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., 1031628 Ontario Inc., 1045516 Ontario Inc., 2004516 Ontario Inc., 2192341 Ontario Inc., and First Leaside Fund Management Inc.

Applicants

COMBINED SEVENTH REPORT TO COURT OF GRANT THORNTON LIMITED, MONITOR OF THE APPLICANTS UNDER THE COMPANIES' CREDITORS ARRANGEMENT ACT AND PRE-FILING REPORT OF GRANT THORNTON LIMITED AS PROPOSED RECEIVER

DECEMBER 5, 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

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COMBINED SEVENTH REPORT TO COURT OF GRANT THORNTON LIMITED, MONITOR OF THE APPLICANTS UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT* AND PRE-FILING REPORT OF GRANT THORNTON LIMITED AS PROPOSED RECEIVER

DECEMBER 5, 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 to the Initial Order

(as amended) thereto (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' nearly 1,200 investors (the "**Investors**"), being clients of First Leaside Securities Inc. ("**FLSI**").

2. First Leaside has determined that it is appropriate at this time to terminate its CCAA proceedings and transition the proceedings to a receivership, in order to facilitate the remaining steps required to be undertaken in order to complete the liquidation and distribution of assets of First Leaside.

3. This report has been prepared by GTL in its capacity as Monitor and as the proposed receiver of the entities set out in the notice of application (the "**Receivership Applicants**")[1] filed by First Leaside returnable on December 7,

[1] The Receivership Applicants include: First Leaside Wealth Management Inc., First Leaside Finance Inc., First Leaside Securities Inc., FL Securities Inc., Harmony Townhomes Limited Partnership, Mill Street Limited Partnership, First Leaside Management Inc., Development Notes Limited Partnership, Special Notes Limited Partnership, First Leaside Accounting and Tax Services Inc., 2086056 Ontario Inc., First Leaside Properties Limited Partnership, First Leaside Realty Inc., First Leaside Realty Limited Partnership, First Leaside Realty II Inc., First Leaside Investors Limited Partnership, First Leaside Premier Limited Partnership, First Leaside Progressive Limited Partnership, First Leaside Realty II Limited Partnership, First Leaside Ultimate Limited Partnership, First Leaside Universal Limited Partnership, Uxbridge Development Limited Partnership, First Leaside Retirement Residences Limited Partnership, First Leaside Venture Limited Partnership, 965010 Ontario Inc., Wimberly Apartments Limited Partnership, 1045517 Ontario Inc., The Shores Limited Partnership, 1024919 Ontario Inc., Old Mill Pond Apartments Limited Partnership, 1031628 Ontario Inc., 1056971 Ontario Inc., The Bluffs of Lakewood Limited Partnership, 1376095 Ontario Inc., F.L. Spring Valley Limited Partnership, 1437290 Ontario Ltd., First Leaside Partners Limited Partnership, First Leaside Opportunities Limited Partnership, 1244428 Ontario Ltd., Preston Racquet Club Real Estate Limited Partnership Series 910PA, Preston Racquet Club Real Estate Limited Partnership Series 910PB, Preston Racquet Club Real Estate Limited

2012, which proposes the appointment of a receiver over the assets, undertakings and properties of the Receivership Applicants.

4. A summary of the material orders that have been issued to date in the proceedings under the CCAA Proceedings is set out below.

Summary of CCAA Orders

Date	Issued by	Brief Summary of the Order
Feb. 23/12	Justice Brown	Initial CCAA Order.
Mar. 23/12	Justice Morawetz	Granted an extension of the Stay Period (as defined in the Initial Order) to June 29, 2012.
Apr. 30/12	Justice Campbell	Provided a sale approval and vesting order relating to the sale by Queenston Manor General Partner Inc. as well as approval of the distribution of part of the proceeds to a mortgagee.
May 3/12	Justice Campbell	Provided a sale approval and vesting order relating to the sale of First Leaside Beverages Limited Partnership.
Jun. 28/12	Justice Campbell	Granted an extension of the Stay Period to October 26, 2012; granted an inter-company charge (the "**Inter-Company Charge**") ranking

