

CLERK OF THE COURT

FILED

Clerk's Stamp
JUN 22 2016

JUDICIAL CENTRE
OF CALGARY

COURT FILE NUMBER 1201-08478
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 FOUNDATION MORTGAGE
CORPORATION AND FOUNDATION MORTGAGE "2"
CORPORATION

DOCUMENT ELEVENTH REPORT OF THE MONITOR

JUNE 22, 2016

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 / 403-206-5106
Fax: 403-206-5075
Email: Neil.Narfason@ca.ey.com
Cassie.Riglin@ca.ey.com

COUNSEL

McCarthy Tétrault LLP
Suite 4000, 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

TABLE OF CONTENTS

INTRODUCTION	3
BACKGROUND	3
TERMS OF REFERENCE.....	4
RESTRUCTURING EFFORTS.....	4
FORECAST TO ACTUAL RESULTS.....	6
CASH FLOW FORECASTS THROUGH DECEMBER 30, 2016	8
THE COMPANIES' REQUEST FOR AN EXTENSION OF THE STAY PERIOD	10

APPENDICES

FORECAST TO ACTUAL RESULTS

APPENDIX A

CASH FLOW FORECASTS

APPENDIX B

INTRODUCTION

1. On July 5, 2012, Foundation Mortgage Corporation ("FM1") and Foundation Mortgage "2" Corporation ("FM2") 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. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of FM1 and FM2 (the "Monitor").
3. FM1 and FM2 are sometimes collectively referred to as the "Companies" or the "Debtors".
4. Pursuant to an order of this Honourable Court dated July 5, 2012, BTM Advisory Services Inc. ("BTM") was appointed the Chief Restructuring Officer ("CRO") of both FM1 and FM2.
5. The purpose of this eleventh report (the "Eleventh Report") of the Monitor is to provide this Honourable Court with:
 - a) An update on the restructuring efforts for FM1 and FM2 since the tenth report of the Monitor dated January 4, 2016 (the "Tenth Report");
 - b) The forecast to actual cash flow results for FM1 and FM2 from January 1, 2016 to June 30, 2016 (the "Reporting Period");
 - c) The cash flow forecasts (the "Forecasts") from July 1, 2016 to December 30, 2016 (the "Forecast Period");
 - d) The Debtors' request for an extension of the Stay Period; and
 - e) The Monitor's recommendation.
6. Capitalized terms not defined in this Eleventh 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 Debtors 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 Eleventh Report, the Monitor has relied upon unaudited financial information, company records and discussions with the CRO. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information. 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. Details surrounding the ongoing restructuring efforts for FM1 and FM2 are set out in the affidavit of Mr. Gary L. Bentham sworn June 21, 2016.
11. The time line for anticipated disposition of the FM's assets is proceeding; however, given the complexity of certain property developments, environmental concerns and the fact that the FM mortgages are subordinate to certain senior debt positions and the realization process is taking far longer than anticipated.

Foundation Homes Inc.

12. As described in the Tenth Report, on December 18, 2014, FM1 successfully obtained a bankruptcy order as against FHI and Ernst and Young Inc. was appointed as the Trustee in Bankruptcy (the "Trustee").
13. FM1 filed a proof of claim in the FHI bankruptcy on January 8, 2015, claiming an unsecured amount of \$1,343,069.
14. The Trustee is working to finalize the administration of the FHI bankruptcy. It is estimated that FM1 will receive a dividend from the bankruptcy estate of FHI of approximately \$200,000 in late 2016.
15. The Trustee is waiting on comments from the Office of the Superintendent of Bankruptcy before finalizing the FHI dividends and discharge.
16. After payment of the dividends to creditors, the administration of the bankruptcy of FHI will be completed. No further recoveries are expected.

