# TAB 09

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# Confidential Report of Consultant – Financial Review

First Leaside Group of Companies
August 19, 2011



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# Contents





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Attention: Ellen Bessner

August 19, 2011

Dear Ms. Bessner :

Grant Thornton Limited ("GTL") was engaged as Consultant to Cassels Brock & Blackwell LLP ("Cassels Brock") for the purpose of reviewing, reporting and making recommendations on the business, assets, affairs and operations of the First Leaside Group of Companies (the "FL Group" or "Company").

**Sources of information**

The information contained in this Report is based primarily on:

- Company prepared financial statements;
- Company prepared forecasts for the various Limited Partnerships and business ventures for the fiscal years ended December 31 2011 to 2013;
- 2007 – 2008 Audited Financial Statements for Wimberly Apartments Limited Partnership ("WALP") from KPMG;
- 2009 – 2010 Draft audited Financial Statements for WALP from KPMG;
- Company prepared Organizational Charts;
- Offering Memorandums for the various Limited Partnerships;
- Minutes of meetings of Boards of Directors;
- Company prepared marketing materials for the various Limited Partnerships;
- Draft Appraisals from CBRE dated January 1, 2011;
- Draft Retrospective Appraisals and Summaries as at January 1, 2010 and October 1, 2010 from Joseph J. Blake and Associates Inc. dated March 17th 2011 and June 29, 2011 respectively;
- Solicitor's Closing Documents with respect to the purchases of recent real estate transactions for the Company;
- Mortgage statements from various financial institutions in relation to the Company's real estate holdings;
- Management prepared situation analyses;
- Discussions with David Phillips, President and CEO, and Joanna Hampton, Director of Finance, of the Company;
- Discussions and meetings with Larry Toste and Tom Rothfischer, partners of KPMG;
- Interview of Tony Lenamon, Director of CBRE, Texas Office.

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## Scope of work and limitations

Our work focused on the areas set out in our engagement letter, which is reproduced at Appendix A of this report. Our review of the affairs of the Company does not constitute an audit in accordance with Generally Accepted Auditing Standards and no verification work has been carried out by us, consequently we do not express an opinion on the figures included in the Report.

The scope of our work has been limited both in terms of the areas of the business and operations which we have reviewed and the extent to which we have reviewed them. There may be matters, other than those noted in this Report, which a wider scope review might uncover.

## Forecasts

The responsibility for the FL Group's forecasts and the assumptions on which they are based is solely that of the Company. It must be emphasized that profit and cash flow forecasts necessarily depend on subjective judgment. They are, to a greater or lesser extent, according to the nature of the businesses and the period covered by the forecasts, subject to inherent uncertainties.

In consequence, they are not capable of being audited or substantiated in the same way as financial statements which present the results of completed accounting periods.

## Forms of Report

For your convenience, this Report may have been made available to you in electronic as well as hard copy format, multiple copies and versions of this report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

## Confidentiality

This Report is confidential and has been prepared for Cassels Brock & Blackwell LLP. It should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent, such consent will only be given after full consideration of the circumstances at the time.

## General

The Report is issued on the understanding that the management of the Company have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report up to the date of signature of this Report. Events and circumstances occurring after the date of our Report will, in due course, render our Report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date Report. Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

## Contacts

If there are any matters upon which you require clarification or further information please contact Jonathan Krieger at (416) 360-5055,Tim Oldfield at (416) 360-5004 or Brent Jackson at (416) 360-3067.

Sincerely,

**Grant Thornton Limited**

Jonathan Krieger, CA•CIRP    Tim Oldfield, CA•CBV, CFA

# Glossary

| | |
|---|---|
| ACB | Adjusted Cost Base |
| Acquisitions | First Leaside Acquisitions Limited Partnership |
| AGM | Annual General Meeting |
| AUA | Assets Under Administration |
| AUM | Assets Under Management |
| Base Model | Compilation of Management's Projections |
| Beverages | First Leaside Beverages Limited Partnership |
| Blakes | Joseph J. Blake & Associates, Inc. |
| Board | Board of Directors |
| Capex | Capital Expenditure |
| CBRE | CB Richard Ellis |
| CCGG | Canadian Coalition for Good Governance |
| Development Notes | Development Notes Limited Partnership |
| Elite | First Leaside Elite Limited Partnership |
| EMD | Exempt Market Dealer |
| Entities | First Leaside Entities Limited Partnership |
| FL Group or Company | First Leaside Group of Companies |
| FL Fund | First Leaside Fund |
| FL Finance | First Leaside Finance Inc. |
| FL Properties Fund | First Leaside Properties Fund |
| FL Retirement | First Leaside Retirement Residences Limited Partnership |
| FLEX | First Leaside Expansion Limited Partnership |
| FLWM | First Leaside Wealth Management Inc. |
| FLWM Fund | First Leaside Wealth Management Fund |
| FLWM Holdings | First Leaside Wealth Management Holdings Inc. |
| FMV | Fair Market Value |
| Global | First Leaside Global Limited Partnership |
| Growth | First Leaside Growth Limited Partnership |
| GTL | Grant Thornton Limited |
| Harmony | Harmony Townhome Limited Partnership |
| IIROC | Investment Industry Regulatory Organization of Canada |
| Investors | First Leaside Investors Limited Partnership |
| IRR | Internal Rate of Return |
| K | Thousand |
| LEED | Leadership in Energy and Environmental Design |



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# Glossary – cont'd

| | |
|---|---|
| Levers | Management Levers |
| LP | Limited Partnership |
| M | Million |
| Master Sherman | Master Sherman Limited Partnership |
| Master Texas | Master Texas Limited Partnership |
| Mill | Mill Street Limited Partnership |
| Mortgages | First Leaside Mortgage Trust |
| NBV | Net Book Value |
| NOI | Net Operating Income |
| OM | Offering Memorandum |
| Penson | Penson Financial Services Canada Inc. |
| Premier | First Leaside Premier Limited Partnership |
| Progressive | First Leaside Progressive Limited Partnership |
| QM | Queenston Manor Limited Partnership |
| Realty I | First Leaside Realty I Limited Partnerships |
| Realty II | First Leaside Realty II Limited Partnerships |
| Rehab | Rehabilitation |
| RP | Related Party |
| RRB | Real Return Bonds |
| Sedona | FL Sedona Creek Ltd. |
| Select | First Leaside Select Limited Partnership |
| Spring Valley | First Leaside Spring Valley Limited Partnership |
| Ultimate | First Leaside Ultimate Limited Partnership |
| Unity | First Leaside Unity Limited Partnership |
| Universal | First Leaside Universal Limited Partnership |
| Ventures | First Leaside Ventures Limited Partnership |
| Visions I | First Leaside Visions I Limited Partnership |
| Visions II | First Leaside Visions II Limited Partnership |
| Wimberly Fund | Wimberly Fund |
| WALP | Wimberly Apartments Limited Partnership |



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# Section 1

# Executive Summary





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# Executive Summary

- The FL Group advises that it raises debt and equity, and seeks investments with the objective of providing its investors with consistent monthly distributions, potential capital appreciation, and in the case of equity investments, potential tax deductions.
- In addition to the investment opportunities, the Company offers its investors wealth management, estate planning, insurance, accounting and tax services through a number of different entities.
- The FL Group offers a variety of investment opportunities, including:
  - Full brokerage and financial planning services administered by Penson Financial Services Canada Inc.; and,
  - Higher risk securities with debt and equity offerings invested directly or indirectly within the FL Group.
- The FL Group offers four types of products, namely:
  - Limited Partnership units;
  - Trust units;
  - Mortgages; and,
  - Corporate preferred shares.
- To date, the LPs and other instruments within the FL Group collectively have allowed investors to place their capital, directly or indirectly, in the following types of assets:
  - Multi-unit residential properties in Canada & the United States;
  - Retirement homes in the Provinces of Ontario and British Columbia;
  - Raw land with development potential throughout Southern Ontario;
  - Four small, independent accounting firms in Western Canada;
  - A cidery and brewery in Southern Ontario, as well as a liquor consulting business; and,
  - High Tech companies in their infancy stage which are eligible to receive government grants.
- The FL Group manages 19 LPs/companies, and of these, there are 6 currently open for investment.
- We are advised by Management that FL Group's clients are primarily looking for tax efficient investments and predictable distribution payments. In order to meet the investment objectives of its investors, Management advises that they pursue properties that require significant tax deductible expenditures at the initial stage. Management advises that they identify properties which they believe will have distinct upside (through both capex and market appreciation) in the future.
- As a result of buying a property and going through a rehab program, the assets generally decline in value (due to lower occupancy) in the first few years and should increase in value once the rehab is complete. Therefore, it is often common for the calculated equity value in a property to be less than the total equity raised (particularly once certain acquisition fees are charged at the outset).
- The challenges that the FL Group has experienced with some of their properties in relation to this model have been as follows:
  - Many properties held by the various LPs have not achieved their forecasted operating income levels;
  - Capital rehab costs have been higher than forecasted;
  - The real estate market has not grown at 5%; and,
  - From 2007 through 2009 the market declined as a result of a global recession.

# Executive Summary – cont'd

- There are significant interrelationships between the entities in the FL Group which results in a complex corporate structure. Further, within the FL Group, there are several LPs that own units in other LPs. FLWM is the de facto parent entity within the FL Group and earns a significant amount of its revenue by charging fees on new capital raises and administration fees within the FL Group. Certain LPs, particularly WALP, has been a drain on the resources in the FL Group, as a result of recurring operating losses and property rehabilitation costs. Significant funds have been loaned between entities in the FL Group through FL Finance on commercial terms, which allowed the Company to perpetually operate as a going concern, as it has generally had access to capital to meet cash flow shortfalls, albeit using new investor money in some cases.
- FL Finance has borrowed $27.9M from within the FL Group, lent $10.2M to other LPs, and acquired $11.7M in LP units (through repurchases from investors). Over 80% of the units FL Finance owns are in WALP, which is currently undergoing a rehab for several of its properties. Given the current stage of the rehab cycle, Management believes it would be imprudent to sell the WALP assets at this time as they will not attract a high enough price in the market.
- Management has advised that it is operating on the basis that over time (beyond 2013) it is anticipated that increased profitability in the LPs and the potential to refinance mortgages will allow for significant repayments to FL Finance in respect of the intercompany loans. This is beyond the scope of our report as the actions to support this extend to 2014 and beyond.
- Management had not prepared a cash flow model/forecast that captured all of the different companies and LPs within the FL Group.
- Since there are significant interfund/intercompany transactions (through FL Finance), we believed that it was necessary to integrate each of the companies/LPs into the same working model for the following reasons:
  - Provides a better understanding of each of the LPs/companies and how money moves between them;
  - Identifies whether the Company has sufficient cash flow as a whole to carry on its operations in the ordinary course based on its own projections;
  - Helps evaluate the assumptions and the forecasts prepared by Management;
  - Creates the ability to sensitize the Model and evaluate the impact of any changes on the entire FL Group;
  - Helps Management evaluate the impact of certain operational decisions on the cash flows of the business; and
  - Creates a clearer view as to the Asset Valuation of the FL Group and each individual fund.
- Management's forecasts for each LP were consolidated and compiled into an integrated model, referred to as the Base Model. If Management is able to achieve the results set out in its' Base Model for the period of 2011 to 2013, it projects that it should be able to meet its obligations for rehab expenses, operating expenses and distributions, as they come due. The Base Model does not provide for payment of intercompany/fund obligations which exist between the various LPs (through FL Finance).
- One key assumption in the Base Model, is that Management and certain significant investors in the FL Group intend to advance by way of unsecured subordinated debentures, or similar instrument, the amount of $5M in 2011, with restricted repayment terms and no cash payments during the term, in order to shore up a portion of the recurring WALP cash flow deficiency. The investment of Management's personal resources on a subordinated basis would demonstrate their support for their Base Model and projections for the period of 2011 to 2013 as well as an ongoing commitment to the Company.



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# Executive Summary – cont'd

- Below is a summary table identifying Management's projected cash flow in the various entities under the Base Model.

| Ending cash flows | 2011 | 2012 | 2013 |
|---|---|---|---|
| FLWM | $ 10,270,484 | $ 1,913,591 | $ 1,300,459 |
| FLEX | - | - | 2,640,914 |
| WALP | (756,044) | (4,559,372) | (479,526) |
| Realty | 70,538 | 20,884 | 20,884 |
| Acquisitions | (155,944) | (121,818) | (121,818) |
| Investors | (57,607) | (528,284) | (365,065) |
| Progressive | (478,346) | (408,474) | 178,715 |
| Universal | (635,070) | (152,052) | (75,390) |
| Venture | - | - | - |
| FLWM Holdings | (1,580,328) | 194,384 | 938,169 |
| Spring Valley | (100,070) | (240,121) | (240,121) |
| Select | (217,689) | (136,160) | (136,160) |
| Elite | (277,846) | (123,980) | (123,980) |
| Global | (0) | (144,570) | (98,416) |
| Premier | (188,567) | (228,940) | (62,108) |
| Ultimate | 766,184 | (138,186) | (138,186) |
| Visions | 858,735 | (108,939) | (108,939) |
| Mortgage Fund | 2,557,036 | (99,735) | (99,735) |
| | $ 10,075,464 | $ (4,861,772) | $ 3,029,698 |

- The Base Model was sensitized as the projections were not fully supported by the information presented, nor historical trends. Once the Base Model was sensitized, the FL Group has a cash flow deficiency of approximately $15.9M over the three year period of 2011 to 2013.
- Below is a summary table identifying the Base Model as modified to reflect the impact of the sensitivities:

| | Sensitivity Adjustments | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| 1 | FLWM raises 10% less Real Estate capital than projected in each year of the forecast | $ (948,378) | $ (1,186,404) | $ (1,461,120) |
| 2 | Management takes 6 months to find LP investments, while the idle invested capital earns 3% returns and pays 6% distributions | (276,891) | (981,482) | (1,247,280) |
| 3 | Adjust WALP's projections to agree to projections based on CBRE's draft appraisal. Remove Master Sherman Capital rehab. | 522,528 | (2,561,946) | (4,684,577) |
| 4 | Beverages generates a $60K cash deficit each year. | 1,464,036 | (873,960) | (4,016,847) |
| 5 | Elimination of overlap in the Sensitivities | 95,635 | 119,637 | 147,340 |
| | **Impact of Sensitivities on Ending Cashflow** | **$ 856,930** | **$ (5,484,155)** | **$ (11,262,483)** |
| | **Impact of Sensitivities on Acc. Cash Balance** | **$ 856,930** | **$ (4,627,226)** | **$ (15,889,709)** |

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Base Model Ending Cashflows | $ 10,075,464 | $ (4,861,772) | $ 3,029,698 |
| Sensitivity Adjustments | 856,930 | (5,484,155) | (11,262,483) |
| **Ending Cashflows** | **$ 10,932,393** | **$ (10,345,927)** | **$ (8,232,785)** |
| **Acc. Cash balance** | **$ 10,932,393** | **$ 586,466** | **$ (7,646,319)** |

# Executive Summary – cont'd

- Management has identified certain its Management Levers which it believes it can implement to ensure that the FL Group's obligations can be met and allow their Assumptions to still stand, while in their view having little impact on their ordinary course operations and capital raising efforts going forward. Once the Base Model was sensitized, and all of the Levers are applied, the Company forecasts that it should still be able to satisfy its obligations (aside from intercompany loans).
- Adjacent is a summary table identifying the Base Model as modified to reflect the impact of the sensitivities and as further modified to reflect the implementation of Management's Levers:

| | Management Levers | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| 1 | Reduce the projected bonuses by approximately 90% for Management and 65% for Staff | $ 2,231,250 | $ 2,550,000 | $ 2,550,000 |
| 2 | Lease two floors of the new Victoria St office building development to a third party | - | 332,307 | 996,921 |
| 3 | Starting in 2012, 100% of the distributions on units held by all Board and Trustee members will be reinvested | - | 1,902,578 | 2,387,349 |
| 4 | Reduce distributions on all equity and debt in the FL Group by 1.25%, starting in 2012 | - | 2,057,068 | 2,503,302 |
| 5 | Elimination of overlap in 3rd and 4th levers | - | (366,456) | (457,260) |
| | **Impact of Levers on Ending Cashflow** | **$ 2,231,250** | **$ 6,475,497** | **$ 7,980,313** |
| | **Impact of Levers on Acc. Cash Balance** | **$ 2,231,250** | **$ 8,706,747** | **$ 16,687,059** |

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Base Model Ending Cashflows | $ 10,075,464 | $ (4,861,772) | $ 3,029,698 |
| Sensitivity Adjustments | 856,930 | (5,484,155) | (11,262,483) |
| Management Levers | $ 2,231,250 | $ 6,475,497 | $ 7,980,313 |
| Elimination of overlap due to implementation of Sensitivities and Levers | $ 75,554 | $ 347,357 | $ 455,466 |
| **Ending Cashflows** | **$ 13,239,198** | **$ (3,523,073)** | **$ 202,993** |
| **Acc. Cash balance** | **$ 13,239,198** | **$ 9,716,124** | **$ 9,919,118** |

# Executive Summary – cont'd

- We have prepared the Asset Valuation of the FL Group, using the highest third party valuation figures available for the WALP properties. In this regard, we have calculated an aggregate equity surplus (represented as asset FMV, less third party mortgages and investor debt) of approximately $67M, while there is raised equity in the FL Group of approximately $200M. In this regard, there is a significant equity deficit based on the Asset Valuation. However, the invested equity of $200M does not take into account the grind down of investor's Adjusted Cost Base through return of capital, nor does it include imputed tax benefits the investor receives on their investment. We have shared with Management our Asset Valuation in the Report, and they disagreed with the analysis. As set out in the Report, Management has provided us with details of FMV adjustments which they believe are appropriate, which contemplates that equity investors are almost whole. We have not been able to support much of Management's FMV adjustments based on the information presented but we have disclosed same in the Report as a comparative.
- The future viability of the FL Group is contingent on their ability to raise new capital. One of the largest sources of revenue in the FL Group is the fees it generates in FLWM on the raising of new capital. If the FL Group was restricted from raising new capital, it would likely be unable to continue its operations in the ordinary course, as it would have insufficient revenue to support its infrastructure, staffing costs, distributions, and to meet their funding requirements for existing projects.
- The Company has had challenges in the area of financial reporting. Our mandate took in excess of six months, largely because much of the information we required for our mandate had to be prepared from scratch by Ms. Hampton. The Company advises that it is taking steps to enhance its accounting resources and financial reporting function in short order.
- The Company is in the early stages of implementing enhanced corporate governance, and recent Minutes of Board meetings reflects some progress being made. However, we note that there is little apparent allocation of responsibilities at the executive level, in that David Phillips has active hands on management of all facets of the FL Group.
- If the FL Group is able to achieve the Base Model, or implement sufficient Levers to offset any sensitivities, there should be minimal further erosion to existing investor's equity going forward, and greater investor value may be created as the rehabilitation projects are completed. There are certain qualifications to this, including economic factors beyond the Company's control.
- We recommend as follows:
  - Management should take steps to improve its accounting capacity and financial systems, so that it can better accommodate its financial reporting requirements, budgeting process, external auditor liaising, and investor communications;
  - The FL Group should ensure that there are financial statements available for every entity which hold investor's money. In addition to the entities currently subject to audit, the FL Group should obtain audits of the FLWM and FL Finance financial statements, to enhance the integrity of its financial reporting. They should further ensure that better reporting and disclosure be made to investors;
  - Management should continue with the exercise of maintaining an integrated model, so that it can better prepare and modify projections, identify cash flow requirements and understand the interrelation and impact between the various LPs/companies in the FL Group;
  - Notwithstanding demonstrable steps that the FL Group is improving its governance in the past 12 months, the Board should better document its governance policies and procedures, and establish better governance protocols. Further, Management should consider a division of responsibilities as it relates to the executive function, so that there are greater checks and balances in the organization;

# Executive Summary – cont'd

- Management should take immediate steps to ensure its investment strategy and business activities align with the projections and assumptions it has set out in the Base Model, and consider having strict Board oversight and/or a third party monitoring program in place to supervise its implementation and the results therefrom on a timely basis; and
- Should Management not achieve its Base Model, it should ensure it is sufficiently agile to implement appropriate Levers as it has identified to protect investor's interests going forward.



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# Section 2

## Company Overview





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# First Leaside Group of Companies

**Overview**

- The First Leaside Group of Companies ("FL Group" or the "Company") was founded in the late 1980s by David Phillips. The FL Group offers a variety of investment opportunities, including:
  - Full brokerage and financial planning services administered by Penson Financial Services Canada Inc. ("Penson");
  - Higher risk securities with debt and equity offerings invested directly or indirectly within the FL Group.
- The Company offers four types of products, namely:
  - Limited Partnership ("LP") units;
  - Trust units;
  - Mortgages; and,
  - Corporate preferred shares.
- In this Report, all references to investments and transfers refers to LPs, unless otherwise indicated.
- The Company advises that it raises debt and equity, while seeking investments with the objective of providing its unit owners with consistent monthly distributions, potential capital appreciation and in the case of equity investments, potential tax deductions.
- In addition to the investment opportunities, the Company offers its investors wealth management, estate planning, insurance, accounting and tax services through a number of different entities.
- Within the de facto parent company First Leaside Wealth Management Inc. ("FLWM") there are seven operating entities. First Leaside Securities Inc., is a member of the Canadian Investment Protection Fund, and is a member of the Investment Industry Regulatory Organization of Canada ("IIROC"). F.L. Securities Inc. is an exempt market dealer ("EMD").
- In August 2010, First Leaside Insurance Inc. obtained its license as a Registered Life Insurance Agency in the Province of Ontario which was issued by the Office of the Superintendent of Financial Institutions Canada.
- To date, the LPs and other instruments within the FL Group collectively have allowed investors to place their capital, directly or indirectly, in the following types of assets:
  - Multi-unit residential properties in Canada & the United States;
  - Retirement homes in the Provinces of Ontario and British Columbia;
  - Raw land with development potential throughout Southern Ontario;
  - Four small, independent accounting firms in Western Canada;
  - A cidery and brewery in Southern Ontario, as well as a liquor consulting business; and,
  - High Tech companies in their infancy stage which are eligible to receive government grants.
- The majority of the investments have distribution rates which range from 4% to 10% and are typically paid out to investors on a monthly basis.
- Most LP units are initially priced at $1 / unit.

# First Leaside Group of Companies – cont'd

**Overview cont'd**

- The FL Group manages 19 LPs/companies. As at June 30, 2011, there are six LPs/companies that are open and eligible to raise capital. Details of open and closed fund are as follows:

| Open | Closed |
| --- | --- |
| – FLWM (Pref shares and Debt) | – Realty |
| – FLEX (Equity and Debt) | – Acquisitions |
| – WALP (Equity and Debt) | – Investors |
| – Global | – Progressive |
| – Venture | – Universal |
| – Mortgages Fund (Debt) | – FLWM Holdings |
| | – Spring Valley |
| | – Select |
| | – Elite |
| | – Premier |
| | – Ultimate |
| | – Visions I and Visions II |

- For a further explanation of each of the above LPs and the interaction between each of them, please refer to Section 3 of the Report. For more detailed information on each LP's holdings, please refer to Appendix C.
- Over a five year investment horizon, Management anticipates generating a total return on investment on LPs of between 12% to 15% (including tax write-offs, monthly distributions and capital appreciation).

# Investor Characteristics

### Investor base

- There are approximately 1000 investors within the FL Group. The majority of the investors (over 90%), are accredited investors with liquid assets (not including real estate) in excess of $1 million.
- Most investors are middle aged and older and are in the highest tax bracket for personal income taxes. These investors are primarily motivated in investing in tax efficient instruments which can reduce their personal income taxes, with the benefit of earning a reasonable yield.
- The investors are primarily from Southern Ontario. We are advised by Management that the FL Group intends to expand its operations into Edmonton, Calgary and Vancouver (but not until 2012).
- As at June 30, 2011, FL Group had approximately $370M of assets under management ("AUM"). Management considers the capital raised to be split amongst those associated with real estate (the "Real Estate Assets") (i.e. requiring management services) and those associated with non-Real Estate Assets (the "Admin Assets") (i.e. the assets traded with Penson and any securities not requiring management services).
- The majority of their investors have multiple investments within the FL Group, with 797 investors invested in the Admin Assets and 740 investors invested in the Real Estate Assets.
- FL Group requires minimum investment limits of $25K per investment for accredited investors and $150K per investment for non-accredited investors.
- As at June 30, 2011, the average investment per investor in Real Estate Assets is approximately $290K and $190K per investor in Admin Assets.

- The following table summarizes the total capital raised, as at June 30, 2011:

| | Real Estate | Admin | Total |
|---|---|---|---|
| Penson | $ - | $ 86,254,382 | $ 86,254,382 |
| Equity | 128,115,417 | 36,823,995 | 164,939,412 |
| Debt | 87,028,301 | 29,797,956 | 116,826,257 |
| | **$ 215,143,718** | **$ 152,876,333** | **$ 368,020,051** |
| *Penson* | *0.0%* | *56.4%* | *23.4%* |
| *Equity* | *59.5%* | *24.1%* | *44.8%* |
| *Debt* | *40.5%* | *19.5%* | *31.7%* |

### FLWM reporting system

- We have been advised by Management that once an investor invests with the FL Group they are provided an account number and private access to the FLWM reporting system online. The system tracks each investor's individual investments, including their calculated return, the tax benefits/deductions and monthly distributions they have received.
- The system also tracks the value of their investment. In assessing the unit value of each LP/Fund, the system uses the most recent transaction for each unit but it is not a perpetual recalculation of the actual unit value.
- There is a limited secondary market for the LP units and the majority of transactions are between investors looking to sell and FLWM.
- To date, the transactions are generally smaller in size and FLWM has, in many cases, purchased the units at their original price (typically $1/unit) regardless of where the LP is in its investment cycle.
- FLWM's repurchase of units at the original price may be higher than the underlying value of the investment (especially if the property is still within the early stages of its investment cycle). Management explained to us that they perform their own assessment of value in each instance to support the repurchase prices of investments.



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# First Leaside Investment Model

## Investment Model

- We are advised by Management that FL Group's clients are primarily looking for tax efficient investments and predictable distribution payments, while capital appreciation is seen as a secondary investment objective. Management also targets a total ROI of between 12% to 15% and forecasts that investors will begin realizing on their capital appreciation within 5 years (the "Investment Model").
- In order to meet these investment objectives, Management advises that they pursue properties that require significant tax deductible expenditures at the initial stage. Management advises that they identify properties which they believe will have distinct upside (through both capex and market appreciation) in the future.

| In thousands of $ | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **PROPERTY FINANCIAL HIGHLIGHTS** | | | | | |
| **Operating cash flows** | | | | | |
| FLWM fees (17.5% of equity raised) | $ (750) | $ - | $ - | $ - | $ - |
| FLWM Mgmt fees (2% of revenues) | (22) | (26) | (30) | (34) | (35) |
| FLWM Admin fees | (55) | (55) | (55) | (55) | (55) |
| Net operating income | 544 | 647 | 759 | 839 | 881 |
| Capital Rehab Program | (500) | (300) | (200) | | |
| Interest expense (at 5.25%) | (418) | (414) | (409) | (404) | (399) |
| **Property Income/(Loss)** | (1,201) | (147) | 65 | 347 | 392 |
| **Cashflow statement** | | | | | |
| Beginning Cash flows | - | 747 | 256 | (27) | (34) |
| Equity raised | 4,287 | - | - | - | - |
| Debt raised | 8,000 | - | - | - | - |
| Property acquisition | (10,000) | - | - | - | - |
| Property Income/(Loss) | (1,201) | (147) | 65 | 347 | 392 |
| Mortgage Principal | (82) | (86) | (91) | (96) | (101) |
| Distribution | (257) | (257) | (257) | (257) | (257) |
| Ending cashflows | 747 | 256 | (27) | (34) | (0) |
| **Property valuation** | | | | | |
| Property | 10,000 | 8,500 | 9,650 | 11,156 | 12,134 |
| Capital Rehab Program | 500 | 300 | 200 | - | - |
| Drop in value (during rehab) | (2,500) | 425 | 824 | 420 | 21 |
| Appreciation growth (at 5%/year) | 500 | 425 | 483 | 558 | 607 |
| | $ 8,500 | $ 9,650 | $ 11,156 | $ 12,134 | $ 12,762 |

- The adjacent table is an illustration that summarizes the expected operating cash flows, a cash flow statement and the anticipated Property appraisals for a $10M property acquisition (with a 7.25% cap rate) under the FL Group's Investment Model:
- In this illustration, the total capital required in acquiring a $10M property is approximately $8M in conventional debt financing and $4.29M in equity financing.
- The required equity financing is calculated as follows:
  - Equity portion of the property cost: $2M
  - Operating cash shortfall: $1.2M in Year 1 and $147K in Year 2
  - Distributions not funded by the Property income: $257K in each of years 1 and 2 and $192K in year 3.
  - Mortgage principal payments not funded by the property income: $82K, $86K, $91K and $6K in Years 1 through 4.

## Assumptions to Investment Model

- The parameters used by Management in this illustration will vary between each transaction, but for the most part, are expected to be close to the following:
  - FLWM charges transaction fees of approximately 17.5% of total equity raised, property management fees of 2% of net revenues and approximately $55K/year for accounting and other admin fees;
  - The beginning NOI is calculated by applying the 7.25% cap rate to the acquisition price. As the building begins its rehab, the occupancy rate and net rent charged suffer and the NOI drops when compared to the projected NOI without the rehab. As the rehab progresses, the NOI increases to reflect higher occupancy and higher rental rates, (taking into consideration the additional NOI generated from having a more up to date property). In this illustration it is assumed that the NOI will drop 25% in Year 1, 15% in Year 2, 5% in Year 3 and will Stabilize for Year 4 (once the rehab is complete);



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# First Leaside Investment Model – cont'd

### Assumptions to Investment Model cont'd

- Rehab costs are typically around 10% of the total cost of the property, with approximately 50% spent in Year 1, 30% in Year 2 and 20% in Year 3;
- Loan to property value is 80%, with an interest rate of 5.25% and an amortization period of 35 years;
- Monthly distribution rate of 6%;
- The property value falls immediately in the first year of rehab as the occupancy rate and rental rate goes down. As the rehab progresses, the NOI is expected to rebound and so too should the property value.
- The market is expected to grow each year by approximately 5%.

### Property Investment Cycle

- As a result of buying a property (and the fees associated thereto) and going through a rehab program, the assets generally decline in value (lower occupancy) in the first few years and increase in value once the rehab is complete. Therefore, it is often common for the calculated equity value in a property to be less than the total equity raised.
- The following table uses the Investment Model illustration and calculates the annual equity surplus/deficiency as follows:

| In thousands of $ | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Property Valuation | $ 8,500 | $ 9,650 | $ 11,156 | $ 12,134 | $ 12,762 |
| Working Capital | 747 | 256 | (27) | (34) | (0) |
| Mortgage | (7,918) | (7,832) | (7,741) | (7,645) | (7,544) |
| Calculated Equity value | $ 1,329 | $ 2,074 | $ 3,388 | $ 4,455 | $ 5,218 |
| Equity raised | (4,287) | (4,287) | (4,287) | (4,287) | (4,287) |
| | $ (2,959) | $ (2,213) | $ (899) | $ 168 | $ 930 |

- As shown in the adjacent table, in the first few years of the investment cycle, there is negative equity because of the following:
  1. the asset is undergoing renovations, therefore a lower operating income which results in a lower valuation; and
  2. they raised surplus equity to cover 5 years of short funded distributions, principal payments and fees.

### Comments on FL Group's Investment Model

- Typically Management will raise the capital before they have identified a property in which to invest. In this regard, it is unlikely they would raise the precise amount of equity required for a specific project, as the details would be undetermined at the time.
- In some cases, Management has raised more capital than it required. Thus, in order to mitigate the cost of having excess cash earning a nominal return in the respective LP, Management loans the idle cash to another entity in the FL Group until the LP that originally raised the funds required access to the capital. The loans are facilitated through FL Finance, and are subject to written agreements setting out commercial terms, and supported by a guarantee from FLWM.
- It is difficult to predict the market's valuation of a property undergoing an extensive rehab or coming out of a rehab. This can lead to higher or lower than anticipated returns and have a significant effect on the investment's ROI and the LP's asset value through the various stages of an investment cycle.
- The time and money required to complete a rehab is a major variable that has a significant impact on the investor's ROI and the LP's asset value. A rehab could take longer and cost more than anticipated or could be shorter and cost less.

# First Leaside Investment Model – cont'd

- The challenges that the FL Group has experienced with some of their properties in relation to their Investment Model have been as follows:
  - Many properties held by the various LPs have not achieved their forecasted operating income levels;
  - Capital rehab costs have been higher than forecasted;
  - The real estate market has not grown at 5%, and from 2007 through 2009 the market declined as a result of the global recession.
- These factors have lead to a longer investment cycle and lower than anticipated asset valuations for certain properties.

