Fraser Milner Casgrain LLP
77 King Street West, Suite 400
Toronto-Dominion Centre
Toronto, ON, Canada M5K 0A1

MAIN 416 863 4511
FAX 416 863 4592

September 7, 2012

BY EMAIL

To all persons who are clients of First Leaside Securities Inc. (the "Investors")

Dear Sirs/Mesdames:

RE: ***Companies' Creditors Arrangement Act*** **("CCAA") proceedings involving First Leaside Wealth Management Inc. ("FLWM") and certain of its affiliates subject to the Initial Order of the Ontario Superior Court of Justice (the "Court") dated February 23, 2012 ("First Leaside")**

AND RE: Sixth Reporting Letter to Investors by Fraser Milner Casgrain LLP as Court-appointed representative counsel for the Investors ("Rep Counsel")

This sixth reporting letter is intended to update you on the status of the CCAA proceedings and the activities that we are currently engaged in on your behalf in our capacity as Rep Counsel.

1. **Statement of Claim against David Phillips and Margaret Davis**

Attached at **Appendix A** is a copy of the Statement of Claim by First Leaside, as plaintiff, against, among others, David Phillips and Margaret Davis (the wife of David Phillips), each as defendants, which was issued by the Court on August 28, 2012. Among other things, First Leaside's Statement of Claim alleges that due to fraudulent misrepresentation, breach of contract, breach of fiduciary duty, oppression, conversion, conspiracy and unjust enrichment by David Phillips and Margaret Davis, damages are owed to First Leaside, including damages for the following sums:

(a) $202,420.00 for loans made by FLWM to Mr. Phillips;

(b) $160,000 for loans made by FLWM to Ms. Davis;

(c) $3,843,549.92 for funds allegedly diverted from First Leaside by Mr. Phillips to himself and Ms. Davis; and

(d) $2,541,419.50 for funds allegedly diverted from FL Securities Inc. and First Leaside Securities Inc. by Mr. Phillips to Ms. Davis directly, or to benefit and improve the property located at 430 Regional Road #8 in Uxbridge, Ontario, which is the personal residence of Mr. Phillips and Ms. Davis and that is held in the name of Ms. Davis (the "**Uxbridge Property**").

The Statement of Claim also requests, among other things, the following relief from the Court:

(a) an interim, interlocutory and permanent injunction enjoining Ms. Davis and any corporations controlled or owned by her, or anyone acting on her behalf or at her direction from dissipating, depleting or otherwise interfering with any funds resulting from the sale of the Uxbridge Property or any of its related assets;

(b) an order permitting a Certificate of Pending Litigation to be issued and registered against the Uxbridge Property;

(c) a declaration that Ms. Davis holds the Uxbridge Property in trust and on behalf of First Leaside; and

(d) an order to preserve, trace, locate and account for all funds which Mr. Phillips and Ms. Davis have taken from First Leaside.

We have been advised that the Statement of Claim has been served on Mr. Phillips and is in the process of being served on Ms. Davis. As matters in this regard progress, we will notify the Investors of any pertinent details.

2. <u>Order with respect to the various First Leaside Funds</u>

On August 31, 2012, the Court issued an Order (the "**August 31st Order**") with respect to the wind-down of First Leaside entities located in the U.S. and relieving First Leaside and the court-appointed chief restructuring officer, G.S. MacLeod and Associates (the "**CRO**") from taking any steps to "manage, administer or maintain" any of the following:

> "limited partnerships, corporations, trusts or properties located or subsisting in the United States in which First Leaside has a direct or indirect equity or other interest, including, without limiting the generality of the foregoing, properties held directly or indirectly by Wimberly Apartments Limited Partnership, 2088544 Ontario Inc., 2088545 Ontario Inc., 2088543 Ontario Inc., FL Master Sherman GP, Inc., FL Master Texas, Ltd., FL Master Sherman Ltd., or F.L. US Holdings GP, Inc., except for Sherman Church property municipally known as 920 South Heritage Parkway, Sherman, Texas and the Spring Valley Mall property municipally known as 7800-7798 Spring Valley Road, Dallas, Texas (collectively, the "**U.S. Entities**")."

As part of the wind-down of the U.S. Entities, Rep Counsel discussed at length in meetings with the Steering Committee (i) the position taken by the Trustees of the First Leaside Properties Fund, First Leaside Fund and the Wimberly Fund (collectively the "**Funds**") that the Trustees ought to be in control of the U.S. Entities, (ii) the fact that First Leaside, through its CRO, does not have the corporate authority to deal with the U.S. properties or any of the Funds, and (iii) the relief sought by First Leaside in the proposed August 31st Order to cease taking any further steps in respect of the U.S. Entities. After discussions with First Leaside, the CRO, the court-appointed monitor, Grant Thornton Limited (the

"**Monitor**"), and Rep Counsel (with the support of the Steering Committee), the Trustees agreed not to oppose the relief requested by First Leaside in the proposed August 31st Order.

The August 31st Order provided for the following: (i) First Leaside is authorized and directed to "take no steps to manage, administer or maintain" the U.S. Entities, (ii) the CRO is directed to transfer the funds available in the First Leaside Mortgage Fund (the "**Mortgage Fund**") bank account held with TD Bank to Torkin Manes LLP (counsel to the Trustees of the Mortgage Fund), in trust on behalf of the Mortgage Fund, (iii) First Leaside is authorized "to attend to the preparation and filing of tax returns for the US Entities for the 2011 taxation year", and (iv) First Leaside is authorized to "deliver copies of any business or corporate records in its possession relating to the U.S. Entities to an officer or director of the relevant U.S. Entity."

The Court agreed to grant the relief requested by First Leaside and issued the August 31st Order on the basis that each of the Funds will call and hold a meeting of their respective trust unitholders within sixty (60) days of August 31, 2012. The August 31st Order also states that the Court was advised that the purpose of the meeting to be held by the Trustees of the Funds is for the Trustees to provide a report to the trust unitholders and for an election of the Trustees to take place. A copy of the August 31st Order of Justice Newbould can be found at the following website: www.grantthornton.ca/firstleaside.

We have been made aware that the Trustees of the First Leaside Fund, Wimberley Fund and First Leaside Properties Fund have invited the unitholders of each of these Funds to attend an information meeting on Wednesday, September 12, 2012, at 7:30 p.m at the Sheraton Parkway Toronto North Hotel & Suites, 600 Highway 7 East, Richmond Hill, Ontario, in the Grand York C Room. Attached at **Appendix B** is a copy of the notice of the meeting. **Please be advised that Rep Counsel does not endorse all the facts as stated by the Trustees in their notice**. That said, Rep Counsel is providing a copy of the letter to ensure that those unitholders who have an interest in these Funds have been provided with the necessary information should they wish to attend this meeting.

3. **Order with respect to the sale of certain First Leaside assets**

On August 23, 2012, the Court issued an Order (the "**August 23rd Order**") granting the relief requested by First Leaside with respect to, among other things, the approval of the sale of certain businesses carried on by First Leaside and the sale of First Leaside's interests in certain businesses, including the following:

- **Bramtree Property.** The Court approved the proposed sale of the property located at 36 Bramtree Court, Brampton, ON, which is owned by First Leaside Growth LP, which is in turn owned by First Leaside Expansion LP, to Outset Media Corporation for the purchase price of $5,600,000. According to the affidavit of the CRO with respect to this transaction, "the sale price is in excess of the amount provided for in both valuation opinions from C.B. Richard Ellis Limited ("**CBRE**") and from Colliers International Canada ("**Colliers**")."

