**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

August 2, 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: Fifth Reporting Letter to Investors by Fraser Milner Casgrain LLP as Court-appointed representative counsel for the Investors ("Rep Counsel")**

This fifth 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. **<u>Reports to Investors on Texas Properties</u>**

Since the Court issued the Initial Order, the court-appointed chief restructuring officer, G.S. MacLeod and Associates (the "**CRO**"), with the assistance the of the court-appointed monitor, Grant Thornton Limited, and their respective legal counsel, have been assessing First Leaside's options with respect to the Wimberly Apartments Limited Partnership ("**WALP**") and the real properties that are owned by the Texas subsidiaries of (i) FL Master Texas, Ltd. ("**Master Texas**") and (ii) FL Master Sherman Ltd. ("**Master Sherman**"). Master Sherman and Master Texas are the limited partners of the Texas subsidiaries.

*(a) The May 1, 2012, Report to Investors*

As part of this ongoing assessment, on May 1, 2012, the Monitor, with the assistance of First Leaside and the CRO, prepared a report to the Investors that set out financial information related to First Leaside entities and also disclosed preliminary assessments (based on third-party appraisals) about the value of properties (the "**Texas properties**") that are owned by the Texas subsidiaries (the "**May Report**"). Rep Counsel held a telephone town hall meeting with the Investors on May 10, 2012, to review the May Report, which revealed that after the indebtedness to the mortgage holders was paid, the equity in the Texas properties remaining was marginal. Moreover, the Texas subsidiaries did not have enough capital to continue to operate the Texas properties without substantial additional funding.

*(b) The July 20, 2012, Report to Investors*

On July 20, 2012, we received a further report to the Investors that was prepared by the Monitor, with the assistance of First Leaside and the CRO, which provides an overview of observations the Monitor has made with respect to the First Leaside entities that WALP has transacted with, in order help First Leaside and the CRO determine the most appropriate course of action to take with respect to these entities going forward (the "**July Report**"). A copy of the July Report, along with an introductory letter from the Monitor, has been posted on the Monitor's website under the heading "Communications to Investors": www.granthornton.ca/firstleaside.

In the July Report, the Monitor provides a summary of the observations it has made with respect to the intercompany flow of funds (i) between First Leaside Wealth Management Inc. ("**FLWM**"), First Leaside Finance Inc., First Leaside Mortgage Fund ("**Mortgage Fund**" and 15 other entities within First Leaside; and (ii) between WALP and the Wimberly Fund, the First Leaside Fund, and the First Leaside Properties Fund ("**Properties Fund**", collectively with Wimberly Fund and First Leasdie Fund, referred to as the "**Funds**").

The July Report illustrates a complex system of intercompany loans that exists between the various First Leaside entities, how cash advances were made into and out of WALP, which entities issued promissory notes and to whom, and how distributions were ultimately made to unitholders' of the Funds and the WALP unit holders.

<u>The Limit of First Leaside's and the CRO's Corporate Authority</u>

The Monitor notes, in the introductory letter to the July Report, that **First Leaside, through its CRO, does not have the corporate authority to deal with the Texas properties.**

The CRO's authority to deal with First Leaside entities is based on the Initial Order. The Texas subsidiaries of Master Sherman and Master Texas that own the Texas properties are not covered in the CCAA proceedings. Therefore, the challenge of pursuing realization with regard to the Texas properties for the Investors is that the corporate structure, as it was set up by First Leaside (with Master Sherman and Master Texas holding an interest in the Texas subsidiaries as limited partners), does not give the CRO direct legal authority to deal with the Texas properties. Rather, we understand that it is David Phillips, the former President of First Leaside who controls the general partners of the Texas subsidiaries, who has the authority to deal with these properties. We have been advised that letters have been sent to counsel to Mr. Phillips seeking his assistance with regard to the restructuring/realization process; however, to date Mr. Phillips retains corporate authority over the Texas properties.

The CRO, the Monitor, and their respective counsel, met with the Steering Committee and Rep Counsel on Monday July 23, 2012, to discuss the July Report and the limits on the CRO's authority (the "**Steering Committee Meeting**"). At this stage in the CCAA proceedings, there was consensus among the members of the Steering Committee and the professionals that attended this meeting, that the cost of attempting to gain control of the Texas properties will be disproportionately high compared to any potential recovery for the Investors because, among other things:

1. it does not appear that WALP has a direct creditor claim against Master Sherman or Master Texas based on the books and records of First Leaside;

2. each one of the Texas subsidiaries, which David Phillips controls as the general partner, is subject to a mortgage that has significant break fees;

3. although it is possible that marginal value will be generated, most, if not all of it, will be used up by the costs associated with employing the necessary professionals in Texas in order to attempt to obtain control of these properties and with no guarantee of a favourable outcome; and

4. finally, the funds that will be needed to pay for the associated professional fees to try and extract value out of Master Sherman and Master Texas, will have to come from other First Leaside entities; that is, funds subject to claims of other Investors.