Partnership Series 910PC, Preston Racquet Club Real Estate Limited Partnership Series 910PD, PrestonOne Development (Canada) Inc., PrestonTwo Development (Canada) Inc., PrestonThree Development (Canada) Inc., PrestonFour Development (Canada) Inc., 2088543 Ontario Inc., 2088544 Ontario Inc., F.L.W. Pond Master Ltd., 2088545 Ontario Inc., F.L.W. Shores Master Ltd., 1331607 Ontario Inc., First Leaside Acquisitions Limited Partnership, Queenston Manor General Partner Inc., Queenston Manor Limited Partnership, 2107738 Ontario Inc., First Leaside Advantage Limited Partnership, 2128054 Ontario Inc., First Leaside Elite Limited Partnership, 1132413 Ontario Inc., First Leaside Entities Limited Partnership, 2067171 Ontario Inc., First Leaside Expansion Limited Partnership, 2085306 Ontario Inc., First Leaside Growth Limited Partnership, 2086218 Ontario Inc., First Leaside Unity Limited Partnership, First Leaside Visions Management Inc., 2007804 Ontario Inc., First Leaside Wealth Management Limited Partnership, First Leaside Fund Management Inc., F.L. Beverages Group Limited Partnership, First Leaside Global Limited Partnership, Special U.S. Notes Limited Partnership, FLWM Holdings Limited Partnership, First Leaside Select Limited Partnership, Cherry Park Retirement Residences Limited Partnership, First Leaside Retirement Residences (Okanagan) Limited Partnership, Orchard Valley Retirement Residences Limited Partnership, The Shores Retirement Residences Limited Partnership and F.L. PrimeTime Living Limited Partnership.

		behind the administration charge and directors' charge; approved a Communications Protocol as between the CRO, the Monitor, and Representative Counsel; approved the Companies' retention of Grant Thornton Corporate Finance Inc. ("**GTCFI**") to conduct a sales process in respect of First Leaside's 50.1% interest in Primetime Living Limited Partnership and real property located in Okanagan, British Columbia; amended the Initial Order to remove the maximum cap on the professional fees of Representative Counsel and direct Representative Counsel to pass its accounts to the Court; authorized and directed the CRO to execute documents on behalf of First Leaside Visions II Limited Partnership in connection with the restructuring of eSight Limited Partnership; granted an Order requiring the Companies to give notice to Structform International Limited ("**Structform**") if it intends to use funds held in the bank account of First Leaside Expansion Limited Partnership ("**FLEX**").
Aug. 23/12	Justice Strathy	Removed certain entities as applicants in the CCAA proceedings; permitted First Leaside to file a statement of claim against David C. Phillips and Margaret Davis; permitted the CRO to execute documents with respect to the sale of real property owned by First Leaside Venture (Ottawa) Limited Partnership ("**Venture Ottawa**"); authorized and directed First Leaside Finance Inc. to discharge its mortgage registered on the real properties owned by Venture Ottawa; authorized and directed the CRO to complete the sale of First Leaside Accounting and Tax Services Inc.; provided a sale approval and vesting order relating to the sale of Harmony Town Homes Limited Partnership and First Leaside Growth Limited Partnership.
Aug. 31/12	Justice Newbould	Authorized and directed that First Leaside take no further steps in relationship to the United Stated entities held by Wimberly Apartments Limited Partnership.
Sep. 18/12	Justice Strathy	Amended the sale approval and vesting order re: Bramtree and Harmony.

Oct. 22/12	Justice Pattillo	Granted an extension of the Stay Period to December 11, 2012 and granted a sale approval and vesting order relating to the sale of Venture Okanagan and the PTL Interest (as defined in Monitor's Fifth Report) (the "**October 22 Order**").
Nov. 20/12	Justice Newbould	Authorized and directed First Leaside to make certain payments from the proceeds of the sale in respect of the October 22 Order; approved the sale of the Uxbridge Properties (as defined in the Monitor's report dated November 19, 2012) to Structform; authorized and directed First Leaside Wealth Management Inc. ("**FLWM**") to settle its debt with First Leaside Visions I Limited Partnership, First Leaside Visions II Limited Partnership and their respective subsidiaries (collectively "**Visions LP**"), and terminate the CCAA Proceedings at it relates Visions LP.

