Court File No. CV-12-9617-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF First Leaside Wealth Management Inc., First Leaside Finance Inc., First Leaside Securities Inc., FL Securities Inc., First Leaside Management Inc., First Leaside Accounting and Tax Services Inc., First Leaside Holdings Inc., 2086056 Ontario Inc., First Leaside Realty Inc., First Leaside Capital Inc., First Leaside Realty II Inc., First Leaside Investments Inc., 965010 Ontario Inc., 1045517 Ontario Inc., 1024919 Ontario Inc., 1031628 Ontario Inc., 1056971 Ontario Inc., 1376095 Ontario Inc., 1437290 Ontario Ltd., 1244428 Ontario Ltd., PrestonOne Development (Canada) Inc., PrestonTwo Development (Canada) Inc., PrestonThree Development (Canada) Inc., PrestonFour Development (Canada) Inc., 2088543 Ontario Inc., 2088544 Ontario Inc., 2088545 Ontario Inc., 1331607 Ontario Inc., Queenston Manor General Partner Inc., 1408927 Ontario Ltd., 2107738 Ontario Inc., 1418361 Ontario Ltd., 2128054 Ontario Inc., 2069212 Ontario Inc., 1132413 Ontario Inc., 2067171 Ontario Inc., 2085306 Ontario Inc., 2059035 Ontario Inc., 2086218 Ontario Inc., 2085438 Ontario Inc., First Leaside Visions Management Inc., 1049015 Ontario Inc., 1049016 Ontario Inc., 2007804 Ontario Inc., 2019418 Ontario Inc., FL Research Management Inc., 970877 Ontario Inc., 1031628 Ontario Inc., 1045516 Ontario Inc., 2004516 Ontario Inc., 2192341 Ontario Inc., and First Leaside Fund Management Inc.

Applicants

FOURTH REPORT TO COURT OF GRANT THORNTON LIMITED, MONITOR OF THE APPLICANTS UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*

AUGUST 21, 2012

Grant Thornton

**Grant Thornton Limited,
Monitor of the Applicants under the Companies' Creditors Arrangement Act**

Royal Bank Plaza
200 Bay Street, South Tower, 19th Floor
Toronto, Ontario, M5J 2P9

SCHEDULE "A": LIMITED PARTNERSHIPS BENEFITING FROM INITIAL ORDER

B&W Limited Partnership
Development Notes Limited Partnership
Dossierview Limited Partnership
eSight Limited Partnership
F.L. Beverages Group Limited Partnership*
First Leaside Acquisitions 2000 Limited Partnership
First Leaside Acquisitions Limited Partnership
First Leaside Advantage Limited Partnership
First Leaside Developments Limited Partnership
First Leaside Elite Limited Partnership
First Leaside Enterprises Limited Partnership
First Leaside Entities Limited Partnership
First Leaside Expansion Limited Partnership
First Leaside Global Limited Partnership
First Leaside Growth Limited Partnership
First Leaside Income Limited Partnership
First Leaside Investors Limited Partnership
First Leaside Operations Limited Partnership
First Leaside Opportunities Limited Partnership
First Leaside Optimal Limited Partnership
First Leaside Partners Limited Partnership
First Leaside Preferred Limited Partnership
First Leaside Premier Limited Partnership
First Leaside Progressive Limited Partnership
First Leaside Properties Limited Partnership
First Leaside Quality Limited Partnership
First Leaside Real Estate Limited Partnership
First Leaside Realty II Limited Partnership
First Leaside Realty Limited Partnership
First Leaside Retirement Residences Limited Partnership
First Leaside Select Limited Partnership
F.L. Spring Valley Limited Partnership
First Leaside Superior Limited Partnership
First Leaside Technologies Limited Partnership
First Leaside Ultimate Limited Partnership
First Leaside Unity Limited Partnership

First Leaside Universal Limited Partnership
First Leaside Venture Limited Partnership
First Leaside Visions I Limited Partnership
First Leaside Visions II Limited Partnership
First Leaside Visions III Limited Partnership
First Leaside Visions IV Limited Partnership
First Leaside Wealth Management Limited Partnership
F.L. Master Texas, Ltd.
F.L.W. Pond Master, Ltd.
F.L.W. Shores Master, Ltd.
FLWM Holdings Limited Partnership*
Greencore Limited Partnership
Marksman Celiject Limited Partnership
Metabacus Limited Partnership
Mill Street Limited Partnership*
Old Mill Pond Apartments Limited Partnership
OMISA Limited Partnership
Place Concorde East Limited Partnership
Place Concorde West Limited Partnership
Preston Racquet Club Real Estate Limited Partnership Series 910 PA
Preston Racquet Club Real Estate Limited Partnership Series 910 PB
Preston Racquet Club Real Estate Limited Partnership Series 910 PC
Preston Racquet Club Real Estate Limited Partnership Series 910 PD
Queenston Manor Limited Partnership
Special Notes Limited Partnership
Special U.S. Notes Limited Partnership
The Bluffs of Lakewood Limited Partnership
The Shores Limited Partnership
Tyromer Limited Partnership
Uxbridge Development Limited Partnership
Wimberly Apartments Limited Partnership

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Applicants

FOURTH REPORT TO COURT OF GRANT THORNTON LIMITED, MONITOR OF THE APPLICANTS UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*