The consensus at the Steering Committee Meeting was that a strategy to attempt to recover minimal value by using estate funds with no certainty of the outcome is not an appropriate risk to take.

The Funds (Properties Fund, Wimberly Fund and the First Leaside Fund)

The July Report indicates the following with respect to the Funds:

| **The Fund** | **Wimberly Fund** | **First Leaside Fund** | **Properties Fund** |
|---|---|---|---|
| **Primary Asset** | Promissory note issued by Master Texas (unsecured) | Promissory note issued by Master Texas (unsecured) | Promissory note issued by Master Sherman (unsecured) |
| **Value** | $10.3 million | $43.6 million | $14.5 million |

The Funds are not CCAA filed entities and First Leaside, through its CRO, does not have the authority to deal with the Funds.

We also understand that the Trustees of Wimberly Fund have retained legal counsel, and that they have contacted the CRO, the Monitor, and their respective legal counsel, to express their interest in developing a restructuring plan for Master Texas. To date, the CRO and the Monitor advise that neither has been provided with details of such a plan. For further information in this regard, please review the introductory letter and the body of the July Report.

Although fund unitholders were customers of First Leaside Securities Inc., because the Funds are not within the CCAA proceedings, it is not the role of Rep Counsel to take any position with respect to the Funds. We are also aware that there are divergent interests among the Investors with respect to the Funds. We will however, endeavour to continue to provide the Investors with appropriate information about the Funds. Any questions the Investors may have with respect to the Wimberly Fund or the First Leaside Fund can be directed to Henry Wememkamp who we understand is the current chair of the Trustees of the First Leaside Fund and the Wimberly Fund: HenryW@The-Wire.com.

The Mortgages Fund

| The Fund | First Leaside Mortgage Fund |
|---|---|
| **Primary Assets** | Approximately $5.8 million in first mortgages on properties held within the First Leaside Group of Companies<br>- and -<br>A $4.5 million unsecured inter-company loan to WALP Canada |
| **Mortgages** | • $5,000,000 on the Family Tree Apartments owned by F.L. Sedona Creek, Ltd.<br>• $300,000 on the Sherman "Church" property in Sherman, Texas<br>• $500,000 on development lands in Vernon, British Columbia |

The Mortgage Fund is not a CCAA filed entity and First Leaside, through its CRO, does not have the authority to control the Mortgage Fund.

A notice of foreclosure in respect of the Family Tree Apartments was issued by the trustees of the Mortgage Fund on June 26, 2012. The notice provides that a public sale in respect of this property is to take place on Tuesday August 7, 2012 at 10:00am in Dallas, Texas (see **Appendix A** for a copy of the notice and the terms of sale).

A number of the Investors have expressed their concern to Rep Counsel that Mr. Phillips is involved in this transaction and Rep Counsel understands that the OSC has been made aware of Mr. Phillips involvement with the pending sale. We would encourage the Investors who are unitholders of the Mortgage Fund to become involved in any steps that are being taken to deal with the assets of the Mortgage Fund through its trustees or as an informal group. If you require any contact information in this regard, please contact us.

2. **The Canadian Investor Protection Fund ("CIPF")**

We have been advised by counsel to CIPF that the Investors can expect CIPF to confirm at the end of this week if it has agreed to extend the deadline for the Investors to file their CIPF claims. The current deadline is August 22, 2012. As soon as we receive notification from CIPF, we will immediately send out an email to all of the Investors. We appreciate that the Investors are particularly concerned about this upcoming deadline, and we continue to communicate the Investors' concerns to CIPF.

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

As 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 initially scheduled to be held on June 25, 2012, was adjourned to Tuesday August 28, 2012. Information regarding the OSC proceedings against Mr. Phillips and Mr. Wilson can also be found at the OSC website: http://www.osc.gov.on.ca.

4. **Upcoming Court Proceedings**

We understand that First Leaside intends to bring a motion to the Court on August 23, 2012 to seek various relief including advice and directions with respect to First Leaside's continued dealings with WALP and the Texas subsidiaries.