PURPOSE OF SEVENTH REPORT

5. The purpose of this seventh report of the Monitor and the pre-filing report of the proposed receiver (the "**Seventh Report**") is to provide the Court with the details of the Monitor's activities since November 19, 2012, the date of the Monitor's sixth report to the Court (the "**Sixth Report**"), a copy of which is attached as **Appendix "1"** hereto (without appendices), and to provide the Monitor's observations, views and recommendations regarding First Leaside's request for:

(i) an Order authorizing the CRO to execute on behalf of FLSI a Custodial and Services Agreement (the "**Custodial Agreement**") with Fidelity Clearing Canada ULC ("**Fidelity**"), as successor custodian to Penson Financial Services Canada Inc. ("**Penson**"), to hold securities of clients of FLSI including, without limitation, securities held in registered accounts;

(ii) an Order terminating the stay of proceedings imposed by the Initial Order in respect of the Applicants and Included LPs (as defined in the Initial Order) pursuant to the CCAA, and terminating these CCAA Proceedings in respect of First Leaside, subject to the issuance of the Proposed Receivership Order (defined below) in respect of the Receivership Applications, and subject to certain transitional provisions;

(iii) an Order approving the activities of and discharging the CRO and the Monitor from their respective duties and obligations in such capacities;

(iv) an Order approving the fees and disbursements of the Monitor, its counsel and Representative Counsel for the period February 23, 2012 to November 30, 2012, and authorizing the Monitor, its counsel and Representative Counsel to pass the balance of their accounts in respect of these CCAA Proceedings in the receivership; and

(v) an Order approving the conduct and activities of the Monitor as described in the Sixth Report and this Seventh Report;

(vi) an Order (the "**Proposed Receivership Order**"), *inter alia*, appointing Grant Thornton Limited as receiver and manager (the "**Receiver**") of the Receivership Applicants as set out in the Notice of Application issued on December 3, 2012; and

(vii) an Order approving a claims process to be conducted by the Receiver, once appointed (the "**Claims Procedure Order**").

SCOPE AND TERMS OF REFERENCE

6. In preparing this Seventh 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 the Companies' 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.

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 Seventh Report is based solely on the information (financial or otherwise) made available to the Monitor by the CRO and the Companies.

8. This Seventh Report has been prepared for use by this Court and the Companies' stakeholders as general information relating to First Leaside. Accordingly, the reader is cautioned that this Seventh 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 Seventh 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 Seventh Report have the meanings ascribed to them in the CRO's affidavit sworn December 3, 2012 (the "**December CRO Affidavit**") and the draft Claims Procedure Order, as applicable. In preparing this Seventh Report, the Monitor has endeavoured not to repeat information contained in the December CRO Affidavit.

TERMINATING THE CCAA PROCEEDINGS AND APPOINTMENT OF A RECEIVER

11. As described in paragraphs 47 - 57 of the December CRO Affidavit, since the granting of the Initial Order, the Companies have realized upon the majority of First Leaside's assets with gross proceeds totaling approximately $125 million.

12. As of the date of this Seventh Report, the following assets remain to be realized upon:

    (i) certain works of art owned by First Leaside which is being sold by Waddingtons, a professional art dealer/auctioneer;

    (ii) a strip mall located at 5840 Spring Valley Road, Dallas, Texas, United States;

    (iii) a property located in Sherman, Texas, United States which is used as a community centre;

    (iv) two condominium units in Texas;

    (v) three properties in Ontario being Erie Street, Mill Street and Cemetery Road (each as defined in the December CRO Affidavit);

    (vi) inter-company accounts receivable and unit ownership interests;

    (vii) accounts receivable owing from employees and related parties; and

(viii) an action started by the Applicants against David Phillips, 970877 Ontario Inc. and Margaret Davis for, *inter alia*, misrepresentation, fraudulent misrepresentation, breach of contract, breach of fiduciary duty, breach of duty of loyalty, oppression, conversion, conspiracy, unjust enrichment, knowing assistance and knowing receipt.

13. The CRO has made an application to this Court for the appointment of GTL as Receiver of the Receivership Applicants. Given that the majority of First Leaside's assets have been realized upon by the Companies in the context of the CCAA Proceedings (and the majority of the employees at First Leaside have left to pursue other employment opportunities), the Monitor concurs with the CRO's recommendation that the remaining asset realizations would be most efficiently administered by a receiver with respect to the Receivership Applicants, which would reduce the overall administration costs, and that the appointment of a receiver is the optimal method of carrying out a claims process to determine Claims against First Leaside and of effecting distributions to the Creditors and Investors of First Leaside.