AUGUST 21, 2012

INTRODUCTION

1. On February 23, 2012, the Applicants made an application to the Ontario Superior Court of Justice (Commercial List) (the "**Court**") to commence proceedings under the *Companies' Creditors Arrangement Act* (the "**CCAA Proceedings**"). On that date, the Court issued an order (as amended by the Court on March 8, 2012 and June 28, 2012) (the "**Initial Order**"), *inter alia*, granting the Applicants and the entities listed on Schedule A hereto (collectively, the "**Companies**" or "**First Leaside**") the protection of a stay of proceedings,

appointing Grant Thornton Limited ("**GTL**") as the Companies' monitor under the CCAA (the "**Monitor**"), confirming the appointment of G.S. MacLeod & Associates Inc. as the Companies' Chief Restructuring Officer (the "**CRO**") and appointing Fraser Milner Casgrain LLP as representative counsel ("**Representative Counsel**") to the Companies' investors, being clients of First Leaside Securities Inc. (the "**Investors**").

2. On March 23, 2012, the Court issued an order, among other things, extending the stay of proceedings to June 29, 2012 (the "**March 23 Order**").

3. On June 28, 2012, the Court issued an order, among other things, extending the stay of proceedings to October 26, 2012 (the "**June 28 Order**").

PURPOSE OF FOURTH REPORT

4. The purpose of this fourth report of the Monitor (the "**Fourth Report**") is to:

a) provide the Court with the details of the Monitor's activities since June 22, 2012, the date of the Monitor's third report to Court (the "**Third Report**");

b) provide the Court with an update regarding the Companies' interests in entities and properties domiciled in Texas;

c) provide the Court with information related to the flow of funds and banking activity of Wimberly Apartments Limited Partnership ("**WALP**") and its subsidiaries/investments;

d) provide the Monitor's observations, views and recommendations regarding the Applicants' request for an order:

i. approving the CRO's activities as described in the affidavit of Gregory MacLeod, the representative of the CRO, sworn August 20, 2012 (the "**August CRO Affidavit**");

ii. approving the sale by F.L. Securities Inc. ("**FL Securities**"), in its capacity as general partner of Harmony Town Homes Limited Partnership, of the property known municipally as 65 Fort Street, Tilbury, Ontario (the "**Harmony Property**") to Skyline Real Estate Acquisitions (III) Inc. ("**Skyline**") pursuant to an Agreement of Purchase and Sale dated July 23, 2012 (the "**Harmony Agreement**") and vesting title in the purchaser upon closing;

iii. approving the sale by 2085306 Ontario Inc. ("**2085306**") in its capacity as general partner of First Leaside Growth Limited Partnership of the property known municipally as 36 Bramtree Court (the "**Bramtree Property**") to Outset Media Corporation ("**Outset**") pursuant to an agreement of purchase and sale dated July 23, 2012 ("**Bramtree Agreement**") and vesting title in the purchaser upon closing;

iv. approving the sale of First Leaside's interest in First Leaside Accounting Tax Services Inc. ("**FLAT**"), substantially in the form of a term sheet (the "**JH Term Sheet**") dated August 10, 2012 among Joanna L. Hampton Holdings Inc., McMillan Thorne & Co. Ltd., D. McCormack & Company Inc., Allan Welsh & Company, FLAT, the Toronto-Dominion Bank, and Jim Brander Professional Corporation, as well as a term sheet (the "**JB Term Sheet**") dated August 10, 2012 among Jim Brander, Jim Brander Professional Corporation, Brander Professional Corporation, Smart Books Accounting Services Inc., FLAT, the Toronto-Dominion Bank and Joanna L. Hampton Holdings Inc.;

v. authorizing the CRO to execute on behalf of First Leaside Realty II Inc., as general partner, an Asset Purchase Agreement dated August 3, 2012 (the "**Amica APA**") among 480 Metcalfe Street (Ottawa) Limited Partnership, 100 Isabella Street (Ottawa) Limited Partnership, Redwood Retirement Residences (Ottawa) Limited Partnership (collectively, the "**Vendors**"), Amica Acquisitions Inc., (the "**Purchaser**") and KingSett Real Estate Growth LP No. 2 ("**KingSett**") and declaring that the *Bulk Sales Act* does not apply to such transaction;

vi. authorizing and directing First Leaside Finance Inc. to discharge its $7.5 million mortgage in respect of the property known municipally as 480 Metcalfe Street, Ottawa, Ontario and registered on August 29, 2011 as Instrument Number OC1276878;

vii. authorizing First Leaside to take no further steps to manage, maintain, administer, market, or realize value from the limited partnerships, corporations, trusts, or properties located or subsisting in the United States in which First Leaside has a direct or indirect equity or other interest (collectively, the "**US Entities**"), including properties held directly or indirectly by WALP, 2088544 Ontario Inc., 2088545 Ontario Inc., 2088543 Ontario Inc., FL Master Sherman GP, Inc., FL Master Texas, Ltd., FL Master Sherman Ltd., or F.L. US Holdings GP, Inc., but excepting the Sherman Church Property (which is owned by WALP) and the property owned by F.L. Spring Valley, Ltd. ("**Spring Valley**") (collectively, the "**US Entities Wind-Down**");

viii. authorizing, but not obligating, First Leaside to take the following additional steps in furtherance of the US Entities Wind-Down:

