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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 LEGACY COMMUNITIES INC., AIRDRIE CAPITAL CORPORATION, AIRDRIE COUNTRY ESTATES INC., RAILSIDE CAPITAL INC., RAILSIDE INDUSTRIAL PARK INC., FOUNDATION PLACE CAPITAL INC. and FOUNDATION PLACE INC.
DOCUMENT	**FOURTH REPORT OF THE MONITOR** **MAY 8, 2012**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**<u>MONITOR</u>** ERNST & YOUNG Ernst & Young Inc. 1000, 440 - 2nd Avenue SW Calgary, Alberta T2P 5E9 Attention: Neil Narfason / Cassie Hern Telephone: 403-206-5067 / (403) 206-5005 Fax: 403-206-5075 Email: Neil.Narfason@ca.ey.com Cassie.Hern@ca.ey.com

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INTRODUCTION

1. On December 21, 2011, Legacy Communities Inc. ("Legacy") and Airdrie Capital Corporation and Airdrie Country Estates Inc. (collectively "Airdrie") 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 Legacy and Airdrie (the "Monitor").

3. On March 21, 2012, under these same proceedings, Railside Capital Inc. and Railside Industrial Park Inc. (collectively "Railside") and Foundation Place Capital Inc. and Foundation Capital Inc. (collectively "Foundation Place") were granted an Order (the "Railside & Foundation Place Order") by this Honourable Court granting them protection from their creditors pursuant the CCAA.

4. Legacy, Airdrie, Railside and Foundation Place are sometimes collectively referred to as the "Companies".

5. On January 19, 2012 this Honourable Court granted an Order creating an Unsecured Creditors Committee ("UCC") in these proceedings.

6. On March 21, 2012 this Honourable Court granted an Order appointing Ernst & Young Inc. as inspector ("Inspector") of certain related entities, 1252064 Alberta Ltd. ("125"), 1330075 Alberta Ltd. ("133") and Harvest Capital Management Inc. ("HCMI"). The Inspector now has full access to review the books and records of these entities as required.

7. The purpose of this fourth report (the "Fourth Report") of the Monitor is to provide this Honourable Court with the Monitor's comments in respect of the following:

   a) Activities of the Monitor since the Third Report;

   b) The debtor-in-possesion financing ("DIP Financing");

   c) The Unsecured Creditors' Committee ("UCC") application for the appointment of a Chief Restructuring Officer ("CRO") for all the Debtors in these CCAA Proceedings and the removal of Mr. Ron Aitkens as a director of the Debtors (the "UCC CRO Application"); and

   d) The Monitor's recommendations.

8. Capitalized terms not defined in this Fourth Report are as defined in the Initial Order.

9. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

10. Background for the Debtors and their operations is contained in the materials filed in support of the application for the Initial Order and these documents, together with other information regarding this CCAA proceeding, have been posted by the Monitor on its website at: www.ey.com/ca/foundationgroup.

TERMS OF REFERENCE

11. In preparing this Fourth Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Company. The Monitor has not performed an audit, review or other verification of such information.

ACTIVITIES OF THE MONITOR SINCE THE THIRD REPORT

Legacy & Airdrie Claims Process

12. Pursuant to the terms of the Legacy and Airdrie Claims Process Orders, the Monitor:

    a) Posted the Notice to Creditor and Proof of Claim forms for Legacy, ACE & ACC;

    b) Sent by registered mail, the Notice to Creditor and Proof of Claim, to all known Airdrie bondholders on April 23, 2012; and

    c) Sent by registered mail, the Notice to Creditor and Proof of Claim, to all known Legacy bondholders on April 25, 2012.

13. As a result of a third party error in processing the labels for the Legacy mailing, the Legacy mail that was sent out on April 23, 2012 could not be relied upon to get to the Legacy bondholders. The Monitor had the mailing redone and sent again by registered mail on April 25, 2012. The Monitor notes that the additional costs for the second mailing were covered by the third party printing company used for the mailing.