- **Harmony Townhomes.** The Court approved the proposed sale of the property located at 65 Fort Street, Tilbury, ON, which is owned by Harmony Town Homes LP, which is in turn owned by First Leaside Investors LP, to Skyline Real Estate Acquisitions (II) Inc. for the purchase prince of $2,600,000. According to the affidavit of the CRO in respect of this transaction, "the sale price is consistent with the upper end of the appraisals that First Leaside obtained from CBRE and Colliers."

- **Accounting Practices.** The Court approved the proposed settlement of the interest of First Leaside Accounting and Tax Services Inc. ("**FLAT**") in certain accounting practices in western Canada, pursuant to two term sheets.

  (i) **Hampton Term Sheet.** The first sale of FLAT's interest is pursuant to a term sheet entered into between FLAT, Joanna Hampton, TD Canada Trust ("**TD**"), and Jim Brander ("**Brander**"), by which Hampton Holdings Inc. ("**Hampton Inc.**") will acquire FLAT's interest in McMillan Thorn & Co. Ltd., a B.C. accounting firm; D. McCormack & Company Inc., a B.C. accounting firm; and Allan Welsh & Company, an Alberta accounting firm, for $734,000. This amount is comprised of (i) a cash payment to FLAT in the amount of $150,000, and (ii) an assumption of approximately $584,000 of the amount owing by FLAT to TD. In return for FLAT agreeing to the sale and surrendering its interest in the aforementioned firms, TD has agreed that FLAT is released from liability under a loan made by TD to FLAT in the amount of $1,173,500.

  (ii) **Brander Term Sheet.** The second sale of FLAT's interest is pursuant to a term sheet entered into between FLAT, Brander, Jim Brander Professional Corporation ("**JBPC**"), Brander Professional Corporation ("**BPC**"), TD, Hampton Inc., Smart Books Accounting Services Inc. ("**SBAS**") and Matthew E. Bakker Professional Corporation ("**MEB**"), by which FLAT will provide Brander, JPBC, BPC and SBAS a release of its interests in the Rodney M. Coppcock Professional Corporation accounting practice. As consideration for the release of FLAT's interest, Brander, JBPC and SBAS agree to compensate FLAT for $374,000. This amount is comprised of (i) a cash payment of $150,000 by Brander to FLAT; and (ii) an assumption of approximately $224,000 of the amount owing by FLAT to TD.

A copy of the August 23rd Order of Justice Strathy, the Monitor's report and an affidavit by the CRO with respect to the aforementioned can be found on the Monitor's website: www.grantthornton.ca/firstleaside.

4. **<u>The Canadian Investor Protection Fund ("CIPF")</u>**

In an e-mail update that was sent to the Investors on August 8, 2012, Rep Counsel advised the Investors that CIPF agreed to extend the deadline for submitting a CIPF claim until such later date that will be determined by CIPF on the basis of a dual purpose claims process in conjunction with the CCAA proceedings.

Several individual Investors have sent their CIPF claims to Rep Counsel. We wish to remind the Investors that it is not necessary to send us this information; our involvement with the Investors CIPF claims is only intended to supplement the claims that Investors have already filed with CIPF or will eventually file either (i) as part of a dual CCAA/CIPF claims process, or (ii) further to an extended deadline (CIPF advises they will provide Investors with reasonable notice of the new deadline once it has been determined). A copy of the new notice issued by CIPF in this regard is attached at **<u>Appendix C</u>** and can also be found at the CIPF website: www.cipf.ca.

5. **Distributions to Investors of the Beverages Mortgage**

As discussed in our fifth reporting letter to Investors, dated August 2, 2012 (the "**Fifth Reporting Letter**"), First Leaside Beverages Limited Partnership was sold to Provincial Beverages of Canada Inc. ("**Provincial**") on May 17, 2012. The mortgage registered against the property in the amount of $1,000,000, was assumed by Provincial (the "**Beverages Mortgage**"). With respect to those Investors who hold an interest in the Beverages Mortgage through mortgage participation ownership certificates (90 King Ste. E. MPOC 6%) (the "**Beverages MPOC's**"), the Beverages MPOC's continue to be held at Penson Financial Services Inc. ("**Penson**"). We advised you that FL Nominee Services Inc. ("**Nominee Services**") continues to collect the monthly interest payments on the Beverages Mortgage and that interest payments are up to date.

Our Fifth Reporting Letter also advised the Investors that Rep Counsel was notified that the process for distributing the funds was delayed because Penson needs IIROC's approval in order to distribute the funds. Counsel to **IIROC has advised us that the information we received was inaccurate.** The distribution of such interest payments to the relevant Investors is (i) not an IIROC matter; and (ii) IIROC's approval is not required, nor is it within IIROC's jurisdiction to either approve or deny these distributions. According to IIROC, these payments should be handled by Penson in the normal course and in accordance with Penson's general policies and procedures. IIROC has advised Penson accordingly. Rep Counsel has also sent a formal request to Penson to advise us when the Investors can expect to receive such distributions.

6. **Penson Transfer Fees**

Several of the Investors have contacted us to express their concern that Penson is charging the Investors a $125.00 transfer fee for each account that an Investor holds with Penson, which they transfer to a new broker. Some Investors have also advised Rep Counsel that the request to initiate such transfers came directly from Penson in a letter Penson sent to each Investor and that the Investors were not notified in this letter that they were being charged transfer fees by Penson.

Rep Counsel has sent formal letters to Penson requesting them to provide us with a copy of the contract between Penson and the Investors, which gives Penson the right to charge such transfer fees and pay itself from the cash that is held in the Investors accounts with Penson. To date, we have not received a response from Penson. However, we are aware of Penson waiving transfer fees in limited circumstances, particularly in respect of direct Investor complaints.

7. **Ontario Securities Commission ("OSC") Proceedings**

As Rep Counsel previously reported, the OSC has started proceedings against David Phillips and John Wilson and issued a Notice of Hearing and Staff's Statement of Allegations against Mr. Phillips and Mr. Wilson on June 4, 2012. The hearing in this matter, which was scheduled to be held on August 28, 2012, was adjourned to February 11, 2013. Information regarding the OSC proceedings against Mr. Phillips and Mr. Wilson can be found at the OSC website: http://www.osc.gov.on.ca.

8. **Additional Communications from FLIPA**

Attached at **Appendix D** is a copy of a notice provided to us by the First Leaside Investor Protection Association ("**FLIPA**") of a meeting that FLIPA is holding on Monday, September 10, 2012. FLIPA has invited all of the Investors to attend this meeting. Any opinions expressed at this meeting do not represent the official views or opinions of Rep Counsel.

If you have any questions or concerns, please contact us through our hotline at 416-863-4414 (within the GTA)/ 1-877-669-4414 (outside the GTA) or by email at FirstLeaside@fmc-law.com.

