NO. VLC-S-S205095
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

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*,

S.B.C. 2002, c.57, AS AMENDED

AND

IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT OF

PORT CAPITAL DEVELOPMENT (EV) INC. and EVERGREEN HOUSE DEVELOPMENT LIMITED PARTNERSHIP

TWELFTH REPORT OF THE MONITOR

ERNST & YOUNG INC.

June 16, 2022

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INTRODUCTION

Background

1. Port Capital Development (EV) Inc. (the “**General Partner**”) and Evergreen House Development Limited Partnership (“**Evergreen LP**”), (each a “**Petitioner**”, and collectively, the “**Petitioners**”) own a real estate development project called the “**Terrace House Project**".

2. The Terrace House Project is a high-rise luxury residential strata development located at 1250 West Hastings St. (Coal Harbour area), Vancouver, BC. It is a 19-storey mixed-use development, providing a total of 20 residential units and 2 commercial retail units (“**CRU**”), above a 3-level underground parkade. The Terrace House Property is unique in that its primary structural material is timber.

3. The General Partner is the Bare Trustee that holds title to the real property owned by the Petitioners with a legal description as follows:

   PID: 006-721-397; LOT 18, EXCEPT THAT PART OF THE CANADIAN PACIFIC RAILWAY RIGHT-OF-WAY AS DESCRIBED IN ABSOLUTE FEE PARCELS BOOK, VOLUME 9, FOLIO 317, NO. 1154C, AND EXCEPT THE SOUTH 7 FEET NOW ROAD, BLOCK 29 DISTRICT LOT 185 PLAN 92

4. The Petitioners are subsidiaries of the “**Port Capital Group**”, which is in the business of real estate development and management primarily in British Columbia. Mr. Macario (Tobi) Reyes is Port Capital Group’s principal.

5. The Petitioners initially sought and obtained creditor protection under the CCAA pursuant to an Order (the “**Initial Order**”) which also, *inter alia*:

   a) appointed Ernst & Young Inc. (“**EY**”) as monitor of the Petitioners (the “**Monitor**”) in these CCAA proceedings (the “**CCAA Proceedings**”); and

b) granted the Monitor "**Enhanced Powers**" to execute control over the Petitioners and to explore restructuring opportunities for the Terrace House Project and administer a "dual-track" sale and investment solicitation process (the "**SISP**") to obtain an equity investment, a refinancing or alternatively a sale of the Terrace House.

6. At the onset of these CCAA Proceedings, CMLS Financial Ltd ("**CMLS**") was the Terrace House Project's construction lender pursuant to a commitment letter dated July 4, 2019 (the "**Construction Loan**"). The Construction Loan was secured by, among other things, a first ranking mortgage against the Terrace House Project.

7. Desjardins Financial Security Life Assurance Company (the "**Original DIP Lender**") provided the Petitioners access to a debtor-in-possession financing facility (the "**Original DIP Facility**") to finance the within proceedings.

8. On September 22, 2021, the British Columbia Court of Appeal (the "**BCCA**") granted an order (the "**BCCA Order**") approving an offer (the "**129 Offer**") submitted by 1296371 B.C. Ltd. ("**129**") to purchase and take assignment of the loan and security held by CMLS and to repay the Construction Loan and the Original DIP Lender. The 129 Offer was completed in three tranches with $14,700,000 provided by Domain Facility Corp. ("**Domain**") (the "**Initial Domain Loan**"), $8,399,060 provided by 129 and $2,150,000 provided by 1260780 B.C. Ltd. ("**126**" and together with 129, the "**Junior Lender**"). 126 and 129 are related to the Petitioners.

9. The Initial Domain loan matured on May 1, 2022, however the Petitioners obtained an extension of the maturity date to July 1, 2022 for an extension fee of $98,000.

10. The BCCA Order removed the Enhanced Powers granted to the Monitor and reverted operational control of the Terrace House Project back to the Petitioners.

