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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	TWELFTH REPORT OF THE MONITOR DECEMBER 5, 2016
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>MONITOR</u> 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 <u>COUNSEL</u> 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

APPENDICES

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 twelfth report (the "Twelfth Report") of the Monitor is to provide this Honourable Court with:

    a) An update on the restructuring efforts for FM1 and FM2 since the eleventh report of the Monitor dated June 22, 2016 (the "Eleventh Report");

    b) The forecast to actual cash flow results for FM1 and FM2 from July 1, 2016 to December 31, 2016 (the "Reporting Period");

    c) The cash flow forecasts (the "Forecasts") from January 1, 2017 to December 31, 2017 (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 Twelfth 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 Twelfth 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 December 2, 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. ("FHI")

12. As described in the Eleventh 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 has paid the bankruptcy dividends from the bankruptcy estate of FHI of approximately, and FM1 received $197,216.63.

15. The Trustee is in the process of finalizing its discharge. No further recoveries are expected.

Calaway

16. 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.

17. On December 31, 2015, the VTB Mortgage was converted into equity units of the purchaser ("Equity Units").

18. FM1 and FM2 had secured mortgages against the Calaway lands which may have attached to some of the equity units. The priority of the FM1 and FM2 mortgages has not yet been determined 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 has been put on hold pending the determination of whether the equity units have value. The Companies and the Monitor intend to 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, if it is determined that the equity units have value so as to warrant resolution of the dispute. As a result, the Monitor is unable to provide an estimate of recovery to FM1 and FM2 from the Calaway sale at this time.

Calmar

19. 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.

20. 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. Prior to the November 17, 2014 application, FM1 worked with another mortgagee, Calmar Lands Ltd. ("CLL") to settle the dispute with certain of the UDI Mortgagees. The Court's decision on this matter was released on July 5, 2016, which found that the UDI Mortgages were valid and enforceable; however, given FM1's and CLL's settlement with certain of the UDI Mortgagees, FM1 is entitled to a

portion of the sale proceeds upon the sale of the Calmar lands in accordance with its agreement with CLL.

21. The Calmar lands are not currently listed for sale and the Monitor understands that Repsol Oil & Gas Canada Inc. ("Repsol") is currently attending to certain environmental reclamation work on the lands. Additional previously abandoned well sites ("Well Sites"), not under the responsibility or control of Repsol remain on the Calmar lands which require further remediation. Financial responsibility for these remaining Well Sites has not been determined which creates uncertainty as to the ability to sell the Calmar Lands and their expected sales value.

FORECAST TO ACTUAL RESULTS

FM1

22. 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 Eleventh Report.

23. Outlined below is a summary of the actual results to December 31, 2016:

Cash Flow Forecast — Exhibit 1
July 1, 2016 to December 31, 2016
Forecast to Actual Analysis

	Foundation Mortgage Corporation		
	Forecast	Actual	Variance
Cash receipts:			
Distribution from Foundation Homes Inc.	$ 200,773	$ 197,217	$ (3,556)
Cash disbursements:			
CCAA consulting fees and operating expenses	3,186	4,230	(1,044)
CCAA professional fees	172,674	136,707	35,967
Total disbursements	175,860	140,937	34,923
Net cash flows for period	24,913	56,279	$ 31,366
Cash, beginning of period	13,414	13,372	(42)
Cash, end of period	$ 38,327	$ 69,651	$ 31,324

24. FM1 had approximately $197,000 of cash receipts during the Reporting Period as a result of the FHI bankruptcy dividend.

25. Cash disbursements for the Reporting Period total $140,937 which is $34,923 lower than expected. The positive variance relates primarily to lower than expected professional fees that have been deferred until the finalization of the CCAA proceedings.

26. As a result of the above variances, FM1 had a total positive cash flow variance of $31,324 for the Reporting Period.

FM2

27. 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 Eleventh Report.

28. Outlined below is a summary of the actual results to December 31, 2016:

Cash Flow Forecast — Exhibit 2
July 1, 2016 to December 31, 2016
Forecast to Actual Analysis

	Foundation Mortgage "2" Corporation		
	Forecast	Actual	Variance
Cash receipts:			
Distribution from Foundation Homes Inc.	$ -	$ -	$ -
Cash disbursements:			
CCAA consulting fees and operating expenses	3,395	4,080	(685)
CCAA professional fees	4,450	-	4,450
Total disbursements	7,845	4,080	3,765
Net cash flows for period	(7,845)	(4,080)	3,765
Cash, beginning of period	7,845	7,575	(270)
Cash, end of period	$ -	$ 3,495	$ 3,495

29. FM2 had no cash receipts during the Reporting Period.

30. CCAA consulting and professional fees for Reporting Period for FM2 total $4,080 which is $3,765 lower than expected due to lower than expected professional fees that have been deferred until the finalization of the CCAA proceedings.

