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Confidential Report to the Investors

Summary of Estimated Interim Distribution to the Investors and Creditors of First Leaside

July 15, 2013

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TO: THE INVESTORS OF FIRST LEASIDE

Re: INTERIM DISTRIBUTION

This report ("**Report**") has been prepared by Grant Thornton Limited in its capacity as the court-appointed Receiver ("**Receiver**") of certain of the First Leaside entities ("**First Leaside**"). The purpose of this Report is to provide a summary of the proposed interim distribution and associated assumptions (the **"Distribution Matrix"**) to the investors (the "**Investors**") and creditors (the "**Creditors**") of First Leaside. This Report has been prepared for discussion purposes only.

The Distribution Matrix excludes certain assets which have not been realized upon, which are primarily owned by FLWM. A summary of these assets is set out in Section 5 entitled "Holdback Provisions & Other Matters". The Receiver notes that further realizations in FLWM and other entities may provide recoveries to other First Leaside entities on account of the intercompany balances owed. Notwithstanding this, the majority of net realizations from the CCAA and receivership proceedings are proposed to be distributed pursuant to the Distribution Matrix. Certain Investors and Creditors of First Leaside may receive residual distributions in the future. This Distribution Matrix is without prejudice to any claims, arguments on theories of compensation that Investors may advance in respect of the Canadian Investor Protection Fund compensation process.

SOURCES OF INFORMATION

The information contained in this Report is based on:

- the intercompany balances as reflected in the financial statements and the books and records of First Leaside;
- the accounting for the professional and operating costs throughout the CCAA and receivership proceedings;
- the current bank balances of the accounts controlled by the Receiver;
- the admitted and disputed claims filed by the Creditors of First Leaside; and
- the Claims Process in respect of First Leaside Investors.

NOTICE TO READER

In preparing this Report, the Receiver has been provided with, and in making comments herein, has relied upon unaudited financial information, First Leaside's books and records, historical financial information, other information provided by First Leaside and discussions with its former management and accounting personnel. The Receiver's review does not constitute an audit in accordance with Generally Accepted Auditing Standards or International Financial Reporting or Auditing Standards.

This Report is intended for the Investors only for informational purposes only and no other or further distribution is permitted or authorized by the Receiver. The Receiver is not responsible for damages occurring as a result of the use of this Report contrary to the restrictions contained herein.

GRANT THORNTON LIMITED, IN ITS CAPACITY AS COURT-APPOINTED RECEIVER OF FIRST LEASIDE[1] AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY

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[1] For a list of the Receivership applicants, please refer to Schedule "A" of the February19, 2013 Order available at www.grantthornton.ca/firstleaside

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GLOSSARY OF TERMS

Acquisitions	First Leaside Acquisitions Limited Partnership
Beverages LP	F.L. Beverages Limited Partnership
CCAA	Companies' Creditors Arrangement Act
CRO	Chief Restructuring Officer
Capital	First Leaside Capital Inc.
Cemetery Road	Syndicated Mortgage on Cemetery Road
Development Notes	Development Notes Limited Partnership
Elite LP	First Leaside Elite Limited Partnership
Fidelity	Fidelity Clearing Canada ULC
First Leaside Investment Funds	FLEX Fund and FLWM Fund
Finance	First Leaside Finance Inc.
FLEX LP	First Leaside Expansion Limited Partnership
FLRR	First Leaside Retirement Residences Limited Partnership
FL Securities	F.L. Securities Inc.
FLSI	First Leaside Securities Inc.
FLWM LP	First Leaside Wealth Management Inc.
FLWM Fund	First Leaside Wealth Management Fund
FLWM Holdings	First Leaside Wealth Management Holdings Inc.
Global LP	First Leaside Global Limited Partnership
Growth LP	First Leaside Growth Limited Partnership
Initial Order	The Initial CCAA Proceedings Order
Investors LP	First Leaside Investors Limited Partnership
LP	Limited Partnership
Premier LP	First Leaside Premier Limited Partnership
Mill Street	Syndicated Mortgage on Mill Street
Other Entities	FLWM Holdings, Beverages, Spring Valley, Investors, Progressive and Universal
Primetime Living LP	F.L. Primetime Living Limited Partnership
Progressive LP	First Leaside Progressive Limited Partnership
Realty I LP	First Leaside Realty I Limited Partnerships
Realty II LP	First Leaside Realty II Limited Partnerships
Select LP	First Leaside Select Limited Partnership
Special Notes LP	First Leaside Special Notes Limited Partnership and First Leaside US Special Notes Limited Partnership
Spring Valley LP	F.L. Spring Valley Limited Partnership
Ultimate LP	First Leaside Ultimate Limited Partnership
Universal LP	First Leaside Universal Limited Partnership
Venture LP	First Leaside Venture Limited Partnership
Visions I & II	First Leaside Visions I Limited Partnership and First Leaside Visions II Limited Partnership
WALP	Wimberly Apartments Limited Partnership