Yours Truly,

Fraser Milner Casgrain LLP

Shayne Kukulowicz

cc: Jane Dietrich, Fraser Milner Casgrain LLP
cc: Greg MacLeod, G.S. MacLeod & Associates Inc.
cc: John Birch, Cassels Brock & Blackwell LLP
cc: David Ward, Cassels Brock & Blackwell LLP
cc: Jonathan Krieger, Grant Thornton Limited
cc: Daniel Sobel, Grant Thornton Limited
cc: Pamela L. Huff, Blake, Cassels & Graydon LLP

Appendix A

Statement of Claim

CV/12-9821-00CL
Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
Commercial List

BETWEEN:

FIRST LEASIDE WEALTH MANAGEMENT INC., FIRST LEASIDE FINANCE INC., FIRST LEASIDE SECURITIES INC. and FL SECURITIES INC.

Plaintiffs

- and -

DAVID PHILLIPS, MARGARET DAVIS and 970877 ONTARIO INC.

Defendants

STATEMENT OF CLAIM

TO THE DEFENDANT(S):

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the Plaintiffs. The Claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a Statement of Defence in Form 18A prescribed by the *Rules of Civil Procedure*, serve it on the Plaintiff's lawyer or, where the Plaintiff does not have a lawyer, serve it on the Plaintiff, and file it, with proof of service, in this court office, WITHIN TWENTY DAYS after this Statement of Claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your Statement of Defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a Statement of Defence, you may serve and file a Notice of Intent to Defend in Form 18B prescribed by the *Rules of Civil Procedure*. This will entitle you to ten more days within which to serve and file your Statement of Defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES,

LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

IF YOU PAY THE PLAINTIFF'S CLAIM, and $750 for costs, within the time for serving and filing your Statement of Defence, you may move to have this proceeding dismissed by the Court. If you believe the amount claimed for costs is excessive, you may pay the Plaintiff's claim and $400 for costs and have the costs assessed by the Court.

Date August 28, 2012 Issued by

Local Registrar A. Anissimova
Registrar

Address of court office: ~~393 University Avenue, 10th Floor~~
~~Toronto ON M5G 1E6~~

SUPERIOR COURT OF JUSTICE
COUR SUPÉRIEURE DE JUSTICE
BANKRUPTCY / COMMERCIAL
COURTS
330 UNIVERSITY AVENUE
7TH FLOOR
TORONTO, ONTARIO [illegible] 1R7

TO: David Phillips
430 Regional Road #8
RR1 Uxbridge, ON L9P 1R1

AND TO: Margaret Davis
430 Regional Road #8
RR1 Uxbridge, ON L9P 1R1

AND TO: 970877 Ontario Inc.
430 Durham Road
Suite #8
Uxbridge, ON L9P 1R1

CLAIM

1. The plaintiffs, a group of affiliated companies (collectively, the "FL Plaintiffs"), claim, as set out herein:

(a) As against the defendant, David Phillips ("Phillips"). and, as set out below, 970877 Ontario Inc. ("970877"), damages in an amount to be determined before trial, for misrepresentation, fraudulent misrepresentation, breach of contract, breach of fiduciary duty, breach of duty of loyalty, oppression, conversion, conspiracy, unjust enrichment, knowing assistance and knowing receipt, including:

(i) An Order for payment of the sum of $202,420.00 representing loans made by First Leaside Wealth Management ("FLWM") to Phillips, as evidenced by two promissory notes dated December 31, 2009 and December 24, 2010 in the amounts $50,000.00 USD (converted at the time to $52,420.00 CAD) and $150,000.00 respectively, signed by Phillips in favour of FLWM;

(ii) An Order for recovery of $3,843,549.92 of funds improperly diverted from the FL Plaintiffs by the defendant, Phillips, to himself and to his wife, the defendant, Margaret Davis ("Davis"), directly, or to benefit Phillips and Davis, including:

(1) $44,800.38 in improper payments caused by Phillips to be made from FL Securities Inc. ("FL Securities") to Phillips and Davis or to benefit Phillips and Davis throughout the 2011 fiscal year;

(2) $459,418.86 in improper payments caused by Phillips to be made from FLWM to Phillips and Davis or to benefit Phillips and Davis throughout the 2011 fiscal year;

(3) $49,384.14 in improper payments caused by Phillips to be made from First Leaside Securities Inc. ("FLSI") to Phillips and Davis or to benefit Phillips and Davis throughout the 2011 fiscal year; and

(4) $657,696.54 in improper lump sum payments caused by Phillips to be made from several of the FL Plaintiffs to Phillips and Davis or to benefit Phillips and Davis throughout the 2011 fiscal year, comprising:

(A) improper payments amounting to $131,093.74 caused by Phillips to be made to 970877, a company owned by Phillips, from FLWM; and

(B) improper payments amounting to $526,602.80 caused by Phillips to be made to 970877 from First Leaside Finance Inc. ("First Leaside Finance");

(5) $2,632,250.00 of funds improperly diverted from FLWM by Phillips by way of improper and unauthorized dividends caused by Phillips to be declared by FLWM and received by 970877, which dividends Phillips subsequently caused to be paid from 970877 to himself personally, dating from 2004 to 2010;

(iii) An Order for recovery of $2,541,419.50 of funds improperly diverted from FL Securities and FLSI by the defendant, Phillips, to Davis directly, or to benefit and improve the property located at 430 Regional Road #8 in Uxbridge, Ontario (the "Uxbridge Property"), which property is in the name of Davis and is the personal residence of Phillips and Davis, as evidenced by:

(1) $1,687,564.00 in improper leasehold improvements to the Uxbridge Property caused by Phillips to be paid by FL Securities;

(2) $267,855.50 in improper payments towards a windmill on the Uxbridge Property caused by Phillips to be paid by FL Securities; and

(3) $586,000.00 in improper "rent" payments caused by Phillips to be paid by FLSI to Davis directly;

(b) As against the defendant, Davis, damages in an amount to be determined before trial, for misrepresentation, fraudulent misrepresentation, breach of contract, breach of fiduciary duty, breach of duty of loyalty, oppression, conversion, conspiracy, unjust enrichment, knowing assistance and knowing receipt, including:

(i) An Order for payment of the sum of $160,000.00 representing loans made by FLWM to Davis, as evidenced by two promissory notes dated December 24, 2010 in the amounts of $150,000.00 and $10,000.00 respectively, signed by Davis in favour of FLWM;

(ii) An Order for recovery of $2,541,419.50 of funds improperly diverted from FL Securities and FLSI and paid to Davis directly, or to benefit and improve the Uxbridge Property, as described above;

(iii) An interim, interlocutory and permanent injunction enjoining Davis and any corporations controlled or owned by her, or anyone acting on her behalf or at her direction from dissipating, depleting or otherwise interfering with any funds resulting from the sale of the Uxbridge Property or any of its related assets;

(iv) An Order permitting a Certificate of Pending Litigation to be issued and registered against the Uxbridge Property (as further described in Schedule "A" hereto); and

(v) A declaration that Davis holds the Uxbridge Property in trust and on behalf of FL Securities;

(c) An Order, injunctive or otherwise, interim and permanent to preserve, trace and locate all funds which the defendants have improperly taken from the FL Plaintiffs as set out above;

(d) An Order for an accounting of all funds which the defendants have improperly taken from the FL Plaintiffs as set out above;

(e) Pre-judgment interest in accordance with the promissory notes referred to below, and in the alternative, in accordance with section 128 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended;

(f) Post-judgment interest in accordance with the promissory notes referred to below, and in the alternative, in accordance with section 129 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended;

(g) The costs of this proceeding on a substantial indemnity basis, plus all applicable taxes; and

(h) Such further and other relief as to this Honourable Court may deem just.

