce Ridge and Stoney View Plans have been implemented and pursuant to the terms of the Rocky View, Spruce Ridge and Stoney View Plans, the interim board of directors or elected boards of directors are in control of each of those entities.
6. The purpose of this seventh report (the “Seventh Report”) of the Monitor is to provide this Honourable Court with:

- a) the proposed Liberty Crossing inter-company settlement (the “Liberty Crossing Settlement”);
 - b) the Monitor’s analysis of the Liberty Crossing Settlement; and
 - c) the Monitor’s recommendation.
7. Capitalized terms not defined in this Seventh Report are as defined in the Initial Order.
8. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

9. Background for the Debtors together with other information regarding these CCAA proceedings has been posted by the Monitor on its website at: www.ey.com/ca/foundationgroup.

TERMS OF REFERENCE

10. In preparing this Seventh Report, the Monitor has relied upon unaudited financial information, company records and discussions with the CRO of the Companies. The Monitor has not performed an audit, review or other verification of such information.

LIBERTY CROSSING INTER-COMPANY SETTLEMENT

11. Liberty Crossing is seeking approval from this Honourable Court for the Liberty Crossing Settlement to settle the inter-company debts within the Harvest Group of Companies. Further details surrounding the Liberty Crossing Settlement are set out in the August 13, 2013 affidavit of Mr. Gary Bentham (the “Bentham Affidavit”).

Inter-Company Debts

12. Based on the updated financial information, as detailed in the Bentham Affidavit, which was completed by the CRO, in consultation with the Monitor, Liberty owes a net amount of approximately \$1.9 million to related parties. Below is a breakdown of this amount:

Liberty Crossing LP Due To (From)	
Liberty Crossing GP	\$ 141,459.29
Foundation Capital Corporation	1,369,623.75
Harvest Capital Management Inc.	1,719,670.38
1252064 Alberta Ltd.	(2,167,280.24)
1330075 Alberta Ltd.	515,659.73
Foundation Mortgage "2" Corporation	67,000.00
Harvest Group Limited Partnership	267,000.00
	<u>\$ 1,913,132.91</u>

13. These amounts can be broken down further into three categories, financing balances ("Financing Balances"), operating balances ("Operating Balances") and contractual obligations ("Contractual Obligations").
14. The Financing Balances relate to the acquisition of the Liberty Crossing shopping plaza ("Shopping Plaza") in Red Deer, Alberta and the completion of the Equity Financing (defined below). The Financing Balances are broken down as follows:

Liberty Crossing LP Financing Balances Due To (From)		
1252064 Alberta Ltd.	(2,204,280.24)	a
1330075 Alberta Ltd.	<u>396,807.00</u>	b
	(1,807,473.24)	

- a) \$2,204,280 owing from 1252064 Alberta Ltd. ("125") to Liberty Crossing LP (the "1252064 Payment"). This amount was advanced to 125 from the proceeds of Liberty Crossing LP's November 7, 2008 \$7.5 million equity financing ("Equity Financing"); and
- b) \$396,807 owing to 1330075 Alberta Ltd. ("133") for cash amounts advanced to Liberty Crossing LP to complete the acquisition of the Shopping Plaza.
15. The Operating Balances relate to funds advances to cover the operating shortfalls of the Shopping Plaza. The Operating Balances are broken down as follows:

Liberty Crossing LP Operating Balances Due To		
Liberty Crossing GP	\$ 141,459.29	a
1252064 Alberta Ltd.	37,000.00	b
1330075 Alberta Ltd.	118,852.73	c
Foundation Mortgage "2" Corporation	67,000.00	d
Harvest Group Limited Partnership	267,000.00	e
	<u>\$ 631,312.02</u>	

- a) \$141,459 advanced from Liberty Crossing GP to pay property taxes and legal fees of Liberty Crossing LP, and to fund the costs of the Liberty Crossing CCAA proceedings;
- b) \$37,000 advanced by 125 to fund Liberty Crossing LP's operating cash requirements in July, 2009;
- c) \$118,853 advanced by 133 to fund Liberty Crossing LP's operating cash requirements during the months September 2009 to December 2009;
- d) \$67,000 advanced by Foundation Mortgage "2" Corporation ("FM2") in December 2009 to fund Liberty Crossing LP's monthly mortgage payment to First Calgary; and
- e) \$267,000 advanced by Harvest Group Limited Partnership ("HGLP") to fund Liberty Crossing LP's operating cash requirements during the months of March, 2010 to July, 2010.

16. The Contractual Obligations relate to funds owed to certain related parties as the result of certain written agreements. The Contractual Obligations are broken down as follows:

Liberty Crossing LP Contractual Obligations Due To		
Harvest Capital Management Inc.	1,719,670.38	a
Foundation Capital Corporation	1,369,623.75	b
	<u>3,089,294.13</u>	
Liberty Crossing GP - Turnover Fee	600,000.00	c
	<u>\$ 3,689,294.13</u>	