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1. Summary of Proposed Interim Distribution

- The following table summarizes the estimated **interim** distribution across 27 entities within the First Leaside Group based on the proposed distribution method described herein:

First Leaside Group of Companies
Summary of Proposed Interim Distribution
Prepared as at June 20, 2013 ($CAD, Unaudited)

Reference	Entity	% Distribution to Unsecured Creditors	% Distribution to Unitholders / Shareholders
First Leaside Investment Funds	First Leaside Wealth Management Fund	-	7%
	FLEX Fund	-	34%
Limited Partnerships	Special Notes Limited Partnership & Special US Notes Limited Partnership	-	7%
	Development Notes Limited Partnership	-	31%
	Global Limited Partnereship	-	20%
	First Leaside Realty I Limited Partnership & First Leaside Realty II Limited Partnership	54%	0%
	First Leaside Acquisition Limited Partnership	8%	0%
	First Leaside Elite Limited Partnership	-	6%
	First Leaside Premier Limited Partnership	100%	8%
	First Leaside Select Limited Partnership	0%	0%
	First Leaside Ultimate Limited Partnership	100%	14%
	F.L. Primetime Living Limited Partnership	100%	23%
	First Leaside Venture Limited Partnership	6%	0%
	WALP†	6%	0%
	First Leaside Expansion Limited Partnership	31%	0%
	FLWM Holdings Limited Partnership	100%	12%
	F.L. Beverages Group Limited Partnership	100%	13%
	F.L. Spring Valley Limited Partnership	0%	0%
	First Leaside Investors Limited Partnership	55%	0%
	First Leaside Progressive Limited Partnership	100%	10%
	First Leaside Universal Limited Partnership	100%	19%
Corporations	First Leaside Wealth Management Inc.	6%	0%
	First Leaside Capital Inc.	31%	0%
Syndicated Mortgages	Cemetery Road	-	100%
	Mill Street†	-	100%

Note:

† The Distribution Matrix reflects the proceeds from the sale of Mill Street Property and the proceeds from the closing of the Transfer Agreement notwithstanding that these transaction have not yet been completed. Should these transactions not be approved by the Court or not close, the distributions will be reduced by the amount not realized.

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2. Ranking of Claims

- The rank and proposed distribution to Creditors of First Leaside vary based on the nature and priority of their respective claims in the First Leaside entity. In the case of Investors, the proposed interim distribution varies based on the nature of the proprietary First Leaside products they own. In the Distribution Matrix, the Receiver considered general insolvency principles whereby claims against each legal entity are paid in accordance with their priority:

1. **Trust Claims & Deemed Trust Claims**: includes the claimants that filed trust claims pursuant to the *Construction Lien Act* R.S.O. 1990 s. C.30 as well Canada Revenue Agency for harmonized sales tax;
2. **Secured Claims**: includes the claims of beneficial unitholders of the syndicated mortgages which have been acknowledged by the Receiver;
3. **Unsecured Claims:** includes the claims of trade creditors, intercompany claimants and employee claims for termination and severance pay; and
4. **Equity Claims**: includes the claims of holders of units of the LPs, the First Leaside Investment Funds and shareholders.