## Investor Impact

- The following table summarizes the investor impact in the Investment Model illustration discussed in the previous pages:

| In thousands of $ | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **INVESTOR FINANCIAL HIGHLIGHTS** | | | | | |
| **ACB of investment** | | | | | |
| Adjusted cost base, beginning | $ 4,287 | $ 2,829 | $ 2,424 | $ 2,232 | $ 2,321 |
| Property Income/(Loss) | (1,201) | (147) | 65 | 347 | 392 |
| Distributions (at 6%) | (257) | (257) | (257) | (257) | (257) |
| Adjusted cost base, ending | 2,829 | 2,424 | 2,232 | 2,321 | 2,456 |
| **Annual returns to Investors** | | | | | |
| Tax losses/Income | 553 | 68 | (30) | (159) | (180) |
| Distributions (at 6%) | 257 | 257 | 257 | 257 | 257 |
| | 810 | 325 | 227 | 98 | 77 |
| *Return on equity* | *18.9%* | *7.6%* | *5.3%* | *2.3%* | *1.8%* |
| **Investor IRR** | | | | | |
| Equity raised | (4,287) | | | | |
| Annual return | 810 | 325 | 227 | 98 | 77 |
| Sale of property (after taxes) | | | | | 4,582 |
| | $ (3,477) | $ 325 | $ 227 | $ 98 | $ 4,659 |
| | | | | *ROI* | *12.2%* |

- The adjacent Investor Impact illustration assumes that all investors are at the highest tax bracket (46%) and earn enough taxable income to off-set the tax losses generated by the property.
- The illustration also assumes the LP sells the property (or the investors sells his/her units). The sale of the property considers the capital gains taxes on the sale.
- With the large property loss in Year 1, the investor's ACB is immediately ground down to below 70% of the initial investment and remains around 60% for the remaining 5 years of the investment.
- The annual rates of return are significant in the first few years (19% in Year 1 and 7.6% in Year 2) and as the property becomes cash flow positive the returns to the investor drop below 2% due to tax payments on any property income.
- Under the Investment Model, over a five year period, investors will advance $4.29M and receive net tax benefits of $251K, total distributions of $1.29M and 107% of their initial investment back, for a calculated ROI of 12.2%.

Grant Thornton

# Section 3

## Corporate Structure





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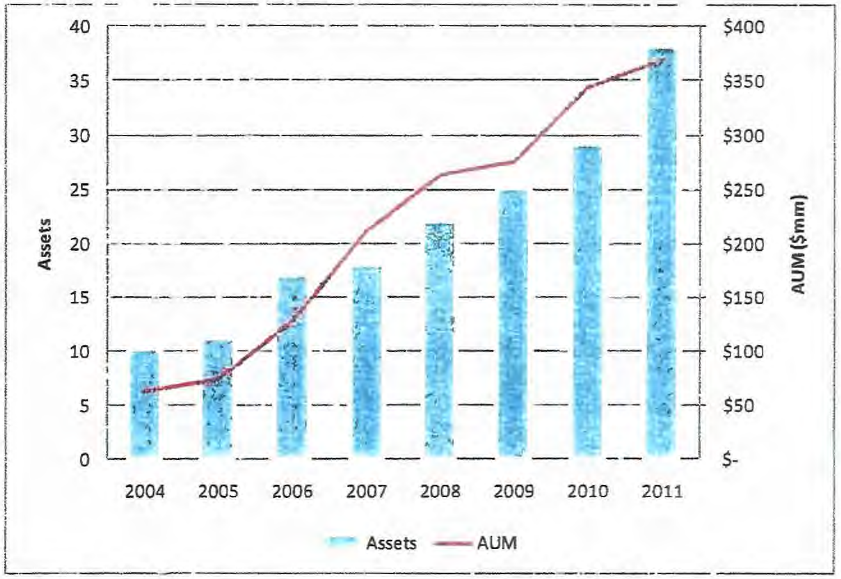
# History

## History

- The FL Group started raising limited partner capital and advising investors in 1988. We understand that they initially raised $10M and acquired Pointe and Crossing; two Texas properties that still form part of the WALP portfolio today.
- Over the next 16 years, the FL Group slowly acquired more properties in Texas, worked with other third party LPs and grew their portfolio from AUM of $10M invested in two properties and one LP in 1988 to AUM of $62M invested in 10 properties and 9 LPs in 2004;
- In 2004, the FL Group became registered with the Investment Dealer Association (which is now called IIROC) which allowed the FL Group to become a dealer member.
- The membership with IIROC provided the FL Group with additional opportunities as it was able to offer full brokerage services. Having access to sell a variety of conventional investment instruments allowed the FL Group to compete with traditional wealth management companies as well as created a significant revenue source for the FL Group through FLWM, which charges various management fees.
- We understand that this created greater opportunity for the FL Group by attracting new investors seeking a more diversified portfolio. With this expanded potential investor pool, the FL Group began raising significant capital beginning in 2004. The FL Group's total AUM grew over 500%, from $62M to the $370M invested in 39 properties and/or investments through 19 LPs today.

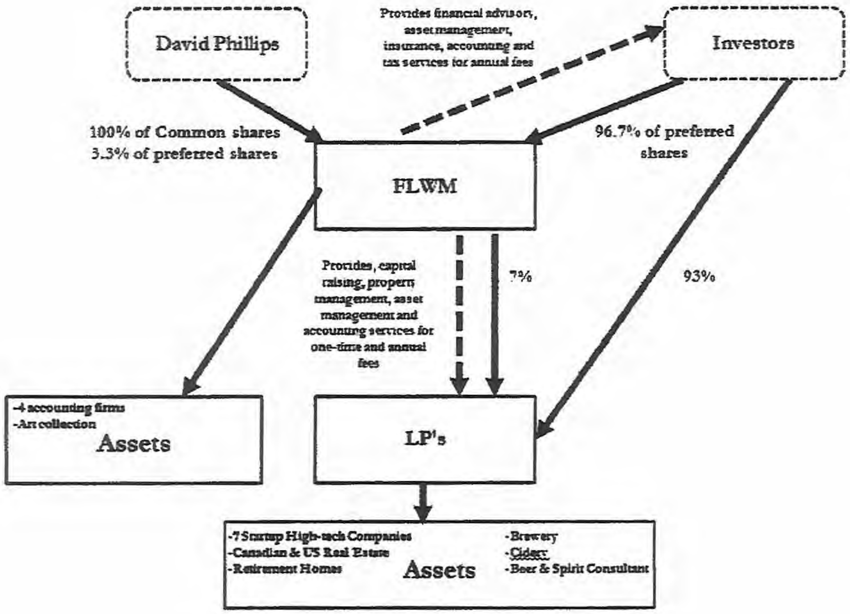
- The following illustration summarizes the timing of capital raises and property acquisitions (collectively, "Assets"):



# Corporate Structure

### Corporate Structure

- In our early meetings with Management in March 2011, we asked Management to provide us an organizational chart to help us better understand the FL Group as a whole. Management presented the organizational charts attached in Appendix B.
- Our simplified interpretation of the organizational structure of the FL Group is as follows:




- As shown by the organizational charts in Appendix B and in the adjacent table, the inter relationship of the entities in the FL Group results in a complex corporate structure. Further, within the FL Group, there are several LPs that own units in other LPs.
- Capital has been raised in one LP and loaned out to other LPs within the FL Group if there isn't an immediate need for funds in the LP that raised the money. This results in related party receivable and payable balances in almost every LP within the FL Group. Related party debt typically flow through the central repository of FL Finance, which is discussed further in this Report.
- We detail the movement of funds within the FL Group further in this section.

### Management

- The Key personnel within the Management team are as follows:
  - David Phillips, F.C.S.I.: President, oversees all aspects of the FL Group including: capital raises, deal origination, deal negotiation/structuring and internal administration;
  - John Wilson: VP of Sales, oversees a sales team of 6 Investment Advisors, and 19 Sales Associates. John presently raises the most capital within the FL Group;
  - Joanna Hampton, CGA: Director of Finance, oversees a staff of 4 accountants, and is the President of First Leaside Accounting & Tax Inc.
  - Leon Efraim, LL.B: In-House Corporate Counsel & Chief Compliance Officer;
  - Joan Wilson, CA: Director of Real Estate, oversees a team of two and liaises with the third party property managers. Joan also reviews and reports on all real estate acquisitions for the Company.

# First Leaside Group of Companies

- The following pages provide a high level summary of all of the LPs/ companies within the FL Group that we reviewed as part of our mandate (please refer to Appendix C for a more detailed discussion of each of the entities and the assets they own). Also, please note that there may be other dormant and inactive companies within the FL Group. Management explained to us that the activities, if any, within each of these inactive companies were immaterial and therefore we did not review them nor do they form the basis of our conclusions and recommendations.

## First Leaside Wealth Management Inc. ("FLWM")

- FLWM is the de facto parent company of the FL Group. With a staff of over 50 employees, FLWM or businesses within FLWM, provide all of the advisory services for the Company.
- Please refer to Appendix B for a FLWM organizational chart.
- Within FLWM, there are seven operating companies:
  1. First Leaside Securities Inc.: The IIROC registrant that charges agency fees, business development fees and acquisition analysis fees;
  2. F.L. Securities Inc.: The EMD that charges promotional fees, acquisition analysis fees, property management fees and advisory fees;
  3. First Leaside Management Inc.: The property manager that charges all Canadian properties 2-4% of net revenues;
  4. First Leaside Accounting and Tax Services Inc.: Provides personal income tax preparation services for Canadian and US personal income taxes;
  5. First Leaside Wealth Management Inc.: Employs the administrative staff, that charges for administrative fees;
  6. First Leaside Insurance Inc.: Was incorporated in 2010 and is a Registered Life Insurance Company, offering a variety of life and critical insurance policies to investors within the FL Group; and
  7. FL Finance: Which, as aforementioned, acts as the central bank within the FL Group. Most related party transactions are recorded through this entity and all purchases of units from clients are financed through this entity.

FLWM also owns the following assets:

- approximately $13.4M worth of units in various LPs within the FL Group;
- Joanna Hampton Holdings Inc.: The Company owns three accounting firms in Western Canada (FLWM invested the purchase capital and is the effective owner);
- Jim Brander Professional Corporation – an accounting firm in Western Canada (FLWM invested the purchase capital and is the effective owner);
- 33.3% of First Leaside Retirement Residences Limited Partnership ("FL Retirement"): An LP that owns 51% of a group of 8 retirement properties through Ontario and BC;
- 34.9% of First Leaside Beverages Limited Partnership: A company that owns a Cidery in Thornbury, King Brewery in King City and a beer and spirits consulting company called Beer Barons;
- $2M worth of art and paintings being held for their new office premises;
- $1.6M in marketable securities; and
- $4.1M note receivable from investors who borrow funds short term to acquire units in various LPs within the FL Group. This amount fluctuates and is highest in December.

- Equity and debt are still being raised in FLWM in two ways:
  - Three series of preferred shares, paying dividends of 10%, 8% and 6%; and,
  - Debt through the First Leaside Wealth Management Trust Fund ("FLWM Fund"), paying interest at 7%.
- David Phillips owns 100% of the common shares of FLWM;

# First Leaside Group of Companies – cont'd

## First Leaside Expansion Limited Partnership ("FLEX")

- FLEX is one of the FL Group's Canadian real estate LPs.
- Please refer to Appendix B for a FLEX organizational chart.
- FLEX currently owns the following LPs and assets:
  - 1.04 acres of land in downtown Uxbridge, Ontario, currently being developed into a platinum LEED, 58,182 sq. ft., 4 floor office building (the "Victoria St. Building") which will be the future office building for the FL Group;
  - Queenston Manor Limited Partnership ("QM"): a 77 unit retirement living apartment complex in St. Catherines, Ontario, currently 92% occupied;
  - First Leaside Growth Limited Partnership ("Growth"): a fully tenanted 70,000 sq. ft industrial building located in Brampton, Ontario;
  - First Leaside Unity Limited Partnership ("Unity"): 2.74 acres of land in Wheatley, Ontario, zoned for a residential townhome complex with plans for 16 townhomes. Construction is planned for 2012; and
  - First Leaside Entities Limited Partnership ("Entities"): owns two properties in downtown Uxbridge, both adjacent to the Victoria St. Building. One property is 1.57 acres and currently being used as a parking lot for the construction workers while the other is 0.59 acres of vacant land and is currently not income producing.
- Equity and debt are being raised in FLEX in two ways:
  - Equity is raised, paying return of capital distributions at 6% (had previously been 7.50% but the drop was announced at the FLEX AGM on June 4, 2011); and
  - Debt was raised through the Development Notes Limited Partnership ("Development Notes"), paying interest at 7.75%. Management has recently closed this fund and opened the FLEX Fund, offering debt at 6% with the option to re-invest the monthly distributions so that interest is compounded on a monthly basis and paid out when the investment matures.
- There have also been three instances of non-accredited syndicated mortgages, however, these capital raises are more singular in nature and would not be considered an open form of investment:
  - A syndicated mortgage of $3.45M was raised in 2011 for the Brampton building in Growth;
  - Promissory notes for $475K in FLEX; and
  - Promissory notes for $25K in Unity.

## Wimberly Apartments Limited Partnership ("WALP")

- WALP is considered the FL Group's US real estate Partnership and has been part of the FL Group since 1992.
- Please refer to Appendix B for a WALP organizational chart.
- WALP currently owns the following LPs and assets:
  - F.L. Master Texas Ltd. ("Master Texas"): Owns six LPs that each own one apartment complex in the Dallas/Ft. Worth area;
  - F.L. Master Sherman Ltd. ("Master Sherman"): Owns four LPs that each own one apartment complex in the Sherman, Texas area; and,
  - F.L. Sedona Creek Ltd. ("Sedona"): Owns an apartment complex in the Dallas area.

# First Leaside Group of Companies – cont'd

**WALP cont'd**

- Equity and debt has been raised in a number of different manners over the years.
  - Equity has been raised directly into WALP, paying distributions of 4% (this distribution rate has dropped significantly over the years) as return on capital;
  - Debt raised for the Master Texas properties has come through a number of different Funds over the years:
    - First Leaside Fund raised debt at 9%, but has since been closed;
    - Wimberly Fund I raised debt at 8%, but has since been closed;
    - Wimberly Fund II now raises (until recently) debt at 7%.
  - Debt raised for the Master Sherman properties has come through First Leaside Properties Fund, with an interest rate of 9%;
  - WALP raised $5.3M by way of a syndicated mortgage for Sedona Creek and a nearby church property.

**First Leaside Realty & Realty II Limited Partnerships ("Realty I & II")**

- Realty I and Realty II own the following assets:
  - 3,996,160 equity LP units of WALP
- Equity is raised, paying return of capital distributions at 4.75%.

**First Leaside Acquisitions Limited Partnership ("Acquisitions")**

- Acquisitions owns the following assets:
  - 143,680 equity LP units of WALP;
  - 625,800 equity LP units of FLEX;
  - 278,880 equity LP units of Spring Valley;
- Equity is raised, paying return of capital distributions at 9.50%

**First Leaside Investors Limited Partnership ("Investors")**

- Investors owns the following assets:
  - Harmony Townhome Limited Partnership ("Harmony"): a 50 unit townhome complex in Tilbury, Ontario;
  - Mill Street Limited Partnership ("Mill"): a 3.74 acre plot of land in downtown Uxbridge with a small heritage home;
- Equity is raised, paying return of capital distributions at 6%.
- In 2011, a syndicate of non-accredited investors invested in a mortgage on the Mill street property at 6%.

**First Leaside Progressive Limited Partnership ("Progressive")**

- Progressive owns the following assets:
  - 20% ownership of FL Retirement (a company that owns 51% of Primetime Retirement Living; a Retirement residences company that owns 8 properties across BC and Ontario);
  - 8.34% ownership is FL Beverages (the company that owns the Thornbury Cidery, King Brewery and Beer Barons);
  - Uxbridge Development Limited Partnership ("Cemetery Rd."): 23 acres of land (of which 4 acres is developable) in Uxbridge, Ontario;
  - A 31,000 square foot commercial building in downtown Thornbury.
- Equity is raised, paying return of capital distributions at 6%.
- In 2011, a syndicate of non-accredited investors invested in a mortgage on the Cemetery road property at 6%.



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# First Leaside Group of Companies – cont'd

### First Leaside Universal Limited Partnership ("Universal")

- Universal owns the following assets:
  - 30% ownership of FL Retirement (a company that owns 51% of Primetime Retirement Living; a Retirement residences company that owns 8 properties across BC and Ontario);
- Equity is raised, paying return of capital distributions at 6%.

### F.L. Spring Valley Limited Partnership ("Spring Valley")

- Spring Valley owns the following assets:
  - 689,608 equity LP units of WALP;
  - 640,000 Trust Units in Wimberly Fund;
  - A shopping mall in the greater Dallas, Texas area;
- Equity is raised, paying return of capital distributions at 8%.

### FLWM Holdings Limited Partnership ("FLWM Holdings")

- FLWM Holdings owns the following assets:
  - 16.67% ownership of FL Retirement (a company that owns 51% of Primetime Retirement Living; a Retirement residences company that owns 8 properties across BC and Ontario);
  - 10.91% ownership in FL Beverages (the company that owns the Thornbury Cidery, King Brewery and Beer Barons);
- Equity is raised; however, Management does not anticipate paying any distributions within the period of this Report.

### First Leaside Select Limited Partnership ("Select")

- Select is a Blind Pool LP that was opened in 2007 and has not yet acquired an asset;
- We are advised by Management that they are considering alternatives in how to deal with Select;
- Equity is raised, paying return of capital distributions at 7%

### First Leaside Elite Limited Partnership ("Elite")

- Elite is a Blind Pool LP that was opened in 2008 and has not yet acquired an asset;
- We are advised by Management that they are considering alternatives in how to deal with Elite;
- Equity is raised, paying return of capital distributions at 7%.

### First Leaside Premier Limited Partnership ("Premier")

- Premier is a Blind Pool LP that was opened in 2009 and has not yet acquired an asset;
- We are advised by Management that Premier is a recent LP, and they are still pursuing investment opportunities;
- Equity is raised, paying return of capital distributions at 7%.

### First Leaside Ultimate Limited Partnership ("Ultimate")

- Ultimate is a Blind Pool LP that was opened in 2010 and has not yet acquired an asset;
- We are advised by Management that Ultimate is a recent LP and they are still pursuing investment opportunities;
- Equity is raised, paying return of capital distributions at 7%.



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# First Leaside Group of Companies – cont'd

### First Leaside Global Limited Partnership ("Global")

- Global was opened in 2011 and is in the advanced negotiation stages of acquiring a 396 unit apartment complex in Orlando, Florida called Heather Glen;
- Management expects to close the deal in October 2011;
- Equity is raised, paying distributions by way of a return of capital at 7%.

### First Leaside Venture Limited Partnership ("Venture")

- Venture was opened in 2011 and is in the advanced negotiating stages of acquiring 3 retirement home complexes in Ottawa called The Palisades, The Palisades Condo Club and The Redwoods;
- Venture currently owns a 50% interest in Birkhall Retirement; the remaining 50% owner is PrimeTime Living LP;
- Management anticipates the properties to close on August 26, 2011;
- Equity is raised, paying distributions by way of return of capital at 5%.

### First Leaside Visions I & II Limited Partnership ("Visions I & II")

- Visions I & Visions II acquired seven start-up technology companies operating in Ontario;
- The LP was set up to take advantage of OCIF grants (up to 30% of the investment);
- The LP presently does not pay a distribution. Management does not anticipate paying a distribution until 2013 – 2015.

### First Leaside Mortgage Fund ("Mortgage Fund")

- Mortgage Fund owns the following assets:
  - A $5.3M syndicated mortgage on the Sedona and Sherman church properties in the WALP portfolio;
- Debt was raised paying interest at 6%.

# Capital Raised

## Penson

- Since the Company became an IIROC dealer, the total capital raised has grown from $62M in 2004 to $370M as at June 30, 2011. Approximately $86M of the AUM is capital raised and placed in public security investments administered by Penson.
- When money is raised, the investor deposits funds into accounts set up at and held by Penson. The investor and FLWM agree on an investment strategy and in respect of each investment, an order is sent to Penson for processing.
- FLWM earns a 0.05% trading commission and a 0.325% annual fee on the balance of the AUA (which includes investments supported by Penson).
- The following table summarizes the different public investments FL Group investors have invested through Penson, at June 30, 2011:

| | As at June 30, 2011 |
|---|---|
| Cash | $ 14.1 |
| RRB | 38.4 |
| T-Bills | 0.9 |
| Merrill Lynch Bonds | 10.1 |
| Goldman Sachs bonds | 1.9 |
| Stocks & other bonds | 20.9 |
| | $ 86.3 |

## First Leaside AUM

- The following table summarizes all of the capital raised up to June 30, 2011 and invested in the private First Leaside LPs/companies:

| | Real estate Assets | | | Admin Assets | | | Total Capital |
|---|---|---|---|---|---|---|---|
| | Debt | Equity | Total | Debt | Equity | Total | |
| FLWM | $ 18.3 | $ - | $ 18.3 | $ 1.0 | $ 32.7 | $ 33.7 | $ 52.0 |
| FLEX | 0.5 | 22.4 | 22.9 | 15.9 | - | 15.9 | 38.8 |
| WALP | 68.2 | 45.6 | 113.8 | - | - | - | 113.8 |
| Realty | - | 4.5 | 4.5 | - | - | - | 4.5 |
| Acquisitions | - | 1.8 | 1.8 | - | - | - | 1.8 |
| Investors | - | 6.7 | 6.7 | 0.7 | - | 0.7 | 7.3 |
| Progressive | - | 14.9 | 14.9 | 0.7 | - | 0.7 | 15.6 |
| Universal | - | 5.8 | 5.8 | - | - | - | 5.8 |
| Venture | - | 0.9 | 0.9 | - | - | - | 0.9 |
| FLWM Holdings | - | 3.0 | 3.0 | - | - | - | 3.0 |
| Spring Valley | - | 2.2 | 2.2 | - | - | - | 2.2 |
| Select | - | 3.6 | 3.6 | - | - | - | 3.6 |
| Elite | - | 6.7 | 6.7 | - | - | - | 6.7 |
| Global | - | 0.8 | 0.8 | - | - | - | 0.8 |
| Premier | - | 5.6 | 5.6 | - | - | - | 5.6 |
| Ultimate | - | 3.0 | 3.0 | - | - | - | 3.0 |
| Visions I & II | - | - | - | - | 4.2 | 4.2 | 4.2 |
| Mortgage Fund | - | - | - | 11.6 | - | 11.6 | 11.6 |
| | $ 87.0 | $ 127.4 | $ 214.5 | $ 29.8 | $ 36.8 | $ 66.6 | $ 281.1 |

- The distinction between the Real Estate Assets and the Admin Assets is that the Admin Assets are not tied directly to a real estate property (i.e. FLWM preferred shares or syndicated mortgages). In addition to these AUM, there are third party mortgages (syndicated and bank mortgages) on most of the properties which is addressed later in this Report.

# Movement of Funds

### FLWM Fees

- As aforementioned, FLWM is the de facto parent entity within the FL Group.
- FLWM charges the investors with capital in the Admin Assets an annual trading commission (0.05% of invested capital) and annual fee (0.325% of invested capital).
- The investors with capital in the Real Estate Assets are charged indirectly through the respective LP with:
  - An initial 5% agency fee, as a percentage of the total capital raised;
  - An initial 12.5% business development fee, as a percentage of the total capital raised;
  - Ongoing property management fees of 2-4%, applied to the net property revenue generated in each of the Canadian properties; and
  - Ongoing administration, IT, accounting and tax service fees of approximately $55K per LP.
- Each LP has an OM that lays out the fee schedules, among other investment details.
- Once the money has been deposited into the corresponding First Leaside LP account, FLWM charges the LP their initial fees and the fees. The fees for the year are charged in due course.
- From the documents which we have reviewed, nothing has come to our attention which indicates that the FL Group is acting contrary to the terms of the OM as it relates to fees charged by FLWM.

### FL Finance

- In the past, Management has often raised more capital than required for a specific project, or has raised capital without a specific target acquisition identified. As a result there is often idle cash sitting in the respective LP bank account generating an immaterial amount of interest, while the LP still has to pay the distributions to unit holders.

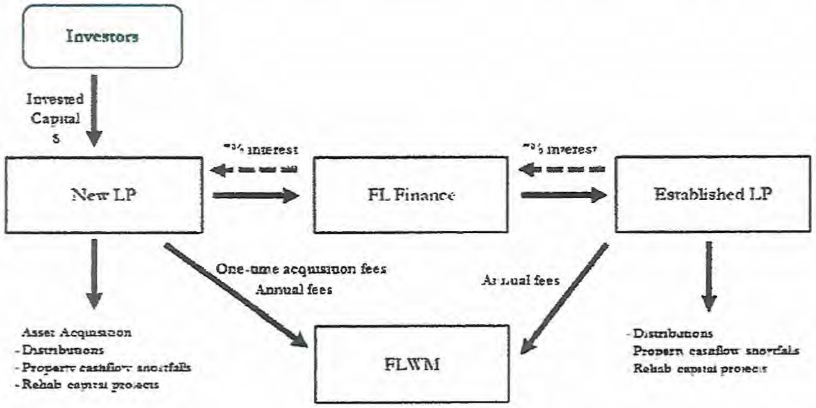
**"Central Banking" Function**

- Each LP typically lends its idle cash to FL Finance on commercial terms, who may in turn lend the cash to another LP in the FL Group which has immediate cash flow requirements.
- Loan agreements are prepared and signed between FL Finance and the lending LP with an agreed upon rate of 7%, and also subject to a guarantee from FLWM.
- Another instance where money is loaned to FL Finance by an LP is when Management has been unable to identify an asset to acquire within the LP, notwithstanding that funds have been raised. In these instances, the LP will deposit the majority of the money raised (less respective fees charged by FLWM) to FL Finance.

# Movement of Funds – cont'd

## FL Finance cont'd

- The following illustration summarizes the flow of funds through FL Finance:




- Select, Elite, Premier and Ultimate are LPs that have raised capital into Blind Pools in each year between 2007 – 2010 whereby the unit owners have agreed to invest pursuant to an OM, without knowing specifically which property the funds were intended to acquire. Select raised capital in 2007, Elite in 2008, Premier in 2009 and Ultimate was opened in 2010. To date, none of these LPs has invested in any assets and the majority of the money (after FLWM fees) has been loaned to FL Finance which in turn loaned the money to other FL Group entities.
- We have not undertaken a review of the flow of funds to specifically conclude where this money has been spent. However, through discussions with Management and a review of balance sheets for each LP and FLWM, it would appear the majority of funds loaned to FL Finance by Select, Elite, Premier and Ultimate have been loaned by FL Finance to WALP to fund the rehab and operating losses of WALP.
- Funding losses and rehab programs have a negative short term cash flow impact on the FL Group because FL Finance will have to pay 7% related party interest to the lending LP (to cover the distribution payments) but FL Finance will not receive 7% related party interest from the borrowing LP (WALP in this case) if the borrowed money is being used to fund operating losses and rehab programs that are not yet generating income. Accordingly, in instances such as this, the related party balance owing to FL Finance from the borrowing LP will continue to grow with accruing interest.

**Secondary Market Maker**

- Besides acting as the central bank and borrowing conduit for the FL Group, FL Finance is often the buyer of the units sold by investors.
- Most investment vehicles (LP units, preferred shares and mortgages) are not redeemable. Redemption rights are limited to trust units, with significant restrictions thereto. However, Management will often liquidate an investors position if requested.
- In respect of trust units, the OM states that "FLWM may capitalize the interest payable on the outstanding Principal Amount of FLWM Notes up to 12 separate interest Payment Dates during the Initial Term and on up to an additional 12 separate Interest Payment Dates during the Extended Term."
- However, if the redemption in respect of trust units is not material, FL Finance typically acquires the units from the investor at the initial price of the unit (i.e. typically $1/unit) and not the current underlying net asset value of the unit. As aforementioned, Management advises that it takes steps to support its repurchase price of the units.
- Because the valuation of the units through the FLWM Reporting System is based on the last trade price, the valuation per LP unit being displayed on every investors' personal investment account (on the FLWM Reporting System) remains at the initial price they paid (i.e. $1 /unit) or Management's repurchase price, rather than the current net asset value.
- To date, we understand that there have not been a material amount of redemption or repurchase requests and, as a result, FL Finance has been able to borrow the cash from other LPs to fund redemptions or repurchases.

# Movement of Funds – cont'd

FL Finance cont'd

**FL Finance Balance Sheet**

- The following summarizes the FL Finance internally prepared Balance Sheet at December 31, 2010:

| **FL Finance Balance Sheet, December 31, 2010** | | | | | |
|---|---|---|---|---|---|
| **Assets** | | | **Liabilities** | | |
| Cash | $ | 1,351,740 | Due to RP | $ | 27,864,405 |
| AR | | 10,486 | | | |
| Due from RP | | 10,246,775 | **Equity** | | |
| LP Units | | 11,721,420 | Common Shares | | 100 |
| Condo units | | 82,643 | Deficit | | (4,451,440) |
| | **$** | **23,413,064** | | **$** | **23,413,064** |

- FL Finance has borrowed $27.9M from within the FL Group, lent $10.2M to other LPs, and acquired $11.7M in LP units (through investor redemptions).
- Over 80% of the units FL Finance owns are in WALP, which has certain properties undergoing a rehab. Given the current stage of the rehab cycle, Management believes it would be imprudent to sell the WALP assets at this time as they will not attract a high enough price in the market. In this regard, the FL Finance units in WALP are relatively illiquid at this time.
- In aggregate, FL Finance does not appear to have sufficient liquid assets to pay back the $27.9M in loans received from other LPs at this time.
- Management has advised that it is operating on the basis that over time (beyond the scope of 2013) it is anticipated that increased profitability in the LPs and the potential to refinance mortgages will allow for significant repayments to FL Finance in respect of the intercompany loans. This is beyond the scope of our report as the actions to support this extend to 2014 and beyond.
- By lending funds to LPs to fund operating losses and capital rehab projects, FL Finance has accumulated a significant deficit position. Management advises that the deficit is largely reflective of the forgiveness of $4M of amounts due from WALP in 2010.
- The following table details the related party balances for FL Finance:

| | **Related Party Balances** | |
|---|---|---|
| | **Receivable** | **Payable** |
| FLWM | $ 2,785,147 | $ 4,949,254 |
| FLEX | - | 8,464,217 |
| WALP | 1,714,018 | 580,089 |
| Realty | 1,220,308 | 111,390 |
| Acquisitions | 45,434 | - |
| Investors | 1,139,988 | - |
| Progressive | - | 6,160,705 |
| Universal | - | 1,676,809 |
| Spring Valley | 1,718,388 | - |
| Select | - | 138,695 |
| Elite | - | 1,995,123 |
| Premier | - | 2,729,220 |
| Ultimate | - | 1,058,902 |
| Visions | 1,623,492 | - |
| | $ 10,246,775 | $ 27,864,404 |

- With the exception of FLEX, we are advised by Management that none of the LPs that have lent money to FL Finance presently require the money back.
- FLEX is in the midst of construction of the Victoria St. Building, a $30M office building development, and is still raising capital (and sourcing conventional third party debt) to finance the construction.
- As a result of FL Finance's deficit, FLEX must raise more capital and the FL Group, as a whole, suffers the 7% interest FL Finance is still paying to FLEX.



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# Section 4

# Corporate Governance





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# Corporate Governance

- *In March 2010, the Canadian Coalition for Good Governance ("CCGG") published a policy paper entitled "2010 Building High Performance Boards" which outlines thirteen guidelines to help build a board based on accountability to the shareholders, and independence. While these guidelines were developed for publically traded companies, the general rules can be applied to many businesses including the FL Group.*
- The FL Group has multiple structures and consequently many Boards, however the focus of this section is in relation to FLWM and WALP.

### 1 - Facilitate shareholder democracy

- *Shareholder should have the right to vote their shares.*
- This guideline does not apply to privately held companies.
- We are advised that with the exception of First Leaside Properties Fund and F.L. Master Sherman Ltd., all First Leaside Entities are privately held.

### 2 - Ensure at least two thirds of directors are independent from management

- *"Independence" means a director is independent of management, does not have a material relationship with the company and, except for director fees and share ownership, does not financially benefit from it.*
- WALP's board is comprised of 9 directors of which 3 of the members are part of Management.
- FLWM's board is comprised of 7 directors of which 2 of the members are part of Management.
- The directors as a whole own approximately 18% of the assets within the FL Group.

### 3 - Separate the roles of Chair and Chief Executive Officer

- *The role of the Chair is to make sure that the long term best interests of the investors are considered while the CEO is responsible for leading management and implementing the company's business strategy.*
- At the joint meeting of directors (for WALP & FLWM) held on February 15, 2011, the Board appointed Doug Hyatt as the chairman for WALP & FLWM. The position was previously held informally by David Phillips, the current CEO and founder.

### 4 - Ensure that the directors are competent and knowledgeable

- *The quality and character of the people that sit on the board is of paramount importance. A Board with diverse experiences in varying industries can aid the company in making its key business decisions and acquisitions.*
- The Board ofWALP & FLWM is made up of experienced professionals with expertise across multiple disciplines. The team is made up of individuals who work or have worked in the legal professional, education, medical, financial, accounting, mining, and technology sectors.

### 5 - Ensure that the goal of every director is to make integrity the hallmark of the company

- *Integrity is to be principled, moral, honest and responsible; it is to be above reproach in all things.*
- The Company has implemented a Whistle Blower Policy.