Sources and Uses of Funds Analysis

14. The Monitor has received the majority of the requested information and has commenced its review of the sources and uses of funds for Railside, Foundation Place, 125, 133 and HCMI.

15. The timeliness of the flow of information from the Debtor to the Monitor has improved since the Third Report

16. The Monitor anticipates being in a position to report on the sources and uses of funds for Railside, Foundation Place, 125, 133 and HCMI in May 2012.

Weekly Management, Consultant and Advisor Meetings

17. The Monitor attends weekly meetings with the Debtor's management, consultants, advisors and the UCC.

18. Through these meetings, as well as other communications and discussions, the Debtors have been able to make progress in moving through these CCAA proceedings.

DIP FINANCING

19. As discussed in the Third Report, Legacy and Airdrie need further DIP Financing to meet their current obligations though the period to May 31, 2012 and Railside and Foundation Place need further DIP Financing to meet their current obligations though the period to June 30, 2012.

20. HCMI, as the first DIP Financing lender, committed to fund $400,000 for Legacy and $325,000 for Airdrie. Of these amounts, $168,170 and $161,830 were advanced by the HCMI to Legacy and Airdrie, respectively. As such, there is unfunded DIP Financing of approximately $231,000 for Legacy and approximately $163,000 for Airdrie (collectively the "Unfunded DIP Financing").

21. HCMI has advised that they do not wish to advance any further DIP Financing funds as they are concerned with possible arguments of set-off that may be made by Legacy for pre-CCAA loans from Legacy to HCMI. The effect of this change is that the Unfunded DIP Financing will be replaced with DIP Financing that is more expensive. The Monitor estimates that the additional cost to Legacy and Airdrie of the change in DIP Financing to be approximately $12,000.

22. As a result, the HCMI DIP charge will be reduced to $169,000 for Legacy and $162,000 for Airdrie.

23. Azimuth Risk Management Inc. ("Azimuth") has committed to fund the Unfunded DIP Financing along with the additional DIP Financing required of approximately $387,000 and $212,000 for Legacy and Airdrie respectively.

24. Azimuth, in addition to their initial DIP Financing of $125,000 for Foundation Place, has committed to fund a further $235,000 for Foundation Place.

25. Azimuth has also committed to fund the DIP Financing of $150,000 for Railside.

26. Total DIP Financing from Azimuth (the "Additional DIP Financing") for each project are summarized below:

	DIP Approved	Advanced by HCMI	Advanced by Azimuth	New Azimuth DIP	Total Azimuth DIP
Legacy	$ 787,000	$ 168,170		$ 620,000	$ 620,000
Aidrie	537,000	161,830		376,000	376,000
Railside	150,000			150,000	150,000
Foundation Place	360,000		125,000	235,000	360,000
	$ 1,834,000	**$ 330,000**	**$ 125,000**	**$ 1,381,000**	**$ 1,506,000**

27. The Additional DIP Financing terms with Azimuth are summarized as follows:

   a) A commitment fee of 2%; and

   b) An annual interest rate of 11%.

28. The Monitor understands that there are no arm's-length secured creditors of the Companies, as such, the additional DIP Financing does not prime any secured creditors. Given the quantum of the proposed DIP Financing compared to the book value of the assets, the Monitor believes that the DIP Financing would not materially prejudice the creditors of the Companies. In addition, the Monitor believes that the additional DIP financing will allow the Companies an opportunity to run the proposed Claims Process for Legacy and Airdrie, circulate a plan to the creditors of Legacy and Airdrie to be voted on in mid to late June 2012, and to pursue a restructuring for all Companies that will maximize stakeholder value.

29. Accordingly, the Monitor considers the Additional DIP Financing to be reasonable and necessary in order to maintain and preserve business operations,

and to provide additional time to restructure which preserves value for all stakeholders.

CRO APPLICATION

Background

30. The UCC has made an application for the appointment of a CRO based on a number of factors which are set out in both the April 11, 2012 Affidavit of Mr. Kyle Brown and the Supplemental Affidavit of Kyle Brown dated May 7, 2012. Mr. Brown is a charter member of the UCC.