The Parties

The Plaintiffs

2. The plaintiffs, First Leaside Wealth Management Inc., First Leaside Finance Inc., First Leaside Securities Inc. and FL Securities (as above, the "FL Plaintiffs"), are a group of affiliated companies. The four FL Plaintiffs form part of a greater enterprise that comprises a large number of affiliated companies and limited partnerships (collectively, "First Leaside"). First Leaside is currently under *Companies' Creditors Arrangement Act* ("CCAA") proceedings and is managed and controlled by a Chief Restructuring Officer, discussed in detail below at paragraphs 20 to 28.

3. At the relevant times, First Leaside ran numerous businesses, including the operation and development of commercial and multi-residential properties and retirement residences. It provided investment and wealth management services to investors who had invested with First Leaside. Specifically, First Leaside raised debt and equity, and sought investments with the objective of providing investors with consistent monthly distributions, potential capital appreciation, and, in the case of equity investments, potential tax deductions.

4. There are significant interrelationships between the various entities in First Leaside which results in a complex corporate structure. Primarily, First Leaside's operations were centred on two principal companies:

(a) First Leaside Wealth Management Inc. (as above, "FLWM"), a holding and operating company and the ultimate parent of the First Leaside group of companies; and

(b) First Leaside Securities Inc. (as above, "FLSI"), a wholly-owned subsidiary of FLWM, and an investment dealer under Ontario securities law and is regulated by the Ontario Securities Commission ("OSC") and the Investment Industry Regulatory Organization of Canada ("IIROC").

5. At the relevant times, FLWM was owned and controlled by Phillips and Davis. Phillips made all business decisions related to First Leaside including what investments First Leaside would make.

6. FLSI is the company through which First Leaside clients invested their money. Clients used FLSI to manage a portfolio of non-proprietary investment products, typically consisting of more conservative investments such as bonds, treasury bills, and marketable securities as well as proprietary equity (such as limited partnership units) and debt securities issued by First Leaside.

7. In addition to FLSI, FLWM has five other wholly-owned subsidiary companies, including the plaintiffs First Leaside Finance Inc. (as above, "First Leaside Finance") and FL Securities Inc. (as above, "FL Securities").

8. First Leaside Finance is a conduit through which First Leaside facilitated intercompany financial arrangements. In addition to its capacity as a 'central bank' for First Leaside, from time to time First Leaside Finance also acted as a buyer of client positions in investment products through FLSI.

9. FL Securities is an exempt market dealer that is registered with the OSC. It acted as an asset manager and promoter of real estate assets and charged fees for these services.

10. Until recently, First Leaside's head office was located at 430 Regional Road #8 in Uxbridge, Ontario (as above, the "Uxbridge Property"). Approximately 90% of the business of First Leaside was operated out of an apportioned 3,200 square feet of the Uxbridge Property. The Uxbridge Property is also Phillips and Davis' personal residence.

The Defendants

11. The defendant, David Phillips, is an investment advisor and trader.

12. Phillips founded First Leaside in 1989. From that time until November 2011, Phillips controlled the operations of First Leaside and was its primary directing mind. Phillips and Davis had signing authority in respect of all payments made from various First Leaside entities. Among other titles, Phillips was the President, CEO and Secretary of FLSI and the President and a director of FLWM. Phillips and Davis owned 100% of the common shares of FLWM.

13. 970877 Ontario Inc. (as above, "970877") is a holding company wholly owned by Phillips.

14. The defendant, Margaret Davis, is Phillips' wife. She is also a Director and Officer of a number of First Leaside entities. At the relevant times, her day-to-day duties included acting as

supervisor of all banking operations for all First Leaside entities. Since 1999, Davis has been the sole owner of the Uxbridge Property.

The Uxbridge Property

15. Davis purchased the Uxbridge Property from FL Securities in 1999 for $400,000.00. At the time of the purchase, the Uxbridge Property was a modest bungalow on approximately eighteen acres of land. Since that time, it has served as Phillips and Davis' personal residence.

16. On January 1, 2004, Davis entered into a lease agreement with FL Securities (the "Office Lease Agreement") setting out the financial terms of an agreement to run and operate First Leaside from the Uxbridge Property. (Prior to the events leading to the CCAA filing, discussed below, 90% of First Leaside's business was operated out of the Uxbridge Property under Phillips' direction.)

17. Pursuant to the Office Lease Agreement, the term of the lease is seven years, running until January 1, 2011. The Office Lease Agreement further provides, *inter alia*:

(a) "The said Lessee shall pay to the Lessor seventy-five percent (75%) of all electricity costs and forty-four percent (44%) of all other expenses, including, but not limited to: maintenance, utilities (excluding electricity), insurance, property tax, security and capital improvements (the "Rent")"; and

(b) "The Lessee hereby covenants with the Lessor that the Lessee will pay the Rent herein reserved at the times and in the manner aforesaid."

18. In 2008, Toronto-Dominion Bank ("TD") was granted a mortgage on the Uxbridge Property for $900,000.00.

19. On June 20, 2012, the Uxbridge Property was listed for sale at a listed selling price of $2,290,000.00. It was sold on August 7, 2012 for $2,235,000.00 with a closing date of October 1, 2012.

Events Leading to First Leaside CCAA Filing

20. In the fall of 2009, the OSC commenced an audit of First Leaside. In or about March 2010, the OSC escalated the audit to an investigation of First Leaside.

21. On March 5, 2011, and in connection with the OSC investigation, First Leaside, through its counsel ("Counsel"), engaged an independent consultant, Grant Thornton Limited ("GTL") to review its business operations, assess its overall viability, and report and make recommendations about First Leaside's business, assets and operations.

22. GTL released a report on August 19, 2011 (the "August 19 Report"). The August 19 Report advised, *inter alia*, that First Leaside was facing serious cash flow and operational challenges, had weak financial reporting protocols, and proposed several recommendations.

23. On November 3, 2011, the Board of Directors of FLWM appointed an independent committee (the "Independent Committee") to assume all decision-making authority in respect of First Leaside and to oversee its operations. The decision to appoint the Independent Committee was made in consultation with Counsel and with the OSC.

24. On November 4, 2011, First Leaside retained GTL as an independent monitor to, in part, satisfy the OSC that First Leaside was implementing a restructuring plan.

25. In late October 2011, the OSC advised First Leaside that it intended to bring proceedings against it. First Leaside then negotiated and implemented a voluntary cease-trade order over all of its entities on November 7, 2011.

26. In early December 2011, the Independent Committee appointed G.S. MacLeod & Associates Inc. as Chief Restructuring Officer of First Leaside ("CRO"). The Independent Committee asked the CRO to develop a workout plan for First Leaside.