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# Corporate Governance – cont'd

### *6 - Establish mandates for board committees and ensure committee independence*

- *CCGG recommends that all committees be made up of independent board members to ensure that the policies recommended at the committee level do not require the approval of management. In doing so, the members of the committees will act in the best interests of the unit owners.*
- WALP has established an Audit Committee made up of 3 independent Board members.
- FLWM has not established an Audit Committee as the entity has not prepared audited financial statements. For the fiscal year 2011, Management has advised that FLWM intends to prepare audited financial statements. The board has established a plan to form an Audit Committee as well as a Compensation Committee and a Nomination Committee. Management has advised that the committees will be established towards the end of 2011.

### *7 - Establish reasonable compensation and share ownership guidelines for directors*

- *CCGG recommends that Directors be compensated for their services, to the extent that the compensation does not interfere with the Director's ability to be independent.*
- The Board of Directors is made up of Management and volunteers. Board members do not receive direct compensation but rather pay a reduced management fee on their portfolio within the FL Group, as compensation in kind.

### *8 – Evaluate board, committee and individual director performance*

- *A review of each Board member's strengths and weaknesses can be done through confidential surveys whereby each board member is asked to rate the other members. The purposes is to review if certain board members should step down, or if there is a requirement to further educate the Board members.*
- As of the date of this report, an evaluation of the Board members has not been completed.
- The majority of both the FLWM and WALP Boards have held their positions since the inception of the company. In 2010, Doug Hyatt joined the FLWM board, and in February 2011, Mr. Hyatt was appointed Chairman of the Board.

### *9 - Oversee strategic planning, risk management and the hiring and evaluation of management*

- *Risk management is a core part of any board and is typically delegated to the responsibilities of the Audit Committee. An exclusively independent committee dedicated to evaluating the risks of the business can address structural issues and creates a forum whereby the directors can question the assumptions made by management.*
- To date, the Company has not established a risk committee.



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# Corporate Governance – cont'd

### 10 – Assess the Chief Executive Officer and plan for succession

- *The board is responsible for hiring, and the decision to continue to employ the CEO, as well as reviewing his or her performance. CCGG recommends that there is an established document outlining the description of the CEO's accountabilities, performance targets, expectations, and compensation incentives.*
- Decisions on compensation and accountabilities are made at the Management, not Board level. Management has advised that it is currently formulating a plan to deal with succession planning but it has not yet been finalized.

### 11 – Develop and oversee executive compensation plans

- *CCGG recommends that Senior Executives should be compensated fairly and competitively, with a strong equity component.*
- Compensation decisions are made at the Management level, but we are advised that the members of the Board are privy to those numbers.

### 12 - Report governance policies and initiatives to stakeholders

- *It is the duty of the Board to ensure that investors are aware of the governance policies that are in place. Providing investors with information in plain language will make the investors aware of major changes, and keep them informed about the Company's operations.*
- Information regarding the Board members is located in the original Offering Memorandum. We are advised by Mangement that the FL Group does not send updates to the unit holders other than the statutory documents required by law.

### 13 - Report governance policies and initiatives to stakeholders

- *CCGG believes that shareholders should be allowed to have regular and constructive engagement with the Board in order to create an open relationship.*
- We understand that Management has close relationships with unit holders and updates are typically provided verbally.

### Observations

- We have asked for and have been provided with minutes of all the Board meetings for the past 24 months. We were provided with Minutes of one Board meeting in 2009, one Board meeting in 2010 and three board meetings in 2011. We have reviewed the Minutes and can confirm that there is an increased level of documented scrutiny and involvement of the Board in FL Group's activities beginning in late 2010.
- However, there is a transaction we reviewed in the FL Group which does not support strong governance. In particular, FLWM sold 10.9% of Beverages to FLWM Holdings in June, 2011, realizing a profit of approximately 20% over the price FLWM paid just months earlier. However, there is no evidence of Board approval of this transaction, nor of any external valuation of Beverages to support the intercompany transfer. Management advises that the Board was made aware of the transaction.

### Board Members

- The following table summarizes the current board members for both FLWM and WALP:

| Name | Title | WALP | FLWM |
|---|---|---|---|
| Doug Hyatt | Chairman of the Board | X | X |
| David Phillips* | Director | X | X |
| Margaret Davis* | Director | | X |
| John Wilson* | Director | X | X |
| Leo de Bever | Director | X | X |
| John Cook | Director | X | X |
| Terry Fisk | Director | X | |
| Robert Gauld | Director | X | X |
| Marina Ushycky | Director | X | |
| Robin Pullen | Director | X | |

**Employees of FL Group and therefore not independent*

- Collectively, the members of the Board owns approximately 18% of FL Group.



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# Section 5

## Financial Reporting

# Financial Reporting

The following is a brief summary outlining the timing and flow of documents required by GTL to prepare this Report, as well as some observations:

- On March 5, 2011, GTL was engaged by Cassels Brock to act as Consultant in preparing a report on the business, assets, affairs and operations of the FL Group. The scope and estimates were later modified between GTL and Cassels Brock.
- On March 7, 2011 GTL met with representatives of Cassels Brock, KPMG, the Company and the Ontario Securities Commission to discuss the nature and scope of the Report.
- On March 8, 2011 GTL provided Cassels Brock with a list of preliminary documents it required from the Company to complete its Report.
- On March 22, 2011 GTL met with Joanna Hampton and Cassels Brock, and reviewed an FL Group prepared organizational chart. Ms. Hampton explained the structure of the Company and the interaction between the various entities.
- Throughout the month of March 2011, Cassels Brock provided GTL with certain documents from the original request. We understand that much of the requested documents were not readily available and had to be prepared by the Company. We would have expected that a company of this nature and size would have had a more advanced level of financial reporting, specifically with respect to cash flows, budgeting and financial statements.
- Throughout the months of April and May 2011, we understand that the Company dedicated the majority of its accounting resources towards finalizing its fiscal year-end financial statements and consequently, GTL received limited documents from Cassels Brock over the course of this period.
- In the month of June 2011, the FL Group devoted greater resources to preparing and/or compiling the information requests of GTL. Given the sporadic flow of documents to that point, on June 16, 2011 and June 24, 2011 GTL provided Cassels Brock with extensive lists of documents which remained outstanding at that time. The financial information began flowing on a more frequent basis thereafter.
- GTL attended at FL Group's office on July 4, 2011 to review the lists of outstanding documents. Certain documents were provided to GTL following this meeting.
- We have worked with Management to build an integrated cash flow model for the FL Group based on Management's cash flow projections.
- During July 2011, GTL expended significant effort at the Company's office to build the financial model in order to prepare a consolidated cash flow projection based on Management's projections as well as to better evaluate how the various partnerships interacted with one another.
- In order to build the integrated model, GTL required additional financial information and forecasts. The Company was cooperative, and devoted significant resources in preparing documents for GTL to complete its Report. Again, most of the documents had to be prepared or compiled by the Company and were not readily available.
- As of the date of this Report, the 2009 & 2010 audited financial statements for WALP prepared by KPMG were still in draft form. This is approximately 2 years post year end for 2009. We understand from Management that the audited financial statements for these periods have not yet been completed on account of ongoing discussion between KPMG and the Company as it related to the potential removal of a going concern note in the draft WALP audited statements.

# Financial Reporting

- In reviewing the Minutes of the Board Meetings, we note that there are often references to financial statements as an agenda item, but financials have consistently not been available for review at the Board Meetings.
- We understand that at the AGMs for the various funds, most often "draft" financial statements are disclosed at the meetings. We are advised by Management that there have been no questions from unit holders as to the lack of final statements, but we have not been able to verify this independently.
- We understand that only seven entities receive audited financial statements, including WALP and FLEX. There are review engagements prepared by the firm Sloan Group LLP for the LPs. Financial statements for FLWM are not audited or reviewed.
- Management has pointed out that the weaknesses in financial reporting are related to the fact that the FL Group is a rapidly growing private company and their compliance lags their growth.

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# Section 6

## Integrated Cash Flow Model



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# Purpose of the Integrated Cash Flow Model

- We have worked with Management to build an integrated cash flow model.
- The following sections explain why and how the integrated model was created, how it works and the results.

**Overview of Integrated Cash Flow Model**

- Management had not prepared a cash flow model/forecast that captures all of the different funds and LPs within the FL Group.
- Since there are significant intercompany transactions (through FL Finance), we believed that it was necessary to integrate each of the companies/LPs/Trusts into the same working model for the following reasons:
  - Provides a better understanding of each of the LPs/companies and how money moves between them;
  - Identifies whether the Company has sufficient cash flow as a whole to carry on its operations in the ordinary course based on its own projections;
  - Helps to evaluate the assumptions and the forecasts prepared by Management;
  - Creates the ability to sensitize the projections and evaluate the impact of any changes on the entire group;
  - Help Management understand the impact of certain operational decisions on the cash flows of the business; and
  - Creates a clearer view as to the Asset Valuation of the FLGroup and each individual fund.

**How the Integrated Cash Flow Model was Developed**

- In developing the framework of the integrated model, we relied on the following information prepared by Management:
  - Internal prepared trial balances for every major property and every fund within the FL Group for 2009 and 2010;
  - Financial forecasts for FLWM, WALP, FLEX, Primetime, Beverages, Global and Venture;
  - Third party mortgage agreements;
  - Appraisals for all of the properties within the FL Group;
  - Cost consultant reports for the Victoria St. Building;
  - Purchase and sale agreements and letters of intent for the assets anticipated to be purchased in Global and Venture;
  - Information on all capital raised for each of the companies and management's view as to where new capital will be raised in the future (including distribution rates); and
  - Collection of different information and schedules prepared by Management.
- We started with all of the 2009 and 2010 trial balances to capture two years of income statements and highlight the major asset balances (cash, asset, related party balances) as at December 31, 2010;
- We reviewed the mortgage agreements, appraisals, cost consultant reports, etc. to estimate the fair value of the projects and the corresponding mortgage amounts; and
- We used the total capital raised (equity and debt) from a Management prepared report based on the FLWM Reporting System as at June 30, 2011 to populate each LP's invested capital and corresponding distribution rate.



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# Purpose of the Integrated Cash Flow Model –cont'd

### How the Integrated Cash Flow Model Works

- There are 19 worksheets detailing each of the LPs/companies that have received investor capital over the life of the FL Group.
- Each detailed LP sheet has the following:
  - a historical (2008 to 2010) financial statement and forecasted cash flow statement (2011 to 2013);
  - NBV, cost, FMV and mortgage amount for each asset owned in the LP;
  - Equity and debt raised, as at June 30, 2011; and
  - Assumption inputs for a number of different variables (including new capital raises, FLWM fees paid, etc.).
- There is a central financing sheet that lists the total capital raised and also includes any assumptions on the forecasted capital to be raised for the FL Group. This sheet also includes all of the distribution rates.
- There is an asset valuation sheet that includes the appraised asset values, working capital, related party balances, mortgage balances and capital raised (debt and equity) for each of the LPs/Companies.
- There is a summary sheet that includes the operating cash flows, capex, distribution payments and financing requirements combined for all 19 LPs.
- There is a sensitivity sheet that is linked to all of the worksheets and summarizes the impact on net annual cash flows (2011 through 2013) if the certain assumptions are adjusted.
- All of the sheets are linked, as an integrated model, to one another to ensure when one assumption is changed, it will effect each LP.
- Please refer to Appendix C for the financial highlights of each of the LPs.

### Management's Acceptance of the "Base Model"

- We reviewed the Management prepared forecasts for each LP and compared them to historical financial information for the respective LP we had previously been provided. We assessed whether there were any apparent omissions from Management's forecasts. In part, the process involved us having to interpret Management's assumptions, which were not documented for most of their projections. We reviewed these omissions with Management, together with the corresponding assumptions, and the integrated model was amended as required, with Management's agreement. The final integrated cash flow worksheets at that point represent the "Base Model", which is Management's view.
- We then advised Management that there were four particular assumptions which should be sensitized.
- In this regard, we created the ability to sensitize four particular assumptions to evaluate the impact of each on the Base Model. We discuss the sensitivity adjustments later in this section of the Report.
- We reviewed the sensitivities with Management. In this regard, while Management believed the sensitivities were overly conservative compared to the Base Model, they believed that they could implement four key cash flow preservation Levers (the "Levers") which could be enacted to facilitate the preservation of cash flow within the FL Group.



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# Base Model Summary

- The following table summarizes the results of the Base Model, combined for all of the LPs and companies within the FL Group:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Operating cashflows (after debt)** | **$ (3,140,135)** | **$ 12,008,832** | **$ 19,856,303** |
| Capital Expenditures | (15,078,499) | (15,571,160) | (4,390,266) |
| Cashflows before distributions | (18,218,633) | (3,562,328) | 15,466,037 |
| Debt Distributions | (7,455,414) | (4,942,863) | (4,705,346) |
| Cashflows before equity distributions | (25,674,048) | (8,505,191) | 10,760,691 |
| Equity Distributions | (10,204,068) | (12,441,726) | (12,511,524) |
| Cashflows before financing | (35,878,115) | (20,946,917) | (1,750,833) |
| Financing | 45,953,579 | 16,085,145 | 4,780,531 |
| **Ending cashflows** | **$ 10,075,464** | **$ (4,861,772)** | **$ 3,029,698** |
| **Accumulated Cash balance** | **$ 10,075,464** | **$ 5,213,692** | **$ 8,243,389** |

- For the purpose of this Report, "operating cash flows" refers to net operating income after third party and related party debt servicing and estimated income taxes owing for FLWM.
- Based on the above results, we would note the following:
  - The significant growth in operating cash flows is attributed primarily to FLWM fees on new capital raised, positive WALP cash flows once the capital rehab program is complete, income from FL Group's ownership in Beverages and Primetime and a full year of the FL Group owning 3 properties in Global and Venture;
  - Capital expenditures include the Victoria St. Building development in FLEX (over 60% of the total), capital rehab programs primarily in WALP and ongoing maintenance capex;
  - There is approximately $116.8M in investor debt at an average interest rate of 6.4%;
  - There is approximately $164.3M in investor equity at an average distribution rate of 6.2%;
  - Financing includes the following:
    - Actual capital raised in the first six months of 2011;
    - Forecasted capital required only for FLEX, Global and Venture;
    - $5M of new unsecured, subordinated debt in WALP;
    - The fees paid to FLWM on raising the capital; and
    - The December 31, 2010 working capital balances adjusted for material transactions that occurred in the first half of 2011.
- Management is forecasting to generate positive operating cash flows (net of debt servicing) in 2012 and 2013.
- Approximately 78% of the existing working capital balances and invested capital raised in 2011 will go towards funding all of the distributions and capital expenditures in 2011.
- If we assume 100% of the capital expenditures in 2012 are financed through capital raises or current working capital balances in 2012, the operating cash flows will cover all of the debt distributions and 57% of the equity distributions.
- If we assume the same for 2013, the operating cash flows will cover both the debt and equity distributions.
- Based on Management's Base Model, If there are no further capital rehab's (beyond 2013) and the assets continue to generate operating cash flows at the forecasted 2013 levels, the FL Group anticipates that it will generate enough cash to pay for all of their distributions into the foreseeable future.

# Operating Cash Flows in Base Model

- The following table highlights the operating cash flows (net of third party debt servicing) for all of the LPs:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Operating Cashflows** | | | |
| FLWM | $ 1,616,046 | $ 5,859,144 | $ 8,210,228 |
| FLEX | 585,302 | 1,265,807 | 2,191,833 |
| WALP | (1,160,130) | 3,250,984 | 5,453,620 |
| Realty | 236,045 | 236,045 | 236,045 |
| Acquisitions | 46,378 | 46,378 | 46,378 |
| Investors | (157,428) | 46,841 | 73,560 |
| Progressive | (281,934) | 526,650 | 1,113,839 |
| Universal | (418,800) | 195,887 | 272,550 |
| Venture | (3,953,408) | (1,228,162) | (348,578) |
| FLWM Holdings | (668,728) | 194,384 | 938,169 |
| Spring Valley | (67,397) | (67,397) | (67,397) |
| Select | 9,742 | 9,742 | 9,742 |
| Elite | 142,368 | 142,368 | 142,368 |
| Global | 208,712 | 807,066 | 860,849 |
| Premier | 160,335 | 160,335 | 160,335 |
| Ultimate | 74,628 | 74,628 | 74,628 |
| Visions | (108,939) | (108,939) | (108,939) |
| Mortgage Fund | 597,073 | 597,073 | 597,073 |
| | $ (3,140,135) | $ 12,008,832 | $ 19,856,303 |

- These numbers include investment property operating income or losses, income taxes (for FLWM) and all debt servicing (both related party balances and third party mortgages (principal and interest) payments.

- The following notes highlight the material factors included in the adjacent operating cash flow summary:
  - **FLWM:** (1) Includes acquisition fees earned on new Real Estate capital raised, which is assumed to be approximately 17.5% of $64M, $74M and $85M, over the next three years; (2) owns 35% of Beverages, which is forecasted to generate a cash deficit of $3.1M in 2011 and a cash surplus of $1.7M in 2012 and $8.1M in 2013; and (3) owns 33% of Retirement, which is forecasted to generate a cash deficit of $1.6M in 2011 and a cash surplus of $465K in 2012 and $720K in 2013.
  - **FLEX:** The Victoria Street office building is expected to be completed and occupied (by FLWM) in September 2012, with a NOI (after third party debt) of approximately $1.2M;
  - **WALP:** The capital rehab is expected to be finished in 2012 and as a result the total NOI is expected to double in 2012 and grow again by 25% in 2013;
  - **Investors:** The Harmony townhome complex is currently undergoing a capital rehab which is expected to be completed in 2012, at which point the NOI is expected to grow substantially;
  - **Progressive:** owns, among other investments, 8.34% of Beverages and 20% of Retirement;
  - **Universal:** owns 30% of Retirement;
  - **Venture:** FLWM is expecting to close the deal to acquire Palisades and Redwoods retirement residences in Ottawa by August 26, 2011. As part of the deal, they need to pay a balloon debt payment on December 31, 2011 of $4.4M;
  - **FLWM Holdings:** owns 10.91% of Beverages and 17% of Retirement;
  - **Global:** FLWM is expecting to close the deal to acquire Heather Glen in Orlando ($25.5M) by October 2011.



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# Capital Expenditures in Base Model

- The following table highlights the capital expenditures forecasted to be incurred for all of the LPs:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Capital expenditures** | | | |
| FLWM | $ (50,000) | $ (50,000) | $ (3,014,216) |
| FLEX | (9,636,147) | (12,160,470) | - |
| WALP | (4,976,196) | (2,490,209) | (613,000) |
| Realty | - | - | - |
| Acquisitions | - | - | - |
| Investors | (203,095) | (136,500) | - |
| Progressive | (2,500) | - | - |
| Universal | - | - | - |
| Venture | (136,125) | (428,794) | (450,234) |
| FLWM Holdings | - | - | - |
| Spring Valley | - | - | - |
| Select | - | - | - |
| Elite | - | - | - |
| Global | (74,436) | (305,186) | (312,816) |
| Premier | - | - | - |
| Ultimate | - | - | - |
| Visions | - | - | - |
| Mortgage Fund | - | - | - |
| | **$ (15,078,499)** | **$ (15,571,160)** | **$ (4,390,266)** |

- The following notes highlight the material factors included in the adjacent capital expenditure summary:
  - **FLWM:** The $3M expenditure in 2013 relates to leasehold improvements expected to be incurred for the Victoria St. Building
  - **FLEX:** Construction costs incurred between June 30, 2011 and August 2012 on the Victoria St. Building ;
  - **WALP:** They expect to incur approximately $7.2M in additional capital rehab in 2011 and 2012. Once complete, annual maintenance capex is expected to be $250 per unit (there are over 2000 units within the WALP portfolio);
  - **Investors:** The Harmony townhome complex is currently undergoing a capital rehab which is expected to be completed in 2012;
  - **Venture:** Small capital rehab costs and maintenance capex for the deal expected to close August 26, 2011;
  - **Global:** Small capital rehab costs and maintenance capex for the deal expected to close October 2011;



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# Debt Distributions in Base Model

- The following table highlights the debt distributions forecasted to be incurred for all of the LPs:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Debt Distributions** | | | |
| FLWM | $ (1,283,227) | $ (1,283,227) | $ (1,283,227) |
| FLEX | (963,251) | (250,700) | (13,183) |
| WALP | (4,432,253) | (2,632,253) | (2,632,253) |
| Realty | - | - | - |
| Acquisitions | - | - | - |
| Investors | (39,375) | (39,375) | (39,375) |
| Progressive | (40,500) | (40,500) | (40,500) |
| Universal | - | - | - |
| Venture | - | - | - |
| FLWM Holdings | - | - | - |
| Spring Valley | - | - | - |
| Select | - | - | - |
| Elite | - | - | - |
| Global | - | - | - |
| Premier | - | - | - |
| Ultimate | - | - | - |
| Visions | - | - | - |
| Mortgage Fund | (696,808) | (696,808) | (696,808) |
| | **$ (7,455,414)** | **$ (4,942,863)** | **$ (4,705,346)** |

- The following notes highlight the material factors included in the adjacent debt distribution summary:
  - **FLWM:** As at June 30, 2011 FLWM had raised $18.3M at a 7% distribution rate;
  - **FLEX:** As at June 30, 2011 FLEX had raised $12.4M at a 7.75% distribution rate. Management is expecting to convert 75% of the debt holders in to equity in 2012 and the balance in 2013;
  - **WALP:** As at June 30, 2011 WALP had raised $43.3M at 9% in FL Fund, $14.4M at 9% in FL Properties Fund, $9.3M at 8% in Wimberly Fund and $1.2M in Wimberly II Fund at 7%. Management intends to convert approximately $20M of the FL Fund debt into equity at the end of 2011;
  - **Investors:** As at June 30, 2011 FLWM had raised $656K at a 6% distribution rate;
  - **Progressive:** As at June 30, 2011 FLWM had raised $675K at a 6% distribution rate; and
  - **Mortgage Fund:** As at June 30, 2011 FLWM had raised $11.6M at a 6% distribution rate.

# Equity Distributions in Base Model – cont'd

- The following table highlights the equity distributions forecasted to be incurred for all of the LPs:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Equity Distributions** | | | |
| FLWM | $ (2,612,325) | $ (2,612,325) | $ (2,612,325) |
| FLEX | (1,855,673) | (2,409,017) | (2,537,736) |
| WALP | (1,812,893) | (2,687,893) | (2,687,893) |
| Realty | (215,161) | (215,161) | (215,161) |
| Acquisitions | (168,196) | (168,196) | (168,196) |
| Investors | (399,250) | (399,250) | (399,250) |
| Progressive | (894,624) | (894,624) | (894,624) |
| Universal | (347,939) | (347,939) | (347,939) |
| Venture | (240,143) | (873,808) | (981,719) |
| FLWM Holdings | - | - | - |
| Spring Valley | (172,724) | (172,724) | (172,724) |
| Select | (255,330) | (145,903) | (145,903) |
| Elite | (466,108) | (266,347) | (266,347) |
| Global | (161,612) | (646,450) | (646,450) |
| Premier | (389,275) | (389,275) | (222,443) |
| Ultimate | (212,814) | (212,814) | (212,814) |
| Visions | - | - | - |
| Mortgage Fund | - | - | - |
| | **$ (10,204,068)** | **$ (12,441,726)** | **$ (12,511,524)** |

- The following table summarizes the equity capital raised to date as well as the capital raise assumptions used in the Base Model:

| | As at June, 30, 11 | Equity Raised 2011 | Equity Raised 2012 | Equity Raised 2013 | Distribution rate |
|---|---|---|---|---|---|
| FLWM - Pref I | $ 8.5 | $ - | $ - | $ - | 8.75% |
| FLWM - Pref II | 22.1 | - | - | - | 6.75% |
| FLEX | 22.4 | 10.4 | 4.9 | - | 4.75% |
| WALP | 45.6 | - | - | - | 2.75% |
| Realty | 4.5 | - | - | - | 3.50% |
| Acquisitions | 1.8 | - | - | - | 8.25% |
| Investors | 6.7 | - | - | - | 4.75% |
| Progressive | 14.9 | - | - | - | 4.75% |
| Universal | 5.8 | - | - | - | 4.75% |
| Venture | 0.9 | 13.5 | 2.8 | 1.8 | 3.75% |
| FLWM Holdings | 3.0 | - | - | - | 0.00% |
| Spring Valley | 2.2 | - | - | - | 6.75% |
| Select | 3.6 | - | - | - | 5.75% |
| Elite | 6.7 | - | - | - | 5.75% |
| Global | 0.8 | 8.4 | - | - | 5.75% |
| Premier | 5.6 | - | - | - | 5.75% |
| Ultimate | 3.0 | - | - | - | 5.75% |
| Visions I & II | 4.2 | - | - | - | 0.00% |
| Mortgage Fund | - | - | - | - | 0.00% |
| | **$ 162.1** | **$ 32.4** | **$ 7.7** | **$ 1.8** | |

- **FLEX:** Management is expecting to convert 50% of the debt holders to 6% equity in 2012 and the other 50% to 4% equity in 2012 and 2013;
- **WALP:** Management intends to convert approximately $20M of the FL Fund debt into equity at 4.375% at the end of 2011.



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# Financing in Base Model

- The following table highlights the financing activities each LP is projected to undergo over the next three years:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Financing** | | | |
| FLWM | $ 12,599,990 | $ - | $ - |
| FLEX | 11,869,769 | 13,554,380 | 3,000,000 |
| WALP | 11,625,428 | - | - |
| Realty | 49,653 | - | - |
| Acquisitions | (34,126) | - | - |
| Investors | 741,541 | - | - |
| Progressive | 741,212 | - | - |
| Universal | 131,670 | - | - |
| Venture | 4,329,676 | 2,530,764 | 1,780,531 |
| FLWM Holdings | (911,600) | - | - |
| Spring Valley | 140,051 | - | - |
| Select | 27,898 | - | - |
| Elite | 45,894 | - | - |
| Global | 27,336 | - | - |
| Premier | 40,374 | - | - |
| Ultimate | 904,370 | - | - |
| Visions | 967,674 | - | - |
| Mortgage Fund | 2,656,771 | - | - |
| | $ 45,953,579 | $ 16,085,145 | $ 4,780,531 |

- The following notes highlight the material factors included in the adjacent financing summary:

**<u>Capital Raising</u>**

- **FLWM:** raised $6.4M in the first half of 2011;
- **FLEX:** is projected to raise $11.5M and $5.5M in equity (and/or debt drip's) in 2011 and 2012 as well as secure construction financing of $9M in 2012 and an additional $3M (refinanced into a mortgage) in 2013;
- **WALP:** raised $798K in the first three months of 2011 and Management is forecast to raise $5M of unsecured, subordinated debt in 2011;
- **Progressive:** raised $675K in the first half of 2011;
- **Venture:** is projected to raise $14.4M, $3.1M and $2.16M in equity over the next three years;
- **FLWM Holdings:** raised $2.99M in the first half of 2011;
- **Global:** is projected to raise $9.3M in equity in 2011;
- **Mortgage Fund:** raised $1.56M in the first half of 2011;
- All amounts above (except for amounts raised in FLWM, Progressive and Mortgage Fund) would attract the 17.5% fee paid to FLWM, which in aggregate equates to approximately $6.6M, $1.6M and $378K over the next three years.

**<u>Working Capital Balances</u>**

- The remaining financing dollars come from the estimated June 30, 2011 working capital balances.
- This does not include any related party receivables or payables.

# Summary of Ending Cash Flows in Base Model

- The following table highlights the annual ending cash position for each LP:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Ending cash flows** | | | |
| FLWM | $ 10,270,484 | $ 1,913,591 | $ 1,300,459 |
| FLEX | - | - | 2,640,914 |
| WALP | (756,044) | (4,559,372) | (479,526) |
| Realty | 70,538 | 20,884 | 20,884 |
| Acquisitions | (155,944) | (121,818) | (121,818) |
| Investors | (57,607) | (528,284) | (365,065) |
| Progressive | (478,346) | (408,474) | 178,715 |
| Universal | (635,070) | (152,052) | (75,390) |
| Venture | - | - | - |
| FLWM Holdings | (1,580,328) | 194,384 | 938,169 |
| Spring Valley | (100,070) | (240,121) | (240,121) |
| Select | (217,689) | (136,160) | (136,160) |
| Elite | (277,846) | (123,980) | (123,980) |
| Global | (0) | (144,570) | (98,416) |
| Premier | (188,567) | (228,940) | (62,108) |
| Ultimate | 766,184 | (138,186) | (138,186) |
| Visions | 858,735 | (108,939) | (108,939) |
| Mortgage Fund | 2,557,036 | (99,735) | (99,735) |
| | $ 10,075,464 | $ (4,861,772) | $ 3,029,698 |

- We would note the following:
  - Due to large, unfunded shortfalls in WALP in 2011 and 2012, the FL Group in aggregate, generates a cash deficit of $4.8M in 2012;
  - In 2013, only FLWM, FLEX, Realty, Progressive and FLWM Holdings can cover their distributions. All other LP deficiencies will be funded by FLWM;
  - The positive cash balance in FLEX is due primarily to the refinancing of the construction loan from $9M to $12M;
  - The high cash balance in FLWM, Progressive and FLWM Holdings is due to the increased growth in Beverages, according to the Base Model;
  - FLWM is forecasted to have enough cash flow to cover the cash shortfalls in each of the cash deficient LPs for the forecasted period.

# Summary of Ending Accumulated Cash Balances in Base Model

- The following table highlights the accumulated cash balances for each LP:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Accumulated ending cash balance** | | | |
| FLWM | $ 5,822,972 | $ 1,287,175 | $ 2,001,935 |
| FLEX | - | - | 2,640,914 |
| WALP | - | - | - |
| Realty | 70,538 | 91,422 | 112,307 |
| Acquisitions | - | - | - |
| Investors | - | - | - |
| Progressive | - | - | - |
| Universal | - | - | - |
| Venture | - | - | - |
| FLWM Holdings | - | - | - |
| Spring Valley | - | - | - |
| Select | - | - | - |
| Elite | - | - | - |
| Global | - | - | - |
| Premier | - | - | - |
| Ultimate | 766,184 | 627,998 | 489,812 |
| Visions | 858,735 | 749,795 | 640,856 |
| Mortgage Fund | 2,557,036 | 2,457,301 | 2,357,566 |
| | $ 10,075,464 | $ 5,213,692 | $ 8,243,389 |

- The above table illustrates the effect of assuming that FLWM will cover the cash shortfalls in all of the cash deficient LPs.
- It also assumes that any LPs with a cash surplus will keep their surplus and it will not be loaned back into the FL Group.

# Base Model Assumptions

- The Base Model contains significant assumptions surrounding the timing and quantum of operating income or loss, capital expenditures, distributions, financing requirements and capital raising. As aforementioned, many of the assumptions had to be interpreted and documented as projections were received. We were of the view that certain assumptions in the Base Model had to be sensitized, as the projections were not fully supported by the information presented, nor historical trends.

**Assumptions to be Sensitized**

1. **Annual Capital Raisings:** The Base Model assumes FLWM will raise approximately $64M, $74M and $85M from 2011 through 2013, respectively. FLWM earns 17.5% on each of these amounts which is one of the largest positive income streams within the FL Group. Should the FL Group not achieve its target of raising this amount of capital by a material amount, it will have an impact on the Company's ability to fund new projects, as well as reduce the amount of fee revenue in FLWM.
2. **WALP operating projections:** Management assumes that once the capital rehab programs are complete, each property within the WALP portfolio will lease-up to 95% occupancy (in approximately 1.5 years at the outset) and that rental rates will increase by 6% every 6 months.
3. **Beverages operating projections:** The FL Group acquired approximately 54% of Beverages in 2011 and has plans to acquire new production equipment and a new facility for the King Brewery in the next two years. The capital expenditures (as well as the addition of 8 new salespeople) are expected to fuel revenue growth of 250% and 110% in 2012 and 2013, respectively.
4. **No idle cash:** The Base Model assumes no movement of funds between LPs and also assumes that any new capital raised (with the exception of FLEX, Global and Venture) is immediately spent on a cash neutral investment. For instance, in some of the blind pools, capital would typically be raised several months before it was placed resulting in idle cash sitting in the bank earning 3% while the LP was required to pay distributions of 6% to its unit holders.

# Base Model Assumptions – cont'd

**Further Assumptions**

- The following additional assumptions were made by Management throughout the Base Model:
  - Of the existing LPs, Management will only raise capital for FLEX, Global and Venture as these three LPs have investment properties with financing requirements.
  - Capital raised over the next three years that is not forecasted to be allocated to FLEX, Global and Venture would be directed to new investments that are entirely cash neutral. This means that the operating cash flows of each new investment will generate precisely an equal amount of revenue to cover all of the operating expenses as well as debt servicing, capital expenditures and investor capital distributions.
  - All related party balances attract the 7% interest income or expense.
  - Management will close both the Global and the Venture acquisitions by the end of 2011.
  - The US to Canadian dollar exchange is 1:1.
  - There will be no dividends paid out on the common shares of FLWM.
  - The Victoria St. Building will be completed and fully occupied by September 2012, with no cost overruns and will be financed by invested capital and third party mortgages/construction loans.
  - Management will convert the Select and Elite unit holders from 7% equity to 4% equity in WALP in 2012 and Premier in 2013.
  - Management will convert all of the FLEX debt holders (approximately $12.4M), with a distribution rate of 7.75% into equity holders with a distribution rate of 6% and 4% by 2013.
  - Approximately $20M of the 9% debt holders in FL Fund (approximately $43M in Master Texas) will convert to WALP equity of 4.375%.
  - Management will raise unsecured, subordinated debt of $5M, with restricted repayment terms and no cash payments during the term, in order to shore up a portion of the recurring WALP cash flow deficiency.
  - FLWM will spend approximately $1M less in 2012 and 2013 on professional fees and $500K less in 2012 and 2013, on their annual employee retreat.
  - There will be no further inter LP movement of funds in order to meet its cash flow requirements.
  - Any cash surplus generated in FLWM, will go towards financing any cash shortfalls in the cash deficient LPs within the FL Group.
  - FLWM will charge and collect a 5% agency fee and 12.5% business development fee on all new real estate capital raised into the FL Group.
  - There will be no demands or repayment of the current intercompany loan balances.

