COURT FILE NUMBERS	1201-06934
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANT(S)	ERNST & YOUNG INC. IN ITS CAPACITY AS COURT-APPOINTED RECEIVER AND MANAGER OF 1252064 ALBERTA LTD., 1330075 ALBERTA LTD. AND HARVEST CAPITAL MANAGEMENT INC. AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY
DOCUMENT	**FIRST REPORT OF THE RECEIVER**
	OCTOBER 28, 2013
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**RECEIVER**

Clerk's Stamp

CLERK OF THE COURT
FILED
OCT 29 2013
JUDICIAL CENTRE
OF CALGARY

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INTRODUCTION

1. On June 7, 2012, 1252064 Alberta Ltd. ("125"), 1330075 Alberta Ltd. ("133") and Harvest Capital Management Inc. ("HCMI") 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 CCAA Order"). Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor (the "Monitor") of 125, 133 and HCMI (the "CCAA Proceedings").

2. Ernst & Young Inc. was appointed Receiver and Manager (the "Receiver") of the property, assets and undertakings (the "Property") of 125, 133 and HCMI pursuant to an Order (the "Receivership Order") of this Honourable Court dated September 30, 2013.

3. Concurrent with the issuance of the Receivership Order, the CCAA Proceedings were terminated by an order (the "Termination Order") of this Honourable Court dated September 30, 2013. The Termination Order is attached as Schedule "**A**". The Termination Order provides that the charges in the Initial CCAA Order endure, notwithstanding the termination of the Initial CCAA Order.

4. The Receivership Order authorized the Receiver, among other things, to carry on the business of the Company, to sell, convey, transfer, lease or assign the Property out of the normal course of business, subject to court approval for transactions in excess of $100,000, and to make such arrangements or agreements as deemed necessary by the Receiver.

5. The purpose of this first report (the "First Report") of the Receiver is to provide this Honourable Court with the Receiver's comments with regards to the:

    a) Background of certain asset purchase and sale transactions which were approved during the CCAA Proceedings and which were closed subsequent to the issuance of the Receivership Order;

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b) The accounting work performed by the Monitor to reconstruct the financial records of the Companies;

c) The Receiver's analysis of the sources of funds of certain asset purchase transactions which were completed prior to the CCAA Proceedings; and

d) Receiver's requested relief.

6. Capitalized terms not defined in this First Report are as defined in the Receivership Order.

7. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

8. In preparing this First Report, the Receiver has relied upon unaudited financial information and Company records. The Receiver has not performed an audit, review or other verification of such information.

BACKGROUND

9. Background information and other information regarding these receivership proceedings have been posted by the Receiver on its website at: www.ey.com/ca/foundationgroup.

BALSAM PURCHASE AND SALE TRANSACTIONS

10. In April of 2008, 133 purchased seven adjacent parcels of land near Balsam Lake, Ontario. One parcel is a 2.93 acres site which has a house and tenant (the "Balsam House") and the other six parcels make up 668 acres which is vacant (the "Balsam Land"). The Balsam House and Balsam Land were purchased for a total of approximately $2.64 million from a third-party.

11. In August and September of 2013, the Monitor entered into agreements to sell the Balsam House and the Balsam Land. Approval for the sales of the Balsam House and Balsam Land was granted by and order of this Honourable Court on September 6,

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2013. Further details of the sales are provided in the Eighth Report of the Monitor dated August 29, 2013.

12. 125 and HCMI issued promissory notes in the aggregate amount of $8,373,513 to Legacy Communities Inc. ("Legacy") with the stated purposes of investing on behalf of Legacy. The Receiver understands that 133 did not issue a promissory note to Legacy.

13. Legacy advanced funds to 125, 133 and HCMI, however, these funds were not used to fund the Balsam Land and Balsam House purchases as described below.

14. Legacy registered a notice claiming a beneficial interest in Balsam Lands and Balsam House. The Monitor understands that the basis for such claim is that Legacy asserts the funds used by 133 to purchase were wrongfully diverted from Legacy to 133, with the result that Legacy is entitled to trace the proceeds of the alleged wrongful diversion to the Balsam Lake and Balsam House and the proceeds derived from their sale. The sale approval and vesting orders provided that the title would transfer to the purchasers free and clear of Legacy's claim. Legacy requested that the Balsam House and Balsam Land sale proceeds be held in trust pending resolution of the Legacy claim against the Balsam House and Balsam Land. The Monitor agreed with Legacy's request. Legacy asserts, notwithstanding the CCAA Administration Charge, that it has priority to the proceeds from the sale of the Balsam House and Balsam Lands.

FINANCIAL RECORD RECONSTRUCTION

15. 133 is part of a group of legal entities commonly known as the Harvest Group of Companies (the "Harvest Group"). Mr. Ronald Aitkens is or was the director and controlling mind of various legal entities comprising the Harvest Group. Ernst & Young Inc. has been in a court-appointed role in respect of a total of 28 entities within the Harvest Group since its initial appointment in respect of certain entities in December 2011.

16. As a result of the deficiencies in the financial records of the Harvest Group, the Monitor was required to complete a reconstruction of the Harvest Group's accounting

records. The reconstruction consisted of identifying the cash transactions that occurred within the Harvest Group. The Monitor reviewed the bank statements, cancelled cheques, deposit books, various trust accounts and other source documents to determine the sources and uses of funds within the Harvest Group.

17. As the books and records of the Harvest Group were not complete or accurate, the process of preparing this comprehensive analysis was time consuming and costly. The product of this work has allowed the Monitor and Receiver to analyze transactions within the Harvest Group.

18. The reconstruction of the Harvest Group's accounting records is presented in detail in the Ninth Report of the Monitor in the CCAA Proceedings dated August 30, 2013.

SOURCES OF FUNDS USED IN THE BALSAM PURCHASE

19. The reconstruction of the Harvest Group's accounting records has allowed the Monitor and Receiver to analyze the source of the funds used to purchase the Balsam Land and Balsam House. The Receiver's analysis shows that the Balsam Land and Balsam House purchase was partially funded by 133 and by as follows:

Initial Purchase of Balsam Lake Land and House

Payment		Amount	Source of Funds
Initial Deposit	$	150,000.00	125
Second Deposit		350,000.00	125
Third Deposit		500,000.00	125
Vendor Take Back Mortgage		1,000,000.00	Eric Yealland
Cash to Close		643,545.76	133
	$	2,643,545.76	

20. The Receiver has analyzed the transactions and has conclusively determined that the source of funds to purchase the Balsam House and Balsam Lake did not come from Legacy. While Legacy is a creditor of both 125 and 133, there is no evidence to demonstrate that funds advanced by Legacy to either 125 or 133 were used to purchase the Balsam Lands or the Balsam House.

21. The Vendor Take Back Mortgage granted by Eric Yealland was repaid by 133 in June of 2009. The funds used to make this repayment were not received from Legacy.

22. The Receiver has provided all information and supporting documentation forming its analysis to Legacy and its counsel.

RECEIVER'S REQUESTED RELIEF

23. Legacy Communities Inc. was not the source of the funds used to purchase the Balsam Land and Balsam House. The Receiver respectfully requests that this Honourable Court grant an order confirming the priority of the charges established in the Initial CCAA Order and declaring that to the proceeds of the sale of the Balsam House and Balsam Land are subject to such charges.

Dated at Calgary AB, this 28th day of October, 2013.

ERNST & YOUNG INC.
in its capacity as Receiver and
Manager of 1252064 Alberta Ltd., 1330075 Alberta Ltd.
and Harvest Capital Management Inc.

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

Nick J.B. Purich, CA
Senior

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