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	**EIGHTH REPORT OF THE MONITOR** **SEPTEMBER 26, 2014**
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 / Nick Purich Telephone: 403-206-5067 / (403) 206-5170 Fax: 403-206-5075 Email: Neil.Narfason@ca.ey.com Nick.JB.Purich@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

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

    a) An update on the restructuring efforts for FM1 and FM2 since the seventh report of the monitor dated April 24, 2014 (the "Seventh Report");

    b) The forecast to actual cash flow results for FM1 and FM2 from April 23, 2014 to September 25, 2014 (the "Reporting Period");

    c) The cash flow forecasts (the "Forecasts") from September 26, 2014 to January 31, 2015 (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 Eighth 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 Eighth 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 [NTD: confirm date] September 25, 2014 affidavit of Mr. Gary L. Bentham.

11. The time line for anticipated disposition of the FM's assets is taking longer than initially forecast due to the complexity of the inter-company transactions, the fact that the FM mortgages are subordinate to senior debt position and certain realization steps have taken longer than anticipated.

Foundation Homes Inc.

12. As described in the Seventh Report, FM1 filed an application for a bankruptcy order as against Foundation Homes Inc. ("FHI") on February 14, 2014 in Calgary and the proceedings were subsequently moved to Lethbridge, AB and an order was granted to that effect on February 26, 2014.

13. As also described in the Seventh Report, Ernst and Young Inc. was appointed interim receiver (the "Interim Receiver") over FHI on February 20, 2014. The Interim Receiver holds approximately $350,000 in trust which represents the only remaining asset of FHI.

14. The Monitor understands that the CRO and FM1's legal counsel have been working diligently to move forward with the FHI bankruptcy application; however, there have been numerous scheduling issues. The application is currently scheduled for September 29, 2014.

Calaway

15. 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. FM1 and FM2 have secured mortgages against the Calaway lands which may attach to some of the proceeds of the sale of the Calaway lands.

16. 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 registered against the Calaway Lands. 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

17. 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 CCAA 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 $4.8 million. The FM1 mortgage is registered in third and fourth place on titles to the Calmar lands. The validity and enforceability of certain mortgages (which security is registered on the Calmar lands prior to FM1) is currently disputed; however, the CRO has put forth a proposal (the "Calmar Proposal") to these disputed creditors for the settlement of the issue.

18. The CRO expects to have a response to the Calmar Proposal within the next two months.

19. In the Seventh Report, the Monitor reported that 133 had accepted an offer on the Calmar lands. During the Reporting Period, that offer did not close and no further offers have been received.

FORECAST TO ACTUAL RESULTS

FM1

20. 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 Seventh Report.

21. Outlined below is a summary of the actual results to September 25, 2014:

Cash Flow
April 23, 2014 - September 25, 2014
Forecast to Actual Analysis

	Foundation Mortgage Corporation (FM1)		
	Forecast	Actual	Variance
Cash receipts:			
Mortgage payments from lot sales	$ 150,000	$ 150,339	$ 339
Recovery of funds from related parties	-	-	-
Recovery of funds from FM2	51,106	35,000	(16,106)
Total receipts	201,106	185,339	(15,767)
Cash disbursements:			
CCAA consulting fees and operating expenses	12,936	6,270	6,666
CCAA professional fees	220,997	110,168	110,829
Total disbursements	233,933	116,438	117,495
Net cash flows for period	(32,827)	68,901	101,728
Cash, beginning of period	40,743	40,737	-
Cash, end of period	$ 7,916	$ 109,638	$ 101,728

22. FM1 had cash receipts of $185,339 during the Reporting Period which is $15,767 lower than expected. The negative variance results from lower than expected recovery of funds from FM2.

23. Cash disbursements for the Reporting Period total $116,438. The positive variance of $117,495 relates primarily to the timing of payment of professional fees including those of the CRO.

24. As a result of the above variances, FM1 had a total positive cash flow variance of $101,728 for the Reporting Period. FM1 is relying on the CCAA Administration Charge to manage its cash flows.

FM2

25. 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 Honourable Court in the Seventh Report.