(i) delivering records of US Entities:

(A) in respect of US Entities which are corporations: to an officer, director, shareholder, or employee thereof;

(B) in respect of US Entities that are limited partnerships: to the general partner or an officer, director, shareholder, or employee of the general partner;

(ii) where an Applicant is a general partner of one or more of the US Entities, to resign as general partner and/or facilitate the appointment of a new general partner; and

(iii) immediately ceasing to prepare or file any financial statements, accounting records, regulatory report, or tax returns on behalf of the US Entities.

ix. an order reserving the right of First Leaside, despite the US Entities Wind-Down, to investigate whether First Leaside Mortgage Fund ("**Mortgage Fund**") or other alleged creditors of the US Entities (collectively, the "**Alleged Creditors**") have given valid consideration for the relevant debtor security which they assert and authorizing First Leaside to take such steps as are necessary to seek a determination of the rights, if any, of Alleged Creditors;

x. discontinuing these proceedings on behalf of 970877 Ontario Inc. and removing such corporation as one of the Applicants in the Initial Order;

xi. lifting the stay provided for in paragraph 24 of the Initial Order as it relates to David C. Phillips ("**Phillips**"), the former president of First Leaside, and his wife, Margaret Davis ("**Davis**"), who are directors of certain of the Applicants; and

xii. approving this Fourth Report and the activities of the Monitor as described herein.

SCOPE AND TERMS OF REFERENCE

5. In preparing this Fourth Report, the Monitor has relied upon unaudited financial information, the Companies' records, financial information and projections and discussions with the CRO, the Companies' management and certain of its employees. While the Monitor reviewed various documents provided by the Companies and believes that the information therein provides a fair summary of the transactions as reflected in the documents, such work does not constitute an audit or verification of such information for accuracy, completeness or compliance with Generally Accepted Accounting Principles. Accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information.

6. Some of the information used in preparing this Fourth Report relies on financial projections. The Monitor cautions that these projections are based upon assumptions about future events and conditions that are not ascertainable. The Companies' actual results may vary from such projections and such variations may be material. The Monitor's review of the future oriented information used to prepare this Fourth Report did not constitute a review or examination of such information under Canadian Generally Accepted Auditing Standards or International Financial Reporting Standards.

7. In the course of its mandate, the Monitor has assumed the integrity and truthfulness of the information and explanations presented to it by the CRO, the Companies and their management, within the context in which such information was presented. To date, nothing has come to the Monitor's attention that would cause it to question the reasonableness of this assumption. The Monitor has requested that management and the CRO bring to its attention any significant matters which were not addressed in the course of the Monitor's specific inquiries. Accordingly, this Fourth Report is based solely on the information (financial or otherwise) made available to the Monitor by the CRO and the Companies.

8. This Fourth Report has been prepared for the use of this Court and the Companies' stakeholders as general information relating to First Leaside. Accordingly, the reader is cautioned that this Fourth Report may not be appropriate for any other purpose. The Monitor will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication,

reproduction or use of this Fourth Report contrary to the provisions of this section.

9. All references to dollars are in Canadian currency unless otherwise noted. Balances denominated in U.S. currency have been converted to Canadian currency at par.

10. Capitalized terms not defined in this Fourth Report have the meanings ascribed to them in the August CRO Affidavit. In preparing this Fourth Report, the Monitor has endeavoured not to repeat information contained in the August CRO Affidavit.

ACTIVITIES OF THE MONITOR

11. The Monitor's activities to June 22, 2012 were described in the Third Report and were approved pursuant to the June 28 Order. Since June 22, 2012, the Monitor's activities have included, among other things:

    i) meeting and corresponding regularly with the management of First Leaside, the CRO and the Companies' counsel regarding, among other things, the Companies' activities, correspondence with stakeholders, the Companies' financial position, the sales processes for the Companies' assets and the Companies' cash flow projections;

    ii) meeting and corresponding regularly with the Monitor's independent counsel;

iii) meeting and corresponding with Representative Counsel on a periodic basis to discuss, among other things, communications to the Investors and developments in the CCAA Proceedings;

iv) meeting and corresponding with the CRO, counsel to First Leaside, counsel to the Monitor and Grant Thornton Corporate Finance Inc. as it relates to the marketing of the Okanagan Excluded LP's;

v) meeting and corresponding with the CRO, counsel to First Leaside, counsel to the Monitor and counsel to certain secured creditors as it relates to the marketing of the Ottawa Excluded LP's (defined below);

vi) reviewing the banking, accounting records, financial statements as well as various agreements entered into by First Leaside prior to the issuance of the Initial Order, all as it relates to WALP and its investments/subsidiaries;

vii) corresponding with counsel to First Leaside in Texas, the CRO, First Leaside's counsel, and the Monitor's counsel, as it relates to the corporate authority, legal structure and ongoing operations of the Texas properties;

viii) preparing a report to investors regarding WALP dated July 20, 2012 (the "**WALP Investor Report**"), which provided a summary of the flow of funds and intercompany balances between WALP and certain other entities within First Leaside. A copy of the WALP Investor Report is attached as **Appendix "1"**;

ix) attending at a meeting of the steering committee of investors (the "**Steering Committee**") with Representative Counsel on July 23, 2012 to present the WALP Investor Report;