31. Mr. Aitkens has filed an Affidavit dated April 16, 2012 in response to the UCC CRO application along with a Supplemental Affidavit dated May 7, 2012 wherein he, on behalf of the Companies, objects to the UCC CRO Application.

32. Legal counsels to the Debtors, UCC and Mr. Aitkens have all filed Briefs of Law and Argument for their respective positions.

33. In addition, the Debtors have proposed a reconstitution of the UCC and, if that newly formed UCC wished to have a CRO appointed then the Debtors would not object (the "New UCC Process").

34. Since the filing of the various court materials related to the UCC CRO Application, the Monitor engaged in numerous discussions with counsel to both the UCC and the Debtors and had discussions with certain UCC members and Mr. Aitkens to try to assess the underlying causes for the UCC CRO Application and reasons for objection.

35. In addition, the Monitor has tried to bridge the gap between the UCC and Debtors' positions with a view to reaching an acceptable settlement on the matter in order to avoid further costs and delay.

36. As at the date of this Report the Monitor has been unable to achieve a negotiated settlement between the UCC and the Debtors.

37. Further discussion of the background to the UCC CRO Application and factors considered by the Monitor are contained in the Third Report.

The Current Situation

38. As noted in the Third Report, there has been a breakdown in the flow of communication between the Debtors and the UCC. In addition, there is a lack of trust between both parties. As a result, the 'status quo' is untenable and the Monitor believes that changes are required to either management of the Debtors, the UCC or both parties in order allow for a successful, timely and cost effective restructuring of the Debtors.

39. Both the Debtors and the UCC have effectively run campaigns to get investors to support their position which has created fear among some investors and numerous questions and commentary from the investors. This campaigning must stop as it is polarizing various investors against each other which is of no benefit to maximizing the value of the restructuring.

40. The Monitor believes that there are the following options ("Options") available to the Court:

   a) Grant the UCC CRO Application in its entirety or with amendments thereto;

   b) Deny the UCC CRO Application;

   c) Grant the New UCC Process in its entirety or with amendments thereto; or

   d) Devise and approve a revised Debtor management and UCC structure (the "Revised Organizational Structure").

41. In assessing each Option, the Monitor considered the potential for additional delay and costs for each Option and the wishes of the investors.

Further Considerations regarding each Option

Grant UCC CRO Application

42. While the UCC believes that there will be no delay or additional costs with this change over in management, the Monitor is not convinced that will be the case. This application has already caused delay and considerable professional costs.

43. The total principal funds invested by the investors over the four Debtors are approximately $92.9 million and the UCC indicates that approximately $20.8 million (or 22.4% of value) support the UCC's application.

44. The Debtor's have indicated that they have $25.6 million (or 27.6%) of investors opposing the UCC CRO Application.

45. The Monitor generally relies on the input of the stakeholders affected by any upcoming application and bases its recommendations on that input. With both sides having similar support levels for their position (i.e. 22.4% for the UCC and 27.6% for the Debtors), the Monitor cannot draw on this input with any degree of comfort as to exactly what investors want. Furthermore, given the campaigns ran by the parties for these votes the Monitor is not certain as to the accuracy of information being disseminated to investors for investors to make their decisions.

46. The UCC CRO Application is far reaching in its breadth of duties for the CRO and the Monitor is not convinced that that extent of power and authority is required to achieve a successful restructuring and restore trust.

47. There is no detail for a detailed transition plan that would need to be agreed to by both sides to allow for an orderly and efficient change-over. The Monitor believes that if any management change proceeds, parameters need to be established to negotiate the transition of management upfront.

Deny the UCC CRO Application

48. Given the untenable situation that exists, denying the UCC CRO Application with no other change or amendments is not considered a viable option.

Grant the New UCC Process

49. As discussed, the New UCC Process effectively requires the reconstitution of the UCC and then, should the New UCC wish for a CRO the Debtors would not object.