31. As a result of the above variance, FM2 had a total positive cash variance of $3,495 for the Reporting Period.

CASH FLOW FORECASTS THROUGH DECEMBER 31, 2017

32. 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.

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

Cash Flow Forecast
January 1, 2017 to December 31, 2017

Exhibit 3

	FM1	FM2
RECEIPTS	$ -	$ -
DISBURSEMENTS		
CCAA consulting fees and operating costs	2,655	2,775
CCAA professional fees	40,500	-
Total disbursements	43,155	2,775
Net cash flows	(43,155)	(2,775)
Opening cash	69,651	3,495
Ending cash	$ 26,496	$ 720

34. As summarized above, FM1 and FM2 are is projecting no cash receipts 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.

35. FM1 is forecasting disbursements of $43,155 during the Forecast Period relating primarily to professional fees.

36. FM2 is forecasting cash disbursements of $2,775 to pay CCAA consulting costs.

37. To the extent that there are recoveries in FM2, the Monitor will allocate professional costs to FM2 for the benefit of FM1.

38. 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

39. Pursuant to the Order of this Honourable Court dated June 30, 2016 the Stay Period expires on December 30, 2016 for FM1 and FM2.

40. FM1 and FM2 are seeking an extension of the Stay Period up to and including December 30, 2017 (the "Stay Extension").

41. 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.

42. In the Monitor's view, FM1 and FM2 are acting in good faith and with due diligence.

MONITOR'S RECOMMENDATION

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

Dated at Calgary, this 5th day of December, 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

July 1, 2016 to December 31, 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	$ 197,217	$ (3,556)	$ -	$ -	$ -
Cash disbursements:							
CCAA consulting fees and operating expenses	2	3,186	4,230	(1,044)	3,395	4,080	(685)
CCAA professional fees	3	172,674	136,707	35,967	4,450	-	4,450
Total disbursements		175,860	140,937	34,923	7,845	4,080	3,765
Net cash flows for period		24,913	56,279	$ 31,366	(7,845)	(4,080)	3,765
Cash, beginning of period		13,414	13,372	(42)	7,845	7,575	(270)
Cash, end of period		$ 38,327	$ 69,651	$ 31,324	$ -	$ 3,495	$ 3,495

Notes and Assumptions

1 The negative variance in the Foundation Homes Inc. distribution is attributable to increased Trustee costs from the initital forecast.

2 CCAA consulting fees and operating expenses consisted of investor relations fees and bank service charges.

3 Of the prrofessional fees paid of $136,707, $132,674 were invoiced or unbilled at June 20, 2016. Additional professional fees of $40,000 to wind up the CCAA proceedings were not incurred as the resolution of outstanding matters has been delayed.

Appendix B

Cash Flow Forecast
January 1, 2017 to December 31, 2017

Appendix B

	Notes	FM1	FM2
RECEIPTS	1	$ -	$ -
DISBURSEMENTS			
CCAA consulting fees and operating costs	2	2,655	2,775
CCAA professional fees	3	40,500	-
Total disbursements		43,155	2,775
Net cash flows		(43,155)	(2,775)
Opening cash		69,651	3,495
Ending cash	4	$ 26,496	$ 720

Notes and Assumptions

1 There are no cash receipts expected in the forecast period

2 CCAA consulting fees and operating expenses consist of monthly investor communication fees and bank charges. Three months of those expenses have been forecasted.

3 Estimated fees of $40,500 are required to wind up the CCAA proceedings.

4 The cash flow forecast does not include potential recoveries from the following:

- recoveries from the sale of the Calmar Lands on which FM1 holds third charge mortgages. Upon sale of the lands, FM1 could receive a portion of the sale proceeds, however significant environmental remediation issues are delaying the marketing of the lands and the timing of resolution of those issues remains uncertain.

- 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. The undistributed proceeds of sale consist of equity units of Bow Water & Land Trust, the new owner of the Calaway Lands. The priority of the FM claims has not been determined, therefore, recoveries to FM1 and FM2 will depend upon the determination of the priority of the respective claims.