x) corresponding by email and telephone, and attending meetings with Torkin Manes LLP ("**Torkin Manes**"), counsel to the apparent trustees of Wimberly Fund, First Leaside Fund, First Leaside Mortgage Fund and First Leaside Properties Fund (collectively the "**Funds**"). The appointment of the trustees of the Funds is discussed in paragraph 58 below;

xi) reviewing documentation related to the transactions involving the sale of the Companies' interest in the Harmony Property and the Bramtree Property;

xii) reviewing the Companies' actual cash flow results on a weekly basis;

xiii) monitoring the Companies' ongoing operating commitments and disbursements;

xiv) reviewing the intercompany balances as between the Companies since the commencement of the CCAA Proceedings;

xv) attending periodically at First Leaside's office in Markham, Ontario;

xvi) corresponding by email and telephone with the Companies' creditors and investors;

xvii) maintaining a public website for the CCAA Proceedings and updating same on a regular basis;

xviii) Preparing this Fourth Report; and

xix) reviewing all materials filed with the Court in respect of these proceedings.

SALE OF THE HARMONY PROPERTY AND THE BRAMTREE PROPERTY

12. As described in more detail in the August CRO Affidavit, on July 23, 2012, FL Securities entered into the Harmony Agreement, which provides for the sale of the Harmony Property, a 50 unit townhome complex in Tilbury, Ontario to Skyline. The Harmony Agreement is subject to the approval of the Court.

13. Also as more fully discussed in the August CRO Affidavit, on July 23, 2012, 2085306 Ontario Inc. entered into the Bramtree Agreement, which provides for the sale of the Bramtree Property, a 70,000 square foot commercially tenanted building located in Brampton, Ontario to Outset. The Bramtree Agreement is subject to the approval of the Court.

14. As described in the August CRO Affidavit, both of the above noted properties were listed for sale with a real estate broker and are subject to purchase and sale agreements that are conditional on the respective purchasers waiving due diligence conditions.

15. The conditional period for the Harmony Agreement is scheduled to expire on August 28, 2012, and the conditional period for the Bramtree Agreement is scheduled to expire on August 23, 2012.

16. These transactions arise as a result of the CRO having entered into listing agreements in respect of these properties pursuant to paragraph 3 of the March 23 Order.

17. The Monitor has reviewed the respective sale processes conducted by the CRO for the sale of Harmony and Bramtree, and has reviewed the terms of the Harmony Agreement and the Bramtree Agreement, and is of the view that:

    (i) the sale processes were reasonable and thorough;

    (ii) the transactions contemplated are more beneficial to the creditors than a sale or disposition of such properties under a bankruptcy; and

    (iii) the value anticipated to be received for the properties is reasonable and fair taking into consideration their respective appraised values.

18. In the interest of avoiding additional costs to bring a separate motion upon the expiry of the conditional periods in the Bramtree Agreement and the Harmony Agreement, the Monitor supports the request for the relief sought by the Applicants as it relates to the sale of the Harmony Property and the Bramtree Property.

THE OTTAWA EXCLUDED LPs

19. As detailed in paragraph 29 of the August CRO Affidavit, in consultation with the affected secured creditors, certain of the limited partnerships in the First Leaside group with properties in Ottawa, Ontario (the "**Ottawa Excluded LPs**") were excluded from these proceedings pursuant to paragraph 4 of the Initial Order.

20. While these limited partnerships are not parties to these proceedings, First Leaside Venture Limited Partnership ("**Venture LP**"), a limited partnership that is subject to these CCAA Proceedings is an owner of limited partnership interests in these entities. As noted in the August CRO Affidavit, there is no value in the Ottawa Excluded LPs available to any party other than the secured lenders with mortgages registered against the properties as the secured lenders will be suffering a shortfall in their recovery.

21. The Monitor understands that the properties owned by the Ottawa Excluded LPs are subject to conditional agreements of sale. As these entities are excluded from the CCAA Proceedings, the Monitor has not opined on the reasonableness of the agreement, but can confirm that a thorough sale process was completed in respect of the properties owned by each of the Ottawa Excluded LPs.

22. Paragraphs 33 to 35 of the August CRO Affidavit provide information pertaining to the Ottawa Excluded LPs and certain of their obligations to secured creditors. The following paragraphs clarify the information contained in the August CRO Affidavit that pertains to the Ottawa Excluded LPs.

23. The properties owned by the Ottawa Excluded LPs are encumbered as follows:

(i) Canadian Imperial Bank of Commerce ("**CIBC**") holds the first mortgage with $40,038,134.61 owing in respect thereof;

(ii) KingSett is a guarantor in respect of the first mortgage in favour of CIBC and holds a second mortgage as collateral therefor;

(iii) KingSett Mortgage Corporation ("**KMC**") holds a third mortgage with $19,491,480.33 owing in respect thereof; and

(iv) First Leaside Finance Inc. ("**FL Finance**") holds a fourth mortgage with $7,500,000 owing in respect thereof.

24. The total amount owing in respect of the properties owned by the Ottawa Excluded LPs is $67,029,614.94 and the mortgage held by FL Finance is registered against all of the properties owned by the Ottawa Excluded LPs and not solely 480 Metcalfe.

25. The Monitor has been advised that the relief sought with respect to the properties owned by the Ottawa Excluded LPs is at the request of and supported by KMC along with KingSett and CIBC.

