To the BONDHOLDERS

FOUNDATION MORTGAGE CORPORATION
FOUNDATION MORTGAGE "2" CORPORATION

FINAL REPORT
April 9, 2018

We are writing to provide an update on the status of Foundation Mortgage Corporation ("FM1") and Foundation Mortgage "2" Corporation ("FM2" and collectively the "FMs"). As further discussed in this letter, we applied to and received from the Court on March 23, 2018 an Order terminating the CCAA proceedings (the "Order"). Accordingly, this is our final report to Bondholders.

We last reported to the Bondholders on January 5, 2016. At that time, we reported that FM1 and FM2 had realized losses, or may ultimately realize losses, of 99% and 98% of their original loan advances. We further advised at that time that there may be limited recoveries from three of the FM loans.

We have described below the status of the CCAA proceedings and details of recoveries and contingent recoveries from the three remaining loans. The only known distributions to Bondholders at this time are Trust Units in the entity that now owns the Calaway lands. The Trust Units are further described in section II.3 below.

I. CCAA PROCEEDINGS

The original CCAA order provided a thirty-day stay of proceedings until August 4, 2012. We subsequently obtained further stays of proceedings periodically and the Court has granted final stay to March 31, 2018. On March 23, 2018 the Court issued the Order terminating the CCAA proceedings and unconditionally discharging the Monitor and the Chief Restructuring Officer, such discharge to become effective upon the filing of Discharge Certificates. In addition, the Court authorized and directed that:

a) Any future recoveries from the FM1 loan on the Calmar Lands, which are owned by 1330075 Alberta Ltd. ("133"), are to be distributed directly to the FM1 creditors by Ernst & Young Inc., in its capacity of Receiver of 133; and

b) Ernst & Young Inc., in its capacity of Receiver of 1357686 Alberta Ltd., ("135") distribute Trust Units in Bow Water & Land Trust owned by 135 directly to the creditors of FM1 and FM2.

The Order and supporting documentation can be found on the Ernst & Young Inc. web site at http://documentcentre.eycan.com/Pages/Main.aspx?SID=228. The details of these potential future recoveries and distribution of Trust Units are explained in detail below. By authorizing Ernst & Young Inc. to make these distributions directly to FM1 and FM2 creditors, we were able to terminate the CCAA proceedings now and reduce further costs associated with the distributable assets.

II. LOAN STATUS AND EXPECTED LOAN RECOVERIES

As set out below, the Bondholders will be issued Trust Units in Bow Water & Land Trust ("BWLT") in connection with the loans on the Calaway Lands, and there may be small future recoveries from the loans on the Calmar Lands upon there being a sale of those lands. Based on the current estimated value of the BWLT Trust Units, the issuance of units to FM1 and FM2 Bondholders will represent 5.1% and 6.4% recoveries of their original investments in the FM1 and FM2 Bonds. The BWLT Trust Units are not liquid at this time and their conversion to cash is dependent upon the development and sale of the Calaway Lands. That event is expected to be a number of years away. Except for possible small recoveries for FM1 Bondholders from the loans on the Calmar Lands, there will be no other recoveries for Bondholders. **This conclusion is consistent with our previous advice to Bondholders that there would be minimal if any recoveries of their investments.**

As described in our January, 2016 report, there were three FM loans that remained unresolved. The following is an update on those loans and their resolution.

1. Foundation Homes Inc.

In 2008 and 2009 FM1 advanced in excess of $2 million of secured and unsecured loans to Foundation Homes Inc. ("FHI"), a house builder company related to FM1 by common ownership. At the date of FM1's CCAA filing, FHI had ceased operations but still had an inventory of unsold homes and lots in southern Alberta. The lots were mortgaged to FM1; the homes were not mortgaged. In order to advance FM1's recovery of its loans and in particular those loans that were unsecured, FM1 filed a bankruptcy application against FHI in February 2014. Ernst & Young Inc. was appointed Interim Receiver and then trustee in bankruptcy of FHI and took possession of FHI's assets, which were cash and amounts due on the sale of remaining homes, in aggregate amounting to $336,000.

FM1 filed a proof of claim in the FHI bankruptcy on January 8, 2015, claiming an unsecured amount of $1.343 million. The bankruptcy proceedings were completed in October 2016 and FM1 received a final distribution of $196,565 in early 2016. In addition, FM1 received $295,138 from the sale of the mortgaged lots resulting in total proceeds from the sale of FHI assets of $491,703. All of these funds were used to pay the CCAA operating costs and professional fees of FM1.