# Model Sensitivities

### Overview

- As outlined on the previous pages, there were certain assumptions in the Base Model, that were not fully supported by the information presented, nor historical trends.
- A sensitivity analysis was therefore performed to stress test these four assumptions and analyze the impact on the FL Group cash flow.
- The following section discusses each of the four assumptions in detail, why we tested them and the impact on the ending cash flows of the FL Group:

### Annual Capital Raisings

- The Base Model assumes FLWM will raise $64M, $74M and $85M in 2011 through 2013, respectively.
- This would generate revenues in FLWM of approximately $11.2M, $13M and $15M.
- In concluding on an appropriate sensitivity assumption, we considered the following:
  - Management has raised $63.7M and $64.7M in 2009 and 2010 respectively.
  - The FL Group has raised $12.9M in the first six months of 2011 (and an additional $7.52M in July 2011).
  - Management advised that because the investors are primarily looking for the tax benefits the majority of their capital raises occur in the last quarter of the year.
  - Management believes that as the AUM and the number of investors continue to grow, it may become easier to raise capital.
- As a result, we reduced each years' anticipated capital raise by 10%, which had the following impact on the Base Model:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $ (948,378) | $ (1,186,404) | $ (1,461,120) |
| Impact on Accumulated Cash Balance | $ (948,378) | $ (2,134,783) | $ (3,595,903) |

### No Idle Cash

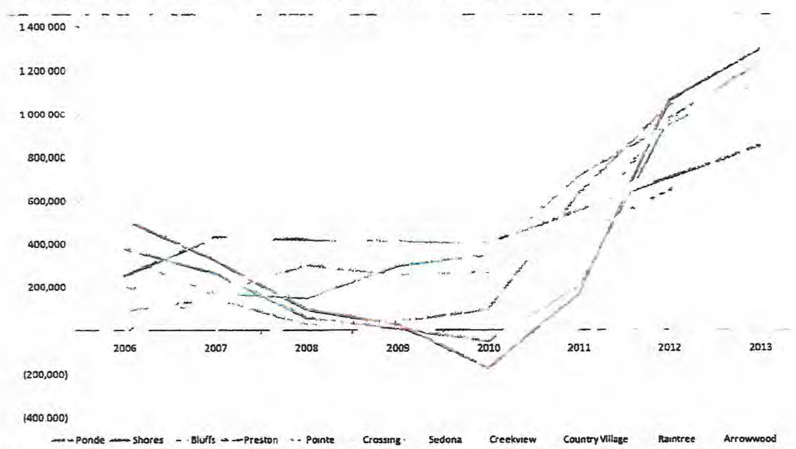
- The Base Model assumes there is no movement of funds between LPs but it also assumes Management can buy a positive cash flow generating asset immediately.
- We considered this to be a sensitive assumption and considered the following when determining an appropriate sensitivity assumption:
  - In the past, Management has often raised capital before they had an asset in which to invest.
  - It is typically harder to find cash neutral real estate deals that fit into First Leaside's Investment Model.
  - There are several short term, risk free investment options in the market, with average returns between 1% to 3%.
  - The typical distribution rate that the FL Group is offering is 6%.
- As a result, we adjusted the idle cash assumption to reflect any new capital raised would sit idle for six months, generating a 3% return and paying a 6% distribution to its investors, which had the following impact on the Base Model:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $ (276,891) | $ (981,482) | $ (1,247,280) |
| Impact on Accumulated Cash Balance | $ (276,891) | $ (1,258,373) | $ (2,505,653) |

# Model Sensitivities – cont'd

### WALP Operating Projections

- Management is forecasting the WALP portfolio to generate NOI of $4.6M, $9.0M and $11.2M for each of the next three years, respectively.
- The following graph illustrates the NOI progression of each of the WALP properties from 2006 through the forecasted period:




- Management is forecasting a sharp incline in the NOI over the next three years. The highest NOI the portfolio has generated was in 2009 at $2.7M. Management is forecasting 2011-2013 to be 1.6x, 3.2x, and 4x greater than 2009 levels respectively.
- When comparing the actual results of 2006 through 2010 to the forecast period, it is important to note the following:
  - Ponde, Shores, Pointe and Crossing have undergone a capital rehab program since 2007 and as a result their NOI has suffered;
  - The forecasted years reflect the NOI of a newly rehabbed portfolio of properties as opposed to the pre-rehab properties in 2007 through 2010.
- Management's assumptions are taking into consideration the effects of the current rehab program and how the market will react to the newly renovated assets once the rehab is complete (increased occupancy and higher rental rates).

### Capital Rehab

- Most of the properties within WALP have either commenced, at some point in the past five years, or are undergoing a capital rehabilitation project.
- A typical capital rehab involves changing the floors, upgrading the kitchen, installing new appliances, and cleaning / installing (when necessary) the bathroom facilities. This can cost up to $15,000 per residential unit and to date, the WALP portfolio has averaged $6,700 per unit.
- The following table summarizes the total capital rehab for the WALP portfolio, including what has been spent from 2007 through June 2011 and what is expected to be spent in the forecasted period according to Management:

| | | Rehab Costs | | % | Completion |
|---|---|---|---|---|---|
| | # of Units | Already spent | To be spent | Completion | Date |
| Ponde | 244 | $ 3,097,845 | $ 645,467 | 83% | Sep 11 |
| Shores | 236 | 2,251,285 | 575,587 | 80% | Mar 12 |
| Bluffs | 233 | 48,568 | 711,932 | 6% | Feb 13 |
| Preston | 112 | 70,718 | 609,215 | 10% | Dec 12 |
| Pointe | 208 | 1,568,484 | 182,598 | 90% | Sep 11 |
| Crossing | 212 | 1,566,926 | 175,382 | 90% | Sep 11 |
| Sedona | 240 | - | - | n/a | n/a |
| Creekview | 144 | 52 | 740,948 | 0% | Aug 12 |
| Country Village | 148 | 16,716 | 629,284 | 3% | Aug 12 |
| Raintree | 144 | 8,994 | 651,006 | 1% | Aug 12 |
| Arrowwood | 200 | 42 | 724,958 | 0% | Aug 12 |
| | 2121 | $ 8,629,630 | $ 5,646,378 | 60% | |

- Ponde, Shores, Pointe and Crossing have nearly completed their rehab, while Bluffs, Preston and the Master Sherman properties are in the beginning phases of theirs.
- The Sedona property is not expected to undergo any rehabilitation as a rehab as the impact is not expected to be beneficial due. Management advised that it is currently contemplating the sale of the Sedona property, but it has not yet been listed.
- In order to successfully rehab a building, the property manager (in this case it is a third party company, Leaders Corporation, that manages the WALP portfolio) must vacate each unit to perform the work. As a result, tenants are either moved around the complex or are sometimes lost to competing complexes.



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# Model Sensitivities – cont'd

- This typically leads to lower occupancy rates during a rehab as well as lower rental rates.

## Occupancy and Rental Rates

- The following table summarizes the average occupancy rate, the average rental rate and the estimated market rate for each property:

| | # of Units | Current Occupancy % | Current Rent Rate | Est. Market Rate | Lease Differential |
|---|---|---|---|---|---|
| Ponde | 244 | 52.0% | $ 587 | $ 715 | -18.0% |
| Shores | 236 | 50.4% | $ 617 | $ 723 | -14.7% |
| Bluffs | 233 | 72.2% | $ 542 | $ 552 | -1.9% |
| Preston | 112 | 82.1% | $ 868 | $ 809 | 7.3% |
| Pointe | 208 | 85.6% | $ 630 | $ 696 | -9.5% |
| Crossing | 212 | 85.4% | $ 601 | $ 643 | -6.5% |
| Sedona | 240 | 52.9% | $ 516 | $ 530 | -2.7% |
| Creekview | 144 | 87.5% | $ 631 | $ 723 | -12.7% |
| Country Village | 148 | 89.2% | $ 559 | $ 660 | -15.4% |
| Raintree | 144 | 81.9% | $ 574 | $ 629 | -8.7% |
| Arrowwood | 200 | 84.5% | $ 486 | $ 595 | -18.4% |
| | 2121 | **72.5%** | **$ 588** | **$ 653** | **-9.9%** |

- The negative lease differential represents the discount at which each property is currently renting.
- The occupancy rates range from 50% to 89% throughout the WALP portfolio.
- Ponde and Shores have undergone extensive rehab projects and as a result are only 52% and 50% occupied and charging rents at an 18% and 14% discount to market.
- Bluffs and Preston are located in two of the nicer neighbourhoods and although they are just starting their rehab, they are still charging rental rates close to market.
- Pointe and Crossing are slightly ahead of Ponde and Shores and have already started filling the empty units that were vacated for the rehab and are generating close to market rents on these newly vacated units.
- Sedona is not being renovated and as a result is only 53% occupied.
- The Master Sherman properties are relatively full but have been charging rental rates at an average discount to market of 13% as the buildings are old and in need of a rehab.

## Comparison of Actual to Budget

- We received the actual rent roll for the portfolio for the first six months of 2011 and compared it to the forecasted numbers in the Base Model.
- The following table summarizes the six month results:

| | Net Revenues | | | Net Operating Income | | |
|---|---|---|---|---|---|---|
| | Actual | Budget | % | Actual | Budget | % |
| Ponde | $ 444,593 | $ 460,957 | 96% | $ (16,120) | $ (6,224) | n/a |
| Shores | 333,478 | 382,683 | 87% | (71,152) | (42,366) | n/a |
| Bluffs | 545,395 | 570,699 | 96% | 115,191 | 142,520 | 81% |
| Preston | 445,427 | 366,006 | 122% | 184,644 | 236,079 | 78% |
| Pointe | 736,428 | 777,183 | 95% | 309,062 | 309,953 | 100% |
| Crossing | 705,655 | 740,878 | 95% | 191,981 | 222,954 | 86% |
| Sedona | 367,956 | 366,006 | 101% | (89,722) | (88,304) | n/a |
| Creekview | 496,027 | 511,016 | 97% | 197,160 | 208,321 | 95% |
| Country Village | 491,221 | 510,716 | 96% | 223,192 | 234,816 | 95% |
| Raintree | 449,052 | 484,495 | 93% | 119,341 | 183,499 | 65% |
| Arrowwood | 538,029 | 555,847 | 97% | 180,044 | 186,214 | 97% |
| | **$ 5,553,261** | **$ 5,726,486** | **97%** | **$ 1,343,622** | **$ 1,587,462** | **85%** |

- For the first six months of 2011, the WALP portfolio is achieving 97% of the net revenues and 85% of the forecasted NOI.
- The bulk of the growth came in the earlier months and through April, May and June the actual numbers have started to move away from the budgeted numbers.



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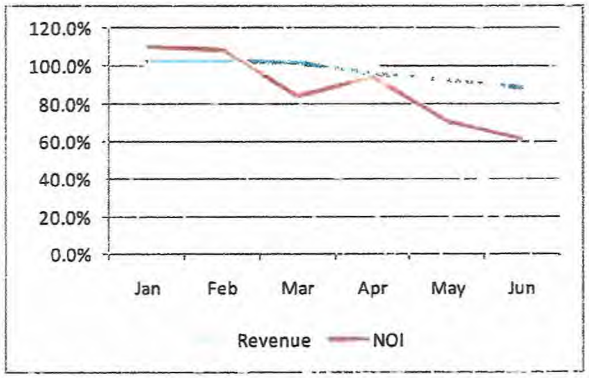
# Model Sensitivities – cont'd

- The following graph shows progression of the monthly Net Revenue and Net Operating Income actual to budget %'s:




- Actual net revenues and NOI were 102% and 110% of budget in January 2011 but have since fallen to 88% and 62% in June.
- The dollar figures have remained steady over the six months and have not grown as quickly as Management had predicted in its Base Model.
- As at June 30, 2011 the WALP portfolio has generated a total NOI of $1.32M, which is approximately 29% of the forecasted 2011 NOI.

**WALP Portfolio Appraisals**

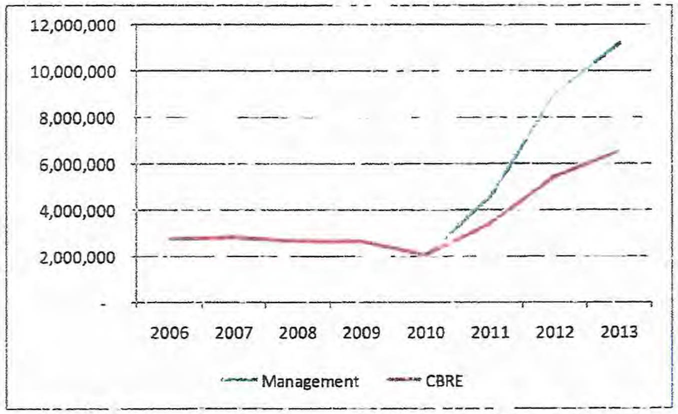
- We then looked at the draft WALP appraisals prepared by CBRE and Blakes;
- The valuation date for the CBRE appraisals is January 1, 2011 and for the Blakes appraisals it is October 1, 2010.
- The total portfolio value in the Blakes appraisal is approximately 12% higher than the appraised value in the CBRE appraisal.
- Each appraisal undergoes a similar valuation methodology and each appraisal opines on their expected level of NOI for each property with consideration given for the rehab project in the Master Texas properties.
- The point of the sensitizing exercise is to measure the impact certain scenarios will have on the FL Group's net cash flow position. With that in mind, we deemed it more appropriate to use the more conservative numbers in evaluating Management's operating forecast.
- The CBRE appraisal provides its views as to what the Stabilized NOI will be, which is defined as annual NOI once the capital rehab project is complete and the property is 92% occupied.
- The following table summarizes CBRE's Stabilized NOI's (in blue) while we estimated what the annual NOI's would be during the rehab project (based on a straight line progression between the actual 2010 figures and the Stabilized NOI). For the NOI figures beyond the Stabilized value we assumed an annual rental rate increase of 3% (which was said to be appropriate by the CBRE appraiser):

| | Actual | Forecast | | |
|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** |
| **NOI** | | | | |
| Ponde | $ (50,298) | $ 116,815 | $ 451,040 | $ 701,436 |
| Shores | (173,148) | 105,176 | 661,824 | 940,148 |
| Bluffs | 267,542 | 361,619 | 549,772 | 643,849 |
| Preston | 399,227 | 437,914 | 515,287 | 528,182 |
| Pointe | 347,844 | 533,107 | 718,370 | 739,921 |
| Crossing | 95,574 | 230,967 | 501,753 | 637,146 |
| Sedona | (210,890) | (80,108) | 181,456 | 443,020 |
| Creekview | 386,489 | 499,476 | 514,460 | 529,894 |
| Country | 392,080 | 461,515 | 475,360 | 489,621 |
| Raintree | 315,699 | 358,597 | 401,495 | 413,540 |
| Arrow Wood | 324,884 | 455,219 | 468,876 | 482,942 |
| | **$2,095,001** | **$ 3,480,296** | **$ 5,439,693** | **$ 6,549,699** |

- We would note that the CBRE appraisals do not contemplate any rehab being done on the Master Sherman properties.

# Model Sensitivities – cont'd

- The following graph illustrates the difference between management's NOI forecast and the NOI forecast suggested by the numbers contained in CBRE's draft appraisal:




- The major differences between the two are as follows:
  - CBRE assumes an annual rental rate increase of 3%, whereas Management assumes 6% every six months;
  - CBRE assumes the Master Sherman properties will not undergo a rehab, while Management does (no rehab project has been undertaken on Master Sherman to date);
  - CBRE assumes a stabilized occupancy of 92%, while Management assumes 95%; and
  - CBRE assumes it will take, on average, 12 months longer to reach a stabilized rent than what management projects.
- As at June 30, 2011 the WALP portfolio has generated a total NOI of $1.32M, which is approximately 39% of the CBRE 2011 NOI.
- After analyzing all of the WALP portfolio data, comparing it to Management's projections, reviewing both the Blakes and CBRE appraisals and interviewing the appraiser from CBRE, we determined the most appropriate sensitivity scenario would be to apply the NOI forecast suggested by the numbers contained in the CBRE's draft appraisal.
- In doing so, we also removed the $2.8M of capital rehab costs for Master Sherman and replaced this with approximately $200K (as maintenance capex).
- The impact this sensitively adjustment has on the FL Group's ending cash flows is as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $ 522,528 | $ (2,561,946) | $ (4,684,577) |
| Impact on Accumulated Cash Balance | $ 522,528 | $ (2,039,418) | $ (6,723,994) |



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# Model Sensitivities – cont'd

## Beverages Operating Projections

- Management is expecting significant revenue and NOI growth during the forecasted period for Beverages, of which the FL Group owns 54%.
- In 2011, the Beverages group is forecasted to generate a net operating loss of $804K,with debt distributions of $60K. At the time of the Report, Management had not yet received the year to date numbers to corroborate whether 2011 is on track or not.
- Beverages has significant capital expenditures budgeted in 2011 including the acquisition of new machinery and moving to a larger premises. Due to the limited historical information available, GTL determined that, for the purposes of sensitizing the model, the significant growth in Beverages should be removed from the Base Model.
- We then considered whether Beverages could continue to generate a net operating loss, which is consistent with the current circumstances. As a result, we determined the most appropriate sensitivity assumption would be to assume no capital expenditures would be completed and that the Beverages group will continue to operate at a break even point (less the debt distributions on the $1M mortgage)
- The impact this sensitively adjustment has on the FL Group's ending cash flows is as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $ 1,464,036 | $ (873,960) | $ (4,016,847) |
| Impact on Accumulated Cash Balance | $ 1,464,036 | $ 590,076 | $ (3,426,771) |

## Summary of Sensitivity Adjustments

- The following table illustrates the impact that each of our sensitivity adjustments has on the FL Group's ending cash flow and also summarizes the Base Model cash flow balances once the Base Model sensitivities are applied:

| | Sensitivity Adjustments | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| 1 | FLWM raises 10% less Real Estate capital than projected in each year of the forecast | $ (948,378) | $ (1,186,404) | $ (1,461,120) |
| 2 | Management takes 6 months to find LP investments, while the idle invested capital earns 3% returns and pays 6% distributions | (276,891) | (981,482) | (1,247,280) |
| 3 | Adjust WALP's projections to agree to projections based on CBRE's draft appraisal. Remove Master Sherman Capital rehab. | 522,528 | (2,561,946) | (4,684,577) |
| 4 | Beverages generates a $60K cash deficit each year. | 1,464,036 | (873,960) | (4,016,847) |
| 5 | Reduction of cash impact from 2nd Sensitivity, when all other sensitivities occur | 95,635 | 119,637 | 147,340 |
| | **Impact of Sensitivities on Ending Cashflow** | **$ 856,930** | **$ (5,484,155)** | **$ (11,262,483)** |
| | **Impact of Sensitivities on Acc. Cash Balance** | **$ 856,930** | **$ (4,627,226)** | **$ (15,889,709)** |

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Base Model Ending Cashflows | $ 10,075,464 | $ (4,861,772) | $ 3,029,698 |
| Sensitivity Adjustments | 856,930 | (5,484,155) | (11,262,483) |
| **Ending Cashflows** | **$ 10,932,393** | **$ (10,345,927)** | **$ (8,232,785)** |
| **Acc. Cash balance** | **$ 10,932,393** | **$ 586,466** | **$ (7,646,319)** |

# Management Levers

## Overview

- In the event that Management does not meet their forecasted results (including the sensitivity adjustments we highlighted in the previous section) we discussed with Management what operational adjustments or Levers they could implement to offset cash shortfalls.
- The following Levers were identified by Management, who in their view believe that implementation of all of the Levers would not have a material effect on its ability to achieve the remainder of the FL Group's projections in the ordinary course.
  1. Reduce the projected bonuses paid to Management and staff;
  2. FLWM would only lease two of the floors in the Victoria St. Building and FLEX would rent the other two floors and the basement to third parties;
  3. Starting in 2012, 100% of the distributions on units held by all Board and Trustee members will be reinvested, instead of paid out in a cash distribution; and
  4. Reduce the distribution rates on all of the debt and equity raised to date up to1.25%.
- Management advises that if they were faced with a situation where they do not meet their Base Model, the most likely course of action may include implementation of some portion of all of the Levers.

## Management Bonuses

- The following table summarizes the total salary and bonus for Management and staff over the last two years:

| | 2009 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Salary | Bonus | Total | Salary | Bonus | Total |
| David Phillips | $ 66 | $ - | $ 66 | $ 66 | $ - | $ 66 |
| Key Management | 512 | 1,573 | 2,086 | 516 | 1,594 | 2,110 |
| Staff | 2,073 | 1,965 | 4,037 | 2,324 | 1,915 | 4,239 |
| | $ 2,651 | $ 3,538 | $ 6,189 | $ 2,906 | $ 3,508 | $ 6,414 |

- We understand that the bonuses are not based on a set formula and are decided at the discretion of David Phillips.
- David does not receive a bonus as his remuneration is primarily in dividends. In 2010, David received approximately $1.035M in common share dividends. As afformentioned, the Base Model assumes no common share dividends going forward.
- Approximately $1.5M of the total bonus is non-cash bonuses such as FL Group units and RRSP matching (approximately 75% is for management), while the remaining $2M is paid in cash.
- Management believes, if required, they could cut 100% of the non-cash bonuses and 50% of the cash bonuses , resulting in an overall dreduction in bonuses of approximately 75%, without losing any staff.
- The impact this Management Lever adjustment has on the FL Group's ending cash flows is as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $2,231,250 | $ 2,550,000 | $ 2,550,000 |
| Impact on Accumulated Cash Balance | $2,231,250 | $ 4,781,250 | $ 7,331,250 |

# Management Levers – cont'd

**Lease Part of the Victoria St. Building to a Third Party**

- FLEX is currently developing a 58,000 sq ft, 4 floor office building in downtown Uxbridge. The building is being built with the intention of FLWM occupying the whole building (except for a small portion of the main floor being sublet to a gym)
- FLWM currently occupies approximately 8,000 sq ft of space across four different locations (2 small offices in downtown Uxbridge and two buildings on David's personal property in Uxbridge) with total occupancy costs of approximately $300K per year.
- The Victoria St. Building is projected in the Base Model to generate the following rent revenue:

| | Sq. Ft | Rent Rate | Rent Revenues |
|---|---|---|---|
| Base Rent | 46,653 | $ 38.50 | $ 1,796,150 |
| Additional Rent | 46,653 | $ 11.78 | $ 549,548 |
| | | | $ 2,345,697 |

- As per the "Q2, 2011 Cushman & Wakefield Weighted Average Gross Rental Rate Summary", a typical Class A office building in the Steeles and 404 and/or Hwy 7 and 404 area generates a gross rental rate of $28.98 / sq. ft.
- If FLWM were to only rent two of the four floors in the building, they could save approximately half of the $2.3M currently projected as a rent expense.
- We would note that if Management were to pursue this possibility, they would need to start looking for tenants shortly given the timeframe typically associated with leasing up commercial space.
- The impact this management lever has on the FL Group's ending cash flows is as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $ - | $ 332,307 | $ 996,921 |
| Impact on Accumulated Cash Balance | $ - | $ 332,307 | $ 1,329,229 |

- Given FLEX is developing, what appears to be one of the leading commercial buildings in the area and their current space utilization is substantially less than the 46,653 sq. ft it proposes to take on, Management should consider renting a portion of the building to a AAA tenant as a means to reduce its cash requirements in FLWM, as opposed to considering this solely as a Lever.

**Reinvestment of Board and Trustee Distributions**

- The following table summarizes the dollar value (in $M) of units and the percentage the Board and Trustee's own in FL Group:

| | Board Ownership | | | % of total capital | | |
|---|---|---|---|---|---|---|
| | Debt | Equity | Total | Debt | Equity | Total |
| FLWM | $ 0.75 | $ 2.88 | $ 3.63 | 3.9% | 8.8% | 7.0% |
| FLEX | 3.66 | 3.01 | 6.67 | 22.4% | 13.4% | 17.2% |
| WALP | 4.02 | 8.96 | 12.98 | 5.9% | 19.7% | 11.4% |
| Realty | - | 0.40 | 0.40 | - | 8.8% | 8.8% |
| Acquisitions | - | 0.31 | 0.31 | - | 17.7% | 17.7% |
| Investors | - | 1.51 | 1.51 | 0.0% | 22.6% | 20.6% |
| Progressive | - | 4.47 | 4.47 | 0.0% | 30.0% | 28.7% |
| Universal | - | 1.31 | 1.31 | - | 22.6% | 22.6% |
| Venture | - | - | - | - | 0.0% | 0.0% |
| FLWM Holdings | - | - | - | - | 0.0% | 0.0% |
| Spring Valley | - | 0.04 | 0.04 | - | 1.7% | 1.7% |
| Select | - | - | - | - | 0.0% | 0.0% |
| Elite | - | 1.23 | 1.23 | - | 18.5% | 18.5% |
| Global | - | 0.03 | 0.03 | - | 3.4% | 3.4% |
| Premier | - | 0.33 | 0.33 | - | 5.9% | 5.9% |
| Ultimate | - | - | - | - | 0.0% | 0.0% |
| Visions I & II | - | 0.75 | 0.75 | - | 18.1% | 18.1% |
| Mortgage Fund | 0.20 | - | 0.20 | 1.7% | - | 1.7% |
| | $ 8.62 | $ 25.23 | $ 33.85 | 7.4% | 15.4% | 12.0% |



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# Management Levers – cont'd

- Management has advised that, starting in 2012, the Board and the Trustees would reinvest up to 100% of their distributions as a means to reducing the cash flow requirements of the FL Group, should this Management Lever be required.
- The DRIP function of this Lever would result in the broad group of investors trading some dilution of their units for available cash.
- The impact this Management Lever has on the FL Group's ending cash flows is as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $ (0) | $ 1,902,578 | $ 2,387,349 |
| Impact on Accumulated Cash Balance | $ (0) | $ 1,902,578 | $ 4,289,927 |

**Reduce all distributions up to 1.25%**

- In each of the OM's for both debt and equity, there is a provision that allows the LP to reduce distributions if the LP is unable to meet certain financial requirements.
- As a result, Management believes it can reduce distributions entirely without being in contravention of the OMs.
- Management advises that they are reluctant to reduce distributions entirely as it does not want to signal to current investors (and potential investors) that the LP cannot cover its own stated distributions.
- Management does have a successful track record of reducing distributions from time to time based on current market conditions:
  - The WALP equity distribution rate was 6% in 2006 and has been reduced to 4% since 2007;
  - On June 4, 2011, FLEX held its annual general meeting where it announced the 7.50% equity distributions were being reduced to 6%, effective immediately;
- We are advised by Management that only a few investors were vocal about the reduction in distributions and FLWM purchased their units.
- We would also note that most of the more newer LPs are paying out lower distributions (approximately 6%).
- Management feels that they would likely have to explain the circumstances to certain investors, but overall they believe they could reduce distributions across the entire FL Group by up to 1.25% with limited investor concern or impact on future capital raises.
- The impact this Management Lever has on the FL Group's ending cash flow is as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Impact on Ending Cashflow | $ (0) | $ 2,057,068 | $ 2,503,302 |
| Impact on Accumulated Cash Balance | $ (0) | $ 2,057,068 | $ 4,560,370 |

- Implementation of a broad reduction in the distributions may be an effective Lever in preserving cash flows but it may not be the most appropriate to allocate the same reduction in distributions across all investor groups equally. For instance, WALP is a significant drain on cash resources where other entities may in fact contribute positively.



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# Management Levers – cont'd

## Summary of Management Levers

- The adjacent table illustrates the impact that each of the Management Levers could have on the FL Group's ending cash flow and also summarizes the Base Model cash flow balances once the sensitivities and Management Levers are applied.

| | Management Levers | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| 1 | Drop the projected bonuses by approximately 90% for Management and 65% for Staff | $ 2,231,250 | $ 2,550,000 | $ 2,550,000 |
| 2 | Rent out two floors of the new Victoria St office building development to a Third party | - | 332,307 | 996,921 |
| 3 | Starting in 2012, 100% of the distributions on units held by all board and trustee members will be reinvested | - | 1,902,578 | 2,387,349 |
| 4 | Reduce distributions on all equity and debt in the FL Group by 1.25%, starting in 2012 | - | 2,057,068 | 2,503,302 |
| 5 | Elimination of overlap in 3rd and 4th levers | - | (366,456) | (457,260) |
| | **Impact of Levers on Ending Cashflow** | **$ 2,231,250** | **$ 6,475,497** | **$ 7,980,313** |
| | **Impact of Levers on Acc. Cash Balance** | **$ 2,231,250** | **$ 8,706,747** | **$ 16,687,059** |

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Base Model Ending Cashflows | $ 10,075,464 | $ (4,861,772) | $ 3,029,698 |
| Sensitivity Adjustments | 856,930 | (5,484,155) | (11,262,483) |
| Management Levers | $ 2,231,250 | $ 6,475,497 | $ 7,980,313 |
| Additional double counting due to implementation of Sensitvities and Levers | $ 75,554 | $ 347,357 | $ 455,466 |
| **Ending Cashflows** | **$ 13,239,198** | **$ (3,523,073)** | **$ 202,993** |
| **Acc. Cash balance** | **$ 13,239,198** | **$ 9,716,124** | **$ 9,919,118** |



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# Other Considerations

**Overview**

- During our review, Management identified other considerations which could have a material positive effect on the cash flows of the FL Group.
- Due to the uncertainty of the information and the number of years before a material impact, Management did not include then as assumptions in the Base Model.

**Oil and Gas reserves**

- Upon its due diligence on an adjacent property, Management became aware that there is a potential natural gas reserve underneath the Pond, Crossing, Shores and Pointe properties in Dallas, Texas.
- Management has received letters of intent ("LOIs") from Carrizo Oil & Gas dated November 16, 2010 and Eagle Land Services Inc. dated November 30, 2010. Both LOIs (which have since expired) provided an initial cash bonus payment of $131,500 as well as future royalties in the amount of 20% – 25% for the properties located at Pond and Crossing.
- We understand from Management that the apartment complex adjacent to Pond and Crossing is also situated on top of the reserve and they have been earning a royalty of $6,726 per month. Management advises that the adjacent property occupies 7.83 acres compared to the FL Group's combined 50 acres of land. Based on Management's calculations, the properties would yield approximately $500K in royalty revenues (or $10K / acre) per annum. We have not been able to verify this information from third party sources.
- Management claims that they have not acted on the proposals as they have engaged an independent engineering firm to prepare a feasibility study. At the time of this report, the information was not available.

**Mortgage refinancing**

- The majority of the $43M in mortgages on the WALP portfolio are set to mature between 2013 and 2015. This could have both positive and negative implications, depending on the strength of the Texas real estate market at that time of maturity.
- Management has commenced various rehab projects with the expectation that its success will result in an increase in occupancy and rental rates, consequently increasing the net operating income of the properties within the WALP portfolio. This could result in an increase in the appraised values of the properties. Based on Management's estimates the combined effect of rising property values and principle repayment in the next 2 years would result in the Limited Partnerships having access to approximately $24M of additional cash flow from refinancings in 2013-2015.
- WALP mortgage refinancings were not included in the Base Model, as the majority of refinancings would occur subsequent to 2013.

Grant Thornton

# Section 7

## Asset Valuation

# Consolidated Asset Valuation

**Overview**

- While assembling the information required to build the Base Model, we also accumulated the necessary information to prepare a consolidated Asset Valuation.
- We reviewed third party appraisals, recent acquisition prices, and cost consultant reports to estimate the fair market values ("FMV") of the properties owned in each LP.
- We reviewed the December 31, 2010 trial balances for each LP to estimate the NBV of all of the other assets, investments and third party mortgage balances.
- We then used Management's schedule of capital raised (both debt and equity) for each of the LPs.
- The working capital was then estimated using the December 31, 2010 figure and adjusting for any material changes in the first six months of 2011 (ie. capital raised, assets purchased, and large related party balances paid).
- We assumed, unless stated otherwise, that the NBV of the assets/liabilities approximates their FMV.
- We would note the following as it relates to the Asset Valuation:
  - The Victoria St. Building is considered to be completely built (ie. valued at $32M) and therefore includes the additional equity and the construction financing that is required to finish the project.
  - For the purpose of this WALP portfolio, we used Blakes appraisal as opposed to the CBRE Appraisal. The Blakes appraisals is approximately 12% higher than CBRE.
  - For the FMV of FLEX's assets, we used the AW Hooker Associates Ltd. "First Leaside Group – Head Office Class A Cost Estimate", dated May 27, 2011, which estimates the total costs to complete to be approximately $32M.
  - For Venture and Global, we assumed the FL Group closes the two pending transactions transactions and acquired $90.5M in properties with $71.2M in third party mortgages and $23.6M of raised equity.
- The Asset Valuation is not intended to be our conclusions on what the FL Group would receive in the event of a sale. We are simply attempting to illustrate the equity deficit based on third party information, all factors being considered.