FIDELITY

14. As discussed in paragraphs 43 – 46 of the December CRO Affidavit, on September 28, 2012 Penson announced that it would be ceasing its Canadian operations and that Fidelity would facilitate an orderly transition of the accounts and assets of certain of Penson's Introducing Broker and Portfolio Manager clients, which included the clients of FLSI.

15. The CRO wishes to complete the transition of custodial arrangements prior to its discharge and the termination of the CCAA Proceedings.

16. The CRO's counsel, the Monitor and the Monitor's counsel have had multiple discussions with Fidelity and the Investment Industry Regulatory Organization of Canada ("**IIROC**"), to consider, among other things, the terms of a custody agreement as between Fidelity and FLSI. A form of custody has been negotiated subject to obtaining Court approval. A copy of the form of agreement is attached hereto as **Appendix** "**2**".

17. The terms of the custody agreement include, among other things, that FLSI will indemnify Fidelity, and will provide Fidelity a retainer in the amount of $300,000 which will be held in a separate account on FLSI's behalf. Fidelity has requested that the retainer funds be subject to a court-ordered charge in its favour, in priority to all other claims. FLSI currently holds a deposit account with Penson for a similar purpose and the balance of said account as at November 27, 2012 was approximately $327,000. These deposit funds will be transferred to Fidelity to be held on account of the agreed upon retainer.

18. The Monitor understands that the custody agreement has been shared with IIROC.

DISCHARGE AND TRANSITION ORDER

19. In order to maintain continuity as between the CCAA Proceedings and the proposed receivership, it is appropriate for certain elements of the CCAA Proceedings be continued and/or transitioned by an Order of this Court,

notwithstanding the Proposed Receivership Order (the "**Discharge and Transition Order**"). The proposed Discharge and Transition Order provides for, among other things:

(i) termination of the CCAA Proceedings, including the discharge of the CRO and the Monitor, and the transition of the proceedings to receivership pursuant to the Proposed Receivership Order;

(ii) approval of the activities of the CRO and the Monitor to date;

(iii) approval of the fees and disbursements of the Monitor, the Monitor's independent counsel and Representative Counsel;

(iv) releasing and discharging the CRO and Monitor from any and all liability they may have had arising out of their acts or omissions while acting in such capacities, save and except for any gross negligence or wilful misconduct on their part; and

(v) providing for ancillary authorizations and powers in order to effect a transition from these CCAA Proceedings to a receivership.

20. The Monitor supports First Leaside's request for relief as it relates to the Discharge and Transition Order.

ACTIVITIES OF THE MONITOR

21. The Monitor's activities to October 17, 2012 were described in the fifth report of the Monitor (the "**Fifth Report**") and were approved by the Court on November 21, 2012. The Monitor's activities for the period from October 17 to November 19, 2012 were detailed in the Sixth Report. Since November 19, 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 and the sales processes for the Companies' assets;

    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) attending at a conference call with the steering committee of investors and Representative Counsel on December 4, 2012;

    v) meeting and corresponding with Representative Counsel and CIPF to discuss the proposed Claims Process for the Investors of these proceedings;

vi) corresponding with IIROC, Fidelity and Penson with respect to the transition of Investor accounts from Penson to Fidelity;

vii) meeting and corresponding with the CRO, the Monitor's counsel and Lax O'Sullivan Scott Lisus LLP with respect to First Leaside Wealth Management Inc.'s action against David Phillips, Margaret Davis and 970977 Ontario Inc.;

viii) reviewing the banking, accounting records, financial statements as well as various agreements entered into by First Leaside;

ix) working with the Companies to make distributions to the unitholders of the Bramtree Syndicated Mortgage as approved by this Court;

x) working with the Companies and Representative Counsel on the proposed transition to receivership;

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

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

xiii) reviewing the inter-company balances since the commencement of the CCAA Proceedings;

xiv) reviewing the integrity of the Companies' information technology systems and working with the Companies to develop a long-term strategy for storage and safekeeping of information;

