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COURT	COURT OF QUEEN'S BENCH OF ALBERTA	SEP 19 2012
JUDICIAL CENTRE	CALGARY	JUDICIAL CENTRE OF 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 1357686 ALBERTA LTD.	
DOCUMENT	**FIRST REPORT OF THE MONITOR** **SEPTEMBER 19, 2012**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR** Ernst & Young Inc. 1000, 440 - 2nd Avenue SW Calgary, Alberta T2P 5E9 Attention: Neil Narfason / Cassie Riglin Telephone: 403-206-5067 / (403) 206-5005 Fax: 403-206-5075 Email: Neil.Narfason@ca.ey.com Cassie.Riglin@ca.ey.com **COUNSEL** McCarthy Tétrault LLP Suite 3300, 421 7th Avenue SW Calgary AB T2P 4K9 Attn: Sean Collins / Walker MacLeod Telephone: 403-260-3531 / 403-260-3710 Email: scollins@mccarthy.ca wmacleod@mccarthy.ca	

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INTRODUCTION

1. On August 24, 2012, 1357686 Alberta Ltd. ("135") sought and obtained protection from its 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. 135 is sometimes referred to as the "Company" or the "Debtor".

3. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of the Company (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 Company.

5. The purpose of this first report (the "First Report") of the Monitor is to provide this Honourable Court with:

    a) An update on the restructuring efforts for the Company;

    b) The forecast to actual cash flow results for the company for the period of August 24, 2012 to September 19, 2012 (the "Reporting Period");

    c) The cash flow forecast (the "Forecast") from September 20, 2012 to December 31, 2012 (the "Forecast Period");

    d) The request for approval of debtor-in-possession ("DIP") financing;

    e) The Debtor's request for an extension of the Stay Period; and

    f) The Monitor's recommendations.

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

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

BACKGROUND

8. Background for the Debtor together with other information regarding these CCAA proceedings, have been posted by the Monitor on its website at: www.ey.com/ca/foundationgroup.

TERMS OF REFERENCE

9. In preparing this First Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Company. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future orientated financial information relied upon in this report is based on management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

RESTRUCTURING EFFORTS

10. The Monitor is currently working with the CRO to review the Company's assets and liabilities in order to assess restructuring opportunities available that would allow for the maximization of stakeholder value.

11. An appraisal of the Company's principal property has been obtained and a Phase I Environmental Assessment has been ordered by the CRO.

12. Over the coming months the Monitor and CRO will review and assess the various restructuring options available to 135 and work towards developing a plan of arrangement to present to the creditors.

FORECAST TO ACTUAL RESULTS

13. There have been no receipts or disbursements, in regards to 135, since the flow forecast previously provided to this Court in the Affidavit of Mr. Ron Aitkens sworn August 23, 2012.

CASH FLOW FORECAST THROUGH DECEMBER 31, 2012

14. The Company, with the assistance of the CRO and the Monitor, have prepared a Forecast for the Forecast Period which is attached to this First Report as Appendix A. The Forecast is based on the most current information available.

15. The table below summarizes the cash flows for 135 for the Forecast Period:

Cash Flow Forecast September 20, 2012 - December 31, 2012	135
RECEIPTS	
DIP financing advances	$ 6,400,000
Total receipts	6,400,000
DISBURSEMENTS	
Repayment of first mortgage	5,600,000
Partial repayment of Foundation Mortgage Loan	250,000
Salaries, consulting fees and operating expenses	43,667
Appraisal and environmental assessment fees	6,000
Financing charges and related legal fees	10,000
CCAA professional fees	156,000
Total disbursements	6,065,667
NET CASH FLOWS	334,333
OPENING CASH	-
NET CHANGE IN CASH FLOWS	334,333
ENDING CASH	$ 334,333

16. As summarized above, 135 is projecting DIP financing of approximately $6,400,000 to December 31, 2012 against cash disbursements of approximately $6,066,000, resulting in a net increase in cash of approximately $334,000 during the Forecast Period.

17. The Monitor has reviewed the assumptions supporting the Forecast and believes the assumptions to be reasonable.

DIP FINANCING

18. Based on the cash flow projections for the Forecast Period (discussed above) 135 will be unable to fund operations and necessary development costs without DIP financing needs. Accordingly, 135 will require additional DIP financing of $6,400,000.

19. 135 has arranged with Intero Mortgage Ltd. ("DIP Lender") to provide the DIP financing required (the "DIP Facility").

20. The proposed DIP Facility will payout the first secured mortgage, 1588803 Alberta Ltd. ("158") for $5,600,000 and will contribute $250,000 to Foundation Mortgage Corporation ("FM1") as a pay down of their second secured mortgage. 158's loan is in default and the mortgagee has commenced a foreclosure proceeding against the Company's lands. By paying out that mortgage with proceeds from the DIP facility, which carries a lower interest rate, the Company will stop the foreclosure action and reduce the interest costs being incurred.