11. The Initial Domain Loan was almost entirely used to complete the 129 Offer and left very little cash available to the Petitioners to pay for working capital and site preservation expenses. To fund these costs through to the expiry of the current Stay Period, on February 15, 2022 this Honourable Court granted the Further Amended and Restated Initial Order ("**FARIO**") and approved an additional $1,800,000 tranche to the Domain facility (the "**Second Domain Loan**" and collectively with the Initial Domain Loan, the "**Domain Facility**") to provide working capital to the Petitioners for this proceeding.

12. The Tenth Report described that the Petitioners have identified a development partner, Enso Holdings Ltd. ("**Enso**") that has agreed with the Petitioners that it will co-develop the Terrace House Project, become the majority General Partner, and provide its covenant and an equity investment to support the necessary construction financing to exit these proceedings. The Petitioners together with Enso negotiated a commitment letter dated April 19, 2022 (the "**Initial Mandate Commitment Letter**") with Mandate Management Corporation ("**Mandate**") which was attached to the Monitor's Tenth Report, for a proposed $20,000,000 mortgage financing (the "**Proposed Mandate Loan**") to repay the Domain Facility and provide working capital for these CCAA Proceedings.

13. On May 12, 2022, this Honourable Court granted an order approving the Proposed Mandate Loan and extending the Stay of Proceedings to September 30, 2022.

14. As of the date of this Twelfth Report, the Proposed Mandate Loan has not yet completed and has not yet funded.

15. The Monitor estimates the current secured debt stack against the Terrace House Project, ranking in order of priority, as:

Secured Creditor	**Amount**	**Cumulative**
Domain Facility Corp: - Initial Domain Loan - Second Domain Loan	 $14,700,000 $1,800,000 $16,500,000	 $14,700,000 $1,800,000 $16,500,000
1296371 B.C. Ltd.	$8,399,060	$24,899,060
Aviva Insurance Company of Canada ("**Aviva**") – Deposit Insurance Protection Policy **(See Note #1)**	$14,700,000	$39,599,060
1260780 B.C. Ltd.	$2,150,000	$41,749,060
Note #1: Aviva has insured $14.7 million of Pre-Sale deposits that were released into the Terrace House Project. Aviva's claim is contingent on those Pre-Sale buyers filing claims to recover their deposits should the Petitioners fail to complete the Terrace House Project and deliver those units to the Pre-Sale Purchasers. Aviva also represents approximately 35% of the 129 Secured Charge.		

16. On June 15, 2022, the Petitioners circulated materials which included a proposed plan of compromise and arrangement (the "**Proposed Plan**") and filed a motion with this Honourable Court (returnable June 17, 2022) requesting an order(s) that:

    a) authorize and direct the Petitioners to convene a meeting (the "**Meeting**") of their creditors (the "**Affected Creditors**") to vote on the Proposed Plan (the "**Meeting Order**"); and

    b) approve a claims process (the "**Proposed Claims Process**") to determine the claims of creditors ("**Claims**") and establish a Claims Bar Date (as defined below) by which creditors must file a proof of their claim in these CCAA proceedings.

Prior Reports and Purpose

17. The Monitor has previously filed twelve (12) reports in these CCAA proceedings: the "**Proposed Monitor's Report**", the "**First Report**", the "**Second Report**", the "**Third Report**", the "**Fourth Report**", the "**Fifth Report**", the "**Sixth Report**", the "**Seventh Confidential Report**", the "**Eighth Report**", the "**Ninth Report**", the "**Tenth Report**", and the "**Eleventh Report**". These reports, with the exception of the Seventh Confidential Report, are posted on the Monitor's website at www.ey.com/ca/terracehouse.

18. The purpose of this "**Twelfth Report**" is to provide information to this Honourable Court with respect to the following:

    a) a "**Material Adverse Change**" with respect to the financial affairs of the Petitioners;

    b) the Petitioner's post-filing obligations and the Monitor's correspondence to the post-filing vendors of the Petitioners; and

    c) the Monitor's commentary on the relief sought.

