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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	THIRTEENTH REPORT OF THE MONITOR NOVEMBER 27, 2017
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>MONITOR</u> Ernst & Young Inc. 2200, 215 - 2nd Street SW Calgary, Alberta T2P 1M4 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

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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 thirteenth report (the “Thirteenth Report”) of the Monitor is to provide this Honourable Court with:

    a) An update on the restructuring efforts for FM1 and FM2 since the twelfth report of the Monitor dated December 5, 2016 (the “Twelfth Report”);

    b) The forecast to actual cash flow results for FM1 and FM2 from January 1, 2017 to November 27, 2017 (the “Reporting Period”);

    c) The cash flow forecasts (the “Forecasts”) from November 28, 2017 to March 31, 2018 (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 Thirteenth 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 Thirteenth 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 November 27, 2017.

11. The time line for anticipated disposition of the Companies' assets is proceeding; however, given the complexity of certain property developments, environmental concerns and the fact that the Companies' mortgages are subordinate to certain senior debt positions, the realization process is taking far longer than anticipated.

Calaway

12. 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.

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

14. 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 been resolved, as such, the Receiver of 135 expects to bring an application to distribute the equity units to the creditors of 135 in early 2018. The Monitor is unable to provide an estimate of recovery to FM1 and FM2 from the Equity Units due to their illiquid nature.

Calmar

15. 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.

16. 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.

17. The Calmar lands were listed for sale from May 1, 2017 to October 31, 2017, with very little interest shown for the properties. The Monitor understands that Repsol Oil & Gas Canada Inc. ("Repsol") is 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.

18. The Monitor continues to communicate with the Town of Calmar regarding outstanding property taxes.

FORECAST TO ACTUAL RESULTS

FM1

19. 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 Twelfth Report.

20. Outlined below is a summary of the actual results to November 27, 2017:

Forecast to Actual Analysis — Exhibit 1

January 1, 2017 to November 27, 2017

	Foundation Mortgage Corporation		
	Forecast	Actual	Variance
Cash disbursements:			
CCAA consulting fees and operating expenses	2,655	3,693	(1,038)
CCAA professional fees	40,500	18,925	21,575
Total disbursements	43,155	22,618	20,537
Net cash flows for period	(43,155)	(22,618)	$ 20,537
Cash, beginning of period	69,651	69,651	-
Cash, end of period	$ 26,496	$ 47,033	$ 20,537

21. FM1 had no cash receipts during the Reporting Period.

22. Cash disbursements for the Reporting Period total $22,618 which is $20,537 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.

23. As a result of the above variances, FM1 had a total positive cash flow variance of $20,537 for the Reporting Period.

FM2

24. 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 Twelfth Report.

25. Outlined below is a summary of the actual results to November 27, 2017:

Forecast to Actual Analysis — Exhibit 2

January 1, 2017 to November 27, 2017

	Foundation Mortgage "2" Corporation		
	Forecast	Actual	Variance
Cash disbursements:			
CCAA consulting fees and operating expense	2,775	1,380	1,395
CCAA professional fees	-	-	-
Total disbursements	2,775	1,380	1,395
Net cash flows for period	(2,775)	(1,380)	$ 1,395
Cash, beginning of period	3,495	3,495	-
Cash, end of period	$ 720	$ 2,115	$ 1,395

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

27. CCAA consulting and professional fees for Reporting Period for FM2 total $1,380 which is $1,395 lower than expected due to lower than expected consulting fees that have been deferred until the finalization of the CCAA proceedings.

28. As a result of the above variance, FM2 had a total positive cash variance of $1,395 for the Reporting Period.

CASH FLOW FORECASTS THROUGH MARCH 31, 2018

29. 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.

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

Cash Flow Forecast November 28, 2017 to March 31, 2018	FM1	FM2
Exhibit 3		
RECEIPTS	$ -	$ -
DISBURSEMENTS		
CCAA consulting fees and operating costs	4,755	1,575
CCAA professional fees	39,575	-
Total disbursements	44,330	1,575
Net cash flows	(44,330)	(1,575)
Opening cash	47,027	2,115
Ending cash	$ 2,697	$ 540

31. 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.

32. FM1 is forecasting disbursements of $44,330 during the Forecast Period relating primarily to professional fees.

33. FM2 is forecasting cash disbursements of $1,575 to pay CCAA consulting costs.

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

35. 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

36. Pursuant to the Order of this Honourable Court dated December 14, 2016 the Stay Period expires on December 30, 2017 for FM1 and FM2.

37. FM1 and FM2 are seeking an extension of the Stay Period up to and including March 31, 2018 (the "Stay Extension").

38. 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.

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

MONITOR'S RECOMMENDATION

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

Dated at Calgary, this 27th day of November, 2017.

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

Neil Narfason, CPA, CA, CIRP, LIT, CBV
Senior Vice President

Cassie Riglin, CPA, CA, CIRP, LIT
Vice President

Appendix A

Forecast to Actual Analysis
January 1, 2017 to November 27, 2017

Appendix A

	Notes	Foundation Mortgage Corporation			Foundation Mortgage "2" Corporation		
		Forecast	Actual	Variance	Forecast	Actual	Variance
Cash disbursements:							
CCAA consulting fees and operating expense:	1	2,655	3,693	(1,038)	2,775	1,380	1,395
CCAA professional fees	2	40,500	18,925	21,575	-	-	-
Total disbursements		43,155	22,618	20,537	2,775	1,380	1,395
Net cash flows for period		(43,155)	(22,618)	(20,537)	(2,775)	(1,380)	(1,395)
Cash, beginning of period		69,651	69,651	-	3,495	3,495	-
Cash, end of period		$ 26,496	$ 47,033	$ (20,537)	$ 720	$ 2,115	$ (1,395)

Notes and Assumptions

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

2 Professional fees forecast included fees for the resolution of final outstanding matters and wind up of the CCAA proceedings. Those matters were delayed, resulting in lower fees incurred during the period.

Appendix B

Cash Flow Forecast
November 28, 2017 to March 31, 2018

Appendix B

	Notes	FM1	FM2
RECEIPTS	1	$ -	$ -
DISBURSEMENTS			
CCAA consulting fees and operating costs	2	4,755	1,575
CCAA professional fees	3	39,575	-
Total disbursements		44,330	1,575
Net cash flows		(44,330)	(1,575)
Opening cash		47,027	2,115
Ending cash	4	$ 2,697	$ 540

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. The forecast disbursments include four months of those expenses plus five months of accrued and unpaid fees.

3 At December 6, 2017 there are unpaid and estimated unbilled professional fees owing by FM1 and FM2 of $25,000. Additional estimated fees of $15,000 are required to wind up the CCAA proceedings. FM2's share of those fees (50%) will be recovered from FM2 through FM2's distribution of Equity Units of Bow Water & Land Trust (see note 4).

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 may recover an estimated $150,000 from the sale proceeds, however significant environmental remediation issues and lack of interest in the lands and the timing of resolution of those issues and recovery remains uncertain.

- recoveries from the proceeds of sale of the Calaway Lands against which FM1 and FM2 held mortgages. The undistributed proceeds of sale consist of equity units (the "Equity Units") of Bow Water & Land Trust, the new owner of the Calaway Lands, which are held by 1357686 Alberta Ltd. ("135"), the previous owner of the lands which is in Receivership. The estimated value of the Equity Units is $3.2 million based on the current issuance price of Equity Units to arms-length investors. There is not however at the present time a liquid resale market for the Equity Units thus the ultimate recovery value of the Equity Units that will be distributed to FM1 and FM2 is not determinable.