50. The Monitor considers that the New UCC Process will do nothing further than to add costs and further delay and, it may be that the New UCC wants a CRO which would result in the Debtors being in the current position they find themselves with the current UCC. It also leaves the current situation 'as-is' which, as discussed above, is not workable.

51. In addition, given the process undertaken for obtaining the non-charter members of the current UCC, the Monitor believes that there is a strong likelihood that the three non-charter UCC members would be put in place in the New UCC Process along with the additional five proposed UCC non-charter member.

52. Therefore the Monitor considers the New UCC Process not a viable option in its current form

Revised Organizational Structure

53. Based on the input from both the Debtors and the UCC, the Monitor has devised a Revised Organizational Structure that may allow for an effective solution to the UCC CRO Application. The Revised Organizational Structure is as follows:

    a) The UCC is reconstituted such that the Charter members resign and there are no further Charter members;

b) Mr. Keith Prosser (via his corporation) is retained by the Debtors as co-manager ("CM") with the following specific powers/duties:

i. CM would lead the exit financing process ("EFP") for the Debtors with a requirement that the EFP would be consented to by the Monitor prior to its launch. In the event that the Debtors and the CM are in disagreement with the EFP, the Monitor shall have the casting vote;

ii. All further DIP Financing post May 31, 2012 for Legacy and Airdrie and post June 30, 2012 for Railside and Foundation Place would be led by CM with Monitor oversight. In the event that the Debtors and the CM are in disagreement with any further DIP Financing process, the Monitor shall have the casting vote;

iii. CM would have sole authority to lead settlement negotiations with HCMI, 125 and 133, and, if no negotiated settlement can be achieved by May 31, 2012, CM, with the consent of the Monitor, would be at liberty to take action against those entities on behalf of the applicable Debtors;

iv. CM would have direct involvement in plan development along with the Debtors and the Monitor. The authority to present the plan to court for approval to circulate to creditors will reside with the Debtors, however, if the CM objects to provisions in the Plan then the Court application to approve the Plan for circulation would need to address the CM's objections;

v. CM, along with the Debtors, would adhere to the current CCAA plan time-line for Legacy and Airdrie and, if the CCAA time-line is not met, the Debtors and CM must seek court approval for revised time-line and clearly explain reasons for delay;

vi. CM would work with existing consultants on real estate development for an interim period to June 30, 2012. After June 30, 2012, the CM, with the consent of the Monitor, would be a liberty to make changes to the Debtor's consultants. The consultants, IM, Debtor and the Monitor would need to unanimously agree/approve of any development steps being taken by the Debtors during the interim period. In the event that there is a disagreement between the Debtors and the CM as to proposed actions for real estate development, the Monitor shall have the casting vote; and

vii. Current manager would work to reduce the monthly fee by cost of CM in order to minimize overall costs. The Monitor understands that the CM fee proposed is $20,000/month which included investor relations ("IR") and accounting. Since the IR and accounting is not required by the CM under the Revised Organizational Structure the Monitor would expect there to be a reduction in the proposed CM monthly fee;

c) The Debtors maintain control of accounting and IR with Monitor oversight;

d) The Debtors maintain control of cash management with all disbursements requiring the consent of the Monitor;

e) Debtors maintain control over all matters regarding providing information to the Monitor, CM and any other entities subject to the requirements under the Initial Order;

f) CM would be Court appointed; and

g) All future investor communications by UCC, Debtors and CM to be reviewed and vetted by the Monitor.

CRO Conclusion

54. Based on the above factors, the Monitor considers the Revised Organizational Structure as a viable solution to the current situation that would minimize delay and additional costs, allow for a orderly transition and create a framework for which the UCC and Debtors to work within.

RECOMMENDATIONS

55. The Monitor recommends that this Honourable Court approve:

a) The Additional DIP Financing; and

b) Revised Organizational Structure.

Dated at Calgary, this 8th day of May, 2012.

ERNST & YOUNG INC.
in its capacity as
Monitor of Legacy, Airdrie
Railside and Foundation Place

Neil Narfason, CA•CIRP, CBV
Senior Vice-President