# Consolidated Asset Valuation – cont'd

## Asset Valuation

- The following table highlights the consolidated Asset Valuation for the FL Group:

| | FLWM | FLEX | WALP | Realty | Acquisitions | Investors | Progressive | Universal | Ventures | FLWM Holdings | Spring Valley | Select | Elite | Global | Premier | Ultimate | Visions | Mortgages | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FMV of Property Assets | $ - | $ 44.6 | $ 83.5 | $ - | $ - | $ 3.1 | $ 2.2 | $ - | $ 65.0 | $ - | $ 2.0 | $ - | $ - | $ 25.5 | $ - | $ - | $ 5.3 | $ - | $ 231.1 |
| Working Capital | 12.6 | 1.4 | 6.1 | 0.0 | (0.0) | 0.7 | 0.7 | 0.1 | - | (0.9) | 0.1 | 0.0 | 0.0 | - | 0.0 | 0.9 | 1.2 | 1.1 | 24.3 |
| Due from / to Related Party | (3.9) | 8.7 | (9.9) | 1.2 | (0.2) | (1.1) | 1.9 | 0.2 | - | - | (1.8) | 0.2 | 2.1 | - | 2.3 | 1.1 | (1.9) | 3.6 | 2.3 |
| Investment in FL Group units | 14.0 | 0.3 | - | 4.0 | 1.0 | - | - | - | - | - | 1.3 | - | - | - | - | - | - | - | 20.8 |
| Investment in JH Holdings | 2.3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2.3 |
| Investment in FL Retirement | 6.1 | - | - | - | - | - | 3.7 | 5.5 | - | 3.1 | - | - | - | - | - | - | - | - | 18.4 |
| Investment in FL Beverages | 2.5 | - | - | - | - | - | 0.6 | - | - | 0.8 | - | - | - | - | - | - | - | - | 3.9 |
| Capital assets | 2.6 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2.6 |
| Marketable securities | 1.6 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1.6 |
| Long term receivables | 6.6 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 5.3 | 11.9 |
| **FMV of assets** | 44.6 | 55.0 | 79.7 | 5.2 | 0.8 | 2.7 | 9.1 | 5.9 | 65.0 | 2.9 | 1.7 | 0.2 | 2.1 | 25.5 | 2.4 | 2.0 | 4.5 | 10.0 | 319.2 |
| Third party long term debt | (1.1) | (12.6) | (49.3) | - | - | (1.1) | - | - | (53.1) | - | (0.9) | - | - | (18.1) | - | - | - | - | (136.2) |
| **FMV of net assets** | **43.4** | **42.4** | **30.4** | **5.2** | **0.8** | **1.6** | **9.1** | **5.9** | **11.9** | **2.9** | **0.8** | **0.2** | **2.1** | **7.4** | **2.4** | **2.0** | **4.5** | **10.0** | **182.9** |
| Investor debt | (18.3) | (16.4) | (68.2) | - | - | (0.7) | (0.7) | - | - | - | - | - | - | - | - | - | - | (11.6) | (115.8) |
| **FMV of Equity** | **25.1** | **26.0** | **(37.8)** | **5.2** | **0.8** | **0.9** | **8.4** | **5.9** | **11.9** | **2.9** | **0.8** | **0.2** | **2.1** | **7.4** | **2.4** | **2.0** | **4.5** | **(1.7)** | **67.1** |
| Investor equity | (30.6) | (37.8) | (45.3) | (4.5) | (1.8) | (6.7) | (14.9) | (5.8) | (14.4) | (3.0) | (2.2) | (3.6) | (6.7) | (9.2) | (5.6) | (3.0) | (4.2) | - | (199.2) |
| **Equity deficit** | **$ (5.4)** | **$ (11.8)** | **$ (83.1)** | **$ 0.7** | **$ (1.0)** | **$ (5.7)** | **$ (6.5)** | **$ 0.1** | **$ (2.5)** | **$ (0.1)** | **$ (1.4)** | **$ (3.5)** | **$ (4.6)** | **$ (1.8)** | **$ (3.2)** | **$ (1.0)** | **$ 0.4** | **$ (1.7)** | **$ (132.1)** |

- Over the years, management has raised total capital (investor and third party debt) of approximately $451.3M and have acquired assets worth approximately $319.2M. The majority of the $132M difference is due to distributions (not supported by existing cash flow), capital rehab projects and operating losses. We have not undertaken a source and application of funds analysis so we cannot definitively conclude on the historical use of all the funds representing this difference.

- Based on third party information and information provided by Management, we calculate the total FMV of the Assets is $319.2M, with total third party mortgages of $136.2 for a total FMV of the net assets of $182.9M.
- All 19 of the LPs/companies have a positive FMV of net assets.
- Once the FL Group investor debt of $115.8M is removed from the FMV of net assets we calculate the FMV of equity at $67.1M. Based on this analysis, there is a significant shortfall compared to raised equity of approximately $200M.
- Only WALP and Mortgage Fund appear to have insufficient Net Asset Value to cover their invested debt amounts.

# Consolidated Asset Valuation – cont'd

### Investment Model

- As discussed in Section 2 of this Report, FL Group's Investment Model is to invest in properties that require a large capital inflow at the outset of the investment (FLWM fees, capital rehab costs and distributions). As a result, there is an expected equity deficit in the first few years of the investment cycle.
- As the rehab progresses, the market value of the properties should appreciate. Management anticipates that the Investment Model is structured so that the asset value will become greater than the invested capital at a point in time.
- Most of the LPs within the FL Group are in the earlier stages of their investment cycle and accordingly, one could expect invested capital to be greater than the FMV of the net assets at this point in time.
- We would also note that the real estate markets over the past few years, particularly in the southern US, have been in a prolonged downturn.

### ACB Equity Grind Down

- The total investor equity amount of $200M does not take into account the grind down of investor's ACB through return of capital (ie. distributions), nor does it include imputed tax benefits the investor receives throughout their investment. We have not verified how much of the equity has been ground down for each investor and each LP in the FL Group.



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# Management's FMW Adjustments

## Overview

- We have shared with Management our Asset Valuation in the Report, they have disagreed with our analysis.
- Management had provided us with details of FMV Adjustments on August 15, 2011. The following are the FMV Adjustments which Management has identified compared to our Asset Valuation.
- We have not been able to substantiate most of the adjustments summarized below, both because of the available support provided, and the timing of the delivery of this information by Management.

## LP/Companies Adjustments

### FLWM

- We have not included a FMV amount for the operations of FLWM. We would agree that a wealth management business of this size may have some value attached to the intangible assets of the business (ie. the collection of employees, the name 'First Leaside', the group of 1000 investors, the ability of Management to raise capital, etc.), however, quantifying this amount was beyond the scope of our review.
- Management has estimated this to be approximately $26.7M (or 3.33x NOI of $8M).
- Management considers their investment in Joanna Hampton Holdings Limited of $2.3M (ie. the accounting firms in Western Canada) to have increased in value. The Asset Valuation assumes the acquisition cost (in 2008) of $2.3M to approximate FMV and Management considers an adjustment of $333K to reflect the income they have received over the past 2.5 years as more appropriate.
- **Collectively, Management is suggesting an increase in FLWM's FMV of net assets of $27.0M.**

### FLEX

- Management included a $4M premium to the Victoria Street Building.
- Our FMW calculation of QM is based on a November 9, 2009 appraisal of $6M. Management considered $8.855M to be more indicative of today's value (calculated based on $115K per unit).
- The Bramtree industrial building FMV is based on a December 1, 2010 appraisal of $4.6M. Management considered $5.7M to be more indicative of today's value (calculated based on $385K NOI and a 7% cap rate).
- The FMV of the Wheatley land development owned in Unity is based on the 2006 acquisition cost of $700K. Management considered $1.475M to be more indicative of today's value.
- Management is projecting to install solar panels on the roof of the Victoria St. Building that will generate approximately $27K in income for the next 20 years. Management estimates this could be worth approximately $337K (at a discount rate of 5%).
- Management explained that they have built a storm water management system as part of the Victoria Street Building development and the town of Uxbridge has indicated that they will reimburse FLEX through a donation receipt for the $1.53M cost.
- **Collectively, Management is suggesting an increase in FLEX's FMV of net assets of $11.7M.**

### Investors

- The Harmony Townhomes FMV is based on a January 13, 2010 Appraisal of $1.85M. Management considered $5M to be more indicative of today's value (calculated based on $100K per unit).
- **Management is suggesting an increase in Investor's FMV of net assets of $3.15M.**



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# Other Considerations – cont'd

**WALP**

- There are two excess parcels of land in Country Village and Arrowwood (5 acres and 2 acres, respectively) that have never been appraised. Management considers them to be worth approximately $425K.
- There is also the Sherman Church property, that was acquired for $575K in February 2010, that was not included in the Blakes appraisals.
- Management valued the Oil and Gas reserves discussed in Section 6 of this report at $5M (based on $500K annual income stream, capitalized at 10%).
- Management re-calculated the FMV for each of the WALP properties from $83.5M in the Blakes Appraisal to $136.15M. In determining this valuation, Management used their forecasted 2013 NOI and applied the cap rates used in the Blakes appraisal, and adjusted for a cap rate premium (between 50 bps and 125 bps). The following table summarizes the adjustment:

| | Blakes Appraisal | 2013 NOI | Cap Rate | Cap Rate Premium | Mgmt FMV | FMV Adjustment |
|---|---|---|---|---|---|---|
| Ponde | $11,550,000 | 1,176,049 | 7.00% | 0.50% | $ 15,680,649 | $ 4,130,649 |
| Shores | 10,900,000 | 1,238,181 | 7.00% | 0.50% | 16,509,085 | 5,609,085 |
| Bluffs | 7,750,000 | 1,041,645 | 7.25% | 0.50% | 13,440,586 | 5,690,586 |
| Preston | 5,950,000 | 819,692 | 6.75% | 1.25% | 10,246,153 | 4,296,153 |
| Pointe | 8,250,000 | 1,097,062 | 6.75% | 1.00% | 14,155,637 | 5,905,637 |
| Crossing | 8,400,000 | 1,176,926 | 7.00% | 1.00% | 14,711,570 | 6,311,570 |
| Sedona | 5,100,000 | 477,127 | 8.00% | 0.50% | 5,613,256 | 513,256 |
| Creekview | 6,650,000 | 895,869 | 7.25% | 0.50% | 11,559,603 | 4,909,603 |
| Country Village | 6,450,000 | 933,360 | 7.00% | 0.50% | 12,444,801 | 5,994,801 |
| Raintree | 6,000,000 | 765,434 | 7.25% | 0.50% | 9,876,567 | 3,876,567 |
| Arrowwood | 6,500,000 | 922,951 | 7.25% | 0.50% | 11,909,043 | 5,409,043 |
| | $ 83,500,000 | $ 10,707,925 | | | $ 136,146,948 | $ 52,646,948 |

- Management then applied a further $10.8M premium to the WALP portfolio.
- **Collectively, Management is suggesting an increase in WALP's FMV of net assets of $69.4M.**

**Tax considerations**

- Management then pointed out that, there are several LPs with accumulated tax losses that may have value. Management has not quantified all of the tax losses, but has quantified the potential value of the tax losses in WALP. Management believes the WALP losses could be worth up to $6M to the buyer of the entire WALP portfolio, if they were an individual in the highest tax bracket with enough taxable income in the short term to use all of the losses.
- Management also explained that each LP has un-deducted agency fees that can also be used to shelter tax. When capital is raised, the LPs pay FLWM a 5% agency that is only deductible for tax purposes over 5 years. Management quantified the total un-deducted amount across the FL Group as $5.5M.

**Summary**

- The following table summarizes Management's FMV Adjustments to the Consolidated Asset Valuation (in $M)

| | | |
|---|---|---|
| **Management's FMV Adjustments** | | |
| FLWM | $ | 27.00 |
| FLEX | | 11.73 |
| Investors | | 3.15 |
| WALP | | 69.38 |
| | | 111.27 |
| **Tax Considerations** | | |
| WALP tax losses | | 6.08 |
| Undeducted agency fees | | 5.50 |
| | | 11.57 |
| | $ | **122.84** |

- According to Management's FMW Adjustments, they believe the equity deficiency is only $9M.

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# Section 8

## Conclusion





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# Conclusions

- The Report discusses the Company's Investment Model, which contemplates that each LP investment going forward should be self sustaining. This means that sufficient capital is raised and external debt is secured for each fund so that the respective investment will cash flow itself, and eventually return a reasonable ROI to the investor. As set out in the Report, this strategy represents a departure from the historical financial results achieved by Management. The Base Model, which represents a consolidation of Management's projections, contemplates this Investment Model for all new LPs, with the exception of the ongoing transaction in Venture scheduled to close shortly. Furthermore, the Base Model does not contemplate the movement of any funds between LPs, with the exception of FLWM. In the Base Model, FLWM must deploy its surplus proceeds to various entities in the FL Group, as required.
- In the past, significant funds have been loaned to the FL Group (through FL Finance) on commercial terms, which allowed the Company to perpetually operate as a going concern, as it has generally had access to capital to meet cash flow shortfalls, albeit using new investor's money in some cases. To achieve its Base Model, Management will have to change the way it deploys capital, in that Management no longer contemplates utilizing new investor money to fund existing projects, nor moving cash between LPs depending on financing needs.
- In recent years, the Company has not been able to achieve its Investment Model for many of its investments for a number of reasons, including that various LPs have not achieved their forecasted operating income levels, capital rehab costs have been higher than forecast, the real estate market has not grown at 5%, and from 2007 through 2009 the market declined in the context of a global recession. In this regard, certain projects (particularly WALP) have been a significant drain on the resources of the FL Group, which has resulted in the Company requiring significant capital from other areas of the FL Group (through FL Finance) to meet its cash flow requirements.
- If Management is able to achieve the results set out in its Base Model for the period of 2011 to 2013, it projects that it will be able to meet its projected obligations for rehab costs, operating expenses and distributions as they come due. The Base Model does not include payment of intercompany/fund obligations which exist between the various LPs. The intercompany obligations do not have fixed terms of repayment, but we understand that they are payable on demand. Management has put forth several assumptions which accompany the Base Model, which have been discussed in detail in the Report. One particular assumption involves Senior Management and certain significant investors in the FL Group advancing by way of unsecured subordinated debentures the amount of $5M in 2011, with restricted repayment terms and no cash distributions during the term, in order to shore up a portion of the recurring WALP cash flow deficiency. The investment of Management's personal resources on a subordinated basis would demonstrate their support for their Base Model and projections for the period of 2011 to 2013 and a commitment to the Company.
- We reviewed the projections and the corresponding Base Model, and we believed that certain elements of the Base Model had to be sensitized, as the projections were not fully supported by the information presented, nor historical trends.
- Once the Base Model is sensitized, the FL Group has a cash flow deficiency of approximately $15.9M over the three year period of 2011 to 2013. We have reviewed the sensitivity analysis with Management, and they have identified certain Management Levers which they believe the FL Group can implement to ensure that their obligations can be met and allow their assumptions to still stand, while having little impact on the ordinary course operations and capital raising efforts of the FL Group going forward. The aggregate positive impact of the Management Levers is approximately $16.7M over the three year period. As discussed in the Report, Management has identified a number of



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# Conclusions – cont'd

discussed in the Report, Management has identified a number of additional considerations which may have a positive effect on the Company's cash flow, but were not built into the Base Model due to the uncertainty around the information and timing of the impact. Once the Base Model is sensitized as presented in our Report, and all of Management's Levers are applied, the Company forecasts that it should be able to satisfy its obligations for the period of 2011-2013 (still with the participation of FLWM, and aside from the intercompany loans as aforementioned). While the Management Levers put forth can be an effective means for the FL Group to preserve significant cash flow, certain Levers may not be the most appropriate to balance different investor's interests given the circumstances and financial position of the various LPs. In particular, it may be more appropriate to reduce distributions in one vehicle and not another, or reduce distributions to varying degrees, rather than an equal reduction across the board.

- We have also reviewed the Asset Valuation of the FL Group, using the highest third party valuation figures available for the WALP properties. In this regard, we have calculated an aggregate equity surplus (represented as asset FMV, less third party mortgages and investor debt) of approximately $67M, while there is raised equity in the FL Group of approximately $200M. In this regard, there is a significant equity deficit based on the Asset Valuation. However, the invested equity of $200M does not take into account the grind down of investor's Adjusted Cost Base through return of capital, nor does it include imputed tax benefits the investor receives on their investment. We have shared with Management our Asset Valuation in the Report, and they disagreed with the analysis. As set out in the Report, Management has provided us with details of FMV Adjustments which they believe are appropriate, which contemplates that equity investors are almost whole. We have not been able to support much of Management's FMV Adjustments based on the information presented but we have disclosed same in the Report as a comparative.
- It is critical to point out that the future viability of the FL Group is contingent on their ability to raise new capital. One of the largest sources of revenue in the FL Group is the fees it generates in FLWM on the raising of new capital (approximately 17.5%, plus additional fees). If the Company was restricted from raising new capital, it would likely be unable to continue its operations in the ordinary course, as it would have insufficient revenue to support its infrastructure, staffing costs, distributions, and to meet their funding requirements for existing projects. The FLWM fees are a key revenue component of both the Base Model and the Base Model, once sensitized.
- Throughout our mandate, we have experienced challenges in receiving timely and complete financial reporting, which has resulted in a protracted timeline of over six months to complete our Report. These challenges appear to be related to a lack of adequate resources to support Joanna Hampton in dealing with the Company's mandatory reporting requirements, financial statement preparation, external auditor liaising and budgeting process. We are advised by Management that the delays in providing us with information have been caused, in part, due to FL Group's requirement to maintain confidentiality of information (in that the FL Group was uncomfortable delegating sensitive document preparation to staff who were unfamiliar with our mandate).
- However, we would have expected that a significant amount of the information required to complete our mandate would have been available for a Company of this nature and magnitude, including proper budgets, cash flows, and consolidated financial statements. Ms. Hampton has expended considerable effort in assisting us in respect of our mandate, but much of the information we have received appears to have been prepared by Ms. Hampton from scratch for the purpose of our review.

# Conclusions – cont'd

- There is further evidence of weak financial reporting. A review of the available Minutes of the Board Meetings over the past two years has on a number of occasions disclosed that the financial statements were unavailable, and the agenda item of financial statements was often passed over, as reflected in the Minutes. There were certain document requests by the Board in one instance related to budgets and appraisals, which were not followed up in subsequent meetings. Furthermore, we are advised by Management that at the AGMs, typically only draft internal financial statements are presented to investors, because audited financial statements had not been finalized, 2 years after year end in the case of WALP. Several entities in the FL Group did not have available external financial statements and certain key entities were unaudited. We would have expected that there would have been externally prepared financial statements available for every entity holding investor's money. Further, audited financial statements should be available for FLWM and FL Finance in particular, given the importance of these entities in the FL Group.
- Over the course of the review, Ms. Hampton was consistently working 60+ hours per week aside from the tasks related to our mandate. She has significant responsibilities ranging from financial statement preparation, regulatory reporting, compliance requirements and prospective deal review. Given the size and nature of the FL Group, the position of Director of Finance/CFO should be supported by a controller, to at least deal with compliance issues. Management advises that their financial reporting challenges are related to the fact that they are a private company which has grown quickly and their compliance lags its growth. We are advised by Management that they intend to hire three more accounting staff in short order to support Ms. Hampton, which should improve their accounting and financial reporting functions.
- In respect of governance, the Minutes of the Board Meetings reflect that the Board has increased its level of scrutiny of the Company's dealings over the past year, and it appears they have become more active in the Company's affairs (or at least have better documented their involvement). Furthermore, the Chair of the Board has been separated from the CEO by Resolution of the Board on February 15, 2011, which is a positive step towards better governance. We do note however that there is little apparent allocation of responsibilities at the executive level, as David Phillips has active hands on management of all facets of the FL Group.



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# Section 9

## Recommendations

# Recommendations

- If the FL Group is able to achieve its Base Model, or implement sufficient Levers to counteract any deficiencies as represented by the sensitivities, there should be minimal erosion to existing investors' equity going forward, and greater investor value may be created as the rehabilitation projects are completed. Of course, this is subject to certain qualifications such as real estate market corrections, cost overruns on rehabs, or credit restrictions when it comes time to refinance the properties, which we are not able to anticipate at this time.
- Based on our review we make the following recommendations.
  - Management should take steps to improve its accounting capacity and financial systems, so that it can better accommodate its financial reporting requirements, budgeting process, external auditor liaison, and investor communications;
  - The FL Group should ensure that there are external financial statements available for every entity which hold investor's money. In addition to the entities currently subject to audit, the FL Group should obtain audits of the FLWM and FL Finance financial statements, to enhance the integrity of its financial reporting. They should further ensure that better reporting and disclosure be made to investors;
  - Management should continue with the exercise of maintaining an integrated model, so that it can better prepare and modify projections, identify cash flow requirements and understand the interrelation and impact between the various LPs/companies in the FL Group;
  - Notwithstanding demonstrable steps that the FL Group is improving its governance in the past 12 months, the Board should better document its governance policies and procedures, and establish better governance protocols. Further, Management should consider a division of responsibilities as it relates to the executive function, so that there are greater checks and balances in the organization;
  - Management should take immediate steps to ensure its investment strategy and business activities align with the projections and assumptions it has set out in the Base Model, and consider having strict Board oversight and/or a third party monitoring program in place to supervise its implementation and the results therefrom on a timely basis; and
  - Should Management not achieve its Base Model, it should ensure it is sufficiently agile to implement appropriate the Levers as it has identified to protect investor's interests going forward.

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# Appendices

A. Engagement Letter
B. Organizational Charts
C. Property Highlights



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# A. Engagement letter

Grant Thornton

March 5, 2011

Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, Ontario M5H 3C2

Grant Thornton Limited
[illegible]

Attention Ms. Ellen Bessner

Dear Ms. Bessner

**Re First Leaside Group of Companies( referred to as the "Companies")**

Cassels Brock & Blackwell LLP ("Cassels Brock") wishes to retain Grant Thornton Limited ("Grant Thornton") as a consultant to review, report and make recommendations on the business, assets, affairs and operations of the Companies and the viability thereof. Without limiting the generality of the foregoing, our engagement hereunder shall include the following

(a) we will attend at the premises of the Companies and perform such review and inspection as is necessary in our opinion to advise with respect to the financial position of the Companies and,

(b) we will review the Companies' cash flow forecast and payment obligations and all assumptions underlying same and assess the viability of the Companies.

The Companies have consented to our engagement effective as of the date hereof upon the terms and conditions set out herein, and included in the attached Appendix A, and the full co-operation of the management, officers, employees, professional advisors and agents of the Companies shall be available. In particular, it has been agreed that

1. Grant Thornton and its employees and agents shall have unrestricted access to the books, records, information (however stored), facilities, assets and premises of the Companies and may copy any documents or information

2. The Companies and their officers, employees and agents shall answer all inquiries fairly, fully and to the best of their ability and they shall provide Grant Thornton with any information that we may request with respect to the affairs of the Companies

3. The Companies authorize Grant Thornton to contact the Companies' professional advisors, with prior notice to the Companies

4. Our review will be based mainly on data supplied by the Companies supplemented by our discussions with management thereof. Although all information gathered will be reviewed for reasonableness, we will not be conducting an audit

[illegible]

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5. During the course of this engagement we shall be acting as a consultant to the Companies in this matter and we shall not be assuming any decision making or other management responsibilities in connection with the affairs of the Companies and we will have no responsibility for the affairs of the Companies during our engagement.

6. Our fees will be determined on the basis of time spent at our firm's regular hourly rates for the persons employed. We will submit billings to Cassels Brock at regular intervals showing details of fees and expenses incurred. Our estimated fees for this engagement are in the range of $65,000 to $80,000. We will require a retainer of $25,000 prior to commencing the assignment.

7. The reports prepared by us shall be for the sole use of Cassels Brock and shall not be distributed, shown or quoted from or to any person without the express written permission of Cassels Brock unless ordered by law.

8. We will advise you immediately if any situation comes to our attention which would materially alter the terms of our engagement.

We will endeavour to complete a written report within 6 weeks of the signing of this engagement letter. Please execute and return one original copy of this letter signifying your acceptance of the engagement described herein subject to the terms and conditions set out above.

We trust you find the above satisfactory.

Yours very truly,

**GRANT THORNTON LIMITED**

Per [illegible]

We hereby accept the terms of this engagement subject to the terms and conditions set out herein

**CASSELS BROCK & BLACKWELL LLP**

Per E Bessner

We hereby consent to the terms of this engagement subject to the terms and conditions set out herein

**First Leaside Group of Companies**

Per [illegible]
David Phillips
[illegible]



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# A. Engagement letter

Grant Thornton

APPENDIX A

**Standard terms and conditions**

For the purpose of these standard terms and conditions, Grant Thornton Limited shall include its partners, principals, employees and associated entities in Canada.

1 **Timely performance** - Grant Thornton Limited will use all reasonable efforts to complete within any agreed upon time frame the performance of the services described in the engagement letter to which these terms and conditions are attached. However, Grant Thornton Limited shall not be liable for failures or delays in performance that arise from causes beyond its control, including the untimely performance by the Client of its obligations as set out in the engagement letter.

2 **Right to terminate services** - Should the Client not fulfill its obligations set out herein or in the business engagement letter or contract, and in the absence of rectification by the Clients within 30 days, upon written notice Grant Thornton Limited may terminate its performance and will not be responsible for any loss, cost or expense resulting from such early termination.

3 **Governing law** - The engagement will be governed by the laws of Ontario and the Client and Grant Thornton Limited submit to the exclusive jurisdiction of the Courts of Ontario.

4 **Working papers/reports** - All materials, reports and work created, developed or performed by Grant Thornton Limited during the course of the engagement shall belong to Grant Thornton Limited.

5 **Rights to deliverables** - Upon full payment, Grant Thornton Limited hereby assigns to the Client all its right, title and interest including, without limitation, copyright and proprietary rights to the deliverables developed or prepared specifically for the Client hereunder (deliverables). However, the deliverables may include data, modules, components, designs, utilities, subsets, objects, program listings, tools, models, diagrams, analysis frameworks, leading practices and specifications (technical elements) owned or developed by Grant Thornton Limited prior to, or independently from, its engagement hereunder and Grant Thornton Limited retains all rights thereto including any modifications or improvements made to the technical elements during or as a result of this engagement. Accordingly, to the extent that any technical elements are integrated into any deliverables, Grant Thornton Limited hereby grants to the Client a perpetual, worldwide, paid up limited license to use such technical elements as integrated into such deliverables for internal purposes only. In addition, Grant Thornton Limited retains the right to use its knowledge, experience, and know-how, including processes, ideas, concepts and techniques developed in the course of performing the services.

6 **Release and indemnification** - The Client agrees to release, indemnify, and hold harmless Grant Thornton Limited from any and all claims, liabilities, costs, and expenses arising out of or based upon (i) any misstatement or omission in any material information or representation supplied or approved by the Client, or (ii) any other matter related to or

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arising out of this engagement, except to the extent finally determined to have resulted from the gross negligence, wilful misconduct or fraudulent behaviour of Grant Thornton Limited.

7 **Limitation of liability** - In any action, claim, loss or damage arising out of the engagement, the Client agrees that Grant Thornton Limited's liability will be several and not joint and several and the Client may only claim payment from Grant Thornton Limited of Grant Thornton Limited's proportionate share of the total liability based on degree of fault. In no event shall Grant Thornton Limited be liable to the Client whether the claim be in tort, contract or otherwise, for an amount in excess of the professional fees paid by the Client for the engagement. In no event shall Grant Thornton Limited be liable to the Client, whether a claim be in tort, contract or otherwise, for any consequential, indirect, lost profit or similar damages, or failure to realize expected savings, relating to Grant Thornton Limited's services provided under the engagement letter or contract to which these terms and conditions are attached.

In no event shall Grant Thornton Limited be liable for any claim made more than 24 months after the completion of services by Grant Thornton Limited under this agreement.

8 **Survival of terms** - The Client and Grant Thornton Limited agree that clauses 6 and 7 will survive termination of the engagement contract.

9 **Independent contractor** - Grant Thornton Limited shall provide all services as an independent contractor and nothing in this agreement shall be construed to create a partnership, joint venture, or other similar relationship with the Client or any other party. Neither the Client nor Grant Thornton Limited shall have the right, power or authority to obligate or bind the other in any manner.

10 **Representations and warranties** - Grant Thornton Limited warrants that the services which Grant Thornton Limited is providing will be performed in a professional and competent manner. Grant Thornton Limited makes no (other) warranties or conditions and explicitly disclaims all other warranties and conditions whether expressed or implied by law, usage of trade, course of dealing or otherwise.

