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CALGARY, ALBERTA

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	**NINTH REPORT OF THE MONITOR** **JANUARY 23, 2015**
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 ninth report (the "Ninth Report") of the Monitor is to provide this Honourable Court with:

   a) An update on the restructuring efforts for FM1 and FM2 since the eighth report of the Monitor dated September 26, 2014 (the "Eighth Report");

   b) The forecast to actual cash flow results for FM1 and FM2 from September 26, 2014 to January 22, 2015 (the "Reporting Period");

   c) The cash flow forecasts (the "Forecasts") from January 23, 2015 to December 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 Ninth 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 Ninth 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 January 23, 2015 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 Eighth Report, FM1 filed an application for a bankruptcy order as against Foundation Homes Inc. ("FHI") on February 14, 2014.

13. 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"). FM1 filed a proof of claim in the FHI bankruptcy on January 8, 2015, claiming an unsecured amount of $1,343,069. FM1's claim represented the largest claim submitted at the date of the first meeting of creditors of FHI. Further, the CRO was appointed on behalf of FM1 as an inspector of FHI's bankrupt estate.

14. The following steps need to be completed by the Trustee prior to any distribution being paid to FHI's creditors including FM1:

    (a) complete its review of the books and records of FHI;

    (b) determine if there are any reviewable transactions involving FHI;

(c) properly assess the proofs of claim submitted; and

(d) take steps to reconstruct financial records and file GST and tax returns and determine if any claim by Canada Revenue Agency exists.

15. It is estimated it will take approximately two to three months for the administration of the FHI estate to conclude and a distribution to occur.

16. The Trustee of FHI holds approximately $335,000 in trust which represents the only known remaining asset of FHI.

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. 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.

18. 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.

19. 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

20. 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 $5.8 million. The FM1 mortgage is registered in third and fourth place on titles to the Calmar lands.

21. 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 scheduled to be heard on November 17, 2014; however, the decision was reserved. 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.

22. The Calmar lands remain listed for sale and the Monitor understands that Talisman Energy 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

23. 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 Eighth Report.

24. Outlined below is a summary of the actual results to January 22, 2015:

Cash Flow
September 26, 2014 to January 22, 2015
Forecast to Actual Analysis

Table 1

	Foundation Mortgage Corporation (FM1)		
	Forecast	Actual	Variance
Cash receipts:			
Repayment of advance to Foundation Homes Interim Receiver	$ -	$ 15,124	$ 15,124
Recovery of funds from FM2	8,800	-	(8,800)
Total receipts	8,800	15,124	6,324
Cash disbursements:			
CCAA consulting fees and operating expenses	8,650	8,292	358
CCAA professional fees	184,275	32,723	151,552
Administration charge offset	(74,487)	-	(74,487)
Total disbursements	118,438	41,016	77,422
Net cash flows for period	(109,638)	(25,892)	83,746
Cash, beginning of period	109,638	109,638	-
Cash, end of period	$ -	$ 83,746	$ 83,746

25. FM1 had cash receipts of $15,124 during the Reporting Period which is $6,324 higher than expected. The variance results from the repayment of the retainer previously advanced to the Interim Receiver of FHI offset by lower than expected recovery of funds from FM2.

26. Cash disbursements for the Reporting Period total $41,016 which is $77,422 lower than expected. The positive variance relates primarily to lower than expected professional fees.

27. As a result of the above variances, FM1 had a total positive cash flow variance of $83,746 for the Reporting Period. FM1 is relying on the CCAA Administration Charge to manage its cash flows.

FM2

28. 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 Eighth Report.

29. Outlined below is a summary of the actual results to January 22, 2015:

Cash Flow September 26, 2014 to January 22, 2015 Forecast to Actual Analysis			Table 2
	Foundation Mortgage "2" Corporation (FM2)		
	Forecast	Actual	Variance
Cash receipts:			
Recovery of funds from related party	$ -	$ -	$ -
Total receipts	-	-	-
Cash disbursements:			
CCAA consulting fees and operating expenses	5,150	2,220	2,930
CCAA professional fees	6,255	1,755	4,500
Administration charge offset	-	-	-
Total disbursements	11,405	3,975	7,430
Net cash flows for period	(11,405)	(3,975)	7,430
Cash, beginning of period	20,205	20,205	-
Cash, end of period	$ 8,800	$ 16,230	$ 7,430

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

31. Professional fees for Reporting Period for FM2 total $3,975 which is $7,430 lower than expected.

32. As a result of the above variance, FM2 had a total positive cash variance of $7,430 for the Reporting Period.

2. CASH FLOW FORECASTS THROUGH DECEMBER 31, 2015

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

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

Cash Flow Forecast January 23, 2015 to December 31, 2015		Table 3
	FM1	FM2
Receipts		
Recovery of funds from FM2	$ 1,575	$ (1,575)
Total receipts	1,575	(1,575)
Disbursements		
CCAA consulting fees and operating costs	8,925	7,155
CCAA professional fees	214,779	7,500
Administration charge offset	(162,279)	
Total disbursements	61,425	14,655
Net Cash Flows	(59,850)	(16,230)
Opening Cash	83,746	16,230
Ending Cash	$ 23,896	$ 0

35. As summarized above, FM1 is projecting cash receipts of $1,575 from FM2 during the Forecast Period. No recoveries have been included in respect of FHI, Calmar or Calaway described above due to the timing and uncertainty of recovery.