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 Seventh Report; and

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

FINANCIAL RESULTS AND POST – INITIAL ORDER OBLIGATIONS

22. The consolidated receipts and disbursements of First Leaside for the nine-week period ended November 30, 2012 (the "**Reporting Period**"), as compared to the cash flow forecast attached as Appendix "2" to the Fifth Report of the Monitor dated October 17, 2012, are summarized below:

TABLE "A"

First Leaside Group of Companies
Schedule of Consolidated Receipts and Disbursements as Compared to the CCAA Cash Flow Forecast
For the Period September 29, 2012 to November 30, 2012
Unaudited, ($000's)

	Actual	Forecast	Variance
Cash Inflow			
Receipts	336	171	165
Total Receipts	336	171	165
Cash Outflow			
Operating Disbursements	238	101	(137)
Professional Fees	963	1,789	826
Salaries	86	135	49
Mortgage Payout	3,539	3,576	37
Total Outflow	4,826	5,602	776
Net Cash Flow	(4,490)	(5,431)	941
Cash, beginning of period (July 2, 2012)	10,658	10,658	-
Cash, end of period (September 28, 2012)	6,168	5,227	941

23. As illustrated in Table "A" above, the Companies' actual receipts during the Reporting Period were approximately $165,000 higher than originally forecasted due, in part, because of HST refunds received which were not forecasted.

24. The Companies' total disbursements during the Reporting Period were approximately $776,000 less than forecasted. The Monitor notes that operating costs exceeded projections by approximately $137,000, in part due to payments of property tax arrears for all of the Companies' Canadian properties that were previously not projected. Furthermore, actual professional fees were below forecasts by approximately $826,000, which in part is due to a timing difference.

25. Table "B" below, summarizes the receipts and disbursements of the Companies since the issuance of the Initial Order to November 30, 2012:

TABLE "B"

First Leaside Group of Companies
Schedule of Consolidated Receipts and Disbursements as Compared to the CCAA Cash Flow Forecast
For the Period February 20, 2012 to November 30, 2012
Unaudited, ($000's)

	Actual	Forecast	Variance
Cash Inflow			
Receipts[1]	11,181	8,983	2,198
Total Receipts	11,181	8,983	2,198
Cash Outflow			
Operating Disbursements[1]	1,508	1,185	(323)
Professional Fees	6,572	7,696	1,124
Salaries	609	902	294
Capital	-	266	266
Mortgage Payments	3,539	3,576	
Total Outflow	12,228	13,626	1,398
Net Cash Flow	(1,047)	(4,643)	3,596
Cash, beginning of period (February 24, 2012)[2,3]	7,053		
Cash, end of period (September 28, 2012)[3]	6,168		

Notes:

1 The majority of of sale proceeds were used to discharge mortgages directly on closing, and therefore are not reflected in the figures as presented.

2 The beginning cash flow balance as reported in the proposed Monitor's Report, First Monitor's Report and Third Monitor's Report included cash balances of certain non-filing entities which include, First Leaside Fund, Wimberly Fund, First Leaside Properties Fund, Mortgage Fund, FLEX Fund and FLWM Fund.

3 The forecast figures set out in Table B represent the sum of the receipts and disbursements from three successive cash flow projections filed by the Company. As the opening cash position is updated at the commencement of each cash flow projection, the projected opening and closing cash balances are not meaningful for the purposes of the variance analysis.

26. Since the Initial Order, total receipts collected have been higher than the forecasted amount by approximately $2 million due in part because:

(i) the Companies' forecasts assumed that receipts from the sale of Bramtree would be net of payment of the mortgage registered against the Bramtree property; however, gross proceeds were collected instead, and the $3.6 million payable in respect of the Bramtree mortgage was subsequently distributed to investors that held ownership certificates in the Bramtree mortgage; and

(ii) the forecasts of the Companies assumed that as of this date, all real estate assets in Ontario would have been sold; however, as of the date of this Seventh Report, three of the Companies' real properties in Ontario remain unsold.

27. The Companies' total disbursements since the issuance of the Initial Order were below forecast by approximately $1.4 million largely due to:

(i) timing of payments and overestimating professional costs associated with closings that have not yet occurred or for which invoices have not yet been received by the Companies;

(ii) reduction of salaries; and

(iii) capital improvements which were projected but not undertaken.