- a) \$1,719,670 owing to Harvest Capital Management Inc. ("HCMI") being the remaining amount of the Acquisition Services Fee, pursuant to the Acquisition Services Agreement; and
 - b) \$1,369,624 owing to Foundation Capital Corporation ("FCC") being the remaining amount pursuant to the Marketing Services Agreement; and
 - c) approximately \$600,000 owing to Liberty Crossing GP for the Turnover Fee (defined and discussed in further detail below), pursuant to the LP Agreement between Liberty Crossing LP and Liberty Crossing GP.
17. Liberty Crossing LP has an obligation to pay Liberty Crossing GP, a turnover fee of 4% of the fair value of the Shopping Plaza (the "Turnover Fee") at the earliest of the following dates:
- a) the sale of the Shopping Plaza by Liberty Crossing LP;
 - b) the termination of the Liberty Crossing partnership agreement by Liberty Crossing LP;
 - c) the 10th anniversary of the purchase of an interest in the Shopping Plaza by the first partner; and
 - d) the involuntary replacement of the general partner of the partnership.
18. The Shopping Plaza is currently subject to a court ordered sales process. The Monitor anticipates that the sale of the Shopping Plaza or the involuntary replacement of Liberty Crossing GP as the general partner of the partnership will trigger the Turnover Fee.
19. Based on current market conditions it is estimated that the current fair value of the property is \$15,000,000 resulting in a potential Turnover Fee of \$600,000.

Proposed Settlement

20. Liberty Crossing LP has proposed the following terms for the Liberty Crossing Settlement:

- a) the Operating Balances of \$613,312 will be recognized as debts owing by Liberty Crossing LP and will be paid at the earlier of the refinancing or sale of the Shopping Plaza, or such other date as may be agreed to by the Monitor and the CRO; and
- b) the Financing Balances of \$396,807 advanced from 133 to complete the acquisition of the Shopping Plaza will be recognized as a debt owing by Liberty Crossing LP without setoff. Payment of this debt will be at the earlier of the refinancing or the sale of the Shopping Plaza, or such other date as may be agreed to by the Monitor and the CRO;
- c) the Contractual Balances of \$3,689,294 will be settled as follows:
 - i. the \$600,000 owing to Liberty Crossing GP for the Turnover Fee will be treated as paid in full from the 1252064 Payment (i.e. the \$600,000 will be set off as against the 1252064 Payment).
 - ii. the \$1,719,670 remaining amount owing to HCMI be treated in two parts as follows:
 - (A) \$1,604,280 be treated as paid in full from the 1252064 Payment (i.e. the \$1,604,280 will be set off as against the 1252064 Payment); and
 - (B) \$115,390 be cancelled in full and in return for cancellation of this claim, Liberty Crossing LP will agree not to make a claim against HCMI for non-performance under the Acquisition Services Agreement which created the obligation originally.

- iii. the \$1,369,624 owing to FCC of be reduced to \$NIL and any claims that FCC may have against Liberty Crossing are forever barred. The rationale for the reduction of the FCC claim to “Nil is based on two factors: 1) Liberty Crossing LP has claims that it asserts against FCC under the Liberty Crossing acquisition services agreement (“ASA”) and Liberty Crossing marketing services agreement (“MSA”) for damages in relation to FCC’s performance of its duties under those contracts whereby such damages caused to Liberty Crossing LP exceed the amount owing to FCC and 2) On September 20, 2012 this Honourable Court granted Liberty Crossing a claims process order (the “Claims Process Order”) whereby all creditors of Liberty Crossing were to file claims for amounts owing by Liberty Crossing LP or Liberty Crossing GP. Such claims were to be filed with Liberty Crossing and the Monitor on or before October 31, 2012. FCC did not file a claim under the Claims Process Order.

MONITOR’S ANALYSIS OF THE LIBERTY CROSSING SETTLEMENT

- 21. The Monitor has analysed the Liberty Crossing Settlement and considers the settlement to be reasonable in the circumstances based on the following factors:
 - a) all cash that was paid by the related Harvest entities under both the financing and operational balances is being fully recovered by each Harvest entity that advanced cash;
 - b) neither Liberty Crossing LP nor any of the other related Harvest entities have the financial resources to litigate the various disputed matters and there is no funding mechanism available to these entities. Even if there were the funds available, the costs to litigate these matters would potentially outweigh the recovery for many of the related Harvest entities;
 - c) the significant balances that are being eliminated in HCMI and FCC relate to “non-cash” items as they are balances created under the ASA and MSA contracts. From a review of the significant agreements in place with

respect to Liberty Crossing's establishment and structure, the Monitor is of the view that there are strong and sizable damage claim arguments that can be asserted by Liberty Crossing LP as against HCMI and FCC;

- d) FCC did not file a proof of claim in the Liberty Crossing claims process and the Liberty Crossing claims bar date has passed; and
- e) Liberty Crossing GP has no other creditors and its parent is 1252064 who owe the 1252064 Payment. Given the common control of these parties, the Monitor considers that a settlement that allows a set off of the amount due to Liberty Crossing GP by Liberty Crossing LP against the 1252064 Payment to be reasonable and appropriate under the circumstances.

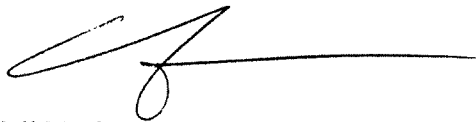
MONITOR'S RECOMMENDATIONS

22. The Monitor recommends that this Honourable Court:

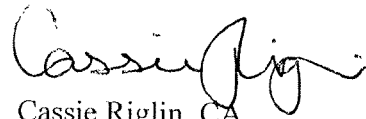
- a) approve the Liberty Crossing Settlement; and
- b) reduce the FCC claim against Liberty Crossing to \$NIL and order that any claims that FCC may have against Liberty Crossing are forever barred.

Dated at Calgary, AB, this 13th day of August, 2013.

ERNST & YOUNG INC.
in its capacity as Monitor of
Liberty Crossing



Neil Narfason, CA•CIRP, CBV
Senior Vice-President



Cassie Riglin, CA
Manager