Audit • Tax • Advisory



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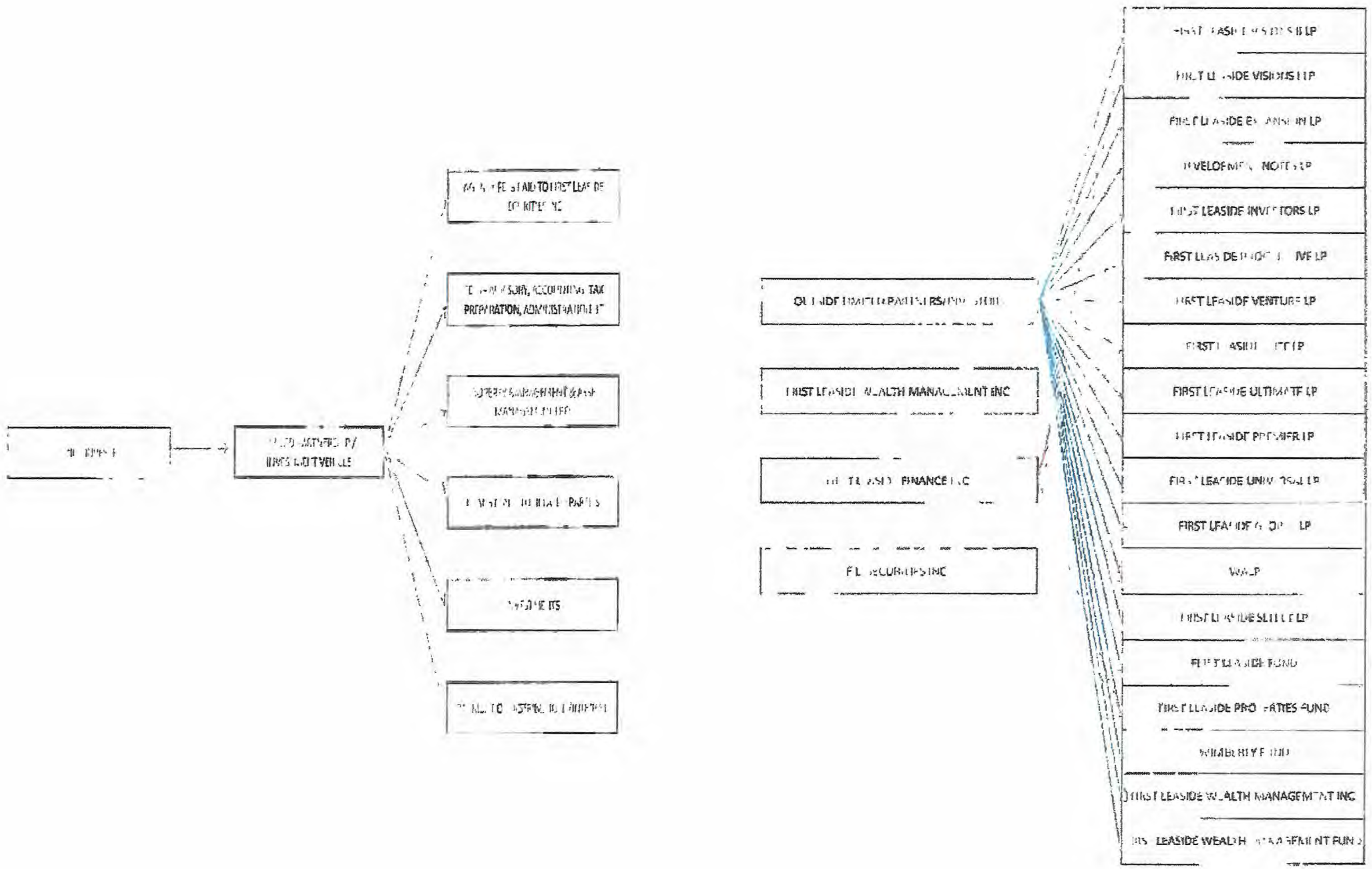
# B. Organizational Charts





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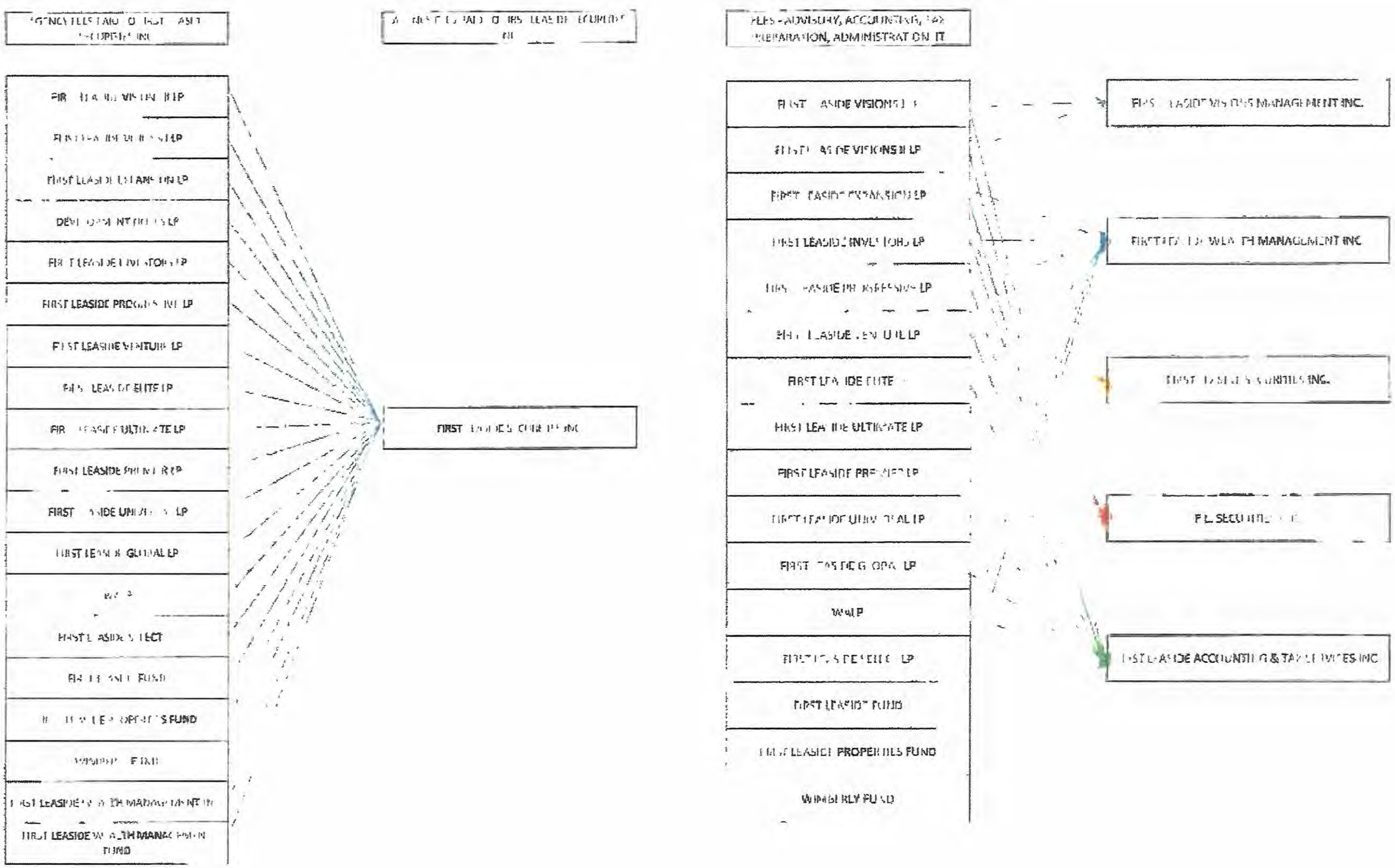
# B. Organizational Charts



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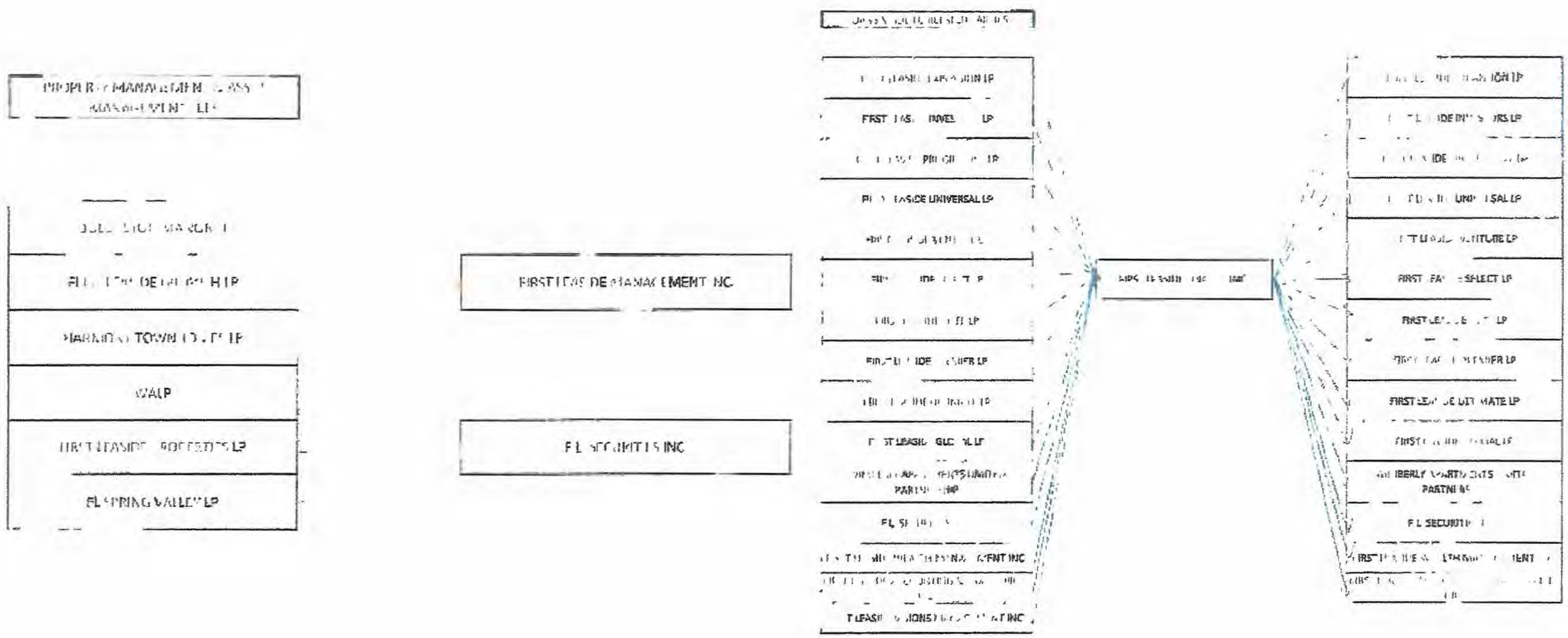
# B. Organizational Charts





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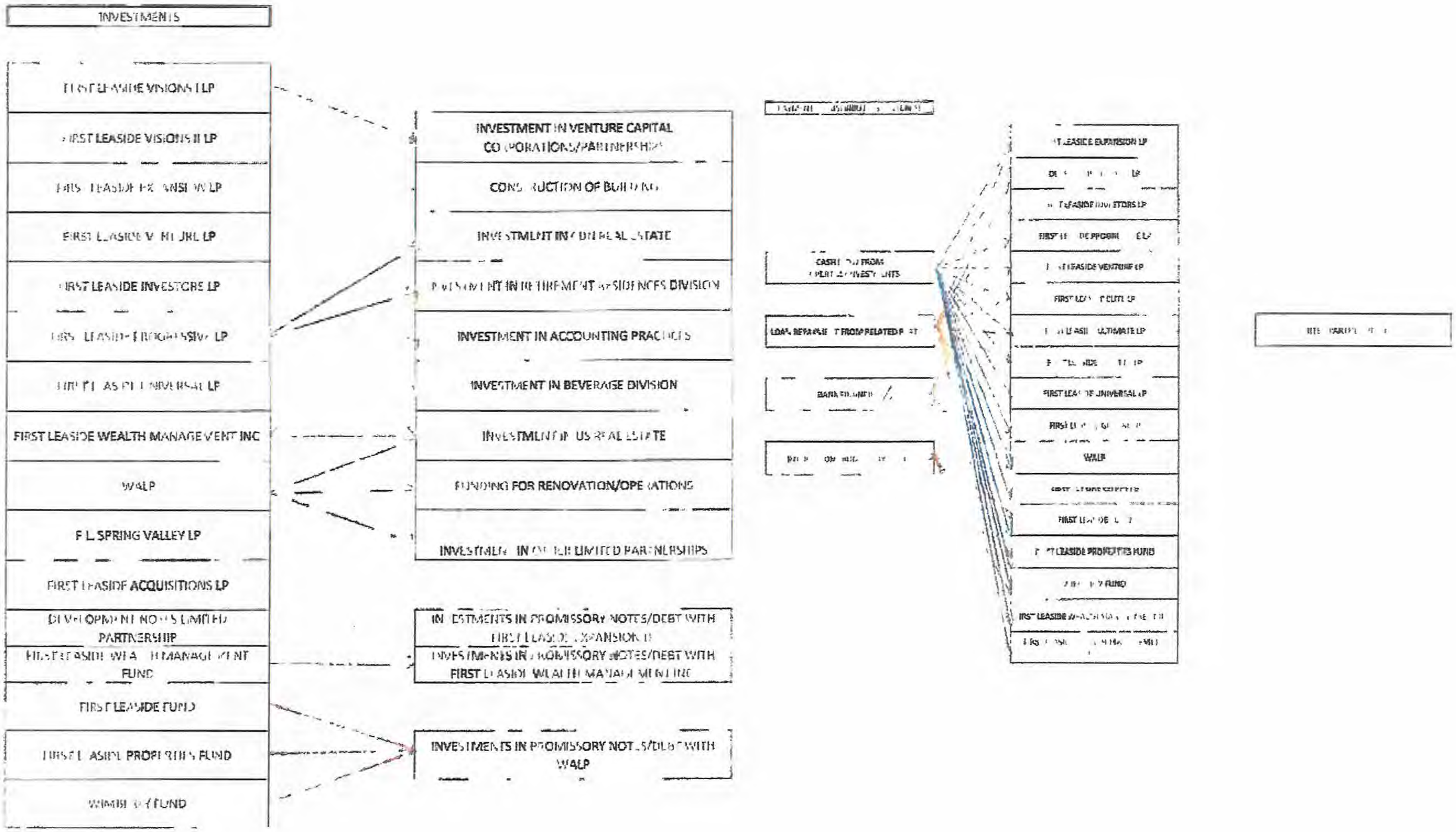
# B. Organizational Charts



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# B. FLWM Organizational Chart

## FIRST LEASIDE WEALTH MANAGEMENT INC.
**A Member of the First Leaside Group of Companies**

### FIRST LEASIDE SECURITIES INC.
**IIROC Dealer Member**
- Investment dealer with approx. $300-million of Assets under Administration
- "Dealer Member" of Investment Industry Regulatory Organization of Canada (IIROC) in the Corporate Finance Peer Group
- Member of Canadian Investor Protection Fund (CIPF)

### F.L. SECURITIES INC.
**Exempt Market Dealer**
- Registered with the Ontario Securities Commission under "Exempt Market Dealer" category
- Asset manager and promoter of real estate assets valued at more than $100-million (U.S.) and $55-million (CAD)

### FIRST LEASIDE FUND MANAGEMENT INC.
**Investment Fund Manager**
- Registered with the Ontario Securities Commission under "Investment Fund Manager" category
- Provides fund management services to all members of the First Leaside Group that are issuers to the public

### FIRST LEASIDE INSURANCE INC.
**Licenced Life Insurance Agency**
- Licenced life insurance agency in the Province of Ontario
- Provides services with respect to life and accident and health insurance

### FIRST LEASIDE FINANCE INC.
- Provides financing and funding of private equity

### FIRST LEASIDE MANAGEMENT INC.
- Canadian property management services

### FIRST LEASIDE ACCOUNTING AND TAX SERVICES INC.
- Accounting and income tax advisory services, preparation and related services for clients' personal, corporate and U.S. needs



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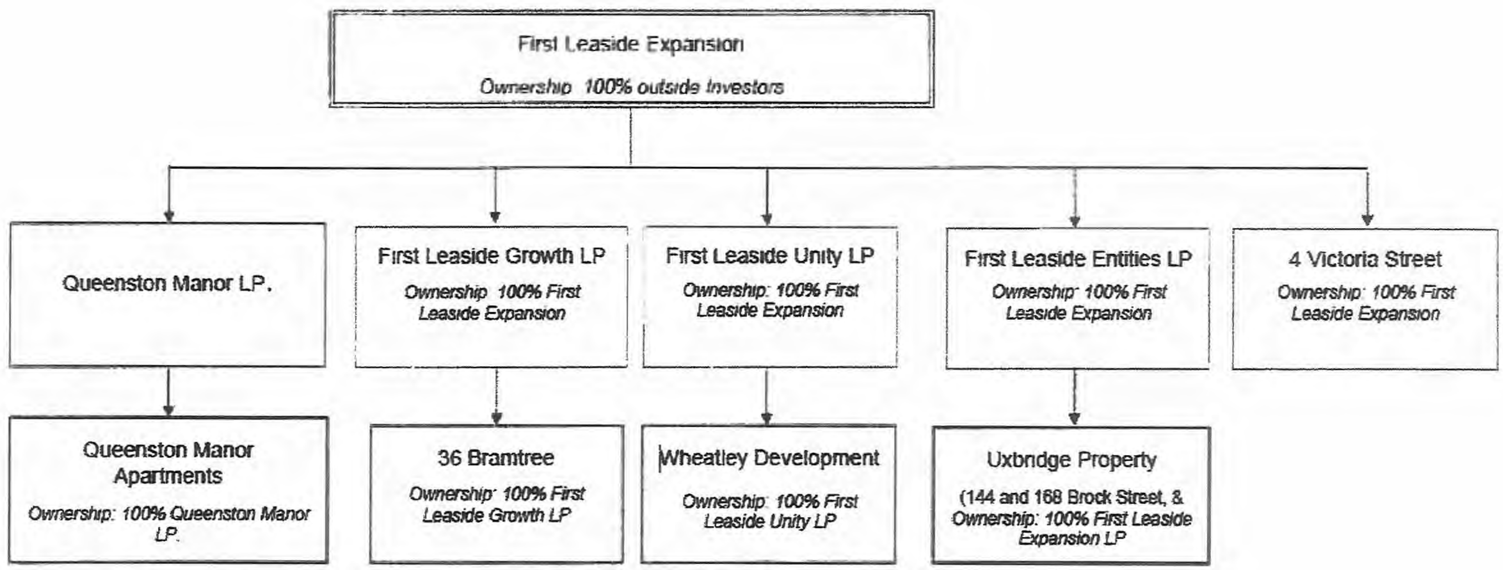
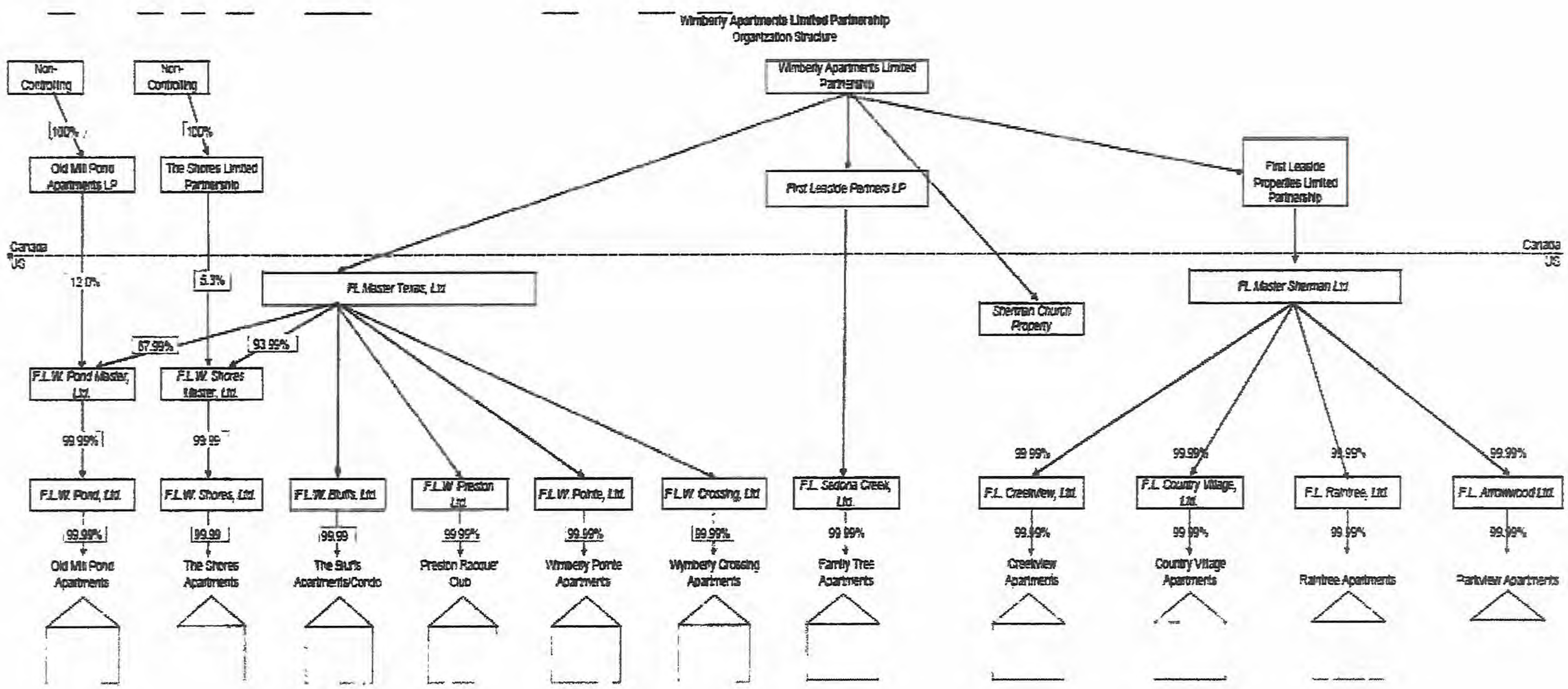
# B. FLEX Organizational Chart

FLEX Organizational Chart



# B. WALP Organizational Chart



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# C. First Leaside Wealth Management Inc. ("FLWM")

## Overview

- FLWM is the consolidated parent company and main operating entity of the entire FL Group. With a staff of over 50 employees, FLWM or businesses within FLWM provide all of the advisory services for the Company.
- Please refer to Appendix B for a FLWM organizational chart.
- There are 399 investors in FLWM.
- Within FLWM, there are seven operating companies:
  1. First Leaside Securities Inc.: The IIROC registrant that charges agency fees, business development fees and acquisition analysis fees.
  2. F.L. Securities Inc.: The EMD that charges promotional fees, acquisition analysis fees, property management fees and advisory fees.
  3. First Leaside Management Inc.: The property manager that charges all Canadian properties 2-4% of net revenues;
  4. First Leaside Accounting and Tax Services Inc.: Provides personal income tax preparation services for Canadian and US personal income taxes;
  5. First Leaside Wealth Management Inc.: Employs the administrative staff, that charges for administrative fees;
  6. First Leaside Insurance Inc.: Was incorporated in 2010 and is a Registered Life Insurance Company, offering a variety of life and critical insurance policies to investors within the FL Group; and
  7. FL Finance: Which, as aforementioned, acts as the central bank within the FL Group. Most related party transactions are recorded through this entity and all redemptions are financed through this entity.
- FLWM also owns the following assets:
  - approximately $13.9M worth of LP units in various LPs within the FL Group;
  - Joanna Hampton Holdings Limited: The Company owns 3 accounting firms in Western Canada;
  - Jim Brunder Professional Corporation: An accounting firm in Western Canada.
  - 33.3% of FL Retirement: An LP that owns 51% of a group of 8 retirement properties through Ontario and BC;
  - 34.9% of First Leaside Beverages Limited Partnership: A company that owns a Cidery in Thornbury, King Brewery in King City and a beer and spirits consulting company called Beer Barons;
  - $2M worth of art and paintings being held for their new office premises;
  - $1.6M in marketable securities; and
  - $4.1M note receivable from investors who borrow funds short term to acquire units in various LPs within the FL Group. This amount fluctuates and is highest in December.
- Equity and debt is raised in FLWM in two ways:
  - Three series of preferred shares, paying dividends of 10%, 8% and 6%; and,
  - Debt through the FLWM Fund, paying interest at 7%.
- David Phillips owns 100% of the common shares of FLWM.



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# C. First Leaside Wealth Management Inc. ("FLWM")

## Financial Highlights

- The following table summarizes the FLWM forecast included in the Base Model:

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Revenues** | **$13,505,064** | **$18,479,541** | **$22,938,968** |
| **Expenses** | (10,960,359) | (10,942,958) | (12,636,404) |
| **Total operating cashflows** | 2,544,704 | 7,536,583 | 10,302,565 |
| Debt servicing | (643,473) | (643,473) | (643,473) |
| Incomes taxes | (285,185) | (1,033,967) | (1,448,864) |
| **Operating Cashflows** | **$ 1,616,046** | **$ 5,859,144** | **$ 8,210,228** |
| Capital expenditures | (50,000) | (50,000) | (3,014,216) |
| Debt distributions | (1,283,227) | (1,283,227) | (1,283,227) |
| Pref share dividends | (2,612,325) | (2,612,325) | (2,612,325) |
| **Total Cashflows** | **$ (2,329,507)** | **$ 1,913,591** | **$ 1,300,459** |

- We would note the following:
  - The majority of the revenue growth in the forecasted period is attributable to the fees earned on the projected equity raises and forecasted increase in profitability in Beverages and Retirement.
  - Management is expecting to spend $1.5M less in 2012 relating to the professional fees incurred through the current OSC review and the cancellation of an annual 2 week staff conference.
  - FLWM will have approximately $12.6M in working capital in 2011 to fund the $2.3M cash shortfall.
  - It is assumed that FLWM will also fund any cash shortfalls in any of the LPs within the FL Group.



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# C. First Leaside Expansion Limited Partnership ("FLEX")

## Overview

- FLEX is an open fund that is considered the Canadian Real Estate Fund for the FL Group.
- FLEX began raising capital in 2005 and has 262 investors.
- FLEX owns the following assets, through 5 separate subsidiaries:
  - **Office building development:** Development lands, zoned for a 4 floor office building in downtown Uxbridge, Ontario , including adjacent parking lot and other lands.
  - **Queenston Manor**: 77 Unit Retirement Home in St. Catherines, Ontario.
  - **36 Bramtree:** Four Tenant, 70,000 square foot Industrial building in Brampton, Ontario.
  - **Wheatley Development:** Development land, zoned for residential townhomes in Wheatley, Ontario.
  - **First Leaside Fund Units**: $350K investment in First Leaside Fund (9% debentures in Master Texas).
- Please refer to Appendix B for a FLEX organizational chart and the following pages for detailed summaries of each of the FLEX properties.
- Investors can invest in FLEX in two different ways:
  - **7.5% Equity units**: This has recently been changed to 6%, announced at the June 4th, 2011 Annual General Meeting ("AGM"); and,
  - **7.75% Debentures:** First invested through Development Notes LP, the money is then loaned to FLEX at the same rate and amount, with a 30 month term.

## Financial Highlights

- The following table highlights the key financial figures for FLEX:

| | Forecast | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Operating Cashflows** | **$ 585,302** | **$ 1,265,807** | **$ 2,191,833** |
| Capital Expenditures | (9,636,147) | (12,160,470) | - |
| Debt distributions | (963,251) | (250,700) | (13,183) |
| Equity distributions | (1,855,673) | (2,409,017) | (2,537,736) |
| **Total Cashflows** | **$(11,869,769)** | **$(13,554,380)** | **$ (359,086)** |
| **Financing of shortfall** | | | |
| Cash on hand (Dec 31, 2010) | 1,431,045 | | |
| Bramtree refinancing | 824,000 | | |
| Construction loan/Mortgage | - | 9,000,000 | 3,000,000 |
| New equity raised | 6,887,582 | 3,312,277 | - |
| New Debt DRIP | 4,591,721 | 2,208,184 | - |
| New Debt raised | 144,299 | - | - |
| FLWM Equity investment | - | - | - |
| Agency & Bus Dev Fees | (2,008,878) | (966,081) | - |
| | 11,869,769 | 13,554,380 | 3,000,000 |
| **Cash in/(out)flows** | **$ -** | **$ -** | **$ 2,640,914** |



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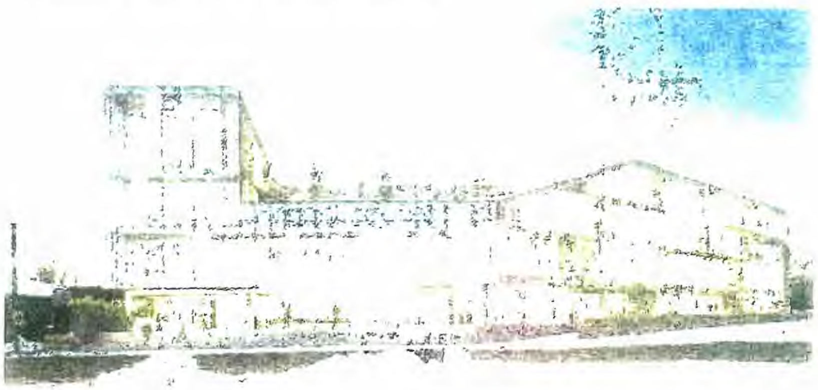
# C. 4 Victoria St. Office Building Development

### Overview

- FLEX owns 100% of 4 Victoria Street, a property located in downtown Uxbridge, Ontario, which the company is developing into their head office;
- The property occupies 1.04 acres with 58,128 sq ft. on all levels including the basement;
- The building is expected to be completed in August 2012, and will be a LEED Platinum "A" Class Building;



- FLWM will be the main occupant of the property. Management is negotiating a lease with a gym that will occupy 3,700 sq. ft.;
- We have been advised by Management that all of the major contracts have been secured and that a majority of the costs are fixed. The total cost of the build is anticipated to be $31.5M. The property is currently in the excavation stage of development and the foundations are expected to be poured in September 2011. As of this Report, the total costs incurred so far are approximately $5.13M.

The following table provides financial highlights:

| | Forecast | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Revenues** | | $ 886,060 | $ 2,658,181 |
| **Expenses** | - | $ 191,516 | $ 574,548 |
| **NOI** | - | **694,544** | **2,083,633** |
| **Capex** | **9,120,353** | **12,160,470** | - |
| **Debt Servicing** | - | **412,887** | **884,286** |
| **Total Cashflows** | **$ (9,120,353)** | **$ (11,878,813)** | **$ 1,199,347** |

### Financial Highlights

- Land was acquired in January 2006 for $675K . Building was appraised in November 2009 by Gene Dwelsdorf & Associated Ltd. for $14.5M (based on building plans);
- Management is currently in discussions with Toronto-Dominion Bank to obtain a construction loan in the amount of $9.0M;
- Once the property is 97% complete, we have been advised by Management that it will seek to obtain mortgage financing in the amount of $12M at an anticipated rate of 5.5% amortized over 25 years.



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# C. Queenston Manor Limited Partnership

- QM owns 100% of Queenston Manor; a 77 Unit, retirement living apartment building located at 382 Queenston Street, in downtown St. Catherines, Ontario;
- The apartment is situated on 2.78 acres and includes four different sized suites types ranging from 690 sq. ft (1 bedroom) to 1040 sq. ft (2 bedroom);
- The property is considered a B Class Building;

- The partnership also owns $348K worth of debenture notes in the Master Texas group of assets.

Financial Highlights

- Total cost on the 2010 financial statements is $3.92M with a NBV of $1.43M;
- Mortgage amount with Merrill Mortgage is $3.72M, at 5.64% with 30 year amortization and 5 year term, expiring June 2016;

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | | | | | | |
| Net Rent | $ 749,645 | $ 757,095 | $ 797,465 | $ 817,926 | $ 831,585 | $ 839,921 |
| Other Income | 18,818 | 18,808 | 48,395 | 47,471 | 102,614 | 102,614 |
| | 768,463 | 775,903 | 845,860 | 865,397 | 934,199 | 942,535 |
| Operating Expenses | 428,603 | 437,532 | 480,221 | 474,924 | 392,004 | 392,004 |
| Income taxes | 15,939 | 16,759 | 13,828 | 11,267 | 11,267 | 11,267 |
| **Net Operating Income** | **323,921** | **321,612** | **351,811** | **379,205** | **530,928** | **539,264** |
| **Capital Expenditures** | **133,590** | **-** | **-** | **507,194** | **-** | **-** |
| **Debt Servicing** | | | | | | |
| Interest | 220,250 | 217,297 | 213,897 | 207,078 | 203,172 | 199,041 |
| Principal | 54,961 | 57,914 | 61,314 | 68,132 | 72,039 | 76,170 |
| | **275,211** | **275,211** | **275,211** | **275,211** | **275,211** | **275,211** |
| **Total Cashflows** | **$ (84,880)** | **$ 46,401** | **$ 76,600** | **$ (403,199)** | **$ 255,717** | **$ 264,053** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating Exp / Net rer | 57% | 58% | 60% | 58% | 47% | 47% |
| Rental growth | | 1.0% | 5.3% | 2.6% | 1.7% | 1.0% |
| Operating exp growth | | 2.1% | 9.8% | -1.1% | -17.5% | 0.0% |

- The facility is currently 97% occupied and has been close to that for over a year;
- Management is expecting to incur $400K in 2011 for the installation of rooftop solar panels which are expected to generate approximately $53K in other income each year;
- They are also resurfacing the parking lot for $90K, after which, capital expenditures are expected to be minimal.



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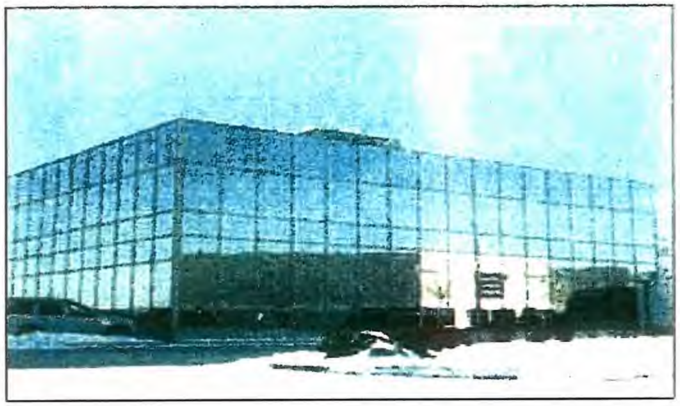
# C. First Leaside Growth Limited Partnership

- Growht owns 100% of 36 Bramtree; a fully occupied, 70,000 sq. ft industrial building located at 36 Bramtree Court, in the industrial area of Brampton, Ontario;



- The building is situated on 3.55 acres and currently has four tenants, as follows:

| Tenant | Sq. Ft | Actual rent | Mkt Rent | Actual Rent | Mkt Rent | Expiry |
|---|---|---|---|---|---|---|
| Kace Canada Inc. | 44,565 | $ 4.00 | $ 4.50 | $ 178,260 | $ 200,543 | Dec 12 |
| Barrett Xplore Inc | 16,500 | $ 5.50 | $ 5.25 | $ 90,750 | $ 86,625 | Apr 14 |
| Canlogix | 4,632 | $ 8.30 | $ 8.00 | $ 38,446 | $ 37,056 | Feb 14 |
| Morinda Canada | 4,198 | $ 10.00 | $ 8.00 | $ 41,980 | $ 33,584 | Jul 12 |
| | 69,895 | | | $ 349,436 | $ 357,808 | |

Financial Highlights

- Acquired in December 2005 for $5.4M and appraised (Dec. 1, 2010) by CBRE for $4.6M (a drop in cap rates for the area);
- Total cost on the 2010 financial statements is $5.46M with a NBV of $4.63M;
- The mortgage was refinanced in January 2011 through a syndicate of non-accredited investors to $3.45M at 6.6% (interest only for 5 years);
- The following table provides financial highlights:

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Net Rent | $ 550,937 | $ 553,614 | $ 569,061 | $ 562,615 | $ 562,615 | $ 562,615 |
| Solar Income | - | - | - | - | 36,000 | 36,000 |
| | 550,937 | 553,614 | 569,061 | 562,615 | 598,615 | 598,615 |
| **Operating Expenses** | 249,402 | 265,467 | 269,278 | 213,180 | 213,180 | 213,180 |
| **Net Operating Income** | **301,535** | **288,147** | **299,783** | **349,436** | **385,436** | **385,436** |
| **Capital Expenditures** | - | - | - | 8,600 | - | - |
| **Debt Servicing** | | | | | | |
| Interest | 202,320 | 196,555 | 190,354 | 207,000 | 207,000 | 207,000 |
| Principal | - | - | - | - | - | - |
| | **202,320** | **196,555** | **190,354** | **207,000** | **207,000** | **207,000** |
| **Total Cashflows** | **$ 99,215** | **$ 91,592** | **$ 109,429** | **$ 133,836** | **$ 178,436** | **$ 178,436** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating Exp / Net I | 45% | 48% | 47% | 38% | 38% | 38% |
| Rental growth | | 0.5% | 2.8% | -1.1% | 0.0% | 0.0% |
| Operating exp growth | | 6.4% | 1.4% | -20.8% | 0.0% | 0.0% |

- Management claims they are in positive discussions with Kace Canada to renew their lease that expires in 2012;
- Management claims it was approached by Endura Energy to lease their roof for a solar project that could generate $36K per year, starting in 2012;
- Minimal capex is required as the tenants pay for most capex and the building is only 10 years old;
- Operating expenses do not include utilities as these are expected to be recovered through the net rent amount.