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

First Leasides's interest in the 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.

With respect to those Investors who hold an interest in the mortgage through mortgage participation ownership certificates (90 King Ste. E. MPOC 6%), the certificates continue to be held at Penson Financial Services Inc. ("**Penson**"). The underlying mortgage will remain in place until it is discharged by Provincial. We have been advised that FL Nominee Services Inc. ("**Nominee Services**") continues to collect the monthly interest payments on the mortgage and that payments are up to date. Arrangements have been made for the accumulated cash balance to be transferred by Nominees Services to Peoples Trust (the mortgage syndicate trustee), which will then transfer the funds to an account at Penson. Penson will then distribute the funds to the individual certificate holders' accounts. The process has been delayed because Penson needs IIROC's approval in order to distribute the funds. Penson has made a request seeking IIROC's approval and as soon as IIROC's approval is received, First Leaside will initiate the transfer to Peoples Trust.

6. **Investor Communications**

We understand that some Investors regularly contact the CRO directly. Although the CRO is glad to talk with Investors and makes every effort to promptly respond to Investors' questions, it is a challenge given the competing demands on his time. We appreciate that the Investors are looking for information about the decisions that are being made that affect their financial interests. However, we continue to encourage the Investors to direct those questions to Rep Counsel so that the CRO can focus his efforts on efficiently administering First Leaside's estate.

The Steering Committee has also asked Rep Counsel to remind the Investors that professional fees are incurred and will be paid from First Leaside's estate when the Investors communicate with any of the professionals that are involved in the CCAA proceedings, including Rep Counsel. Accordingly, to the extent Investors can wait until we provide general reports as circumstances warrant, this will allow us to communicate with Investors without incurring duplicative costs.

The above is intended to minimize ongoing costs, however, if there are any pressing concerns or if you have any questions, 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

## Notice of Foreclosure

SCHEEF & STONE, L.L.P.

*Legal counsel based on solid principles.*

June 26, 2012

F.L. Sedona Creek, Ltd.
430 Durham Rd. 8
Uxbridge, Ontario
Canada L9P1R1

*VIA Registered Mail*
*Return Receipt Requested*
*and VIA Regular Mail*

F.L. Sedona Creek, Ltd.
c/o Leaders Property Management
7798 Spring Valley Road
Dallas, Texas 75254

*VIA Registered Mail*
*Return Receipt Requested*
*and VIA Regular Mail*

F.L. Sedona Creek, Ltd.
15 Allstate Pkwy., Suite 600
Markham, Ontario
Canada L3R5B4

*VIA Registered Mail*
*Return Receipt Requested*
*and VIA Regular Mail*

Re: Promissory Note (" Note") dated August 1, 2010, in the original principal sum of Five Million and No/100 Canadian Dollars ($5,000,000.00), executed by F.L. Sedona Creek, Ltd., a Texas limited partnership (the "Borrower") and payable to the order of First Leaside Mortgage Fund ("Lender"); the Note is secured by certain real property (the "Property") known as being situated in the City of Dallas, Dallas County, Texas, as more particularly described on Exhibit "A" to that certain Deed of Trust ("Deed of Trust") dated August 1, 2010, executed by Borrower to John A. Wise, Trustee for the benefit of Lender and recorded under Document Number 201000210383 of the Real Property Records of Dallas County, Texas (the Note, Deed of Trust, and all other documents collateral or ancillary thereto and all amendments thereto are collectively be referred to in this letter as the "Loan Documents").

Gentlemen:

This firm represents First Leaside Mortgage Fund ("Lender"). This letter is written for, and on behalf of, Lender. For your information, many of the capitalized words and terms used below are defined in the reference caption above.

Please be advised that a default has occurred in the payment of the Note. Payments of accrued interest in the amount of $27,500.00 were due on November 29, 2011, December 29, 2011, January 29, 2012, February 29, 2012, March 29, 2012, April 29, 2012, and May 29, 2012 for a total amount past due of $192,500.00 (the "Past Due Amount"). Your failure to pay the Past Due Amount in accordance with the terms of the Note constitutes a default under the terms of the Loan Documents entitling Lender to, among other things, accelerate the maturity of the Note. Accordingly, Lender has elected to exercise its right to accelerate the maturity of the Note. Therefore, the entire outstanding principal balance of the Note, together with all accrued but unpaid interest thereon and any fees or costs incurred by Lender (the "Amount Due") is now fully due and payable. Demand is hereby made for the immediate payment of the Amount Due.