27. In late January 2012, the CRO concluded that it was too risky and uncertain for First Leaside to pursue a resumption of previous operations. The CRO's recommendation to the Independent Committee was that First Leaside should undertake an orderly wind-down of operations. The Independent Committee approved the proposed wind-down and the resultant *Companies' Creditors Arrangement Act* ("CCAA") filing.

28. On February 23, 2012, a number of First Leaside affiliated companies and limited partnerships (the "Applicants") made an application to the Ontario Superior Court of Justice (Commercial List) (the "Court") to commence proceedings under the CCAA (the "CCAA Proceedings"). On February 23, 2012, the Court issued an initial Order pursuant to the CCAA (the "Initial Order"). Among other things, the Initial Order affirmed the appointment of the CRO and gave the CRO the power and authority to manage the affairs of First Leaside, including the commencement of legal proceedings.

The Defendants' Unlawful Conduct is Revealed

29. Since the Initial Order was granted, First Leaside has discovered that Phillips and Davis had for some time been improperly diverting and converting the assets of the FL Plaintiffs to their own use and for their own use.

Accounts Receivable

30. Phillips exercised his powers over the FL Plaintiffs in order to improperly divert $3,843,549.92 of the FL Plaintiffs' funds away from the FL Plaintiffs and to Phillips and to Davis directly, or to benefit Phillips and Davis directly.

31. Specifically, Phillips and Davis lived an extravagant personal lifestyle, which was funded, directly or indirectly, by each of the FL Plaintiffs. For example, with further details to be provided prior to trial, Phillips and Davis caused the FL Plaintiffs:

(a) to pay for landscaping, renovation, repair, utilities, telephone and other household expenses relating to the Uxbridge Property, with title taken in Davis' name to shield the Uxbridge Property from Phillips' creditors;

(b) to pay the salaries of household staff, including a housekeeper, a dogsitter and a gardener;

(c) to fund the purchase of luxury goods, including rare wines and expensive art for Phillips and Davis' own benefit;

(d) to pay Phillips' life insurance policy;

(e) to purchase Phillips' vehicles, and pay for vehicle costs, including gas, repairs and other expenses;

(f) to pay personal credit card debts and other personal obligations;

(g) to pay Phillips' and Davis' personal taxes; and

(h) to pay for Phillips' and Davis' personal travel, hotel and meal expenses.

32. The improper payments listed above were not approved by either the FLWM Board of Directors or the Independent Committee.

33. Further, First Leaside has discovered that Phillips caused a further $2,632,250.00 of funds to be diverted from FLWM by way of improper and unauthorized dividends caused by Phillips to be declared by FLWM and received by 970877, a company owned by Phillips, and subsequently caused by Phillips to be paid by 970877 to himself personally. The $2,632,250.00 in improper dividend payments were made between 2004 and 2010.

34. Phillips made no requests of the FLWM Board of Directors to declare the dividends, nor were any resolutions passed by the FLWM Board of Directors with respect to the payment of dividends to 970877. Rather, the dividend payments were unauthorized and made unilaterally by Phillips for Phillips's personal gain.

35. Together, the costs, payments, expenses and improper dividend declarations listed above, and others, were made entirely for the personal benefit of Phillips and Davis and in no way benefitted First Leaside. These funds were diverted from the FL Plaintiffs exclusively for Phillips and Davis' personal gain.

36. Accordingly, the FL Plaintiffs seek an order requiring that Davis, Phillips and 970877 reimburse the FL Plaintiffs for the full $3,843,549.92 in personal costs and expenditures improperly charged to the FL Plaintiffs, and unauthorized dividends improperly paid by the FL Plaintiffs, as set out above, plus additional amounts, the details of which will be provided prior to trial.

Loans Receivable

37. Phillips and Davis have also received improper and unauthorized loans from FLWM.

38. Phillips has received loans from FLWM in the amount of $202,420.00 which have not been repaid, as evidenced by two promissory notes. The first is dated December 31, 2009 in the amount of $50,000.00 USD (converted at the time to $52,420.00 CAD) with an interest rate of 4% per annum. The second is dated December 24, 2010 in the amount of $150,000.00 with an interest rate of 6% per annum. Both promissory notes are signed by Phillips in favour of FLWM.

39. Similarly, Davis has received loans from FLWM in the amount of $160,000.00 which have not been repaid, as evidenced by two promissory notes. The first is dated December 24, 2010 in the amount of $150,000.00 with an interest rate of 6% per annum. The second is also dated December 24, 2010 in the amount of $10,000.00 with an interest rate of 7.5% per annum. Both promissory notes are signed by Davis in favour of FLWM.

40. The loans to Phillips and Davis set out above were not approved by the FLWM Board of Directors.

41. Accordingly, the FL Plaintiffs seek an order requiring that Davis and Phillips pay FLWM for the full $362,420.00 representing the funds loaned to them, plus interest in accordance with the amounts prescribed in the promissory notes, and as evidenced by the promissory notes referred to above.

Improvements to the Uxbridge Property Funded by the FL Plaintiffs

42. In addition to the $3,843,549.92 of funds caused by Phillips to be improperly diverted from the FL Plaintiffs to fund Phillips and Davis' personal lifestyle, Phillips also caused a total of

$2,541,419.50 of improper payments to be made by FL Securities and FLSI to Davis directly, or to benefit and improve the Uxbridge Property, and thus to ultimately benefit Davis directly, as evidenced by:

(a) $1,687,564.00 in leasehold improvements to the Uxbridge Property caused by Phillips to be paid from FL Securities (the "Leasehold Improvement Payments");

(b) $267,855.50 in payments towards the purchase and maintenance of a windmill on the Uxbridge Property caused by Phillips to be paid from FL Securities (the "Windmill Payments"); and

(c) $586,000.00 in improper rent payments caused by Phillips to be paid from FLSI (the "Rent Payments") to Davis.

Leasehold Improvement Payments

43. As set out above, the Office Lease Agreement pertaining to the Uxbridge Property provides that the lessee, FL Securities, shall pay 44% of all expenses (the "FL Securities Allocation"), including, but not limited to: maintenance, utilities (excluding electricity), insurance, property tax, security and capital improvements.

44. The Office Lease Agreement was entered into for the sole purpose of improperly enriching and benefitting Phillips and Davis and was not in the best interests of FL Securities. Simply, the Office Lease Agreement was a vehicle pursuant to which Phillips and Davis diverted money from FL Securities to themselves to fund their lifestyle and increase the value of the Uxbridge Property.

45. The Office Lease Agreement is oppressive and was entered into in breach of the defendants' duties owed to the FL Plaintiffs. The Office Lease Agreement is void and/or should be set aside.

46. Since 2004, Phillips and Davis have directed the following leasehold improvements to be made to the Uxbridge Property using money of FL Securities:

(a) extensive renovations and upgrades to the bungalow, including additions, renovations and improvements to the living quarters, the establishment of a fitness room and a rooftop deck;

(b) significant landscaping development, including the development of a pond and well on the property;

(c) development of a stone pathway entrance to the home and wrought-iron fencing;

(d) development of a spa, swimming pool and waterfall on the property; and

(e) the addition of a large garage with a fully finished loft therein on the property, which garage also housed an atrium and a greenhouse.