# C. First Leaside Unity Limited Partnership

- Unity owns 100% of a townhouse development project at 123 Erie Street, in Wheatley, a small town on the shores of Lake Erie, approximately 60km southeast of Windsor. The property includes three townhomes fully finished which have been sold ($160K each, between 1,000 – 1,140 sq. ft each) with plans to develop and sell another 16 additional homes starting in 2012;
- The property is situated on 2.74 acres.

### Financial Highlights

- Acquired in August 2006 for $700K, the property has not been appraised and for the Asset Valuation, we used the acquisition price of $700K;
- There are no encumbrances and Management advises that they have received the local approvals for a subdivision development.

- The following table provides financial highlights:

| | 2012 | 2013 |
|---|---|---|
| Unit sales | 3 | 3 |
| Condo Sales | $ 502,500 | $ 502,500 |
| Construction costs | 277,500 | 277,500 |
| | $ 225,000 | $ 225,000 |
| Interest | (13,875) | (13,875) |
| **Total Cashflows** | **$ 211,125** | **$ 211,125** |

- Management advises that the sixteen units will be built over the next 6 years, starting in 2012 and plans to build 3 units per year.
- The anticipated unit sale price is $167.5K, at a total cost of $92.5K to build.
- Management anticipates getting construction financing at a rate of approximately 5%.

# C. First Leaside Entities Limited Partnership

- Entities owns 100% of two properties:
  - 1.57 acres at 168 Brock St., Uxbridge (property beside the new Victoria Street Building). Firebridge Fireplace occupies 2,500 sq ft. at a rate of $2K/month and FLWM occupies 1,434 sq ft $1.7K/month. Management does not have plans for the property at this moment. The property was purchased in 2006 for $650K and is free and clear of any encumbrances.

- 0.59 acres of land at 144 Brock St., Uxbridge. Management plans to develop this land into a parking lot for the new Victoria Street Building. It is currently vacant. In the 2009 Appraisal for the Victoria St. development, land was appraised at $800K/acre. Using this metric, the land is estimated to be $470K, however; we have not valued this plot for the purpose of this Report.

- The rental income earned is offset by the property taxes. Therefore management assumed they are cash flow neutral.



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# C. Wimberly Apartments Limited Partnership

## Overview

- Established in July 1992, some of the properties in the WALP portfolio are the first acquired by the FL Group;
- WALP was created to consolidate the Texas Real Estate Holdings of First Leaside;
- WALP now acts as an aggregator of 11 different apartment complexes in the Dallas/Ft. Worth and Sherman, Texas areas;
- There are six properties within Master Texas, four properties within Master Sherman and one property within Sedona;
- Please refer to Appendix B for a WALP organizational chart and the following 13 pages for detailed summaries of each of the properties/LPs;
- Debt is raised at the Master Texas, Master Sherman and Sedona levels through FL Fund, FL Properties Fund and Wimberly Fund;
- All equity is raised through WALP.

## Equity Financing

- As at June 30, 2011 WALP has raised $46.77MM and pays a monthly distribution of 4% as return of capital;
- WALP has 226 investors.

## Financial Highlights

- The adjacent table summarizes the WALP forecast included in the Base Model;
- Once the rehab is completed in 2013, the Base Model projects that WALP will generate sufficient cash flow to meets its obligations. Until then, FLWM will fund significant cash shortfalls.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ (1,160,130)** | **$ 3,250,984** | **$ 5,453,620** |
| Capital Expenditures | (4,976,196) | (2,490,209) | (613,000) |
| Debt distributions | (4,432,253) | (2,632,253) | (2,632,253) |
| Equity distributions | (1,812,893) | (2,687,893) | (2,687,893) |
| | **$ (12,381,472)** | **$ (4,559,372)** | **$ (479,526)** |
| **Financing of shortfall** | | | |
| Working Capital (Dec '10) | 5,966,359 | | |
| Equity raised (3 months) | 20,000 | - | - |
| Debt raised (3 months) | 778,872 | - | - |
| Special subdebt raise | 5,000,000 | - | - |
| Agency & Bus Dev Fees | (139,803) | - | - |
| | 11,625,428 | - | - |
| **Cash in/(out)flows** | **$ (756,044)** | **$ (4,559,372)** | **$ (479,526)** |



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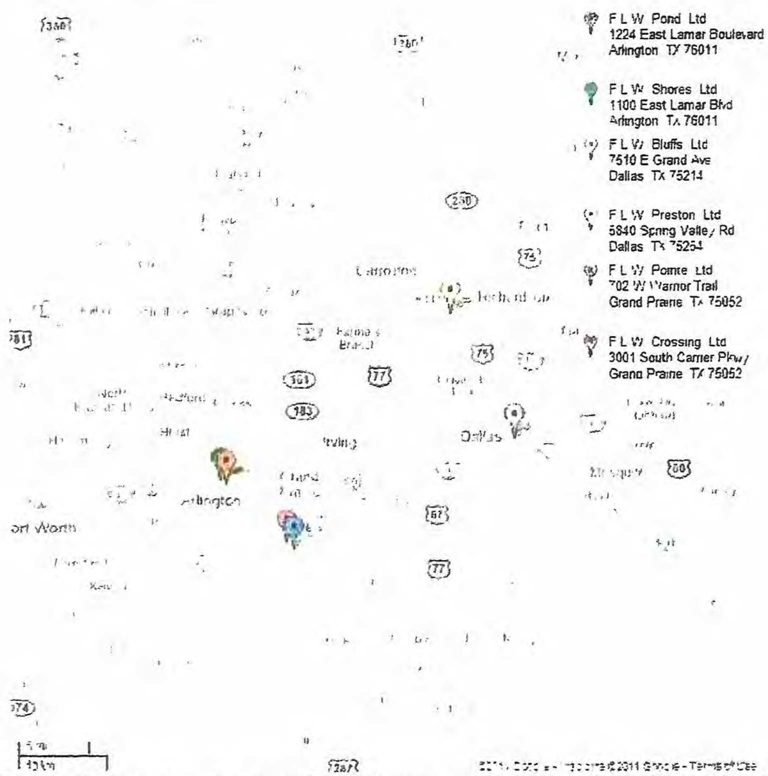
# C. F.L. Master Texas Ltd.

- F.L. Master Texas Ltd. is a Limited Partnership registered in the state of Texas in December 2005;
- Master Texas acts as an aggregator by consolidating the properties it owns and manages them through a single entity;
- Master Texas raises debt through FL Fund, and Wimberly Fund to facilitate the ongoing cash requirements for the following properties: (1) Ponde; (2) Shores; (3) Bluffs; (4) Preston; (5) Pointe; and (6) Crossing.
- The following shows the locations of the properties within the Greater Dallas , Texas area:




### Ft. Worth Real Estate Market

- Master Texas historically has targeted properties in the Dallas and Arlington surrounding areas;
- According to CBRE, the Dallas area has experienced growth that is above the national average and can be attributed to the entertainment sector as well as the growth of Fortune 500 companies who operate in the area;
- The properties cater to middle-class families seeking affordable living accommodations who either have lost their homes due to the U.S. debt crisis of 2008 or do not qualify or have the desire to purchase a property;



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# C. F.L. Master Texas Ltd. – cont'd

### Financing

External debt is raised through two different funds, with the following terms:

- First Leaside Fund was opened to investment in 2005;
  - The fund has raised $43.3M as at June 30, 2011;
  - The debt bears an interest rate of 9.0%;
  - The instrument has varying maturities between 2015 and 2019 with an additional 10 year option at Master Texas's discretion;
- Wimberly Fund was opened to investment in 2010;
  - The fund has raised $9.3M at 8% and an additional $1.2M at 7% as at June 30, 2011.
  - The instrument has varying maturities between 2019 – 2021 with an additional 10 year option at the partnership's discretion.

### Conversion

- Management intends on converting approximately $20M of the $43M in debt to equity in WALP, bearing a yield of 4.375%.
- Management believes that the reduction in the distribution requirement will better position the company from a cash flow perspective as it will be able to reduce the distributions it pays to its unit holders.
- The current distributions are being paid as interest income. Management believes that the attractiveness of earning distributions in the form of return of capital will compensate for the reduction of yield as the after-tax benefit will attract investors in the highest income tax bracket.

# C. F.L.W. Pond Master Ltd.

- F.L.W. Pond Master Ltd.owns 87.99% of Old Mill Ponde Apartments; a 244 Unit, rental apartment building located at 1224 East Lamar Boulevard, in Arlington, Texas close to the new Dallas Cowboys Stadium;
- The apartment is situated on 14.12 acres and includes seven different sized suite types ranging from 580 sq. ft (1 bedroom) to 1418sq. ft (2 bedroom);
- The property is a "B" class property.

## Financial Highlights

- Total cost on the 2010 financial statements is $5.68M with a NBV of $3.91M;
- Mortgage with Merrill Lynch is $5.67M, as of December 31, 2010 at 5.63% with a 25 year amortization and 10 year term, expiring Jan 2014;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 11,550,000 | $ 9,780,000 |
| **Stabilized Value** | $ 13,600,000 | $ 12,290,000 |

- The following table summarizes the financial highlights of the property:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 1,009,283 | $ 1,121,361 | $ 899,714 | $ 1,149,476 | $ 1,950,031 | $ 2,255,513 |
| **Expenses** | 952,626 | 1,113,400 | 950,012 | 947,181 | 974,400 | 1,018,464 |
| **NOI** | 56,657 | 7,960 | (50,298) | 202,295 | 975,631 | 1,237,049 |
| **Capex** | | | | | | |
| Maintenance | | | | 15,000 | 61,000 | 61,000 |
| Rehab | | | | 987,844 | - | - |
| | 691,751 | 365,982 | 1,840,937 | 1,002,844 | 61,000 | 61,000 |
| **Debt Servicing** | 435,887 | 435,887 | 435,887 | 435,887 | 435,887 | 435,887 |
| **Total Cashflows** | $ (1,070,981) | $ (793,909) | $ (2,327,123) | $ (1,236,436) | $ 478,744 | $ 740,162 |

- The facility is currently 52% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by September 2011 and to reach 95% occupancy by March 2012;
- Management assumes a 6% rent increase, every six months, beginning July 2012 once it achieves full occupancy and the rehab program has been completed;
- Maintenance capex is expected to be approximately $250 / unit per annum.



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# C. F.L.W. Shores Master Ltd.

- F.L.W. Shores Master Ltd. owns 93.99% of The Shores Apartments; a 236 Unit, rental apartment building located at 1100 East Lamar Boulevard, in Arlington, Texas close to the new Dallas Cowboys Stadium;
- The apartment is situated on 12.02 acres and includes eight different sized suite types ranging from 530 sq. ft (1 bedroom) to 1262 sq. ft (2 bedroom);
- The property is a "B" class property;


## Financial Highlights

- Total cost on the 2010 financial statements is $6.38M with a NBV of $4.38M;
- Mortgage with Merrill Lynch is $6.65M, as of December 31, 2010 at 5.63% with a 25 year amortization and 10 year term, expiring Jan 2014;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 10,900,000 | $ 9,310,000 |
| **Stabilized Value** | $ 13,000,000 | $ 12,125,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 986,053 | $ 995,022 | $ 731,581 | $ 1,042,740 | $ 1,975,720 | $ 2,251,991 |
| **Expenses** | 891,729 | 970,828 | 904,729 | 875,049 | 913,500 | 954,810 |
| **NOI** | 94,324 | 24,195 | (173,148) | 167,691 | 1,062,220 | 1,297,181 |
| **Capex** | | | | | | |
| Maintenance | | | | - | 44,250 | 59,000 |
| Rehab | | | | 543,760 | 156,459 | - |
| | 574,588 | 477,792 | 1,149,520 | 543,760 | 200,709 | 59,000 |
| **Debt Servicing** | 511,183 | 511,183 | 511,183 | 511,183 | 511,183 | 511,183 |
| **Total Cashflows** | $ (991,447) | $ (964,780) | $ (1,833,851) | $ (887,252) | $ 350,328 | $ 726,998 |

- The facility is currently 50.4% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by March 2012 and to reach 95% occupancy by April 2012;
- Management assumes a 6% rent increase, every six months, beginning July 2012 once it achieves full occupancy and the rehab program has been completed;
- Maintenance capex is expected to be approximately $250 / unit per annum.

# C. F.L.W. Bluffs Ltd.

- F.L.W. Bluffs Ltd. owns 99.99% of 233 Units in the Bluffs of Lakewood Apartment / Condominium. The development is comprised of a 171 Unit rental apartment building and a 121 Unit Condominium project, of which the Limited Company owns 171 Apartment Building Units, and 62 Condominium Units. The property is located at 7510 East Grand Avenue, in Dallas, Texas and is less than three miles from the Dallas Central Business District;
- The apartment is situated on 4.81 acres and includes nine different sized suite types ranging from 490 sq. ft (1 bedroom) to 843 sq. ft (2 bedroom);
- The property is a "B" class property;

### Financial Highlights

- Total cost on the 2010 financial statements is $4.97M with a NBV of $3.66M;
- Mortgage with Merrill Lynch is $4.71M, as of December 31, 2010 at 5.63% with a 25 year amortization and 10 year term, expiring Jan 2014;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 7,750,000 | $ 7,370,000 |
| **Stabilized Value** | $ 8,690,000 | $ 7,810,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 1,144,049 | $ 1,114,256 | $ 1,089,353 | $ 1,337,675 | $ 1,834,930 | $ 2,116,396 |
| **Expenses** | 844,620 | 859,662 | 821,811 | 854,179 | 864,780 | 897,521 |
| **NOI** | 299,428 | 254,594 | 267,542 | 483,496 | 970,150 | 1,218,875 |
| **Capex** | | | | | | |
| Maintenance | | | | 43,439 | 24,000 | 58,250 |
| Rehab | | | | 286,000 | 429,000 | 45,500 |
| | 129,079 | 250,860 | 104,330 | 329,439 | 453,000 | 103,750 |
| **Debt Servicing** | 439,344 | 439,344 | 439,344 | 439,131 | 439,344 | 439,344 |
| **Total Cashflows** | $ (268,994) | $ (435,610) | $ (276,132) | $ (285,074) | $ 77,806 | $ 675,781 |

- The facility is currently 72.2% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by February 2013 and to reach 95% occupancy by May 2012;
- Management assumes a 6% rent increase, every six months, beginning July 2012 once it achieves full occupancy;
- Maintenance capex is expected to be approximately $250 / unit per annum.

# C. F.L.W. Preston Ltd.

- F.L.W. Preston Ltd. owns 99.99% of 112 Units within the 184-unit Condominium complex of the Preston Racquet Club. The property is located at 5840 Spring Valley Road, in Dallas, Texas and is approximately eleven miles north of the Dallas Central Business District
- The Condominium is situated on 8.92 acres and includes six different sized suite types ranging from 721 sq. ft (1 bedroom) to 1218 sq. ft (3 bedroom);
- The property is a "B" class property.

## Financial Highlights

- In July 2006 First Leaside became the General Partner of the Limited Partnership. Total cost on the 2010 financial statements is $8.54M with a NBV of $7.11M;
- Mortgage amount with Bank of America is $5.62M, as of December 31, 2010 at 6.26% with a 30 year amortization and 10 year term, expiring August 2016;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 5,950,000 | $ 5,800,000 |
| **Stabilized Value** | $ 6,500,000 | $ 6,450,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 1,004,306 | $ 962,853 | $ 848,601 | $ 1,065,027 | $ 1,275,628 | $ 1,445,790 |
| **Expenses** | 586,041 | 548,944 | 449,374 | 509,797 | 572,460 | 598,348 |
| **NOI** | 418,265 | 413,909 | 399,227 | 555,230 | 703,168 | 847,442 |
| **Capex** | | | | | | |
| Maintenance | | | | 27,834 | 60,000 | 27,750 |
| Rehab | | | | 338,146 | 324,000 | - |
| | 79,053 | 147,890 | 289,392 | 365,981 | 384,000 | 27,750 |
| **Debt Servicing** | 432,690 | 432,690 | 432,690 | 432,690 | 432,690 | 432,690 |
| **Total Cashflows** | $ (93,479) | $ (166,671) | $ (322,854) | $ (243,441) | $ (113,522) | $ 387,002 |

- The facility is currently 82.1% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by December 2012 and to reach 95% occupancy by September 2011.
- Management assumes a 6% rent increase, every six months, beginning July 2012 once it achieves full occupancy and the rehab program has been completed;
- Maintenance capex is expected to be approximately $250 / unit per annum.

# C. F.L.W. Pointe Ltd.

- F.L.W. Pointe Ltd. owns 99.99% of The Wymberly Pointe Apartments; a 208 Unit, rental apartment building located at 702 West Warrior Trail, in Grand Prairie, Texas approximately fourteen miles from the Dallas Central Business District;
- The apartment is situated on 14.22 acres and includes two different sized suite types ranging from 600 sq. ft (1 bedroom) to 851 sq. ft (2 bedroom);
- The property is a "B" class property;.

Financial Highlights

- Acquired with Crossing (following page) in July 1992 for $6.95M. Total cost on the 2010 financial statements is $4.07M with a NBV of $1.50M;
- Mortgage amount with Merrill Lynch is $4.83M, as of December 31, 2010 at 5.63% with a 25 year amortization and 5 year term, expiring Jan 2014;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 8,250,000 | $ 8,410,000 |
| **Stabilized Value** | $ 9,360,000 | $ 8,880,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 1,127,925 | $ 1,249,758 | $ 1,316,557 | $ 1,631,299 | $ 1,876,108 | $ 2,103,872 |
| **Expenses** | 978,968 | 950,864 | 968,713 | 917,230 | 927,000 | 954,810 |
| **NOI** | 148,957 | 298,894 | 347,844 | 714,069 | 949,108 | 1,149,062 |
| **Capex** | | | | | | |
| Maintenance | | | | 13,000 | 52,000 | 52,000 |
| Rehab | | | | 335,544 | - | - |
| | 612,838 | 535,792 | 303,789 | 348,544 | 52,000 | 52,000 |
| **Debt Servicing** | 371,644 | 371,644 | 371,644 | 371,644 | 371,644 | 371,644 |
| **Total Cashflows** | $ (835,525) | $ (608,542) | $ (327,589) | $ (6,119) | $ 525,464 | $ 725,418 |

- The facility is currently 85.6% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by September 2011 and to reach 95% occupancy by September 2011;
- Management assumes a 6% rent increase, every six months, beginning July 2011;
- Maintenance capex is expected to be approximately $250 / unit per annum.



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# C. F.L.W. Crossing Ltd.

- F.L.W. Crossing Ltd. owns 99.99% of The Wymberly Crossing Apartments; a 212 Unit, rental apartment building located at 3001 South Carrier Parkway, in Grand Prairie, Texas approximately fourteen miles from the Dallas Central Business District;
- The apartment is situated on 9.93 acres and includes nine different sized suite types ranging from 650 sq. ft (1 bedroom) to 1,643 sq. ft (3 bedroom);
- The property is a "B" class property.

- Acquired with Pointe (previous page) in July 1992 for $6.95M. Total cost on the 2010 financial statements is $3.50M with a NBV of $1.42M;
- Mortgage amount with Merrill Lynch is $4.09M, as of December 31, 2010 at 5.63% with a 25 year amortization and 5 year term, expiring Jan 2014;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 8,400,000 | $ 6,700,000 |
| **Stabilized Value** | $ 9,100,000 | $ 7,780,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 1,115,525 | $ 1,199,129 | $ 1,209,215 | $ 1,667,275 | $ 2,102,638 | $ 2,324,774 |
| **Expenses** | 1,088,893 | 1,158,814 | 1,113,642 | 1,033,924 | 1,062,960 | 1,094,849 |
| **NOI** | 26,633 | 40,316 | 95,574 | 633,351 | 1,039,678 | 1,229,926 |
| **Capex** | | | | | | |
| Maintenance | | | | 15,000 | 53,000 | 53,000 |
| Rehab | | | | 421,085 | - | - |
| | 595,914 | 594,954 | 259,129 | 436,085 | 53,000 | 53,000 |
| **Debt Servicing** | 314,308 | 314,308 | 314,308 | 314,308 | 314,308 | 314,308 |
| **Total Cashflows** | $ (883,589) | $ (868,946) | $ (477,864) | $ (117,043) | $ 672,370 | $ 862,618 |

- The facility is currently 85.4% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by September 2011 and to reach 95% occupancy by July 2011;
- Management assumes a 6% rent increase, every six months, beginning July 2011;
- Maintenance capex is expected to be approximately $250 / unit per annum.

# C. F.L.W. Sedona Creek Ltd.

- F.L.W. Sedona Creek Ltd. owns 99.99% of The Family Tree Apartments; a 240 Unit, rental apartment building located at 9911 Whitehurst Drive, in Dallas, Texas approximately ten miles from the Dallas Central Business District;
- The apartment is situated on 8.51 acres and includes nine different sized suite types ranging from 443 sq. ft (1 bedroom) to 1,240 sq. ft (2 bedroom);
- The property is a "B" class property;

Financial Highlights

- Acquired in December 2003 for $6.23M. Total cost on the 2010 financial statements is $7.43M with a NBV of $6.21M;
- WALP has raised $5.3M by way of a syndicated mortgage through non-accredited investors.
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 5,100,000 | $ 4,670,000 |
| **Stabilized Value** | $ 5,460,000 | $ 5,872,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 873,514 | $ 832,947 | $ 718,646 | $ 819,624 | $ 1,233,039 | $ 1,421,887 |
| **Expenses** | 924,059 | 834,991 | 929,536 | 892,310 | 876,000 | 884,760 |
| **NOI** | (50,545) | (2,044) | (210,890) | (72,686) | 357,039 | 537,127 |
| **Capex** | | | | | | |
| Maintenance | | | | 90,498 | 60,000 | 60,000 |
| Rehab | | | | - | - | - |
| | 674,126 | 163,388 | 248,183 | 90,498 | 60,000 | 60,000 |
| **Debt Servicing** | 302,257 | 1,803 | 238 | - | - | - |
| **Total Cashflows** | $ (1,026,929) | $ (167,234) | $ (459,311) | $ (163,184) | $ 297,039 | $ 477,127 |

- The facility is currently 52.9% occupied and the company does not have plans to rehab the property. Management expects to reach 80% occupancy by September 2012;
- We are advised by Management that it is currently in discussions to sell the property, however it is not formally listed;
- Maintenance capex is expected to be approximately $250 / unit per annum.



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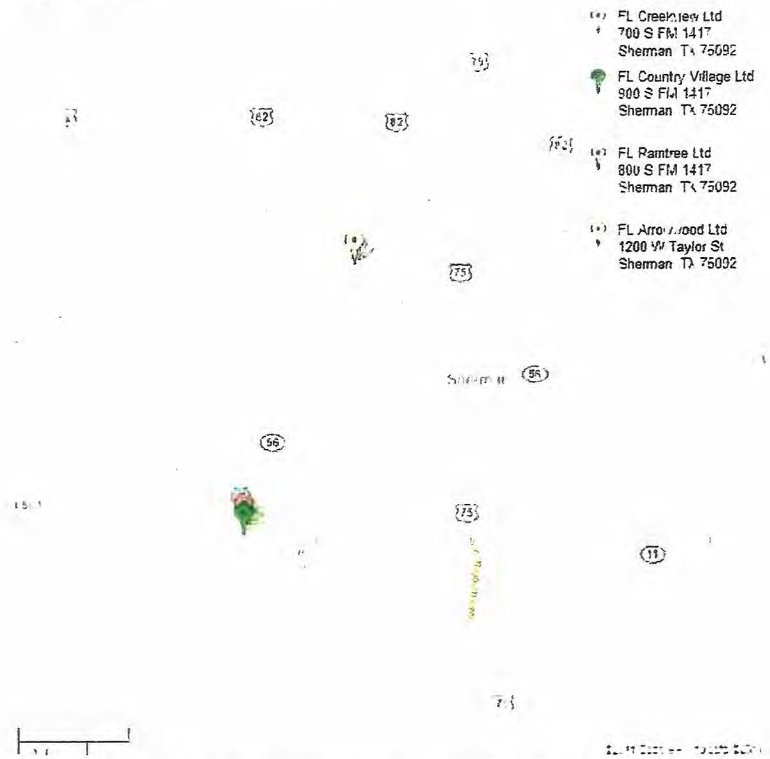
# C. F.L. Master Sherman Ltd.

- F.L. Master Sherman Ltd. is a Limited Partnership registered in the state of Texas in December 2006;
- Master Sherman acts as the aggregator by consolidating the properties it owns and manages through a single entity;
- The company raises debt through First Leaside Properties Limited Partnership, to facilitate the ongoing cash requirements for all of the following properties: (1) Creekview; (2) Country; (3) Raintree; and (4) Arrowwood;
- The following shows the locations of the properties within the Sherman, Texas area:




### Sherman Real Estate Market

- The Fund historically has targeted properties in Sherman, Texas;
- The Sherman area is approximately 1 hour North of Dallas and is considered a suburb of Dallas;
- According to CBRE, the Sherman area has benefited from the manufacturing sector and in particular the semi-conductor business;
- The properties cater to middle-class families seeking affordable living accommodations who either have lost their homes due to the U.S. debt crisis of 2008 or do not qualify or have the desire to purchase a property.

### Financing

External debt is raised through a single fund, with the following terms:

- First Leaside Properties Fund was opened to investment in 2007;
  - The fund has raised $14.37M as at June 30, 2011;
  - The debt bears an interest rate of 9.0%;
  - The instrument has varying maturities between 2017 - 2019 with an additional 10 year option at Master Sherman's discretion.



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# C. F.L. Creekview Ltd.

- F.L. Creekview owns 99.99% of Creekview Apartments; a 144 Unit, rental apartment building located at 700 South F.M. 1417, in Sherman, Texas which is north of Dallas and near the Oklahoma state border;
- The apartment is situated on 6.93 acres and includes eight different sized suite types ranging from 655 sq. ft (1 bedroom) to 1,136 sq. ft (2 bedroom);
- The property is a "B" class property;.

## Financial Highlights

- Acquired in December 2006 for $7.35M. Total cost on the 2010 financial statements is $7.06M with a NBV of $6.43M;
- Mortgage amount with Merrill Lynch is $5.46M, as of December 31, 2010 at 5.81% with a 30 year amortization and 10 year term, expiring Jan 2017;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 6,650,000 | $ 5,790,000 |
| **Stabilized Value** | $ 6,650,000 | $ 5,790,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 1,093,853 | $ 1,049,347 | $ 1,029,233 | $ 1,104,948 | $ 1,385,812 | $ 1,568,409 |
| **Expenses** | 593,605 | 588,481 | 642,744 | 602,695 | 618,000 | 636,540 |
| **NOI** | 500,248 | 460,866 | 386,489 | 502,254 | 767,812 | 931,869 |
| **Capex** | | | | | | |
| Maintenance | | | | 45,750 | 36,000 | 36,000 |
| Rehab | | | | 449,000 | 292,000 | - |
| | 64,712 | 31,299 | 50,780 | 494,750 | 328,000 | 36,000 |
| **Debt Servicing** | 398,358 | 398,358 | 398,358 | 398,358 | 398,358 | 398,358 |
| **Total Cashflows** | $ 37,178 | $ 31,209 | $ (62,649) | $ (390,855) | $ 41,454 | $ 497,511 |

- The facility is currently 87.5% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by August 2012 and to reach 95% occupancy by December 2011;
- Management assumes a 6% rent increase, every six months, beginning July 2011 once it achieves full occupancy;
- Maintenance capex is expected to be approximately $250 / unit.



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# C. F.L. Country Village Ltd.

- F.L. Country Village Ltd. owns 99.99% of Country Village Apartments; a 148 Unit, rental apartment building located at 900 South F.M. 1417, in Sherman, Texas which is north of Dallas and near the Oklahoma state border;
- The apartment is situated on 8.83 acres and includes six different sized suites types ranging from 501 sq. ft (1 bedroom) to 1,014 sq. ft (3 bedroom);
- The property is a "B" class property;

### Financial Highlights

- Acquired in December 2006 for $5.66M. Total cost on the 2010 financial statements is $5.45M with a NBV of $4.99M;
- Mortgage amount with Merrill Lynch is $4.18M, as of December 31, 2010 at 5.81% with a 30 year amortization and 10 year term, expiring January 2017;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| Appraisal | $ 6,450,000 | $ 6,170,000 |
| Stabilized Value | $ 6,450,000 | $ 6,170,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | **$ 965,899** | **$ 960,629** | **$ 950,865** | **$ 1,079,759** | **$ 1,335,159** | **$ 1,543,246** |
| **Expenses** | 526,865 | 568,173 | 558,786 | 545,900 | 556,200 | 572,886 |
| **NOI** | **439,034** | **392,456** | **392,080** | **533,859** | **778,959** | **970,360** |
| **Capex** | | | | | | |
| Maintenance | | | | 38,370 | 37,000 | 37,000 |
| Rehab | | | | 373,000 | 273,000 | - |
| | **31,011** | **44,910** | **49,055** | **411,370** | **310,000** | **37,000** |
| **Debt Servicing** | 302,846 | 309,448 | 306,701 | 306,701 | 306,701 | 306,701 |
| **Total Cashflows** | **$ 105,178** | **$ 38,099** | **$ 36,324** | **$ (184,211)** | **$ 162,258** | **$ 626,659** |

- The facility is currently 89.2% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by August 2012 and to reach 95% occupancy by December 2011;
- Management assumes a 6% rent increase, every six months, beginning July 2011 once it achieves full occupancy;
- Maintenance capex is expected to be approximately $250 / unit.

# C. F.L. Raintree Ltd.

- F.L. Raintree Ltd. owns 99.99% of Raintree Apartments; a 144 Unit, rental apartment building located at 800 South F.M. 1417, in Sherman, Texas which is north of Dallas and near the Oklahoma state border;
- The apartment is situated on 6.51 acres and includes seven different sized suites types ranging from 514 sq. ft (1 bedroom) to 937 sq. ft (2 bedroom);
- The property is a "B" class property.

### Financial Highlights

- Acquired in June 2007 for 5.50M. Total cost on the 2010 financial statements is $5.70M with a NBV of $5.23M;
- Mortgage amount with Merrill Lynch is $3.51M, as of December 31, 2010 at 6.38% with a 30 year amortization and 10 year term, expiring July 2017;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 6,000,000 | $ 4,530,000 |
| **Stabilized Value** | $ 6,000,000 | $ 4,569,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 947,356 | $ 931,644 | $ 930,169 | $ 1,024,771 | $ 1,250,931 | $ 1,425,243 |
| **Expenses** | 570,001 | 524,891 | 614,470 | 594,996 | 605,640 | 623,809 |
| **NOI** | 377,355 | 406,753 | 315,699 | 429,775 | 645,291 | 801,434 |
| **Capex** | | | | | | |
| Maintenance | | | | 46,791 | 36,000 | 36,000 |
| Rehab | | | | 452,500 | 207,500 | - |
| | 73,094 | 56,975 | 67,079 | 499,291 | 243,500 | 36,000 |
| **Debt Servicing** | 296,276 | 296,276 | 296,276 | 296,276 | 296,276 | 296,276 |
| **Total Cashflows** | $ 7,985 | $ 53,501 | $ (47,656) | $ (365,792) | $ 105,515 | $ 469,158 |

- The facility is currently 89.2% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by August 2012 and to reach 95% occupancy by December 2011;
- Management assumes a 6% rent increase, every six months, beginning July 2011 once it achieves full occupancy;
- Maintenance capex is expected to be approximately $250 / unit.



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# C. F.L. Arrowwood Ltd.

- F.L. Arrowwood Ltd. owns 99.99% of Parkview Apartments; a 200 Unit, rental apartment building located at 1200 West Taylor Street, in Sherman, Texas which is north of Dallas and near the Oklahoma state border;
- The apartment is situated on 10.95 acres and includes five different sized suites types ranging from 625 sq. ft (1 bedroom) to 1,003 sq. ft (2 bedroom);
- The property is a "B" class property.

### Financial Highlights

- Acquired in December 2004 for 3.97M. Total cost on the 2010 financial statements is $4.04M with a NBV of $3.23M;
- Mortgage amount with Bank of America is $3.08M, as of December 31, 2010 at 6.51% with a 30 year amortization and 10 year term, expiring August 2016;
- Appraised at the following amounts:

| | Blakes | CBRE |
|---|---|---|
| **Appraisal** | $ 6,500,000 | $ 5,050,000 |
| **Stabilized Value** | $ 6,500,000 | $ 5,070,000 |

- The following table provides financial highlights:

| | Actual | | | Forecast | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | $ 1,158,842 | $ 1,134,230 | $ 1,105,079 | $ 1,209,113 | $ 1,545,403 | $ 1,799,760 |
| **Expenses** | 788,371 | 745,151 | 780,196 | 741,633 | 766,320 | 789,310 |
| **NOI** | **370,471** | **389,079** | **324,884** | **467,480** | **779,083** | **1,010,451** |
| **Capex** | | | | | | |
| Maintenance | | | | 61,135 | 50,000 | 50,000 |
| Rehab | | | | 392,500 | 295,000 | 37,500 |
| | **84,637** | **71,894** | **102,580** | **453,635** | **345,000** | **87,500** |
| **Debt Servicing** | 242,967 | 242,967 | 242,967 | 242,967 | 242,967 | 242,967 |
| **Total Cashflows** | $ 42,866 | $ 74,218 | $ (20,664) | $ (229,122) | $ 191,116 | $ 679,984 |

- The facility is currently 84.5% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by August 2012 and to reach 95% occupancy by December 2011;
- Management assumes a 6% rent increase, every six months, beginning July 2011 once it achieves full occupancy;
- Maintenance capex is expected to be approximately $250 / unit.