2. 1330075 Alberta Ltd. – Calmar Lands

FM1 holds a mortgage registered over a property known as the Calmar Lands in the principal amount of $2.727 million. The Calmar lands are owned by 133, a party related to FM1 which was placed in receivership on October 1, 2013. With accrued interest, the amount outstanding on the FM1 mortgage loan to 1330075 is approximately $5.8 million. The FM1 mortgage is registered in third and fourth place on titles to the Calmar Lands and is subordinate to $6.3 million of prior third party mortgages and the Receiver's borrowings, including but not limited to approximately $3.9 million of mortgages known as the UDI Mortgages.

The enforceability of the UDI Mortgages was questioned and the Receiver of 133 ultimately filed an application with the Court to determine the validity and enforceability of those mortgages. That Court application was heard on November 17, 2014. Throughout 2014 and concurrent with the Receiver's application, FM1 worked with another major creditor, Calmar Lands Ltd., to put forth a proposal to the holders of the UDI Mortgages to settle the dispute regarding the enforceability of the UDI Mortgages. That proposal was made to the holders of the UDI Mortgages in September, 2014. The basic terms of the proposal were as follows:

- FM1 and Calmar Lands Ltd. would share the net proceeds of sale (after payment of priority mortgages) of the Calmar Lands with the UDI mortgage holders on a 50 / 50 basis notwithstanding the outcome of the Court application;

- The proposal would be binding only on those UDI mortgage holders who accepted the proposal; and

- The enforceability of the UDI Mortgages held by those who did not accept the proposal would be subject to determination of the Court application;

(the "**UDI Proposal**").

Calmar Lands Ltd. and FM1 agreed on July 16, 2014 that the net proceeds distributable to them on the sale of the Calmar Lands, should the UDI Proposal be accepted by the requisite threshold number of holders of the UDI Mortgages, would be shared on the basis of their respective security. However, as the Calmar Lands Ltd. mortgage is ahead of the FM1 mortgage, it was agreed between FM1 and Calmar Lands Ltd. that FM1 be paid $75,000 as reimbursement of costs plus a minimum of $150,000 of proceeds of sale. For certainty, it was agreed that any payments would be from any proceeds of sale of the Lands (the agreement as between Calmar Lands Ltd. and FM1, together with the UDI Proposal is sometimes referred to herein as the "**UDI Settlement**").

Approximately 79% of UDI Mortgage holders voting, holding 82% in value accepted the UDI Proposal, the votes for which were administered by Ernst & Young Inc. The Court ultimately rendered a decision in respect of the UDI Mortgages on July 5, 2016 and concluded that the UDI Mortgages were valid and enforceable in accordance with their terms. Had the UDI Settlement not been concluded, the Court decision would likely have resulted in no net recoveries being available to FM1. However, because of the UDI Settlement, notwithstanding the Court decision upholding the validity and enforceability of the prior UDI Mortgages, there may be some limited recovery to FM1 from the Calmar Lands.

Any recovery is dependent upon a sale of the Calmar Lands being concluded. As of the date of this report, the Calmar Lands have not been sold, nor are there any offers pending. The existence of environmental damage to the Calmar Lands from abandoned petroleum leases is further complicating the marketability of the property and therefore recoveries to the various mortgagees.

All of these factors combined, being the existence of the prior mortgages, the uncertainty regarding the environmental damage and timing for remediation, the certainty of the land value and the timing of a sale, suggests that any recovery to the FMs from the Calmar Lands is highly speculative. To the extent that there is recovery arising from the UDI settlement for FM1, the 133 Receiver will distribute those funds directly to the FM1 Bondholders, as authorized by the Court.

3. 1357686 Alberta Ltd. – Calaway Lands

a) Background

FM1 and FM2 loaned $1.25 million and $4.45 million respectively to 1357686 Alberta Ltd. ("135") in 2008 and 2009. 135 used the funds to acquire approximately 300 acres of land (the "Calaway Lands") adjacent to the Calaway Park amusement facility located west of Calgary on the Trans-Canada highway. The purchase price of the Calaway Lands was $17 million and when acquired, the vendor of the Lands provided $14 million of mortgage debt (the "VTB Mortgage"). 135 used the funds from FM1 and FM2, along with $9.8 million of funds from other Harvest related companies to fund the original purchase price and to service and partially pay down the VTB Mortgage. To secure their loans, FM1 and FM2 registered mortgages against the Calaway Lands in 2009 and 2011.