FIRST LEASIDE TAX AND ACCOUNTING SERVICES INC.

26. First Leaside is seeking approval of the sale of FLAT's interest in four accounting firms in Western Canada, pursuant to two term sheets, the JH Term Sheet and the JB Term Sheet. Since the onset of these proceedings, the Monitor has been working closely with the CRO to effect a divestiture of these accounting firms.

27. Some complications have arisen in respect of the divestiture of these firms, as a result of the manner in which they were acquired and are currently held. Under applicable provincial rules accounting firms can only be owned by corporations that are controlled by a licenced accountant that holds a recognized designation, and as such, FLAT was unable to have direct ownership in the four accounting firms.

28. As noted in more detail in the August CRO Affidavit, as a result of these regulatory restrictions, the acquisition of the accounting firms was structured through qualified individuals. Thus, three of the accounting firms were purchased by Joanna L. Hampton Holdings Inc. ("**Hampton Inc.**"), whose sole director and shareholder is Joanna Hampton ("**Hampton**"), the former director of finance of First Leaside. The other accounting firm was ultimately purchased by Jim Brander Professional Corporation ("**JBPC**"), whose sole director and shareholder is Jim Brander.

29. As described in detail in paragraphs 68 to 70 of the August CRO Affidavit, First Leaside advanced funds totaling $1,799,699 between June, 2008 and December, 2010 to Hampton Inc., to acquire three accounting firms (the "**JH Firms**"), without entering into a written agreement that reflected that FLAT was the intended beneficial owner of the JH Firms. Hampton Inc. did, however, execute a "pledge" dated July 6, 2010 which pledged the shares in Hampton Inc. in favour of FLAT as security for the amounts advanced by FLAT.

30. As described in paragraphs 71 to 76 of the August CRO Affidavit, First Leaside advanced funds totaling $650,000 between June, 2010 and January, 2011 to Matthew E. Bakker Professional Corporation ("**MEB**"), to acquire an accounting firm in Calgary, Alberta, without entering into a written agreement that reflected that FLAT was the intended beneficial owner of the firm. MEB did, however, execute a "pledge" dated July 6, 2010 which pledged the shares in MEB in favour of FLAT as security for the amounts advanced by FLAT to MEB.

31. In January 2011, Bakker transferred his shares of MEB to Jim Brander Professional Corporation ("**JBPC**"), a corporation controlled by Jim Brander, CA ("**Brander**"). In January 2011, following the acquisition of MEB by JBPC, FLAT and several Brander-controlled corporations entered into a Derivative Agreement dated January 25, 2011 (the "**Derivative Agreement**"). Under the Derivative Agreement, JBPC and a related corporation (Smart Books Accounting Services Inc. ("**SBAS**")) agreed to pay FLAT a set percentage of their annual after-tax profits less agreed-upon cash reserves. FLAT also obtained the right to transfer ownership of the outstanding shares of SBAS, JBPC, and MEB to a transferee of its choosing upon the termination of the Derivative Agreement.

32. Details of the steps that were taken by the CRO to market and sell the accounting firms are set out in the August CRO Affidavit. In order to assess the transactions that have been achieved as a result of these efforts, the Monitor has reviewed the financial statements of the four accounting practices provided by First Leaside and used industry accepted standards to estimate the enterprise value of the accounting practices for the purpose of considering the JH Term

Sheet and JB Term Sheet; however, the Monitor has not conducted an opinion of value or valuation of the practices.

33. It is the Monitor's view that the enterprise value of the accounting firms is heavily contingent on Brander and Hampton remaining with the practices, and that the enterprise value would be materially compromised with their departures. The complexity of the ownership structure also makes it difficult to realize on the businesses.

34. The Monitor has reviewed the JH Term Sheet and the JB Term Sheet and is of the view that the values assigned to the JH Firms and JBCP are reasonable in these circumstances:

(i) The process undertaken by the CRO to realize on the value of the assets has been reasonable;

(ii) the transactions contemplated are more beneficial to the creditors than a sale or disposition of the businesses would be under a bankruptcy; and

(iii) the value anticipated to be received for the businesses is reasonable and fair in the circumstances.

35. As such, the Monitor supports the Companies' request for an Order authorizing the sale of FLAT to Hampton Inc. and JBPC pursuant to the JH Term Sheet and the JB Term Sheet, respectively.

WIMBERLY APARTMENTS LIMITED PARTNERSHIP AND OTHER TEXAS PROPERTIES

36. First Leaside is seeking an order authorizing and directing it to take no further steps in respect of the US Entities. For the reasons discussed further below, the Monitor supports the requested relief.

37. As initially discussed in the Monitor's Third Report, and as detailed more fully in the August CRO Affidavit, WALP is an Ontario limited partnership, which through a series of Texas limited partnerships has the controlling ownership interest in F.L. Master Texas, Ltd., ("**Master Texas**"), F.L. Master Sherman, Ltd., ("**Master Sherman**") and F.L. Sedona Creek, Ltd. ("**Sedona**") (collectively, including their subsidiaries, the "**Texas Entities**").

38. The organizational structure of WALP is complex. A copy of an organizational chart for WALP as prepared by the Companies' legal counsel is attached as **Appendix "2"**.