Calaway

17. The Calaway lands were owned by 1357686 Alberta Ltd. ("135"), a related party. The sale of the Calaway lands was approved by Order of this Honourable Court on April 30, 2014 and the sale closed May 29, 2014. The lands were sold for consideration of \$8,450,000 cash and a vendor take back mortgage ("VTB Mortgage") of \$1,800,000 convertible in to equity units of the purchaser, or redeemed at the option of the purchaser for \$3,150,000.
18. On December 31, 2015, the VTB Mortgage was converted into equity units of the purchaser ("Equity Units").
19. FM1 and FM2 have secured mortgages against the Calaway lands which may attach to some of the Equity Units. Certain related party creditors are contesting the validity and priority of the FM1 and FM2 mortgages and, as such, amounts recoverable by FM1 and FM2 will be dependent upon the determination of priority of the respective security interests of the FM1 and FM2 mortgages as well as a third party mortgage originally registered against the Calaway Lands. That dispute was put on hold pending the VTB Mortgage being repaid or converted to equity units of the purchaser. As conversion to equity units has now occurred, the Companies must address the dispute regarding the validity and priority of the mortgages, which in effect will dictate which party is entitled to ownership of the Equity Units in the purchaser company. As a result, the Monitor is unable to provide an estimate of recovery to FM1 and FM2 from the Calaway sale at this time.
20. The Companies have been working actively with these related parties to reach a resolution of the validity and priority of the FM1 and FM2 mortgages.

Calmar

21. The Calmar lands are secured by a mortgage registered in favour of FM1, which mortgage was pledged as security for a loan granted by FM1 to 1330075 Alberta Ltd. ("133"), a related entity currently in receivership proceedings. The principal amount of the loan from FM1 to 133 was \$2.7 million. With accrued interest, the amount outstanding on that loan is approximately \$5.8 million. The FM1 mortgage is registered in third and fourth place on titles to the Calmar lands.
22. The enforceability of certain mortgages, known as the UDI Mortgages, registered ahead of FM1's mortgage was in question and an application originally filed by the Receiver of 133 on September 3, 2013 for a determination on the enforceability of those mortgages was heard

on November 17, 2014; however, the decision was reserved. The Monitor understands that the decision is expected June 23, 2016. The outcome of that application will determine the amount payable to FM1, in the event the Calmar lands are sold. Prior to the November 17, 2014 application, FM1 worked with another mortgagee, Calmar Lands Ltd. to put forth a proposal to the holders of the UDI Mortgages (the "UDI Mortgagees") to settle the dispute regarding the UDI Mortgages. A large number of the UDI Mortgagees accepted the proposal, which means that regardless of the ultimate outcome on the enforceability of the UDI Mortgages, if the Calmar lands are sold, there will be recoveries to FM1.

23. The Calmar lands remain listed for sale and the Monitor understands that Repsol Oil & Gas Canada Inc. is currently attending to environmental reclamation on the lands. The Monitor is cautiously optimistic that once the reclamation is completed, the Calmar lands will have a higher likelihood of sale. The Companies' require a lengthy extension of the stay of proceedings to allow this to occur.

FORECAST TO ACTUAL RESULTS

FM1

24. The cash flow forecast to actual results are attached at Appendix A and contain the cash receipts and disbursements incurred to date for FM1 as compared to the cash flow forecast previously provided to this Court in the Tenth Report.
25. Outlined below is a summary of the actual results to June 30, 2016:

Cash Flow Forecast
January 1, 2016 to June 30, 2016
Forecast to Actual Analysis

Exhibit 1

	Foundation Mortgage Corporation		
	Forecast	Actual	Variance
Cash receipts:			
Distribution from Foundation Homes Inc.	\$ 200,773	\$ -	\$ (200,773)
Cash disbursements:			
CCAA consulting fees and operating expenses	3,200	3,192	8
CCAA professional fees	173,832	15,000	158,832
Total disbursements	177,032	18,192	158,840
Net cash flows for period	23,741	(18,192)	(41,933)
Cash, beginning of period	31,606	31,606	-
Cash, end of period	\$ 55,347	\$ 13,414	\$ (41,933)

26. FM1 had no cash receipts during the Reporting Period, as it has not yet received the FHI bankruptcy dividend.
27. Cash disbursements for the Reporting Period total \$18,192 which is \$158,832 lower than expected. The positive variance relates primarily to lower than expected professional fees that have been deferred until the collection of the FHI bankruptcy dividend.
28. As a result of the above variances, FM1 had a total negative cash flow variance of \$41,933 for the Reporting Period. FM1 is relying on the CCAA Administration Charge to manage its cash flows.