3. Manner of Distribution

- The following section provides a summary of material assumptions utilized to prepare the Distribution Matrix:

First Leaside Investment Funds

- Distributions will be made directly to the unitholders of the First Leaside Investment Funds (as defined in the Claims Procedure Order), rather than to the trusts, which are not subject to the receivership proceedings, for the reasons set out below:
  - Pursuant to the Claims Procedure Order, the Receiver was authorized and directed to acknowledge the claims of Investors who hold First Leaside proprietary products, including the First Leaside Investment Funds.
  - The Receiver has reviewed the deeds of trust which govern the First Leaside Investment Funds and understands that the primary purpose of FLEX Fund was to hold promissory notes in FLEX LP and the primary purpose of FLWM Fund was to hold promissory notes in FLWM. With the liquidation of FLWM and FLEX LP, these purposes no longer exist.
  - The Receiver understands that the last known trustees of the First Leaside Investment Funds are David Phillips and John Wilson. In an effort to minimize future administration costs, the Receiver believes it would beneficial and cost effective for it to make the distribution directly to the unitholders and intends to seek Court approval in that regard.

Limited Partnerships

- Distributions to the LP unitholders are calculated based on the number of units outstanding as:
  - The LP agreements state that in the event of a liquidation, the proceeds should be distributed in accordance with each partner's proportionate number of units.
  - The Receiver evaluated the alternative of making distributions based on the partners' capital account balances (i.e. the balance after deducting the capital distributions received by each unitholder) and determined, among other issues, that the impact of this on a global basis was not material.
  - Historically, the distributions made to the LP unitholders were calculated based on the number of units owned and did not consider the impact of prior distributions.

Syndicated Mortgages

- The Distribution Matrix contemplates repayment of the first mortgages on 2 properties owned by First Leaside entities which include:
    - 164 Cemetery Road which was sold in the receivership proceedings and the distribution is pending; and
    - 62 Mill Street which agreement of purchase and sale remains subject to Court approval.
- Prior to the receivership, First Leaside sold 36 Bramtree during the CCAA proceedings and distribution was made by First Leaside to the unitholders of the syndicated mortgage, subject to certain holdbacks;
- 90 King Street South, was sold to a third party that assumed the mortgage which is due and payable on February 16, 2016. The Receiver continues to collect the interest and made a distribution to the Investors on June 26, 2013 (via Fidelity).

Preferred Shareholders

- The Distribution Matrix does not contemplate a distribution to the preferred shareholders of FLWM or Capital as there are no funds available after payment of Creditor claims.

Intercompany Balances between FLWM and its Subsidiaries

- The Distribution Matrix assumes that the intercompany balances between FLWM and certain of its subsidiaries (FLSI, FL Securities and Finance) are netted out for each individual LP that has intercompany balances with those entities.
- For example, if an LP had a receivable from Finance of $1.0M and a payable to FL Securities of $100K, the net owing from Finance would be $900K as if they were owned to and from the same entity.