19. This Twelfth Report should be read in conjunction with the Petitioners' Notice of Application filed on June 15, 2022.

TERMS OF REFERENCE

20. In preparing this Twelfth Report and making the comments herein, the Monitor has been provided with and has herein relied upon, unaudited financial information, books, records and financial information prepared by the Petitioners, discussions with management of the Petitioners ("**Management**"), and information from other third party sources (collectively, the "**Information**"). Except as described in this Twelfth Report in respect of the Cash Flow Forecast:

a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

b) some of the information referred to in this Twelfth Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

21. Future oriented financial information referred to in this Twelfth Report was prepared based on Management's and the Monitor's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not readily and currently ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be material.

22. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Twelfth Report concerning the Petitioners and their business is based on the Information, and not independent factual determinations made by the Monitor.

23. All capitalized terms used herein that are undefined have the meanings ascribed thereto in the Proposed Monitor's Report, the First Report, the Second Report, the Third Report, the Fourth Report, the Fifth Report, the Sixth Report, the Seventh Confidential Report, the Eighth Report, the Ninth Report, the Tenth Report, the Eleventh Report and the Further Amended and Restated Initial Order.

24. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars.

MATERIAL ADVERSE CHANGE

25. The Eleventh Report described that the Petitioners negotiated a commitment letter for the Proposed Mandate Loan which contemplates a proposed $20,000,000 refinancing to repay the Domain Facility and provide the Petitioners with working capital to fund these CCAA Proceedings. On May 12, 2022, this Honourable Court granted an order approving the Proposed Mandate Loan.

26. At the time of the Eleventh Report, the Monitor had discussed the outstanding closing conditions of the Proposed Mandate Loan with the Petitioners, Enso, Venterre Capital (the mortgage broker for the Proposed Mandate Loan), and counsel to Mandate and, as reported in the Eleventh Report, understood the loan was to close the week ended May 20, 2022 or soon thereafter.

27. At the time this Honourable Court approved the Proposed Mandate Loan, the Petitioners stated that the loan was to close the week ended May 20, 2022, however as of the date of this Twelfth Report, the Proposed Mandate Loan has not yet closed and no funds have been advanced.

28. Following the May 12, 2022 hearing, the Monitor remained in communication with the relevant parties. The Monitor is advised that the preparation of loan documentation remains in progress. The Monitor has also been advised by Vanterre Capital that it still expects the Proposed Mandate Loan to close. However, over one month has passed since the approval of the Proposed Mandate Loan at the May 12, 2022 hearing.

29. The Monitor notes that there are no guarantees or assurances that the Proposed Mandate Loan that is intended to, a) refinance the Domain Loan, and b) provide the Petitioners with working capital to finance the within proceedings and to secure construction financing, will close.

30. As noted above, Domain provided the Petitioners with an extension to the maturity date for the Domain Facility until July 1, 2022.

PAYMENT OF POST-FILING OBLIGATIONS

31. The Petitioners have an immediate need for financing; and given that the Proposed Mandate Loan has not yet closed, there are insufficient funds to pay any outstanding post-filing amounts owing to the post-filing suppliers (the "**Post-Filing Suppliers**").

32. On May 2, 2022, the Petitioners, as directed by this Honourable Court, sent a letter to the Post-Filing Suppliers to provide them with an update and notification that the Petitioners did not currently possess the liquidity to pay the Post-Filing Suppliers.

33. On June 14, 2022, the Monitor sent these Post-Filing Suppliers an additional letter (the "**Monitor's Letter to Post-Filing Suppliers**") to provide a further update on the status of the Proposed Mandate Loan and to inform them of the orders sought by the Petitioners. A copy of the Monitors Letter to Post-Filing Suppliers is attached hereto as **Appendix "A"**.

MONITOR'S COMMENTARY

34. The Monitor is of the view that the relief sought by the Petitioners is premature. If the Proposed Mandate Loan completes, which would provide the Petitioners with sufficient liquidity to meet their unpaid post-filing and ongoing obligations and fund the within

proceedings, it would be appropriate for the Petitioners to re-set a hearing on notice to the Service List to consider the relief sought.