Due to its inability to continue to service the VTB Mortgage and all of its related party debts 135 filed for protection under the Companies Creditors Arrangements Act ("CCAA") on August 24th, 2012.

b) Sale of Calaway Lands to Bow Water & Land LP

After a lengthy marketing process, 135 sold the Calaway Lands to a third party, Bow Water & Land LP, in 2014 for $10.2 million. Consideration paid was $8.4 million in cash and a mortgage ("Convertible Mortgage") for $1.8 million. The $8.4 million of cash was used to repay the remaining $7.5 owing on the VTB Mortgage, which had been replaced by Debtor-in-Possession financing and to pay selling, operating and professional costs incurred since August of 2012. The Convertible Mortgage was convertible to equity ownership units in Bow Water & Land Trust ("BWLT"), the Trust that is financing the purchase and development of the Calaway Lands.

On June 16, 2014135's CCAA proceedings were terminated and Ernst & Young Inc. was appointed Receiver of 135. The assets remaining in 135 at that time included the $1.8 million Convertible Mortgage and approximately $135,000 in cash.

BWLT is raising financing on the Calaway Lands through the issuance of BWLT Trust Units and intends to raise up to $30 million through an equity syndication over time for development of the Lands and repayment of its debt incurred to acquire the Lands. The Convertible Mortgage held by 135 has been converted in to 225,564 Trust Units of BWLT. The Trust Units do not trade. The current issue price of Trust Units is $14.75, which implies a value of the Trust Units held by 135 of $3.3 million.

Upon a sale of the Calaway Lands, the Trust Units are entitled to a distribution of proceeds equal to a 100% return of capital, a 10% simple preferred annual cumulative return plus 50% of any excess on a pro rata basis. In addition, 135 is entitled to receive Carried Interest Units of Bow Water LP the number of which depends on the ultimate amount of capital raised in the equity syndication. The Carried Interest Units will be entitled to 50% of the excess of proceeds from the sale of the Lands after return of Trust Units capital and the payment of the 10% simple preferred annual return to the holders of the Trust Units.

c) Distribution of Trust Units to FM1 and FM2 Bondholders

As advised in our January, 2016 report to Bondholders, it was our expectation that Trust Units held by 135 would be distributed to the 135 creditors, including FM1 and FM2. As discussed at that time, the distribution of Trust Units in the Calaway Lands to FM1 and FM2 investors was dependent upon the determination of priority of the respective security interests of the FM1 and FM2 mortgages relative to other creditor claims. Although FM1 and FM2 both had registered mortgages on the Calaway Lands, their priority and the validity of their security interests was challenged by the 135 receiver. The 135 receiver's view was that under insolvency legislation the mortgage security was not valid as the mortgages were registered on the lands long after the funds were advanced, and that 135 was insolvent at the time that the mortgages were registered.

FM1 and FM2 ultimately reached a settlement with the 135 Receiver whereby FM1 and FM2 agreed to file their claims against the assets of 135 as unsecured in exchange for the Receiver recognizing interest calculated to February 27, 2017 (interest that would otherwise not be recognized in an insolvency proceeding). It was determined that this was the best way to proceed given the risk and cost associated with litigation and the relative strength of FM1 and FM2's position regarding the allegations.

The Receiver has accepted unsecured claims of FM1 and FM2 of $7,958,959 and $3,213,685 respectively. The total claims against 135, all of which are unsecured, amount to $20.25 million including the FM1 and FM2 accepted claims.

In accordance with the March 23, 2018 Court Order, 135 is authorized to distribute 88,661 Trust Units to FM2 and 35,800 Trust Units to FM1. FM1 however, provided financing to FM2 during the CCAA proceedings and paid professional fees on FM2's behalf. After adjusting for these items, 51,033 Trust Units will be distributed to FM1 Bondholders and 72,140 Trust Units will be distributed to FM2 Bondholders, and 1,427 Trust Units will be distributed to services providers for unpaid fees incurred by FM1 and FM2 in these proceedings.