36. FM1 is forecasting disbursements of $61,425 during the Forecast Period relating primarily to professional fees.

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

38. FM2 is forecasting cash disbursements of $14,655 to pay CCAA professional fees and consulting costs. FM2 is also expecting to repay $1,575 to FM1 as described above.

39. 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.

40. 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

41. Pursuant to the Order of this Honourable Court dated October 1, 2014 the Stay Period expires on January 31, 2015 for FM1 and FM2.

42. FM1 and FM2 are seeking an extension of the Stay Period up to and including December 31, 2015 (the "Stay Extension").

43. 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.

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

MONITOR'S RECOMMENDATION

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

Dated at Calgary, this 23rd day of January, 2015.

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
Manager

Appendix A

Cash Flow
September 26, 2014 to January 22, 2015
Forecast to Actual Analysis

	Notes	Foundation Mortgage Corporation (FM1)			Foundation Mortgage "2" Corporation		
		Forecast	Actual	Variance	Forecast	Actual	Variance
Cash receipts:							
Repayment of advance to Foundation Homes Interim Reviver	1	$ -	$ 15,124	$ 15,124	$ -	$ -	$ -
Recovery of funds from FM2	2	8,800	-	(8,800)	(8,800)	-	8,800
Total receipts		8,800	15,124	6,324	(8,800)	-	8,800
Cash disbursements:							
CCAA consulting fees and operating expenses	3	8,650	8,292	358	5,150	2,220	2,930
CCAA professional fees	4	184,275	32,723	151,552	6,255	1,755	4,500
Administration charge offset	4	(74,487)	-	(74,487)	-	-	-
Total disbursements		118,438	41,016	77,422	11,405	3,975	7,430
Net cash flows for period		(109,638)	(25,892)	83,746	(20,205)	(3,975)	16,230
Cash, beginning of period		109,638	109,638	-	20,205	20,205	-
Cash, end of period		$ -	$ 83,746	$ 83,746	$ -	$ 16,230	$ 16,230

Notes and Assumptions

1 The $15,000 previously advanced to Ernst & Young Inc. in their capacity of Interim Receiver of Foundation Homes Inc. was repaid, with interest.
2 The repayment of funds was not completed. FM2 still owes FM1 $71,000 for CCAA expenses funded by FM1 on its behalf.
3 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.
4 At January 26, 2015, estimated invoiced and unbilled professional fees amounted to $167,279 and $3,000 for FM1 and FM2 respectively. The payments for the period were less than forecast due to insufficient funds and the necessity of maintaining minimum cash balances.

Appendix B

Cash Flow Forecast
January 23, 2015 to December 31, 2015

	Notes	Foundation Mortgage Corporation (FM1)			Foundation Mortgage "2" Corporation (FM2)		
	4	Feb, 2015 - April, 2015	May, 2015 - Dec, 2015	Total	Feb, 2015 - April, 2015	May, 2015 - Dec, 2015	Total
Receipts							
Recovery of funds from FM2	1		1,575	1,575	-	(1,575)	(1,575)
Total receipts		-	1,575	1,575	-	(1,575)	(1,575)
Disbursements							
CCAA consulting fees and operating costs	2	3,525	5,400	8,925	2,715	4,440	7,155
CCAA professional fees	3	197,279	17,500	214,779	3,000	4,500	7,500
Administration charge offset	3	(162,279)		(162,279)			
Total disbursements		38,525	22,900	61,425	5,715	8,940	14,655
Net Cash Flows		(38,525)	(21,325)	(59,850)	(5,715)	(10,515)	(16,230)
Opening Cash		83,746	45,221	83,746	16,230	10,515	16,230
Ending Cash		$ 45,221	$ 23,896	$ 23,896	$ 10,515	$ 0	$ 0

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 consist of monthly investor communication fees, bank charges and the cost of maintaining a mailing address.

3 At January 26, 2015 there are unpaid and estimated unbilled professional fees owing by FM1 of $167,279 and by FM2 of $3,000. 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 bankruptcy of Foundation Homes Inc., which owes FM1 approximately $1.4 million. Approximately $335,000 is being held by the bankruptcy trustee pending their review and adjudication of all creditor claims filed in the bankruptcy proceedings. It is expected that the trustee will be in a position to distribute funds to creditors by the end of March, 2015
- 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
- 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 $1,850,000 for FM1 should its security be determined to be enforceable.