39. As can be seen from Appendix "2", Master Texas is a limited partnership which was registered in the State of Texas in the United States around December 2005. Master Texas acts as an aggregator for six other Texas limited partnerships, each of which owns one apartment complex in the Dallas, Grand Prairie or Arlington, Texas areas.

40. Master Sherman is also a limited partnership which was registered in the state of Texas in the United States around December 2006. Master Sherman acts as an

aggregator for other four Texas limited partnerships, each of which owns one apartment complex in the Sherman, Texas area.

41. Sedona is a Texas limited partnership is registered in the state of Texas. Until early August, 2012 Sedona owned an apartment complex in Dallas, Texas. As noted in the August CRO Affidavit, in early August, 2012, the property owned by Sedona was acquired by Mortgage Fund, which held a first mortgage on the property, by way of foreclosure proceedings commenced in Texas by Mortgage Fund. The Monitor understands that the foreclosure proceedings were commenced at the direction of Phillips, who is one of the Trustees of Mortgage Fund.

42. The Monitor understands that the Sherman Church property is owned by WALP and is subject to a mortgage held by the Mortgage Fund. There appears to be little, if any equity, in the property beyond the mortgage. The Companies have not yet taken steps to realize on this property.

43. The Monitor understands that Spring Valley Limited Partnership is an Ontario limited partnership that owns Spring Valley, which owns a mall in Dallas, Texas, as well as some units of WALP and Wimberly Fund. Spring Valley exists outside of the WALP organizational structure. First Leaside continues to consider its options with respect to the property owned by Spring Valley and it is not included in the order sought by the CRO in respect of the US Entities Wind Down.

44. Notwithstanding that the Texas Entities held within the WALP organizational structure are not subject to the CCAA Proceedings, the investment in these

entities, through WALP, is significant. As noted in the Third Report, since the issuance of the Initial Order, the CRO, with the assistance of the Monitor and respective legal counsel, has been assessing First Leaside's options with respect to the real properties owned by the Texas Entities, in an effort to recover value for the investors of WALP and First Leaside. In this regard, the CRO has, among other things:

(i) Inspected all of the Texas properties with the Dallas-based property manager, Leaders Corporation, and maintained regular contact with Leaders Corporation to further understand the operations and cash flows of the Texas properties;

(ii) Retained Texas-based legal counsel to advise of its options and corporate authority with respect to the Texas subsidiaries;

(iii) Retained a US-based mortgage advisor;

(iv) Obtained one appraisal and one assessment of value for the properties owned by Master Texas and Master Sherman;

(v) Arranged for the preparation of an accurate organizational chart for WALP and related entities and Texas subsidiaries, which First Leaside did not previously possess and was necessary to consider corporate authority;

(vi) Arranged for the assembly of information related to the flow of funds between WALP and related entities, for review by the Monitor; and

(vii) Communicated with various parties that contacted the CRO regarding their interest in First Leaside's Texas properties.

45. As set out in the August CRO Affidavit, and as more fully discussed below, as a result of these efforts, the CRO has determined that it should take no further steps to try to realize value out of the Texas properties held by the Texas LPs. The Monitor's support for this decision is based on the economics of the situation. In particular:

(i) The equity value of the Texas properties is insufficient to justify efforts to undertake realization steps on behalf of investors, whose interests are subordinate to substantial amounts owed on the properties to secured lenders;

(ii) The properties are operating at deficiency, and substantial funding will be required imminently to maintain their operations. Given the current value of the properties, the investment of scarce remaining resources by First Leaside at the further expense of Investors into these operations cannot be justified;

(iii) It is not clear in any event that investors in WALP have a direct debt claim against the Texas LPs, whereas secured lenders have direct mortgages on specific properties, and the WALP Funds have unsecured debt claims against Master Texas and Master Sherman; and

(iv) The CRO does not currently have the corporate authority to deal with the Texas properties, as they are under the control of the Texas LPs, whose general partners are controlled by Phillips. However, even if a resolution of this issue could be achieved through discussions or legal recourse, the economics of the situation do not justify pursuing resolution or litigation of the corporate authority issues.

Assessment of Value of the Texas Properties

46. First Leaside has obtained one appraisal and one opinion of value for each of the Texas properties, which the Monitor has reviewed. On the basis of these, First Leaside, with the assistance of the Monitor, prepared an analysis of the potential surplus of value in the Texas Properties after deducting the mortgages and penalties payable to the third-party mortgagees of the Texas properties, closing costs, outstanding trade debts, and the professional fees that would be incurred to effect realization proceedings in the United States.

47. On May 1, 2012, First Leaside, with the assistance of the Monitor, prepared a report to investors (the "**May 1, 2012 Report**") setting out financial information related to various First Leaside entities, as well as preliminary views on the valuation of properties owned by the Texas Entities. The May 1, 2012 Report

indicated that, as noted above, the equity in the properties owned by the Texas Entities, was marginal in the circumstances. Further, the CRO communicated to investors that the Master Sherman and Master Texas properties were operating at a deficiency and were imminently going to require substantial additional funding. A copy of the May 1, 2012 Report was attached to the Third Report.

48. The analysis indicates that on a property by property basis the potential realizations from an orderly liquidation would range between a deficit of $1.27 million and a surplus of $4.54 million. Accordingly, even if the challenges discussed below related to the CRO's corporate authority in respect of WALP could be addressed/resolved, the Monitor is of the view that it is not economically prudent for the Companies to take further actions in respect of the Texas LPs.