35. There is no evidence that the Petitioners are capable of implementing the Proposed Plan without the funding that would be derived through the Proposed Mandate Loan.

36. The Monitor will provide a report outlining the Proposed Plan and provide its recommendations on the relief sought with respect to the Claims Process Order and the Meeting Order should the Proposed Mandate Loan complete and the Petitioners re-set the hearing accordingly.

All of which is respectfully submitted this 16th day of June, 2022.

ERNST & YOUNG INC.
in its capacity as Monitor
of Port Capital Development (EV) Inc. and
Evergreen House Development Limited Partnership
and not in its personal or corporate capacity

Per:

Michael Bell, CPA, CA, CIRP LIT
Senior Vice President

Appendix A

Building a better
working world

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June 14, 2022

VIA EMAIL

To the Vendors of Terrace House

RE: Update to the Proposed Mandate Loan and the CCAA Proceedings

On May 2, 2022, Port Capital Development (EV) Inc. and Evergreen House Development Limited Partnership ("**Terrace House**") sent a letter to the vendors of the Terrace House project (the "**Terrace House Vendors**") informing them that, among other matters:

- Terrace House is working to secure interim financing to pay all costs required during the CCAA proceedings;
- Terrace House has a draft commitment letter and is working to clear conditions precedent;
- Terrace House is seeking Court approval of a proposed loan (the "**Proposed Mandate Loan**") from Mandate Mortgage Corporation ("**Mandate**") to repay its current interim lender and provide additional working capital to fund the above noted costs; and
- should the Proposed Mandate Loan not close, or another source of funding not be found, there will be insufficient funds to pay any outstanding post-filing amounts owing to the vendors of Terrace House.

Ernst & Young Inc. (the "**Monitor**") writes further to this May 2, 2022 letter to provide an update with respect to the Proposed Mandate Loan and these CCAA proceedings. On May 13, 2022, upon application by Terrace House, the Supreme Court of British Columbia granted an order that:

- extended the Stay of Proceedings from May 13, 2022 to September 30, 2022; and
- approved the Proposed Mandate Loan, which was still subject to certain conditions.

The Proposed Mandate Loan was originally scheduled to close the week ended May 20, 2022, however it has not yet closed. Until such time that the Proposed Mandate Loan completes, Terrace House continues to have insufficient funds to make any payments to vendors for post-filing amounts owing.

The Monitor has been in communication with Terrace House, Vanterre Capital (the mortgage broker) and counsel to Mandate and understands from these discussions that Terrace House has satisfied the conditions precedent to closing the Proposed Mandate Loan. The Monitor is further advised that preparation of loan documentation remains ongoing and that the Proposed Mandate loan is still expected to complete. However, there is no guarantee that the transaction will close.

The Monitor continues to monitor the activities of Terrace House while they seek to close the Proposed Mandate Loan and will provide an update in the near future if the Proposed Mandate Loan does not close.

The Monitor understands that Terrace House is seeking Court approval on Friday, June 17, 2022 for an order authorizing a claims process (the "**Claims Process Order**") and an order authorizing a creditor meeting (the "**Meeting Order**") to vote on a plan of compromise and arrangement (the "**Plan**"). The Monitor will make these materials available at www.ey.com/ca/TerraceHouse (the "**Monitor's Website**") once filed.

For further information, the please refer to the Eleventh Monitor's Report available for download at the Monitor's Website or contact Jason Eckford, a representative of the Monitor, at 604-648-3671 or jason.eckford@parthenon.ey.com. Terrace House can also be contacted through its representative Marc Durian at (778) 833 1357 or marc.durian@portliving.com.

ERNST & YOUNG INC.
in its capacity as Monitor
of Port Capital Development (EV) Inc. and
Evergreen House Development Limited Partnership
and not in its personal or corporate capacity

Per:

Michael Bell, CPA, CA, CIRP, LIT
Senior Vice President