FM2

29. The cash flow forecast to actual results are attached at Appendix A and contain the cash receipts and disbursements incurred to date for FM2 as compared to the cash flow forecast previously provided to this Court in the Tenth Report.
30. Outlined below is a summary of the actual results to June 30, 2016:

Cash Flow Forecast
January 1, 2016 to June 30, 2016
Forecast to Actual Analysis

Exhibit 2

	Foundation Mortgage "2" Corporation		
	Forecast	Actual	Variance
Cash receipts:			
Distribution from Foundation Homes Inc.	\$ -	\$ -	\$ -
Cash disbursements:			
CCAA consulting fees and operating expenses	2,300	3,420	(1,120)
CCAA professional fees	8,965	-	8,965
Total disbursements	11,265	3,420	7,845
Net cash flows for period	(11,265)	(3,420)	(7,845)
Cash, beginning of period	11,265	11,265	-
Cash, end of period	\$ -	\$ 7,845	\$ (7,845)

31. FM2 had no cash receipts during the Reporting Period.
32. CCAA consulting and professional fees for Reporting Period for FM2 total \$3,420 which is \$7,845 lower than expected due to the lack of liquidity.
33. As a result of the above variance, FM2 had a total positive cash variance of \$7,845 for the Reporting Period. FM2 is relying on the CCAA Administration Charge and borrowings from FM1 to manage its cash flows.

CASH FLOW FORECASTS THROUGH DECEMBER 30, 2016

34. FM1 and FM2, with the assistance of the CRO and the Monitor, have prepared Forecasts for the Forecast Period which are attached as Appendix B. The Forecasts are based on the most current information available.
35. The table below summarizes the cash flows for the Forecast Period:

Cash Flow Forecast July 1, 2016 to December 31, 2016		Exhibit 3
	FM1	FM2
RECEIPTS		
Distribution from Foundation Homes Inc.	\$200,773	\$ -
DISBURSEMENTS		
CCAA consulting fees and operating costs	3,186	3,395
CCAA professional fees	172,674	4,450
Total disbursements	<u>175,860</u>	<u>7,845</u>
Net cash flows	24,913	(7,845)
Opening cash	13,414	7,845
Ending cash	<u>\$ 38,327</u>	<u>\$ -</u>

36. As summarized above, FM1 is projecting cash receipts of approximately \$200,000 from FHI during the Forecast Period. No recoveries have been included in respect of Calmar or Calaway described above due to the timing and uncertainty of recovery.
37. FM1 is forecasting disbursements of \$175,860 during the Forecast Period relating primarily to professional fees.
38. FM2 is projecting no cash receipts during the Forecast Period.
39. FM2 is forecasting cash disbursements of \$7,845 to pay CCAA professional fees and consulting costs.
40. Neither of the Forecasts has estimated professional fees that would be incurred if plans of arrangement are prepared by one or both FMs. Whether plans of arrangement can be prepared for the FM's is dependent on the ultimate monetization strategy for each of the Companies' mortgages and assets.
41. The Monitor has reviewed the assumptions supporting the Forecasts and believes the assumptions to be reasonable in the circumstances.

THE COMPANIES' REQUEST FOR AN EXTENSION OF THE STAY PERIOD

42. Pursuant to the Order of this Honourable Court dated January 11, 2016 the Stay Period expires on June 30, 2016 for FM1 and FM2.
43. FM1 and FM2 are seeking an extension of the Stay Period up to and including December 30, 2016 (the "Stay Extension").
44. The Stay Extension is necessary to allow FM1 and FM2 to carry out the realization process for each of the Companies' assets described above. The Monitor is of the view that the length of the Stay Extension is reasonable as it provides the Companies with a realistic timeframe to pursue recoveries as noted above while minimizing administrative costs.
45. In the Monitor's view, FM1 and FM2 are acting in good faith and with due diligence.