49. As set out in the August CRO Affidavit, this conclusion is indeed unfortunate, as Investors have invested in excess of $150 million in either debt or equity in the WALP entities, yet the estimated residual value after repayment of senior mortgages is nominal (based on third party appraisals).

<u>Nature of Investor Interests</u>

50. On April 20, 2012, the CRO and the Monitor met with a small number of the investors in the Wimberly Fund and First Leaside Fund (collectively the "**Master Texas Funds**"). The Master Texas Funds are unsecured creditors of Master Texas in the amount of approximately $54 million, as evidenced by promissory notes issued by Master Texas. The purpose of the meeting was to discuss such investors' preliminary "rescue plan" for the properties owned by Master Texas.

At that time the investors' plan was not fully developed. On May 10, 2012, the same investors provided the CRO with a written proposal that, among other things, appeared to have a dilutive effect on the interests of the current investors in the Master Texas Funds, and was still not fully developed.

51. In June, 2012, individuals who identified themselves as trustees of the Master Texas Funds retained legal counsel, Torkin Manes, on behalf of those trustees. The Monitor was advised on August 16, 2012 by an apparent trustee of the First Leaside Properties Fund that the trustees of that fund also retained Torkin Manes as legal counsel. (The Texas Fund and the Properties Fund are collectively refered to as the "**WALP Funds**"). Collectively, the Funds have advanced a total amount of $68 million in unsecured debt obligations to Master Sherman and Master Texas, as evidenced by promissory notes. Torkin Manes has sought information from the CRO, the Monitor and their respective legal counsel, and engaged in various discussions regarding the interest of the WALP Funds in potentially developing a restructuring plan for the properties held by the Texas LPs.

52. In order to understand the nature of the interests of various investor groups in the Texas LPs, including Investors in WALP, and the WALP Funds, the Monitor investigated the various sources of money that have flowed into Master Texas and Master Sherman. The Monitor has reported its findings to investors in the WALP Investor Report. A copy of the WALP Investor Report is attached as **Appendix "1"** to this Fourth Report.

53. The WALP Investor Report indicates, among other things, that:

(i) the WALP Funds appear to have unsecured claims against Master Texas and Master Sherman, pursuant to promissory notes issued by Master Texas and Master Sherman;

(ii) the Master Texas Funds advanced money to WALP and as consideration received the Promissory Notes from Master Texas. The First Leaside Properties Fund advanced money to Master Sherman in consideration for Promissory Notes from Master Sherman;

(iii) WALP acted as the "central bank" for its subsidiaries, receiving money from the Funds, other FL Entities and Investors and distributing money for operational disbursements of its subsidiaries and making distributions to Investors;

(iv) according to the Companies' books and records, WALP has no direct creditor claim against Master Texas or Master Sherman; and

(v) the manner in which investments have been structured and the transactions have been recorded appear to be advantageous to the position of the WALP Funds, who hold promissory notes from Master Texas and Master Sherman, to the detriment of the FL Entities (and the Investors who have claims against these FL

Entities), who have claim against WALP and no direct claim against Master Texas or Master Sherman.

Corporate Authority Re: WALP

54. As the August CRO Affidavit outlines in detail, the CRO has confirmed, based on advice from its Texas-based legal counsel, that First Leaside does not currently have the corporate authority to deal with the properties owned by Master Texas, Master Sherman and Sedona. This is due to, among other things, the fact that the general partners of each of the limited partnerships owned by Master Texas and Master Sherman are companies which are controlled and/or owned by Phillips, the former President of First Leaside, and over which the CRO cannot exercise control. This complex corporate structure was put in place by First Leaside long before the commencement of the CCAA Proceedings. Despite the CRO's desire to pursue opportunities to maximize recovery for Investors, without cooperation from the Texas general partners, and/or a successful legal strategy to obtain control, the CRO does not have the ability to do so.

55. While the Monitor is aware of preliminary communications seeking the cooperation of Phillips in a realization plan for the Texas LPs, even if the issue of corporate authority could be resolved by way of agreement or legal process, the lack of equity in the Texas properties and the need for immediate expenditure of substantial sums on those properties means that taking any further steps in that regard does not appear to be economically justified.

56. Given the forgoing, the Monitor supports the recommendation of the CRO in respect of the US Entities.

Communications with the WALP Funds

57. As noted above, in order to assess the possible restructuring of the Texas properties by investors in the Funds, Torkin Manes has requested financial and other information related to WALP and its subsidiaries from the Monitor and First Leaside. After execution of confidentiality agreements by the individuals who have identified themselves as Trustees of Wimberley Fund and First Leaside Properties Fund, the Monitor has been coordinating the delivery of the requested information.

58. In an effort to confirm the current appointments of the Trustees of the WALP Funds with whom the Monitor has been communicating through Torkin Manes, the Monitor and its counsel have repeatedly requested that Torkin Manes provide the Monitor with documentation to confirm the Trustees' appointments. As of the date of this Fourth Report, the Monitor has not received such documentation from Torkin Manes.

59. As a result of discussions with one of the Trustees of Wimberley Fund, the Monitor understood that a draft restructuring plan might be presented for the Monitor's review prior to the issuance of this Fourth Report. However, as of the date of this Fourth Report, the Monitor has been advised that the Trustees of the Funds have not had sufficient time to formulate such a plan. The Monitor understands that it would take some time to formulate a meaningful plan, and the

information that was requested has only recently been provided to Torkin Manes and the Trustees.