Lender has further elected to exercise the rights and remedies available to it for the enforcement and collection of the obligations evidenced by the Loan Documents, including, but not limited to, sale of the Property at a public auction to the highest bidder for cash. In the event the Property is not sold at foreclosure for an amount sufficient to satisfy the entire unpaid principal balance of the Note, together with accrued and unpaid interest, and such other expenses provided for by any of the Loan Documents, you may be liable for the deficiency.

Please find enclosed a copy of the Notice of Foreclosure Sale (the "Notice") which shall be posted in connection with the public sale of the Property. Such public sale, as authorized by the Deed of Trust, shall take place on **Tuesday, August 7, 2012**, **between the hours of 10:00A.M. and 1:00P.M.** at the place as more particularly described in the Notice, with the Property being sold to the highest bidder for cash.

Nothing contained in this letter nor any prior act of Lender shall be construed to amend or waive any of Lender's rights or remedies under the Loan Documents, or to constitute a waiver of any event of default which may exist under the Loan Documents. **Acceptance by Lender of partial payments shall not be construed as an acceptance in satisfaction of the defaults.** Lender expressly reserves all rights and remedies available to it under applicable law and under the Loan Documents.

**YOU ARE HEREBY ADVISED THAT THIS MATTER HAS BEEN PLACED IN THE HANDS OF THIS FIRM FOR COLLECTION AND THAT ANY INFORMATION OBTAINED IN CONNECTION THEREWITH SHALL BE USED FOR THAT PURPOSE. THIS FIRM REPRESENTS FIRST LEASIDE MORTGAGE FUND AND THIS LETTER IS WRITTEN ON ITS BEHALF.**

Sincerely,

**SCHEEF & STONE, L.L.P.**

By: ______________________
C. John Scheef III

# NOTICE OF FORECLOSURE SALE

Notice is hereby given of a public non-judicial foreclosure sale.

1. Property To Be Sold. The property to be sold is described as follows:

   All property (real, personal or otherwise) described in the Deed of Trust, including, but not limited to, **the real property situated in the City of Dallas, Dallas County, Texas, as more particularly described on Exhibit "A" attached hereto and made a part hereof,** together with the rights, appurtenances and improvements thereto and certain other personal property as more particularly described in the Deed of Trust referenced herein (the "Property").

2. Date, Time, and Place of Sale. The sale is scheduled to be held at the following date, time, and place:

Date: **Tuesday, August 7, 2012**

Time: The sale shall begin no earlier than **10:00 A.M.** or no later than three hours thereafter. The sale shall be completed by no later than **1:00 P.M.**

Place: **The area outside on the north side of the George Allen Courts Building facing Commerce Street below the overhang. The George Allen Courts Building is located at 600 Commerce Street, Dallas, Texas 75202.**

The trustee appointed by beneficiary to conduct the sale has been authorized by the beneficiary to postpone, withdraw, or reschedule the sale for another day if directed by beneficiary. In that case, the trustee or substitute trustee under the Deed of Trust need not appear at the date, time, and place of a scheduled sale to announce the postponement, withdrawal, or rescheduling. Notice of the date of any rescheduled foreclosure sale will be reposted and refiled in accordance with the posting and filing requirements of the Texas Property Code. Such reposting or refiling may be after the date originally scheduled for this sale.

3. Terms of Sale. The sale will be conducted as a public auction to the highest bidder for cash, subject to the provisions of the Deed of Trust. The beneficiary thereunder intends to bid at the sale and any such bid made on behalf of beneficiary shall be in the form of a credit owed against the amounts secured by the Deed of Trust at the time of sale.

Those desiring to purchase the Property will need to demonstrate their ability to pay cash on the day the Property is sold.

The sale will be made expressly subject to any title matters of record or as set forth in the Deed of Trust, but prospective bidders are reminded that by law the sale will necessarily be made subject to all prior matters of record affecting the Property, if any, to the extent that they remain in force and effect and have not been subordinated to the Deed of Trust. Prospective bidders are strongly urged to examine the applicable property records to determine the nature and extent of such matters, if any.

4. Type of Sale. The sale is a nonjudicial deed of trust lien and security interest foreclosure sale being conducted pursuant to the power of sale granted by the Deed of Trust executed by F.L. Sedona Creek, Ltd., a Texas limited partnership (the "Borrower"), to John A. Wise, Trustee for the benefit of First Leaside Mortgage Fund (the "Lender") dated August 1, 2010 and recorded under Document Number 201000210383 of the Real Property Records of Dallas County, Texas (the "Deed of Trust").