4. Allocation of Costs

- At the outset of the CCAA proceedings, First Leaside and the Monitor implemented a billing protocol, which required professionals to allocate time spent to specific entities in the First Leaside Group (FLWM, FLSI, FLEX, WALP, Primetime, Venture, Other Entities[2]) as well as fees that were attributed to these proceedings in general ("**General**").
- During the CCAA and receivership proceedings FLWM has paid the General costs and the Other Entities costs. Expenses incurred by a specific entity were paid directly by such entity.
- The Receiver considered 3 methods to allocate the General costs and the costs of Other Entities associated with these proceedings: (i) pro-rata allocation based on liabilities ("**Method 1**"), (ii) pro-rata allocation based on recoveries ("**Method 2**") and (iii) allocation based on a modification of Method 2 ("**Method 3**") described below.
- Method 1 contemplates allocating costs based on the total debt owed by an entity. This method would result in a disproportionate allocation of costs to entities with significant debt and possibly little effort expended on realizations in the CCAA and receivership proceedings. Our view is that this methodology is not appropriate in the circumstances.
- Method 2 contemplates allocating costs pro-rata on the basis of net proceeds available for distribution after the payment of secured and priority creditors. In this method, only those entities with recoveries for Creditors and Investors would be required to contribute to the General costs. However, due to the complexity of the corporate structure, under Method 2 certain entities whose only assets were receivables in other First Leaside entities would bear the burden of paying for General costs twice, first by contributing to the fees at the specific entity level (where the real property asset was realized), and secondly, at the creditor level (where the intercompany receivable was realized).
- Method 3 contemplates a modification of Method 2. The distinction is that Method 3 contemplates the costs being attributed only to those entities where time was expended by former First Leaside employees, with the assistance of the professionals, or the Receiver, to realize on assets including real property, controlling interests in companies, artwork etc. This method excludes the allocation of General costs and the costs of Other Entities on realizations from intercompany receivables and is based on the net proceeds available for distribution, prior to the collection of intercompany receivables.
- The Receiver has utilized Method 3 for the Distribution Matrix.

[2] Other Entities includes FLWM Holdings Limited Partnership, F.L. Beverages Limited Partnership, F.L. Spring Valley Limited Partnership, First Leaside Investors Limited Partnership, First Leaside Progressive Limited Partnership and First Leaside Universal Limited Partnership.

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5. Holdback Provisions & Other Matters

- The Distribution Matrix includes all of the cash proceeds in the possession of the Receiver and contemplates holdbacks for the following items:
  - **Disputed Claims** – certain Creditors have asserted claims in these proceedings which have been disallowed by the Receiver and which have not yet been settled or adjudicated. The Distribution Matrix reflects these claims at full value until the disputes are resolved; however, funds will not be distributed to such Creditors or Investors until the claims are settled or are determined by the Court. Inclusion of these claims in the Distribution Matrix is without prejudice to the Receiver's disallowances.
  - **Operating Costs** – includes the professional costs of these proceedings, administration costs; the cost to prepare financial statements and tax returns for the 2013 tax year; as well as the cost of storing and maintaining both the physical and electronic books and records of First Leaside.
  - **Directors and Officers Charge –** includes the $250,000 charge authorized by the Court in the Initial Order, subject to a future motion to the Court to extinguish the Directors and Officers Charge.

- The Distribution Matrix excludes estimated realizations from assets that have not been realized upon, which include:
  - Artwork owned by FLWM;
  - Receivables owed to FLWM;
  - Litigation commenced by FLWM against David Phillips and Margaret Davis;
  - Vacant property located in Wheatley, Ontario; and
  - Other assets.

- The Distribution Matrix does not contemplate distributions to the unitholders of First Leaside Fund, Wimberly Fund and First Leaside Properties Fund (collectively the "**WALP Funds**") as well as First Leaside Visions I & II:

The WALP Funds

- Pursuant to an Order dated August 23, 2012 in the CCAA proceedings, the CRO was directed to take no further steps in relation to the US Properties and to develop a transition plan (the "**Transfer Agreement**") with the trustees of the WALP Funds subject to Court approval.
- As of the date of this Report, the Receiver has negotiated the terms of the Transfer Agreement as well as a mutual release of claims between the parties. The Receiver and the purchasers have executed the Transfer Agreement and the Receiver is seeking approval of same on July 24, 2013.
- Given the mutual releases, the Distribution Matrix does not contemplate distribution to this group of Investors.

Visions I & II

- On November 20, 2012, the Court approved the Visions Transaction (as defined in the affidavit of the CRO dated November 13, 2012) whereby FLWM and its subsidiaries released their claims against Visions I & II in lieu of the cash in their accounts.
- Visions I & II continues to be managed by the substituted general partner.
- Given the mutual releases, the Distribution Matrix does not contemplate a distribution to this group of Investors, nor are there any proceeds of Visions I & II to be distributed in the receivership proceedings.