47. Further in spite of the FL Securities Allocation, Phillips has, since 2004, directed FL Securities to pay 100% of all expenses in respect of all leasehold improvements to the Uxbridge Property, and FL Securities has done so at Phillips' direction. Although 56% of leasehold improvements were notionally allocated back to Davis (the "Davis Allocation") in accordance with the Office Lease Agreement, the Davis Allocation was charged to a loan receivable account due from David Phillips on the books of FL Securities. As a result, FL Securities has effectively

paid for 100% of the leasehold improvements to the Uxbridge Property. Neither Phillips nor Davis has paid for any portion of the leasehold improvements personally.

48. In any event, none of the leasehold improvements giving rise to the $1,687,564.00 of leasehold improvement payments paid by FL Securities are in any way linked to the business, affairs or operations of First Leaside and, as a result, can not be deemed to be contemplated by the Office Lease Agreement. Rather, each and every one of the leasehold improvements was made to personally benefit Phillips and Davis.

49. As a result, the leasehold improvement payments caused by Phillips to be made from FL Securities to benefit the Uxbridge Property were made in breach of Phillips and Davis' fiduciary duties and duties of loyalty, and constitute oppression, conversion, conspiracy, unjust enrichment, knowing assistance and knowing receipt.

50. Accordingly, the FL Plaintiffs seek an order requiring that Davis and Phillips repay FL Securities the sum of $1,687,564.00 representing the total amount of leasehold improvement payments caused by them to be paid by FL Securities to benefit the Uxbridge Property.

51. As a result of the leasehold improvement payments, the value of the Uxbridge Property has been greatly increased at the expense of the FL Plaintiffs and for the sole benefit of Davis and Phillips.

52. The Uxbridge Property, purchased by Davis for $400,000.00 in 1999, was listed for sale on June 20, 2012 at a listed price of $2,290,000.00. It was sold on August 7, 2012 for $2,235,000.00 with a closing date of October 1, 2012.

53. As a result of the above, the FL Plaintiffs seek an interim, interlocutory and permanent injunction enjoining Davis and any corporations controlled or owned by her, or anyone acting on her behalf or at her direction from dissipating, depleting or otherwise interfering with any funds resulting from the sale of the Uxbridge Property or any of its related assets, as well as an Order permitting a Certificate of Pending Litigation to be issued and registered against the Uxbridge Property

Windmill Payments

54. In addition to the $1,687,564.00 in improper leasehold improvement payments benefitting the Uxbridge Property and the defendants paid for by FL Securities as set out above, Phillips and Davis also caused FL Securities to make $267,855.50 in improper payments towards the purchase and maintenance of a windmill on the Uxbridge Property.

55. The windmill is owned by F.L. Research Management, a company that is owned by Phillips and Davis. The windmill in no way connected to the business, affairs or operations of First Leaside and, as a result, can not be deemed to be contemplated by the Office Lease Agreement. Rather, each of the improper windmill payments was made for the personal benefit and enjoyment of Phillips and Davis.

56. Accordingly, the FL Plaintiffs seek an order requiring that Davis and Phillips repay FL Securities the sum of $267,855.50.

Rent Payments

57. In addition to the Leasehold Improvement Payments and Windmill Payments detailed above, all of which served to benefit and improve the Uxbridge Property and thus benefit Davis

and Phillips directly, since January 2005, Phillips and Davis caused an additional $586,000.00 of "rent" payments to be paid by FLSI directly to Davis.

58. Specifically, Phillips directed FLSI to improperly pay Davis $6,000.00 in January and February 2005, and for every month thereafter until November 2011, Phillips directed FLSI to improperly pay Davis $7,000.00 per month.

59. These lump sum payments are not authorized by the Office Lease Agreement or by any other agreement and are entirely improper. The payments were made directly to Davis for her personal benefit and at Phillips' direction. Accordingly, the FL Plaintiffs seek an order requiring that Davis repay FLSI the sum of $586,000.00 representing the total amount of "rent" payments she received from FLSI.

60. As the primary directing mind of First Leaside and as President, CEO and Secretary of FLSI, Phillips is jointly liable by causing the monthly "rent" payments to be made by FLSI to Davis.

Damages Suffered by the FL Plaintiffs as a Result of the Defendants' Wrongful Acts

61. The FL Plaintiffs plead that they have suffered enormous pecuniary losses as a result of the defendants' extensive wrongful conduct as pleaded in this Statement of Claim.

62. The defendants' wrongful conduct has been ongoing for years. As a result, the FL Plaintiffs have suffered exponential losses for which the defendants are liable. The gains that the defendants have received from their wrongful conduct have funded the defendants' extravagant personal lifestyle. The gains from the defendants' wrongful conduct have also funded extensive renovations to the defendants' real estate, including the Uxbridge Property, and expenditures on

assets related to the Uxbridge Property, which have drastically increased the value of the Uxbridge Property at the expense and to the detriment of the FL Plaintiffs.

The FL Plaintiffs are Entitled to the Relief Claimed

63. The FL Plaintiffs are entitled to all of the relief requested herein, including the interim remedies, interim and interlocutory orders which they seek as a result of the defendants' actions as set out above.

Misrepresentation and Fraudulent Misrepresentation

64. As the sole directing mind of First Leaside and as President, CEO and Secretary of FLSI and President and director of FLWM, Phillips owed a duty of care to First Leaside, including all of its entities.

65. However, Phillips has made inaccurate and misleading statements to the FL Plaintiffs with respect to his use of the FL Plaintiffs' funds. He falsely represented that the FL Plaintiffs' moneys were being used exclusively for proper purposes, when they were in fact being used for improper personal purposes; specifically, to benefit and enrich himself and Davis personally, and to benefit and improve the Uxbridge Property.

66. Phillips made these false representations with the knowledge and intent that the FL Plaintiffs would rely on them. Phillips' representations were false and, as a result, the FL Plaintiffs have suffered the damages pleaded herein.

Breach of Contract, Fiduciary Duty and Duty of Loyalty

67. As the sole directing mind of First Leaside, and as President, CEO and Secretary of FLSI and President and a director of FLWM, Phillips was in a fiduciary relationship with First Leaside and owed all of First Leaside, including all of the FL Plaintiffs, the commensurate duties and

obligations. He had a duty to act in the best interests of the FL Plaintiffs, to conduct himself honestly and in good faith, and to avoid conflicts of duty and self interest in accordance with the duty of loyalty.

68. Phillips did none of the above. Instead, he misappropriated, diverted and converted the FL Plaintiffs' funds to himself and to Davis and for his and Davis' personal use and benefit. In flagrant breach of his fiduciary duties to the FL Plaintiffs, including his good faith obligations and duty to avoid conflicts of duty and self interest, Phillips took advantage of his position at First Leaside, benefitting personally for years by wilfully and entirely disregarding the FL Plaintiffs' interests.

69. Similarly, Davis was in a fiduciary relationship with First Leaside, including the FL Plaintiffs, due to her position as a Director and Officer of a number of First Leaside entities and her role as supervisor of all banking operations for all First Leaside entities. Like Phillips, Davis also misappropriated, diverted and converted the FL Plaintiffs' funds to herself and to Phillips for her and Phillips' personal use and benefit. In flagrant breach of her fiduciary duties to the FL Plaintiffs, Davis took advantage of her position at First Leaside, benefitting personally for years by wilfully and entirely disregarding the FL Plaintiffs' interests.