5. Obligations Secured. The Deed of Trust provides that it secures the payment of the indebtedness and obligations therein described (collectively the "Obligations") including but not limited to the Promissory Note (the "Note") in the original principal amount of Five Million and No/100 Canadian Dollars ($5,000,000.00) executed by Borrower, and payable to the order of Lender, and all renewals, modifications and extensions of the Note. First Leaside Mortgage Fund is the current owner and holder of the Note and the Obligations and is the beneficiary under the Deed of Trust.

Questions concerning the sale may be directed to the undersigned or to the beneficiary:

First Leaside Mortgage Fund
Attn: David Phillips
430 Durham Rd. 8
Uxbridge, Ontario
Canada L9P1R1

6. Default and Request To Act. Default has occurred under the Deed of Trust, and the beneficiary has requested me, as Substitute Trustee, to conduct this sale. Notice is given that before the sale the beneficiary may appoint another person as substitute trustee to conduct the sale.

DATED June 26, 2012.

Heather Legato-Kay
Heather Legato-Kay, Substitute Trustee
2601 Network Blvd., Suite 102
Frisco, Texas 75034
Telephone: (214) 472-2100

STATE OF TEXAS §
§
COUNTY OF COLLIN §

The foregoing instrument was acknowledged before me by Heather Legato-Kay, Substitute Trustee, on the 26th day of June, 2012.

JENNY L. YAGER
NOTARY PUBLIC
STATE OF TEXAS
EXPIRES
AUGUST 25, 2015

Jenny L. Yager
Notary Public, State of Texas

Exhibit A

BEING a tract of land out of the J.G. Jackson Survey, Abstract No. 707 and being all of City of Dallas Block C/8100 of Highland Oaks Addition as recorded in Volume 78168, Page 0451 of the Plat Records of Dallas County, Texas said tract being more particularly described as follows:

BEGINNING at a 5/8" iron rod found for a corner in the north right-of-way line of Whitehurst Drive (64 feet wide) said point being westerly 1048.21 feet, along the said northerly line of Whitehurst Drive, from the westerly right-of-way line of Skillman Street (a variable width), said iron rod being in a circular curve to the left having a radius of 552.56 feet;

THENCE Westerly, with above said circular curve to the left and along the above said north line of Whitehurst Drive, thru a central angle of 7 degrees 25 minutes 52 seconds, an arc distance of 71.67 feet with a chord bearing of N 85 degrees 55 minutes 34 seconds W, to a 5/8" iron rod set for the point of tangency;

THENCE N 89 degrees 38 minutes 30 seconds W, continuing along the above said north line of Whitehurst Drive, 467.81 feet to 5/8" iron rod found for the beginning of a circular curve to the right having a radius of 445.50 feet;

THENCE Northwesterly, with above said circular curve to the right and along the above said north line of Whitehurst Drive, thru a central angle of 54 degrees 10 minutes 14 seconds an arc distance of 421.20 feet to a 5/8" iron rod found for the point of tangency;

THENCE N 35 degrees 28 minutes 16 seconds W, continuing along the north line of Whitehurst Drive 82.06 feet to a point for a corner in Audelia Branch;

THENCE the following courses and distances along Audelia Branch:

N 74 degrees 20 minutes 30 seconds E, 95.99 feet;

N 32 degrees 13 minutes 16 seconds E, 90.00 feet;

S 77 degrees 43 minutes 25 seconds E, 202.00 feet;

N 43 degrees 06 minutes 12 seconds E, 118.00 feet;

S 88 degrees 21 minutes 04 seconds E, 158.50 feet;

N 64 degrees 14 minutes 37 seconds E, 41.50 feet;

N 40 degrees 53 minutes 39 seconds E, 44.00 feet;

N 19 degrees 07 minutes 43 seconds E, 36.50 feet;

N 1 degrees 20 minutes 36 seconds E, 94.00 feet;

N 47 degrees 04 minutes 51 seconds E, 39.00 feet;

N 0 degrees 00 minutes 10 seconds E, 70.00 feet to a point for a corner;

Exhibit A (Continued)

THENCE S 53 degrees 10 minutes 39 seconds E, 338.99 feet to a 5/8 iron rod found for a corner;

THENCE S 1 degrees 14 minutes 00 seconds W, 475.76 feet to the POINT OF BEGINNING and CONTAINING 370,737 square feet or 8.5109 acres of land.