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# C. First Leaside Realty I & II Limited Partnership

- First Leaside Realty I & II LP were previously registered as Corporations in the Province of Ontario. In 2006, the company registered as Limited Partnerships and shareholders exchanged their common shares into units in the Limited Partnerships;
- Each LP has 24 investors;
- As at June 30, 2011 Realty I & II have raised \$4.53M and have invested \$4.00M in the following holding:
  - 6,244,000 units of WALP valued at \$0.64 totaling \$4.00M which pays a distribution of 4%.

## Financial Highlights

- The following table summarizes the Realty I&II forecast included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ 236,045** | **$ 236,045** | **$ 236,045** |
| Capital Expenditures | - | - | - |
| Equity Distributions | (215,161) | (215,161) | (215,161) |
| **Total Cashflows** | **$ 20,884** | **$ 20,884** | **$ 20,884** |

- As at June 30, 2011, there is estimated to be a positive working capital of \$49.6K.

# C. First Leaside Acquisition Limited Partnership

- First Leaside Acquisition LP is a Limited Partnership registered in the province of Ontario in 1998. The Limited Partnership agreement was executed in 1999;
- The LP has 21 investors;
- As at June 30, 2011 Acquisitions has raised $1.77M and has invested $1.05M in the following holdings:
  - 224,500 units of WALP valued at $0.64 totaling $144K which pays a distribution of 4%;
  - 625,800 units of FLEX valued at $1.00 totaling $626K which pays a distribution of 6%;
  - 159,360 units of Spring Valley at $1.75 totaling $279K which pays a distribution of 8%;
- The fund pays a monthly distribution in the form of return of capital at a rate of 8.5%.

### Financial Highlights

- The following table summarizes the Acquisitions forecast included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ 46,378** | **$ 46,378** | **$ 46,378** |
| Capital expenditures | - | - | - |
| Equity distributions | (168,196) | (168,196) | (168,196) |
| **Total Cashflows** | **$ (121,818)** | **$ (121,818)** | **$ (121,818)** |

- As at June 30, 2011, there is estimated to be a negative working capital of $34.1K.

# C. First Leaside Investors Limited Partnership

- First Leaside Investors Limited Partnership was registered in the province of Ontario in December 2003. Investors began raising money in July 2008;
- The LP has 70 investors;
- As at June 30, 2011 the LP has raised $6.65M in equity and $1.90M in syndicated debt and third party conventional mortgages.;
- The LP currently owns the following properties:
  - Harmony Town Limited Partnership (appraised at $1.85M)
  - Mill Street Limited Partnership (appraised at $1.2M)
- Please refer to the following pages for detailed summaries of each of the properties.

### Financing

- The LP began raising capital in July 2008, and as at June 30, 2011 the LP raised $6.65M;
- The LP has a conventional mortgage of $1.12M as well as syndicated mortgage from non-accredited investors in the amount of $656K;
- The LP pays a distribution in the form of return of capital at a rate of 6%.

### Financial Highlights

- The following table summarizes the Investors forecasts included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ (157,428)** | **$ 46,841** | **$ 73,560** |
| Capital Expenditures | (203,095) | (136,500) | - |
| Equity distributions | (399,250) | (399,250) | (399,250) |
| Debt distributions | (39,375) | (39,375) | (39,375) |
| **Total Cashflows** | **$ (799,148)** | **$ (528,284)** | **$ (365,065)** |

- As at June 30, 2011, there is estimated to be a positive working capital of $741.1K.



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# C. Harmony Townhome Limited Partnership

- Harmony Townhome Limited Partnership owns 100% of 65 Fort Street, in Tilbury, Ontario; a 50 unit town home complex; which is located between Chatham and Windsor, Ontario;
- The property was purchased from CMHC under foreclosure;

### Financial Highlights

- Acquired in Jan 2010 for $1.85M. Total cost on the 2010 financial statements is $2.60M with a NBV of $2.43M;
- Mortgage amount with Toronto-Dominion Bank is $1.24M, as of July 1, 2010 at 4.18% amortized over 25 years and maturing in February 2015;

- The following table provides financial highlights before debt and/or equity distributions:

| | Actual | Projections | | |
|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** |
| **Revenues** | **$ 218,532** | **$ 268,425** | **$ 467,905** | **$ 499,794** |
| **Expenses** | 184,833 | 241,218 | 233,460 | 238,129 |
| **NOI** | **33,699** | **27,207** | **234,445** | **261,664** |
| **Capex** | **160,804** | **203,095** | **136,500** | **-** |
| **Debt Servicing** | 62,691 | 80,023 | 82,492 | 82,492 |
| **Total Cashflows** | **(189,796)** | **(255,911)** | **15,453** | **179,173** |

- The facility is currently 50% occupied as it undergoes its rehab program. Management expects the rehab program to be completed by November 2012 and to reach full occupancy of 95% by December 2012.
- The LP is renovating the units by updating the windows, installing HVAC systems, building a fitness centre for the community and installing new lighting.



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# C. Mill Street Limited Partnership

- Mill Street Limited Partnership owns 100% of 62 Mill Street, in Uxbridge, Ontario;
- The property is zoned residential and is situated on 3.74 acres which is flat and leveled for future development considerations;
- The property has a heritage home built in the late 1800's and is currently being rented to an employee of the FL Group.

Financial Highlights

- Acquired in May 2010 for $1.24M. Total cost on the 2010 financial statements is $1.31M with a NBV of $1.29M;
- The LP has a syndicated mortgage from 40 non-accredited investors in the amount of $656K, as of December 31, 2010 at 6.0% with interest only payments, maturing in December 2015;
- CBRE draft appraisal dated July 12, 2011 values the property at $1.20M;
- Management advises that their long term goal (beyond the scope of this Report) is to build a residential subdivision containing 8 to10, 60 foot lot properties which would require the construction of an internal roadway;

- The following table provides financial highlights before debt and/or equity distributions:

| | Actual | Projections | | |
|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** |
| **Revenue** | **$ 13,200** | **$ 13,200** | **$ 13,200** | **$ 13,200** |
| **Expenses** | 43,979 | 9,500 | 10,000 | 10,500 |
| **NOI** | **(30,779)** | **3,700** | **3,200** | **2,700** |
| **Capex** | - | - | - | - |
| **Debt Servicing** | | 43,313 | 43,313 | 43,313 |
| **Total Cashflows** | **(30,779)** | **(39,613)** | **(40,113)** | **(40,613)** |

- The Company experienced one-time start up costs relating to the acquisition of the property including legal fees, initial maintenance and general repair.



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# C. First Leaside Progressive Limited Partnership

- First Leaside Progressive LP is a Limited Partnership registered in the province of Ontario in November 2005 The Limited Partnership began raising money in January 2009;
- The LP has 102 investors;
- As at June 30, 2011 Progressive raised $14.91M and has invested $7.94M in the following holdings:
  - 20% ownership of FL Retirement valued at $3.67M;
  - 8.34% ownership is FL Beverages valued at $600K;
  - 100% of Uxbridge Development Limited Partnership valued at $2.2M;
- The OM states that the partnership seeks to acquire and develop residential real-estate or securities of owners in residential real estate in Canada;
- Please refer to the following pages for detailed summaries of each of the properties.
- The fund pays a monthly distribution in the form of return of capital at a rate of 6%.

## Financial Highlights

- The following table summarizes the Progressive forecasts included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating Cashflows** | **$ (281,934)** | **$ 526,650** | **$ 1,113,839** |
| Capital expenditures | (2,500) | - | - |
| Equity distributions | (894,624) | (894,624) | (894,624) |
| Debt distributions | (40,500) | (40,500) | (40,500) |
| **Total Cashflows** | **$ (1,219,558)** | **$ (408,474)** | **$ 178,715** |

- As at June 30, 2011, there is estimated to be a positive working capital of $741.2K.



2643

# Uxbridge Development Limited Partnership

- The Limited Company owns 100% of 164 Cemetery Road, in Uxbridge, Ontario;
- The property is zoned residential and is situated on 22.92 acres of which 18.22 acres is designated environmentally protected and consequently undevelopable;
- The property is a 1390 sq ft residential home which is close to the main shopping centre of Uxbridge;

## Financial Highlights

- The property was acquired in September 2010 for $2.00M;
- In January 2011 the LP raised a syndicated mortgage of 43 non-accredited investors in the amount of $675K with interest only payments at a rate of 6%, maturing January 2016;
- CBRE draft appraisal dated July 12, 2011 values the property at $2.20M;
- Management has advised that it intends to develop the property into a retirement home community in the future which goes beyond the scope of this Report.



3413

# C. First Leaside Universal Limited Partnership

- First Leaside Universal LP was registered in the province of Ontario in November 2005 Universal began raising money in January 2010;
- The LP has 55 investors;
- As at June 30, 2011 Universal raised $5.80M and has the following holdings:
  - 30% ownership of FL Retirement valued at $5.51M;
- The OM states that the partnership seeks to acquire and develop residential real-estate or securities of owners in residential real estate in Canada;
- The LP pays a monthly distribution in the form of return of capital at a rate of 6%.

Financial Highlights

- The following table summarizes the Universal forecasts included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ (418,800)** | **$ 195,887** | **$ 272,550** |
| Capital expenditures | - | - | - |
| Equity distributions | (347,939) | (347,939) | (347,939) |
| **Total Cashflows** | **$ (766,739)** | **$ (152,052)** | **$ (75,390)** |

- As at June 30, 2011, there is estimated to be a positive working capital of $131.7K.



3414

# C. First Leaside Venture Limited Partnership

- First Leaside Venture Limited Partnership has entered into a purchase and sale agreement scheduled to close in the next couple of weeks;
- Venture will acquire properties in Ottawa, Ontario including 100% of 3 retirement home properties totaling 360 units (The Palisades, The Palisades Condo Club and the Redwoods) and a 50% interest in Birkhall with 83 units (the remaining 50% is owned by PrimeTime Living LP);

Financial Highlights

- The properties are valued at $65M; Venture raised $886K as of June 30, 2011. We have been advised by Management that funds will be raised from 2 sources:
  - PrimeTime Living LP is presently refinancing three of its properties (Shores, Cherry Park & Orchard Valley) and will be lending Venture $4.5M (through FL Finance) by way of a Promissory Note with interest only payments of 7%. Management expects to repay this loan before the end of 2011;
  - Venture continues to raise money (they have raised $2.81M as of this report), and will be keeping the fund open through the balance of the year when it attracts the most capital;
- Venture has secured financing with CIBC in the amount of $40M with an interest rate of 5.00% amortized of 25 years maturing in September 2016 as well as a vendor take back ("VTB") financing in the amount of $17.5M with Kingsett Capital Partners;
- The following table summarizes the Venture forecasts included in the Base Model. Please note the 2011 numbers are for four months of ownership:

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating Cashflows** | **$ (3,953,408)** | **$ (1,228,162)** | **$ (348,578)** |
| Capital Expenditures | (136,125) | (428,794) | (450,234) |
| Equity distributions | (240,143) | (873,808) | (981,719) |
| **Total Cashflows** | **$ (4,329,676)** | **$ (2,530,764)** | **$ (1,780,531)** |
| **Financing of shortfall** | | | |
| Working Capital | - | | |
| New Equity Raised | 14,399,607 | 3,067,593 | 2,158,219 |
| Mortgage raised | 57,500,000 | - | - |
| New Debt Raised | - | - | - |
| Purchase price | (65,050,000) | - | - |
| Agency and bus dev fees | (2,519,931) | (536,829) | (377,688) |
| | 4,329,676 | 2,530,764 | 1,780,531 |
| **Cash in/(out)flows** | $ - | $ - | $ - |

- The majority of the cash deficiency is due to the VTB arrangements which required a balloon payment at the end of each of the next 3 years of $4.4M, and the balance at the end of 2014.

# C. FLWM Holdings Limited Partnership

- FLWM Holdings was registered in the province of Ontario in May 2011 The Limited Partnership began raising money in May 2011;
- The LP has 22 investors;
- As at June 30, 2011 the LP has raised $3.09M and has the following holdings:
  - 16.67% ownership of FL Retirement valued at $3.06M;
  - 10.9% ownership in FL Beverages valued at $785K;
- The LP pays a monthly distribution in the form of return of capital at a rate of 0%;

### Acquisition of Retirement and Beverages

- In June 2011, FLWM Holdings acquired their LP units in both Retirement and Beverages from a related party transaction with FLWM.
- FLWM Holdings paid $2.59M for 16.67% of Retirement and $785K for 10.9% of Beverages, implying valuations of $15.55M and $7.2M, respectively.
- The implied valuation for Retirement is 30% higher than the initial acquisition by FLWM, Progressive and Universal made and the implied valuation for Beverages is 20% higher.

### Financial Highlights

- The following table summarizes the FLWM Holdings forecasts included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Operating cashflows** | **$ (668,728)** | **$ 194,384** | **$ 938,169** |
| Capital expenditures | - | - | - |
| Equity distributions | - | - | - |
| **Total Cashflows** | **(668,728)** | **194,384** | **938,169** |
| **Financing** | | | |
| Working capital | - | | |
| Retirement acquisition | (2,592,500) | | |
| Beverages acquisition | (785,850) | | |
| New equity raised | 2,990,000 | - | - |
| Agency and bus dev fees | (523,250) | - | - |
| | (911,600) | - | - |
| **Cash in/(out)flows** | **$ (1,580,328)** | **$ 194,384** | **$ 938,169** |



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# C. F.L. Spring Valley Limited Partnership

- Spring Valley LP was registered in the province of Ontario in October 1999 Spring Valley began raising money in 2003;
- The LP has 51 investors;
- As at June 30, 2011 the LP has raised $2.11M and has the following holdings:
  - 100% of 7798 Spring Valley Road, in Dallas, Texas; a strip mall with 7 tenants;
  - 1,077,513 units in WALP; and,
  - 640,000 units in Wimberly Fund.

**Financial Highlights**

- Acquired in October 1999 for $775K. Total cost on the 2010 financial statements is $973K with a NBV of $704K.
- Mortgage amount with Wells Fargo as at December 31, 2010 is $930K with an interest rate of 6.63% maturing on October 1, 2016.

- The following table summarizes the Spring Valley forecasts included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ (67,397)** | **$ (67,397)** | **$ (67,397)** |
| Capital expenditures | - | - | - |
| Equity distributions | (172,724) | (172,724) | (172,724) |
| **Total Cashflows** | **$ (158,113)** | **$ (158,113)** | **$ (158,113)** |

- As at June 30, 2011, there is estimated to be a positive working capital balance of $140K.



3417

# C. First Leaside Select Limited Partnership

- First Leaside Select LP was registered in the province of Ontario in November 2005 The Limited Partnership began raising money in 2007;
- The LP has 39 investors and is denominated in USD;
- As at June 30, 2011 Select has raised $3.65M and has the following holdings:
  - Related Party receivable of $168K;
- Management advises that they have reviewed 8 projects since 2007, however; they have not acquired a property;
- Management advises that they are considering alternatives in how to deal with Select;
- The fund pays a monthly distribution in the form of return of capital at a rate of 7%.

### Financial Highlights

- The following table provides financial highlights:

| | Forecast | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Operating cashflows** | **$9,742** | **$9,742** | **$9,742** |
| Capital Expenditures | - | - | - |
| Equity distributions | (255,330) | (145,903) | (145,903) |
| **Total Cashflows** | **$ (245,587)** | **$ (136,160)** | **$ (136,160)** |

- As at June 30, 2011, there is estimated to be a positive working capital balance of $28K.

# First Leaside Elite Limited Partnership

- First Leaside Elite was registered in the province of Ontario in November 2005 The Limited Partnership began raising money in 2008;
- The LP has 70 investors and is denominated in USD;
- As at June 30, 2011 Elite has raised $6.66M and has the following holdings:
  - Related Party receivable of $2.06M;
- Management advises that they have reviewed 17 projects since 2008, however; they have not acquired a property;
- Management advises that they are considering alternatives in how to deal with Elite;
- The fund pays a monthly distribution in the form of return of capital at a rate of 7%.

### Financial Highlights

- The following table provides financial highlights:

| | Forecast | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Operating cashflows** | **$142,368** | **$142,368** | **$142,368** |
| Capital Expenditures | - | - | - |
| Equity distributions | (466,108) | (266,347) | (266,347) |
| **Total Cashflows** | **$ (323,740)** | **$ (123,980)** | **$ (123,980)** |

- As at June 30, 2011, there is estimated to be a positive working capital balance of $46K.

# C. First Leaside Premier Limited PartnershipFirst Leaside Ultimate Limited Partnership

- First Leaside Premier LP is a Limited Partnership registered in the province of Ontario in November 2005 The Limited Partnership began raising money in 2009;
- The LP has 66 investors and is denominated in USD;
- As at June 30, 2011 Premier has raised $5.56M and has the following holdings:
  - Related Party receivable of $2.32M;
- Management advises that they have reviewed 10 projects since 2009, however; they have not acquired a property;
- Management advises that Premier is a recent LP, and they are still pursuing investment opportunities.;
- The fund pays a monthly distribution in the form of return of capital at a rate of 7%.

### Financial Highlights

- The following table provides financial highlights:

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$160,335** | **$160,335** | **$160,335** |
| Capital Expenditures | - | - | - |
| Equity distributions | (389,275) | (389,275) | (222,443) |
| **Total Cashflows** | **$ (228,940)** | **$ (228,940)** | **$ (62,108)** |

- As at June 30, 2011, there is estimated to be a positive working capital balance of $40K.

- First Leaside Ultimate LP is a Limited Partnership registered in the province of Ontario in November 2005 The Limited Partnership began raising money in 2010;
- The LP has 35 investors and is denominated in USD;
- As at June 30, 2011 Ultimate has raised $3.04M and has the following holdings:
  - Related Party receivable of $1.09M;
- Management advises that they have not reviewed any projects as of the date of this report;
- Management advises that Ultimate is a recent LP and they are still pursuing investment opportunities;
- The fund pays a monthly distribution in the form of return of capital at a rate of 7%.

### Financial Highlights

- The following table provides financial highlights:

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ 74,628** | **$ 74,628** | **$ 74,628** |
| Capital Expenditures | - | - | - |
| Equity distributions | (212,814) | (212,814) | (212,814) |
| **Total Cashflows** | **$ (138,186)** | **$ (138,186)** | **$ (138,186)** |

- As at June 30, 2011, there is estimated to be a positive working capital balance of $904K.

# C. First Leaside Global Limited Partnership

- First Leaside Global Limited Partnership has entered into a purchase and sale agreement scheduled to close in October of 2011.
- The property is a 396 unit multi-family residential complex located at 10801 Heather Ridge Circle, in Orlando, Florida.
- The property is a Class "A" Property.

### Financial Highlights

- The purchase price of the property is $25.0M.
- Global has raised $785K as of June 30, 2011.
- The LP will be assuming the existing debt of $11.9M owing to Orange County Housing Finance Authority (municipal bond), bearing an interest rate of 1.43% amortized over 20 years with interest only payments until December 2015.
- The LP will also be assuming a mortgage in favour of Fannie Mae with a balance owing of $6.87M, bearing an interest rate of 5.95%, with remaining amortization of 18 years, maturing in July 2025.

- The following table summarizes the Global forecasts included in the Base Model. Please note the 2011 numbers are for three months of ownership:

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ 208,712** | **$ 807,066** | **$ 860,849** |
| Capital Expenditures | (74,436) | (305,186) | (312,816) |
| Equity distributions | (161,612) | (646,450) | (646,450) |
| **Total Cashflows** | **(27,336)** | **$ (144,570)** | **$ (98,416)** |
| **Financing of shortfall** | | | |
| Working Capital | - | | |
| New Equity Raised | 9,227,074 | - | - |
| Mortgage raised | 18,065,000 | - | - |
| Purchase price | (25,650,000) | - | - |
| Agency and bus dev fees | (1,614,738) | - | - |
| | 27,336 | - | - |
| **Cash in/(out)flows** | **$ (0)** | **$ (144,570)** | **$ (98,416)** |

- The property was recently updated, and has nominal future capital expenditures.
- Maintenance capex is expected to be approximately $770 / unit per annum.



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# C. First Leaside Visions I Limited Partnership

- First Leaside Visions I LP is a Limited Partnership registered in the province of Ontario in November 2006 and as an Ontario Commercialization Investment Fund Corporation ("OCIF") in February 2007;
- The LP has 48 investors;
- As at June 30, 2011 the FL Vision I LP has raised $2.95M and has invested $3.00M. The LP receives a grant of 30% (totaling $900K on an after-tax basis) from the Ontario government shortly after the investment is made which Visions I used to reduce the NBV of the investment;
- Visions I invests in high-risk technology businesses that are engaged in research at post-secondary institutions and research hospitals, in the earliest stage of their development;
- First Leaside Visions I LP does not pay a monthly distribution to its unit holders.

Investments

- The fund has allocated the money into 4 start up companies:
  - **Segasist Technologies** – is a software company which has designed an innovative artificial intelligence platform to assist clinicians to identify and interpret medical imaging by segmenting the images.
  - **Marksman Celliect** – develops automated cell injection systems (hardware & software) catering to mid-size laboratories which replaces the manual process, leads to greater efficiencies and more accurate results.
  - **Metabacus** – is a software company that provides manufacturers of high-performance advanced semi-conductor chips with a software solution to optimize performance, and reduce the time and cost of designing new chips.
  - **GreenCore Composites** – Developed technology to manufacture Natural Fiber Reinforced Composite Pellets versus petroleum based pellets. The pellets have environmental benefits and more than double the strength of base polymer.

# C. First Leaside Visions II Limited Partnership

- First Leaside Visions II LP is a Limited Partnership registered in the province of Ontario in November 2006 and as an Ontario Commercialization Investment Fund Corporation ("OCIF") in February 2007;
- The LP has 16 investors;
- As at June 30, 2011 FL Visions II LP has raised $1.19M and has invested 2.25M. The LP borrowed an additional $1.2M from FL Finance to fund the shortfall. The LP received a grant of 30% (totaling $675K on an after-tax basis) from the Ontario government shortly after the investment is made which Visions II used to reduce the NBV of the investment;
- Visions II invests in high-risk technology businesses that are engaged in research at post-secondary institutions and research hospitals, in the earliest stage of their development;
- First Leaside Visions II LP does not pay a monthly distribution to its unit holders.

Investments

- The fund has allocated the money into 3 start up companies:
  - **Tyromer Inc.** – has developed a technology to convert scrapped tiers into a new polymer called Tyromer which uses recycled rubber to create a product which is similar in physical properties and strength as virgin rubber.
  - **DossierView Inc.**– is a technology company that has developed a software that allows consumers and businesses to search through scanned files in an efficient manner to locate documents.
  - **eSight Corp.** – has developed a vision tool akin to sunglasses that allow people with low vision to see clearly. The devise allows the user to zoom in/out, improve brightness and contrast.

# C. First Leaside Mortgages Trust

- First Leaside Mortgages Trust is a Formal Trust registered in the province of Ontario in June 2010.;
- The Trust has 191 investors;
- The Trust has raised $10M dollars and holds the following investments:
  - $5.3M mortgage with Sedona & the Church at an interest rate of 6.6%;
  - Related party receivables in the amount of $3.56M paying a rate of 7%;
  - Working Capital of $1.1M;
- The Trust currently pays a yield of 6% as interest income to its investors.

Financial Highlights

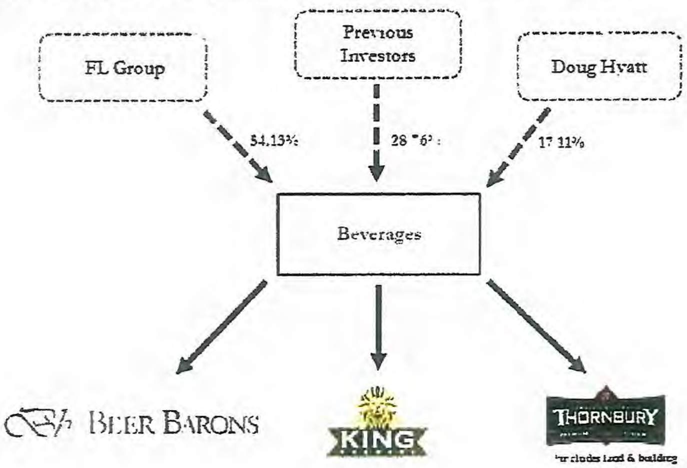
- The following table summarizes the Mortgage forecasts included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Operating cashflows** | **$ 597,073** | **$ 597,073** | **$ 597,073** |
| Capital Expenditures | - | - | - |
| Debt distributions | (696,808) | (696,808) | (696,808) |
| **Total Cashflows** | **$ (99,735)** | **$ (99,735)** | **$ (99,735)** |
| **Financing** | | | |
| Working capital | 1,100,241 | | |
| New debt raised | 1,556,530 | - | - |
| Agency and bus dev fee | - | - | - |
| | 2,656,771 | - | - |
| **Cash in/(out)flows** | **$ 2,557,036** | **$ (99,735)** | **$ (99,735)** |

# C. First Leaside Beverages Limited Partnership

- Established in 2010, Beverages is a closed Limited Partnership which owns 100% of the following properties:
  1. Beer Barons - Based out of Nobleton, Ontario, Beer Barons is the management and consulting company of Beverages which develops and markets all of the beverages to market.
  2. King Brewery – Located in Nobleton, Ontario, the brewery has an authentic German decoction which allows it to brew premium beer.
  3. Thornbury Cider – The Thornbury Village Cidery, making "Peeler Cider" as its flagship product.
  4. The land and building the cidery operates out of, located at 90 King Street East in downtown Thornbury.

- Between December 2010 and February 2011, FLWM, Progressive and a consortium of investors paid $5.995M for the three operating businesses listed above, resulting in the following organizational chart:




- In February 2011, FL Beverages LP raised $1.00M in a syndicated mortgage of non-accredited investors to acquire the property located at 90 King Street East.
- In June 2011, FLWM then sold a portion of its interest to FLWM Holdings, resulting in the current FL Group ownership structure:
  - 10.9% owned by FLWM Holdings (acquired for $785K)
  - 8.3% owned by FL Progressive LP (acquired at cost)
  - 34.9% owned by FLWM (acquired at cost)
- The above assumes a FMV of $7.20M which represents a 20% growth in 3 months. An independent valuation of the company was not completed at the time of this transaction.

| | Forecast | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Revenues** | $ 2,254,357 | $ 7,962,225 | $ 16,745,194 |
| **Expenses** | (3,058,505) | (5,314,860) | (8,590,209) |
| **NOI** | **(804,149)** | **2,647,365** | **8,154,985** |
| **Capex** | (2,250,000) | (920,000) | - |
| **Debt Servicing** | (60,000) | (60,000) | (60,000) |
| **Total Cashflows** | **(3,114,149)** | **1,667,365** | **8,094,985** |

# C. First Leaside Beverages Limited Partnership – cont'd

- First Leaside Beverages Limited Partnership owns 100% of 90 King Street East, in Thornbury, Ontario, a few kilometres west of Collingwood situated on the shores of Georgian Bay;
- The property was acquired in February 2011 for $1.60MM. The property has a syndicated mortgage of non-accredited investors in the amount $1.00M with interest only payments at a rate of 6% maturing February 2016;
- The property is a 31,000 sq ft commercial property which was partially updated and renovated in 2007;
- The property is zoned highway commercial and is situated on 0.83 acres;
- Stewart & Milhausen appraisal dated February 3, 2011 values the property at $1.47M.

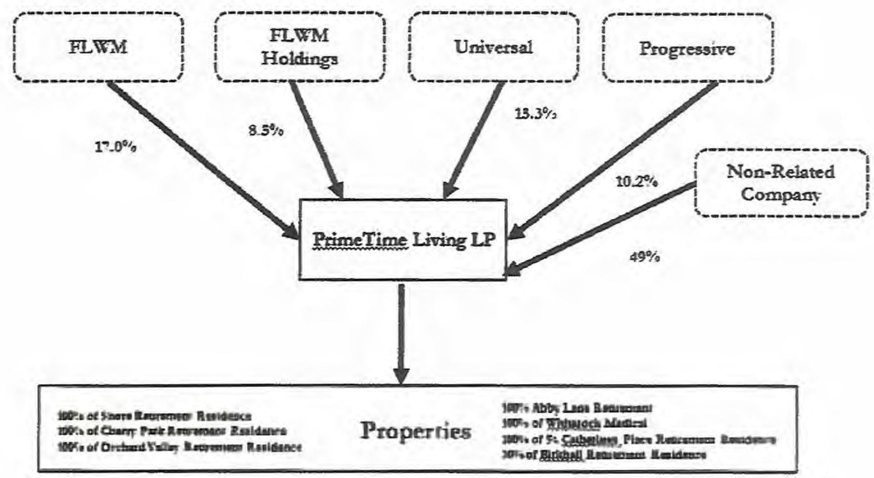
# C. First Leaside Retirement Residences Limited Partnership

- Acquired in 2011, First Leaside Retirement Residences is a closed Limited Partnership which owns 51% of PrimeTime Living LP.
- PrimeTime Living LP owns the following:
    1. The Shores Retirement Residence
    2. Cherry Park Retirement Residence
    3. Orchard Valley Retirement Residence
    4. Abby Lane Retirement Residence / Whiterock Medical
    5. St Catherines Place Retirement Residence
    6. 50% of The Birkhall Retirement Residence
    7. The Heatherwood Retirement Residence

**Acquisition:**

- In January 2011, FLWM, Universal and Progressive paid $12M for a 100% interest in Retirement (which has a 51% interest in PrimeTime Living LP, with the other 49% being owned by a non-related company).
- In June 2011, FLWM then sold a portion of its interest to FLWM Holdings, resulting in the current FL Group ownership structure:
    - 16.67% owned by FLWM Holdings (acquired for $2.59M representing a 30% premium over the initial price);
    - 20% owned by Progressive;
    - 30% owned by Universal; and
    - 33.3% owned by FLWM.

- The following is an organizational chart of the current ownership in Retirement:



# C. First Leaside Retirement Residences Limited Partnership – cont'd

- The following table summarizes the Primetime Living LP forecasts included in the Base Model.

| | Forecast | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **NOI** | | | |
| St. Catharines Place | $ 1,633,947 | $ 1,694,937 | $ 1,757,864 |
| Heatherwood | 1,952,995 | 2,045,682 | 2,046,822 |
| Orchard Valley | 1,042,050 | 1,144,242 | 1,253,769 |
| The Shores | 867,173 | 950,809 | 1,040,089 |
| Cherry Park | 613,887 | 665,577 | 665,534 |
| Whiterock Medical | 357,767 | 357,767 | 357,767 |
| The Birkhall | (39,108) | (39,108) | (39,108) |
| Abbey Lane | (150,000) | (150,000) | (300,000) |
| | **6,278,710** | **6,669,905** | **6,782,738** |
| **Capex** | **(3,622,500)** | **(487,500)** | **(75,000)** |
| **Debt Servicing** | **(5,762,127)** | **(5,270,757)** | **(5,295,029)** |
| **Net cashflows** | **$ (3,105,917)** | **$ 911,648** | **$ 1,412,708** |

# C. The Shores Retirement Residence

- A 66 unit, 66,580 sq ft., retirement home located at 870 Westminister Ave., in Kamloops, BC;
- The retirement home is situated on 1.4 acres and has land that has not yet been developed;


# Cherry Park Retirement Residence

- A 64 unit, 61,288 sq ft., retirement home located at 317 Winnipeg Street., in Okanagan, BC;
- The retirement home is situated on 0.68 acres;

# C. Orchard Valley Retirement Residence

- A 66 unit , 66,597 sq ft., retirement home located at 2829 – 34th Street., in Okanagan, BC;
- The retirement home is situated on 0.64 acres;

# Abby Lane Retirement Residence / Whiterock Medical

- The project is made up of a medical facility occupying 40,000 sq ft., and an 80 unit retirement home on 20,000 sq ft., located in White Rock, BC
- The medical centre and retirement home is situated on 2.3 acres;
- The property is currently being developed and is anticipated to be completed by February 2013.



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# C. St. Catharines Place Retirement Residence

- A 87 unit, 40,000 sq ft., retirement home located at 113 Scott Street, in St. Catherines , Ontario;
- The retirement home is situated on 1.5 acres;

# The Birkhall Retirement Residence

- An 83 unit, 80,000 sq ft., retirement home located in Okanagan, BC.
- The retirement home is situated on 3 acres:
- The property is currently being developed and is anticipated to be completed by July 2012



36 C

# C. The Heatherwood Retirement Residence

- An 87 unit, 40,000 sq ft. retirement home located at 115 Scott Street, in St. Catherines, ON;
- The retirement home is situated on 1.5 acres;

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