In discussion with the Monitor, it was determined that it is in the best interests of the FM1 and FM2 creditors that the Trust Units to be issued to the FM Companies be distributed to the creditors now, as opposed to waiting for the monetization of the Trust Units and distributing cash to the creditors at a future date. It is uncertain as to when the Trust Units will be monetized and, based on discussions with Bow Water LP, monetization may not be for several years. The FM Companies do not have the cash resources to continue the CCAA proceedings thus it is more efficient to distribute the Trust Units to the FM1 and FM2 creditors now. The Monitor has provided the lists of FM1 and FM2 bondholders to Olympia Trust, the Trustee for BWLT, along with the number of Trust Units to be distributed to each bondholder. Olympia Trust will send a statement to each Bondholder confirming their respective distributions.

III. OPERATING COSTS / COMPLETION OF CCAA PROCEEDINGS

The FMs' main operating costs were professional fees to pursue recoveries on the loans and investor relations costs. The FMs also contributed to operating costs shared with other Harvest entities that were in CCAA proceedings. We have attached as Exhibits A and B the Schedules of Cash Receipts and Disbursements for FM1 and FM2. As indicated in those schedules, there is no remaining cash for distribution. Unpaid professional fees and investor communication fees totalling $21,000 will be paid by the issuance of BWLT Trust Units.

IV. INCOME TAX REPORTING

Investors may have already provided for losses on their investments in FM1 and FM2 in their income tax reporting. Some investors hold their Bonds in Registered Retirement Income Funds and have been required to report annually a portion of the fair value of their Bond investments in their taxable income. Given the uncertainty of recoveries from the Calmar Lands, which we believe will be minimal if there is recovery, our view is that the receipt of the BWLT Trust Units be treated by investors as **the final recovery of their investment**. Based on $100 bonds that were originally issued, and the indicated fair value of the BWLT Trust Units, the estimated recovery to FM1 and FM2 Bondholders is as follows:

Foundation Mortgage Corporation – value per $100 of original investment - $5.14
Foundation Mortgage "2" Corporation - value per $100 of original investment - $6.43

We cannot provide any tax advice to investors regarding the outcome of these investments and encourage investors to consult with their own tax advisors in determining the treatment of these final recoveries for income tax purposes.

Yours truly,

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EXHIBIT A

Foundation Mortgage Corporation
Schedule of Cash Receipts and Disbursements
For the Period July 5, 2012 to March 23, 2018

Cash receipts:	
Loan payment - 1357686 Alberta Ltd.	$150,000
Net recovery from Foundation Homes Inc.	491,703
Interest income	124
	641,827
Cash disbursements:	
Expenses	
Appraisals and environmental	5,377
Bank service charges	657
Monitor fees and legal expenses	63,119
Chief Restructuring Officer fees	178,776
Consulting - Harvest CCAA Operations	48,723
Consulting - investor communications	23,215
Consulting - other	2,435
BWLT trust unit distribution expense	4,085
Operating	53,839
Legal fees	275,733
Total operating expenses	655,959
Advances to Foundation Mortgage '2' Corporation	296,189
Advances repaid	(177,000)
Net advances to Foundation Mortgage '2' Corporation	119,189
GST paid	31,574
Payment of pre-CCAA legal fees	3,859
Unpaid A/P recovery	(1,647)
Total cash disbursements	808,932
Excess of cash disbursements over cash receipts	(167,105)
Cash in bank, July 5, 2012	167,105
Cash in bank, March 23, 2018	($0)

EXHIBIT B

Foundation Mortgage '2' Corporation
Schedule of Cash Receipts and Disbursements
For the Period July 5, 2012 to March 23, 2018

Cash receipts:	
Loan recoveries from related parties:	
West Springs Village	$275,000
Liberty Crossing	67,000
	342,000
Advances from Foundation Mortgage Corporation:	
Expenses paid on behalf of FM2 by FM1	296,189
Repayments to FM1	(177,000)
Net advances received, amounts owing to FM1	119,189
Total cash receipts	461,189
Expenses	
Bank charges	2,104
Legal fees	94,433
Chief Restructuring Officer fees	133,068
Consulting fees - Harvest CCAA Operations	40,414
Consulting fees - investor communications	17,010
Monitor fees and legal expenses	72,624
BWLT trust unit distribution expense	4,540
Operating	27,800
	391,994
GST Paid	18,495
Advances to 1610822 Alberta (Cimarron)	51,134
Total cash disbursements	461,622
Excess of cash receipts over cash disbursements	(434)
Cash in bank, July 5, 2012	434
Cash in Bank, March 23, 2018	$0