26. Outlined below is a summary of the actual results to September 25, 2014:

Cash Flow
April 23, 2014 - September 25, 2014
Forecast to Actual Analysis

	Foundation Mortgage "2" Corporation		
	Forecast	Actual	Variance
Cash receipts:			
Mortgage payments from lot sales	$ -	$ -	$ -
Recovery of funds from related parties	35,000	35,724	724
Recovery of funds from FM2	(51,106)	(35,000)	16,106
Total receipts	(16,106)	724	16,830
Cash disbursements:			
CCAA consulting fees and operating expenses	6,528	3,062	3,466
CCAA professional fees	-		-
Total disbursements	6,528	3,062	3,466
Net cash flows for period	(22,634)	(2,338)	20,296
Cash, beginning of period	22,634	22,544	(90)
Cash, end of period	$ -	$ 20,205	$ 20,206

27. FM2's only cash receipt was from the repayment of CCAA costs previously advanced to 1357686 Alberta Ltd., a related company, which was approved by Order of this Court.

28. Operating expenses for Reporting Period for FM2 total $3,062.

29. FM2 also repaid $35,000 to FM1 for amounts previously advanced.

30. As a result of the above variances, FM2 had a total positive cash variance of $20,206 for the Reporting Period.

CASH FLOW FORECASTS THROUGH JANUARY 31, 2015

31. FM1 and FM2, with the assistance of the CRO and the Monitor, have prepared Forecasts for the Forecast Period which are attached to this Eighth Report as Appendix B. The Forecasts are based on the most current information available.

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

Cash Flow Forecast
September 26, 2014 - January 31, 2015

	FM1	FM2
Cash receipts		
Recovery of funds from FM2	8,800	(8,800)
Total receipts	8,800	(8,800)
Cash disbursements		
CCAA consulting fees and operating costs	8,650	5,150
CCAA professional fees	184,275	6,255
Administration charge offset	(74,486)	
Total disbursements	118,438	11,405
Net cash flows	(109,638)	(20,205)
Opening cash	109,638	20,205
Closing cash	$ -	$ -

33. As summarized above, FM1 is projecting cash receipts of $8,800 from FM2 during the Forecast Period. The funds held by the Interim Receiver as described above have not been included in the Forecast due to the uncertainty of the timing and result of the bankruptcy hearing. No recoveries have been included in respect of Calmar or Calaway described above due to the timing and uncertainty of recovery.

34. FM1 is forecasting disbursements of $118,438 during the Forecast Period relating primarily to professional fees.

35. FM2 is projecting no cash receipts during the Forecast Period.

36. FM2 is forecasting cash disbursements of $11,405 to pay CCAA professional fees and consulting costs. FM2 is also expecting to repay $8,800 to FM1 as described above.

37. 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.

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 April 30, 2014 the Stay Period expires on September 30, 2014 for FM1 and FM2.

40. FM1 and FM2 are seeking an extension of the Stay Period up to and including January 31, 2015 (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.

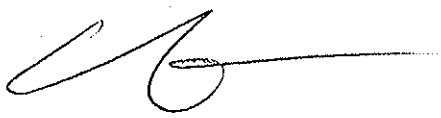
42. In the Monitor's view, FM1 and FM2 are acting in good faith and with due diligence.

MONITOR'S RECOMMENDATION

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

Dated at Calgary, this 26th day of September, 2014.

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

Nick J.B. Purich, CA
Senior

Appendix A

Cash Flow
April 23, 2014 - September 25, 2014
Forecast to Actual Analysis

	Notes	Foundation Mortgage Corporation (FM1)			Foundation Mortgage "2" Corporation		
		Forecast	Actual	Variance	Forecast	Actual	Variance
Cash receipts:							
Mortgage payments from lot sales	1	$ 150,000	$ 150,339	$ 339	$ -	$ -	$ -
Recovery of funds from related parties	2	-	-	-	35,000	35,724	724
Recovery of funds from FM2	3	51,106	35,000	(16,106)	(51,106)	(35,000)	16,106
Total receipts		201,106	185,339	(15,767)	(16,106)	724	16,830
Cash disbursements:							
CCAA consulting fees and operating expenses	4	12,936	6,270	6,666	6,528	3,062	3,466
CCAA professional fees	5	220,997	110,168	110,829	-		-
Total disbursements		233,933	116,438	117,495	6,528	3,062	3,466
Net cash flows for period		(32,827)	68,901	101,728	(22,634)	(2,338)	20,296
Cash, beginning of period		40,743	40,737	-	22,634	22,544	(90)
Cash, end of period		$ 7,916	$ 109,638	$ 101,728	$ -	$ 20,205	$ 20,206