21. The Monitor understands that FM1 and Foundation Mortgage "2" Corporation are aware of and consent to the DIP Facility.

22. The only other secured creditor that would be primed by the DIP Facility is 1330073 Alberta Ltd. ("1330073"). 1330073 has a registered mortgage of $1,500,000 on one of the two quarter sections of land and based on information provided in the August 23, 2012 Aitkens Affidavit, there is sufficient value in the land that 1330073 will not be materially prejudiced by the DIP Facility. The CRO is reviewing the funding arrangements underlying the 1330073 mortgage to determine the actual amounts received by the Company.

23. The Monitor believes that the additional DIP financing will allow the Companies an opportunity to pursue a restructuring that will maximize stakeholder value.

24. Based on information provided in the August 23, 2012 Aitkens Affidavit, the Monitor understands that the current value of the land is significantly less than the total claims. Management believes that there is significant value in holding these assets and continuing to develop them in order to maximize the recovery for all stakeholders.

25. In the absence of DIP financing, 135 would likely be placed into liquidation (i.e. bankruptcy) with its land being subject to an expedited sale process which, in the Monitor's view, would not maximize the recovery to the stakeholders.

26. The Monitor supports 135's application for DIP financing as it allows a period of time for the company to consider its strategic restructuring alternatives which the Monitor believes will provide a more certain outcome and potentially greater recovery than in liquidation.

27. Accordingly, the Monitor considers the DIP financing to be reasonable and necessary in order to maintain and preserve business operations, and to provide additional time to restructure which preserves value for all stakeholders.

THE COMPANY'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD

28. Pursuant to the Initial Order of this Honourable Court dated August 24, 2012 the Stay Period expires on September 21, 2012 for the Company.

29. The Company is seeking an extension of the Stay Period up to and including December 19, 2012 (the "Stay Extension").

30. The Stay Extension is necessary to allow the Company to explore the further possible restructuring alternatives and develop a restructuring plan to present to its creditors.

31. In the Monitor's view, the Company is acting in good faith and with due diligence.

MONITOR'S RECOMMENDATIONS

32. The Monitor recommends that this Honourable Court approve:

    a) The DIP Facility; and

    b) The Stay Extension.

Dated at Calgary, this 19th day of September, 2012.

ERNST & YOUNG INC.
in its capacity as
Monitor of 135

Neil Narfason, CA•CIRP, CBV	Cassie Riglin, CA
Senior Vice-President	Manager

APPENDIX A

1357686 Alberta Ltd. ("Calaway")
Cash Flow Forecast
September 20 , 2012 - December 31, 2012

	Notes	October	November	December	Total
RECEIPTS					
DIP financing advances	2	$ 6,400,000	$ -	$ -	$ 6,400,000
Total receipts		6,400,000	-	-	6,400,000
DISBURSEMENTS					
Repayment of first secured mortgage	3	5,600,000	-	-	5,600,000
Partial repayment of Foundation Mortgage Loan	4	250,000	-	-	250,000
Salaries, consulting fees and operating expenses	5	21,833	10,917	10,917	43,667
Appraisal and environmental assessment fees		6,000	-	-	6,000
Financing charges and related legal fees	2	10,000	-	-	10,000
CCAA professional fees	6	78,000	39,000	39,000	156,000
Total disbursements		5,965,833	49,917	49,917	6,065,667
NET CASH FLOWS		434,167	(49,917)	(49,917)	334,333
OPENING CASH		-	434,167	384,250	-
NET CHANGE IN CASH FLOWS		434,167	(49,917)	(49,917)	334,333
ENDING CASH		$ 434,167	$ 384,250	$ 334,333	$ 334,333

Notes and Assumptions

1 1357686 Alberta Ltd.'s primary asset is the Calaway Lands.

2 Calaway is not expected to generate any revenue during the three month period. DIP financing arrangements are expected to be finalized by September 30, 2012. Calaway has received a term sheet for a $6,400,000 DIP facility. A commitment fee of 2.25% and interest at 12% per annum will accrue over the term of the facility. Legal fees of the DIP Lender of approximatley $10,000 will be paid in October.

3 Repayment of the first secured mortgage will take place in October in order to reduce the ongoing interest and stop current forclosure proceedings.

4 A partial paydown of the Foundation Mortgage Corporation mortgage will be made in October.

5 Salaries, consulting fees and office expenses comprise Calaway's share of Harvest Calgary office monthly operating expenses. Payments to be made in October include amounts payable for the months of August and September.

6 Professional fees payable in the month of October inlclude fees for the the months of August and September.