70. The FL Plaintiffs seek an accounting from Phillips and Davis and the entities related to Phillips and Davis for all funds improperly taken and profits earned therefrom as pleaded herein. Further, the FL Plaintiffs seek disgorgement of all funds improperly taken and profits earned therefrom as pleaded herein and/or equitable and common law damages, in amounts to be determined prior to trial.

Oppression

71. At the relevant times, Phillips had the *de jure* control of both FL Securities and FLSI.

72. As sole shareholder of FL Securities and FLSI, FLWM has standing as a "complainant", as that term is defined in section 238 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 ("*CBCA*"), to seek a declaration pursuant to section 241 of the *CBCA* that Phillips and Davis have exercised their powers over FL Securities and FLSI in a manner that is oppressive or unfairly prejudicial to and that unfairly disregards the interests of FLWM.

73. As pleaded herein, Phillips improperly diverted funds from FL Securities and FLSI to himself and Davis directly, or to benefit himself and Davis, and to benefit and improve the Uxbridge Property. Davis, with the knowledge and support of Phillips, also diverted funds from FL Securities and FLSI to herself and Phillips or to benefit herself and Phillips, and to benefit and improve the Uxbridge Property.

74. These acts were committed by Phillips and Davis for the wrongful purpose of enriching themselves at the expense of FL Securities and FLSI. These actions violated FLWM's interests and expectations as sole shareholder of FL Securities and FLSI and were not in the best interests of the companies.

75. FLWM reasonably expected that FL Securities and FLSI would continue to operate as profitable ventures for many years to come. FLWM also reasonably expected that the companies would be operated and managed responsibly by Phillips and that FLWM would enjoy a long-term interest in the increasing value of these businesses. However, Phillips pursued a course of conduct designed to deprive FL Securities and FLSI of many of their assets in order to fund Phillips and Davis' personal lifestyle and to benefit and improve the Uxbridge Property. These wrongful

actions unfairly disregarded the interests and expectations of FLWM and were not in the best interests of the companies.

76. As a result of Phillips and Davis' wrongful acts, the plaintiff FLWM seeks a declaration pursuant to section 241 of the *CBCA* that the defendants have exercised their powers in a manner that is oppressive or unfairly prejudicial to and that unfairly disregards the interests of FLWM, and damages caused by their actions.

Conversion

77. The defendants, Phillips and Davis, by their misconduct, wrongfully converted the FL Plaintiffs' funds for their own use, as pleaded herein.

78. The wrongful conversion of Phillips and Davis stems from their misappropriation of the FL Plaintiffs' funds and their transfer of the FL Plaintiffs' funds to their own personal use. In doing so, Phillips and Davis intentionally exercised control over the funds of the FL Plaintiffs in a manner that impeded the possessory rights of their rightful owners – FLWM, FLSI, FL Securities, and First Leaside Finance.

79. In taking the FL Plaintiffs' funds for their own personal use, Phillips and Davis knowingly and wrongfully converted the funds by treating them as if they were their own and exercising unauthorized control over their use; for instance, to pay extravagant personal living costs, personal debts, obligations and other expenditures, and to pay for leasehold improvements and additions to the Uxbridge Property, as set out in detail above.

80. Further particulars of the conduct of the defendants are within their knowledge.

81. As a result of the conduct of the defendants, the FL Plaintiffs have suffered significant financial damages and losses as pleaded herein.

Conspiracy

82. Together, Phillips and Davis agreed upon and coordinated a deceitful scheme, the predominant purposes of which were to commit a series of unlawful acts, namely the wrongful acts of enriching themselves and injuring the FL Plaintiffs by misappropriating, diverting and converting the FL Plaintiffs' funds for the purpose of achieving personal gain, and to ensure that the FL Plaintiffs remained unaware of their unlawful behaviour.

83. Further, the conspiracy between Phillips and Davis was planned and conducted in such a way that Phillips and Davis knew or ought to have known that injury to the FL Plaintiffs would be likely to result from their wrongful actions. As a result of the defendants' actions, the FL Plaintiffs have suffered damages as pleaded herein.

Unjust Enrichment

84. The defendants, Phillips and Davis, have been unjustly enriched by their misconduct. As described above, the defendants have benefited from their wrongful misappropriation and misuse of the FL Plaintiffs' funds, despite having no juristic reason for this enrichment. The FL Plaintiffs have correspondingly been deprived of the benefits of ownership over their own funds, as described above. The defendants should not benefit from their misconduct. The enrichment they have enjoyed from the misuse of Company money should be accounted for and disgorged to the FL Plaintiffs.

Knowing Assistance and Knowing Receipt

85. The defendants, Phillips and Davis, knowingly assisted one another in breaches of their obligations to the FL Plaintiffs, specifically, in breaches of their fiduciary duties and their duties of trust and loyalty, in order to misappropriate, divert and convert the FL Plaintiffs' funds for their own use and benefit.

86. Phillips and Davis had actual knowledge of, or were reckless or wilfully blind to, one another's wrongful misappropriation and misuse of the FL Plaintiffs' funds, and assisted one another in breaching their obligations to the FL Plaintiffs.

87. Davis has also knowingly and willingly accepted the fruits of Phillips' wrongful misappropriation and misuse of the FL Plaintiffs' funds. As described above, both Phillips and Davis have been greatly enriched by Phillips' breaches of his obligations owed to the FL Plaintiffs and his wrongful misuse and misappropriation of the FL Plaintiffs' funds to benefit and improve the Uxbridge Property.

Place of Trial

88. The plaintiffs propose that this action be heard in Toronto.

August 28, 2012

LAX O'SULLIVAN SCOTT LISUS LLP
Counsel
Suite 1920, 145 King Street West
Toronto, ON M5H 1J8

Matthew P. Gottlieb LSUC#: 32268B
Tel: (416) 644-5353
Shannon Beddoe LSUC#: 59727B
Tel: (416) 646-7998
Fax: (416) 598-3730

Lawyers for the Plaintiffs

SCHEDULE "A"

Part of West half of Lot 31 Concession 4, Uxbridge, Part 1, 40R1921, PIN 26856-0058 (LT), Township of Uxbridge, Regional Municipality of Durham

FIRST LEASIDE WEALTH MANAGEMENT INC. ET AL.
Plaintiffs

and

DAVE PHILLIPS ET AL.
Defendants

CV12-9821-00CL
Court File No.

We hearby accept service of a true copy

of the within____________________

on this____**day of**__________**,20**____

Per:__________________
Lawyers For

We hearby accept service of a true copy

of the within____________________

on this____**day of**__________**,20**____

Per:__________________
Lawyers For

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

PROCEEDING COMMENCED AT
TORONTO

STATEMENT OF CLAIM

LAX O'SULLIVAN SCOTT LISUS LLP
Counsel
Suite 1920, 145 King Street West
Toronto, ON M5H 1J8

Matthew P. Gottlieb LSUC#: 32268B
Tel: (416) 644-5353
Shannon Beddoe LSUC#: 59727B
Tel: (416) 646-7998
Fax: (416) 598-3730

Lawyers for the Plaintiffs

Appendix B

Notice of Meeting re Funds

September 5, 2012

Dear Unitholders,

The undersigned Trustees are writing this correspondence to provide you with notice that we are holding an information meeting for the Unitholders of First Leaside Fund, Wimberly Funds and First Leaside Properties Fund (the "**Funds**"). The details of the meeting are set out below.