60. The Monitor has been contacted from time to time by Investors who have identified concerns regarding the governance of the various Funds, and the ongoing involvement of Phillips as a trustee of certain of these Funds. The Funds are not subject to the CCAA Proceedings, and as such the Monitor does not play a role in overseeing the activities of the Funds. The Monitor understands that Investors in the Funds may look to the trust documents governing the establishment of the Funds to address the concerns that they have raised with the Monitor.

61. On August 20, 2012, counsel to the Monitor and First Leaside received an email from Torkin Manes that requested certain additional relief relating to the US Entities and WALP, including an order terminating the CCAA Proceedings in respect of certain of the US Entities. The Monitor views this request as being premature as, among other things:

(i) The Funds have not yet articulated their plans for the US Entities and an agreement has not yet been reached between the Funds and First Leaside in respect of the transition of the US Entities to the Funds; and

(ii) The Monitor has not yet made recommendations, and the Court has not yet made determinations, in respect of, among other things, potential preferences and transfers at under value and the allocation of the intercompany charge, the D&O charge and the administrative charge that apply to certain of the US Entities in accordance with the Initial Order, as amended.

AMENDMENTS TO SCHEDULE A TO THE INITIAL ORDER

62. The CRO advises that, through inadvertence, that 970877 Ontario Inc., was erroneously listed as an Applicant in the Initial Order and in fact should not be an Applicant in these proceedings.

63. The Monitor supports the CRO's request the Initial Order to be amended in the form set out in the August CRO Affidavit.

AMOUNTS OWING BY FIRST LEASIDE EMPLOYEES AND FORMER EMPLOYEES

64. As set out in earlier reports of the Monitor, FLWM historically made a number of loans to its employees and to clients to allow them to purchase limited partnership units and notes issued by certain First Leaside entities without paying cash for such investments (the "**Investment Loans**"). Most of these loans were made pursuant to demand promissory notes but, in certain cases, loans were extended without having the relevant employee or investor sign a promissory note (in which case the loan was still shown as a "loan receivable" in First Leaside's accounting system). As at December 31, 2011, according to First Leaside's books and records, investment loans to officers, agents and current and former employees totaled $1,120,078.63 (inclusive of investment loans to Phillips and his wife) and investment loans to clients totaled $2,405,045.23.

65. First Leaside and the Monitor have investigated amounts which Phillips or companies related to or controlled by him, may owe to the Companies. The amounts consist of what appear to be preferences involving Phillips' companies, as well as advances made to Phillips in 2011. There are significant amounts paid to Phillips preceding 2011, however, at this point the Monitor's review has been limited to the calendar year 2011.

66. As noted in the Monitor's Third Report, on or about November 3, 2011, a $500,000 transfer (the "**Transfer**") was made from the bank account of First Leaside Finance Inc. ("**Finance**") to 970877 Ontario Inc. ("**970**"), a corporation controlled by Phillips. According to First Leaside's accounting records, it appears as though the Transfer was made to repay a $500,000 loan made by 970 to FLWM on September 2, 2011. Phillips is the sole officer and director of 970.

67. The Transfer was made on the eve prior to the Company agreeing to cease trading securities in First Leaside, but more particularly, about a week after discussions in respect of a cease trade began. It is the Monitor's view that such payment was made where Phillips knew, or ought to have known, that the cease trade agreement was imminent.

68. By letters dated June 6, 2012 and June 15, 2012, copies of which were attached to the Monitor's Third Report, counsel for the Monitor wrote to Mr. Phillips, advising that the Transfer appeared to be a preference, and demanded a response from Mr. Phillips.

69. On August 17, 2012, the Monitor's counsel received a letter from Phillips' counsel (attached as **Appendix "3"**), wherein Phillips' counsel denies that the Transfer was a preference, and asserting certain facts in defense of Mr. Phillips. The Monitor is considering its response to this letter and will report to the Court in due course.

70. The Monitor has met with Representative Counsel and the CRO, all of whom collectively agree that the Companies should commence legal proceedings (the "**Collection Action**") against Phillips and his wife, Davis, as well as any corporations connected with them, in order to obtain recovery of the Investment Loans, the Phillips Loans and any other amounts which are, or may become owing by Phillips, Davis, and/or 970.

71. Under the current provisions of the Initial Order, there is a general stay which prevents any party from taking proceedings against any officer or director of the Applicants. Since Phillips and Davis are directors of a number of the Applicants, this stay would have to be lifted for the limited purpose of allowing the Collection Action to be commenced and pursued. The Monitor is of the view that it is appropriate for this limited purpose for the stay to be lifted.

APPLICANTS' REQUESTED RELIEF

72. The Monitor respectfully recommends that this Court grant the relief requested by the Applicants as set out in the Applicants' notice of motion.

73. The Monitor also respectfully requests that this Court issue an order approving this Fourth Report and the Monitor's activities as set out herein.

All of which is respectfully submitted,

GRANT THORNTON LIMITED,
In its capacity as CCAA Monitor of the Applicants
under the *Companies' Creditors Arrangements Act*
and not in any other capacity

Per:
Jonathan Krieger, CA•CIRP