MONITOR'S RECOMMENDATION

46. The Monitor recommends that this Honourable Court approve the Stay Extension.

Dated at Calgary, this 22nd day of June, 2016.

ERNST & YOUNG INC.
in its capacity as Monitor of
FM1 and FM2 and not in its
personal or corporate capacity



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



Cassie Riglin, CA
Senior Manager

Appendix A

Cash Flow Forecast
January 1, 2016 to June 30, 2016
Forecast to Actual Analysis

Appendix A

	Notes	Foundation Mortgage Corporation			Foundation Mortgage "2" Corporation		
		Forecast	Actual	Variance	Forecast	Actual	Variance
Cash receipts:							
Distribution from Foundation Homes Inc.	1	\$ 200,773	\$ -	\$(200,773)	\$ -	\$ -	\$ -
Cash disbursements:							
CCAA consulting fees and operating expenses	2	3,200	3,192	8	2,300	3,420	(1,120)
CCAA professional fees	3	173,832	15,000	158,832	8,965	-	8,965
Total disbursements		177,032	18,192	158,840	11,265	3,420	7,845
Net cash flows for period		23,741	(18,192)	(41,933)	(11,265)	(3,420)	(7,845)
Cash, beginning of period		31,606	31,606	-	11,265	11,265	-
Cash, end of period		\$ 55,347	\$ 13,414	\$ (41,933)	\$ -	\$ 7,845	\$ (7,845)

Notes and Assumptions

- 1 The distribution expected from Foundation Homes Inc. (in Bankruptcy) was not received and receipt is expected subsequent to July 1, 2016.
- 2 CCAA consulting fees and operating expenses consisted of investor relations fees and bank service charges.
- 3 At June 20, 2016, estimated unpaid invoiced and unbilled professional fees amounted to \$137,124. Of this amount, \$133,000 was outstanding at January 1, 2016. The payments for the period were less than forecast due to insufficient funds and the necessity of maintaining minimum cash balances. In addition, approximately \$40,000 of additional professional fees forecast to resolve all outstanding matters were not incurred and are expected to be incurred subsequent to July 1, 2016.

Appendix B

Cash Flow Forecast

Appendix B

July 1, 2016 to December 31, 2016

	Notes	FM1	FM2
RECEIPTS			
Distribution from Foundation Homes Inc.	1	\$200,773	\$ -
DISBURSEMENTS			
CCAA consulting fees and operating costs	2	3,186	3,395
CCAA professional fees	3	172,674	4,450
Total disbursements		175,860	7,845
Net cash flows		24,913	(7,845)
Opening cash		13,414	7,845
Ending cash		\$ 38,327	\$ -

Notes and Assumptions

- 1 FM1 claim in the bankruptcy of Foundation Homes has been approved by the Trustee. The Trustee is awaiting review and approval of the distribution by the office of the Superintendent of Bankruptcy.
- 2 CCAA consulting fees and operating expenses consist of monthly investor communication fees and bank charges.
- 3 At June 20, 2016 there are unpaid and estimated unbilled professional fees owing by FM1 of 137,124. Additional estimated fees of \$40,000 are required to wind up the CCAA proceedings.
- 4 The cash flow forecast does not include potential recoveries from the following:
 - potential recoveries from the sale of the Calmar Lands on which FM1 holds third charge mortgages. A settlement proposal has been accepted from a first charge secured creditor whose security may not be enforceable. Upon sale of the lands, FM1 expects to receive a minimum of \$150,000 from the sale proceeds.
 - recoveries from the proceeds of sale of the Calaway Lands against which FM1 held a first mortgage, and FM2 a mortgage with second and third charges on separate parcels of lands. This mortgage has been conveyed in to trust units of Bow Water & Land Trust, the new owner of the Calaway Lands. The priority of the FM claims is being challenged by the Receiver /Manager of 1357686 Alberta Ltd. ("1357686"), the previous owner of the lands. There are potential recoveries in excess of \$1,850,000 eventually distributable to the creditors of 1357686 and the portion distributable to FM1 and FM2 will depend upon the resolution of the priority of the respective claims.