The purpose of the meeting is to provide the Unitholders with current information about the Texas properties (the "**US Properties**") which Wimberly Apartments Limited Partnership ("**WALP**") directly or indirectly owns or controls, being Master Texas Ltd. (which is the Master Texas Limited Partnership), F.L. Master Sherman Ltd. (which is the Master Sherman Limited Partnership) and First Leaside Properties Limited Partnership (collectively, the "**US Limited Partnerships**").

Until August 31, 2012, the Properties were managed by Leaders Management Inc. ("**Leaders**"), who reported to Gregory MacLeod, of G.S. MacLeod & Associates Inc. (the "**CRO**"). The CRO was appointed by the Court as the Chief Restructuring Officer of various First Leaside entities ("**First Leaside**"), including the US Limited Partnerships, pursuant to proceedings that were commenced under the *Companies' Creditors Arrangement Act* (the "**CCAA**") on February 23, 2012. Pursuant to the terms of the initial order that was issued by the Court (the "**Initial Order**"), the CRO was authorized and empowered to operate and manage the affairs of First Leaside during the CCAA proceedings.

According to the CRO in his Affidavit sworn February 22, 2012, First Leaside would not continue as a going concern, but would be liquidated. As part of the wind-down of First Leaside, the CRO's intention was to sell the U.S. Properties. At meetings held with FMC, representative counsel for clients of First Leaside, and at other meetings attended by the trustees which included representatives of the CRO and Grant Thornton, several issues arose that caused the trustees to have concerns. The issues included, without limitation, the following:

1. The CRO, Grant Thornton and various law firms have an administrative charge for legal and other professional fees that rank in priority to the interests of all other creditors of First Leaside. Given that it was the stated intention of the CRO to sell the US Properties, the trustees had concerns that the US Properties would be sold and the net proceeds of sale (after mortgages and other trade creditors were paid) would be brought to Canada and used by the CRO to fund ongoing restructuring costs, which is permitted under the Initial Order, as amended;

2. The CRO was initially of the view that the US Limited Partnerships were indebted to WALP in the approximate amount of US$22,000,000 and that any amounts received by the US Limited Partnerships from the sale of the US Properties would have to be shared between the Funds and WALP on a *pro rata* basis. The result of a *pro rata* sharing would have been to significantly dilute any recovery to the Funds.

Grant Thornton undertook a review of the intercompany debt and other matters as among the US Limited Partnerships and WALP and in July, 2012, Grant Thornton published a report in which it disclosed two significant findings:

i. First Leaside has no corporate authority to manage the US Properties. David Phillips, as sole director and officer of the relevant US general partners, is the only person who has the authority to manage the US Properties; and

ii. the books and records of First Leaside disclosed that WALP has no direct creditor claim against Master Texas or Master Sherman. Based upon information made available to the trustees, the Funds are the only creditors of Master Texas or Master Sherman.

As a result of the review conducted by Grant Thornton, the CRO made a determination that it no longer wished to be involved in the management of the US Properties. The CRO sought an order of the Court, which was issued by Mr. Justice Newbould on August 31, 2012, pursuant to which the CRO was authorized not to take any steps to manage the US Properties. Without Mr. Phillips' involvement in management of the US Properties, there would have been no effective oversight of onsite management and the US Properties would most likely have been taken over by the mortgage companies that hold mortgages against these properties. Accordingly, at the request of the trustees, Mr. Phillips, in his capacity as director and officer of the US general partners agreed that he would resume management of the US Properties.

Effective August 31, 2012, the general partner appointed Myan Management Inc., a veteran property management firm that was highly recommended and which was also recognized by the CRO as being a reputable management firm, to manage the US Properties. Myan manages more than 12,000 apartments in Texas and frequently works with banks and loan servicers in undertaking property workouts. Myan's reputation is impeccable.

Operationally, the transition of management of the US Properties was a smooth one, as the vast majority of onsite employees are choosing to remain and accept employment with Myan.

As the general partner has only recently resumed management, there have been delays in obtaining current information with respect to the amount of money required to continue to operate the US Properties and to ultimately realize maximum value from the US Properties for the benefit of Unitholders.

The Trustees will be holding a further meeting of Unitholders to review a plan to address the issues relating to the US Properties and to the Funds generally, which meeting will be called as soon as all information required for the Unitholders to make informed decisions about the US Properties and the proposed plan is available. The second meeting will be held no later than October 30, 2012, but the Trustees are hopeful that the meeting will actually be held much sooner than that date. A broad outline of the proposed plan will be discussed at the information meeting.

There are compelling options for your consideration and the Trustees will be looking for a sense of what direction Fund Unitholders would now like to take to preserve and to enhance value in the US Properties.

We have booked the Grand York C room at the Sheraton Parkway Toronto North Hotel & Suites, 600 Highway 7 East, Richmond Hill, Ontario on Wednesday evening, September 12th at 7:30 PM for an information meeting of Fund Unitholders.

Regards,

Henry Wemekamp K Rice

Henry Wemekamp Ken Rice

On behalf of the Trustees of First Leaside Fund, Wimberly Fund and First Leaside Properties Fund

Appendix C

New Notice from CIPF

CIPF
Canadian Investor Protection Fund

NOTICE ISSUED AUGUST 16, 2012

To: **Customers of First Leaside Securities Inc. (FLSI)**

Please be advised that the deadline to submit claims to the Canadian Investor Protection Fund (CIPF) has been extended to align with a claims bar date to be established by the Court in First Leaside's Companies' Creditors Arrangement Act (CCAA) proceedings.

CIPF is working with Fraser Milner Casgrain LLP, the representative counsel for FLSI customers to establish a coordinated claims process.

For more information on CIPF coverage and the claims process, you may contact CIPF at 416 866 8366 or toll-free at 1 866 243 6981 or visit CIPF's website at cipf.ca.

Appendix D

Notice of FLIPA Meeting

First Leaside Investor Protection Association

Meeting Monday September 10, 2012

Albion Bolton Recreation Centre (Auditorium)

150 Queen Street South Bolton Ontario L7E 1E3

Click on this link for a map http://mapq.st/IqXGNa

Meeting Agenda

09:00 to 10:00	Registration
10:00 to 10:15	Directors Reports
10:15 to 10:45	Report on Canadian Properties sales
10:45 to 11:00	Coffee & Break
11:00 to 11:30	Foreclosure and Sale of Family Tree by David Phillips
11:30 to 12:00	Report on Texas Properties what can be done?
12:00 to 1:30	Lunch brown bag or local restaurants
1:30 to 2:00	First Leaside Trusts and Trustees and their actions
2:00 to 3:00	Removal of David Phillips General Partner of Texas Prop
3:30 to 4:30	Open Discussion
4:30 PM	Adjourn

This is a critical meeting for those with investment in the First Leaside Mortgage Fund, WALP and First Leaside Properties fund.

We will have legal representation and a Business Manager at the meeting to provide expert advice as well as other experts.

Cost $20.00 per FLIPA Member, Guests $30.00 per person

Free Parking at the Albion Bolton Recreation Centre