Notes and Assumptions

1 The sale of the three remaining Coalhurst lots materialized during the period.
2 FM2 recovered funds during the period that had been previously advanced to fund CCAA operating expenses of a related company.
3 FM2 repaid $35,000 of previous advances from FM1 during the period. At September 30, 2014 there remained $71,000 due to FM1 from FM2.
4 CCAA consulting fees and operating expenses represent FM1 and FM2's share of Harvest CCAA Operations monthly operating expenses. The amounts incurred were less than forecast.
5 At September 30, estimated invoiced and unbilled professional fees amounted to $128,275 and $1,755 for FM1 and FM2 respectively.

Appendix B

Cash Flow Forecast
September 26, 2014 - January 31, 2015

	Notes	Foundation Mortgage Corporation (FM1)					Foundation Mortgage Corporation (FM2)				
	4	Oct	Nov	Dec	Jan	Total	Oct	Nov	Dec	Jan	Total
RECEIPTS											
Recovery of funds from FM2	1				8,800	8,800	-	-	-	(8,800)	(8,800)
Total receipts		-	-	-	8,800	8,800	-	-	-	(8,800)	(8,800)
DISBURSEMENTS											
CCAA consulting fees and operating costs	2	4,075	1,025	1,025	2,525	8,650	1,575	525	525	2,525	5,150
CCAA professional fees	3	50,000	25,000	-	109,275	184,275	1,755	-	-	4,500	6,255
Administration charge offset	3				(74,486)	(74,486)					
Total disbursements		54,075	26,025	1,025	37,313	118,438	3,330	525	525	7,025	11,405
NET CASH FLOWS		(54,075)	(26,025)	(1,025)	(28,513)	(109,638)	(3,330)	(525)	(525)	(15,825)	(20,205)
OPENING CASH		109,638	55,563	29,538	28,513	109,638	20,205	16,875	16,350	15,825	20,205
ENDING CASH		$ 55,563	$ 29,538	$ 28,513	$ -	$ -	$ 16,875	$ 16,350	$ 15,825	$ -	$ -

Notes and Assumptions

1 FM1 has paid operating expenses and professional fees on behalf of FM2 pursuant to a $250,000 credit facility approved by Court Order on November 23, 2012. FM2 has drawn $71,000 on that facility.

2 CCAA consulting fees and operating expenses comprise the Foundation Mortgage companies share of monthly operating expenses incurred by Harvest CCAA Operations Inc., which manages a group of Harvest entities in creditor protection. As there is currently minimal activity in FM2, and minimal activity expected through the forecast period, all operating expenses will be charged to FM1, except for amounts paid to Wheelhouse Support which are split 50/50 between FM1 and FM2

3 At September 30, 2014 there are unpaid professional fees owing by FM1 of $128,275 and by FM2 of $1,755. Pending additional funds becoming available, these fees will be offset against the Administration charge.

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

- potential recoveries from the sale of Noblelord homes by Foundation Homes Inc., an FM1 creditor. Approximately $350,000 is being held by the Interim Receiver pending the outcome of a bankruptcy application. It also does not include the recovery of $15,000 advanced by FM1 to the Interim Receiver of Foundation Homes. It is assumed that the CCAA proceedings for FM1 and FM2 will be terminated by January 31, 2014

- potential recoveries from the sale of the Calmor Lands on which FM1 holds third charge mortgages. A settlement proposal has been offered to a first charge secured creditor whose security may not be enforceable. In the event that proposal is accepted, it is expected that FM1 may recover $150,000 from the sale of the lands, when the lands are sold.

- recoveries from the proceeds of sale of the Calaway Lands against which FM1 has a first mortgage, and FM2 a mortgage with second and third charges on separate parcels of lands. The validity of FM's claims are being challenged by the Receiver /Manager of 1357686 Alberta Ltd., the owner of the lands. There are potential recoveries in excess of $2,000,000 for FM1 should its security be determined to be enforceable.