28. The Monitor has reviewed First Leaside's various accounts payable aging reports, which reflect that the Companies are current in respect of their post-filing obligations.

APPROVAL OF FEES OF THE MONITOR, ITS COUNSEL AND REPRESENTATIVE COUNSEL

29. The Monitor, its independent legal counsel, and Representative Counsel have maintained detailed records of their professional time and costs since the Initial Order (as amended) was granted.

30. Pursuant to paragraphs 39 and 40 of the Initial Order, the Monitor and its counsel shall be paid their reasonable fees and disbursements and shall pass their accounts before the Court. In addition, pursuant to paragraph 41 of the Initial Order, the Monitor and its counsel, among other parties, were granted an Administration Charge on the property of the Companies as security for their fees and disbursements, up to a maximum of $1,000,000.

31. The total fees of the Monitor during the period from February 23, 2012 to November 30, 2012 amount to $596,868.59, together with expenses and disbursements in the sum of $6,882.30, and Harmonized Sales Tax ("**HST**") in the amount of $78,487.65, totaling $682,238.55. Time spent by the Monitor is more particularly described in the Affidavit of Jonathan Krieger, the Senior Vice-President of Grant Thornton Limited having carriage of this proceeding as the Monitor, sworn December 5, 2012 in support hereof, a copy of which is attached hereto as **Appendix "3"**. Of the $682,639.99 charged by the Monitor, $595,106.02 (including HST) has been paid by the Companies since the commencement of these proceedings.

32. The total legal fees incurred by the Monitor during the CCAA Proceedings for services provided to the Monitor by the Monitor's independent legal counsel,

Blake, Cassels & Graydon LLP ("**Blakes**"), during the period from February 23, 2012 to November 30, 2012 amount to $689,483.51, together with disbursements in the sum of $6,856.09, and HST in the amount of $90,455.06, totaling $786,794.66. The time spent by Blakes is more particularly described in the Affidavit of Matthew Kanter, sworn December 5, 2012 in support hereof, a copy of which is attached hereto as **Appendix "4"**. Of the $786,794.66 charged by the Monitor's legal counsel to November 30, 2012, $335,483.57 has been paid by the Companies since the commencement of these proceedings.

33. The Monitor respectfully requests that the Court approve its fees and disbursements and those of its legal counsel.

34. Pursuant to paragraphs 44 and 44A, of the Initial Order (as amended), Representative Counsel were entitled to be paid their reasonable fees and disbursements and were required to pass their accounts before the Court. In addition, pursuant to paragraph 41 of the Initial Order, Representative Counsel, among other parties, received the benefit of the Administration Charge on the property of the Companies as security for their fees and disbursements.

35. The total legal fees incurred by Representative Counsel during the CCAA proceedings for services provided by Representative Counsel, Fraser Milner Casgrain LLP ("**FMC**") to the Investors, during the period from February 23, 2012 to November 30, 2012 amount to $761,176.50, together with disbursements in the sum of $12,949.35, and HST in the amount of $100,636.39, totaling $874,762.24. The time spent by FMC is more particularly described in the Affidavit of R. Shayne Kukulowicz, sworn December 4, 2012. Of the

$874,762.24 charged by Representative Counsel to November 30, 2012, $785,531.77 has been paid by the Companies since the commencement of these proceedings.

36. Representative Counsel has requested that the Monitor file with this Court its fee affidavit and accounts for approval by this Court. A copy of the Affidavit of R. Shayne Kukulowicz sworn December 4, 2012 is attached hereto as Appendix "5". The Monitor supports the request for approval of Representative Counsel's fees.

TRANSITIONAL PROVISIONS

37. The Discharge and Transition Order also provides for certain provisions to ease the transition to a receivership. For example, it provides that First Leaside and/or the Receiver can pay, on behalf of, or in the name of, First Leaside, (a) amounts that may be payable as post-filing obligations in the CCAA Proceedings, including payroll obligations, (b) cheques that have been issued by First Leaside but which remain outstanding and have not cleared First Leaside's bank accounts as of December 7, 2012, and (c) unpaid professional fees that have been incurred by the Monitor, its independent counsel, Representative Counsel, the CRO and counsel to First Leaside.

38. In addition, the Discharge and Transition Order provides that First Leaside and the CRO, as appropriate, may complete certain transactions that were started during the CCAA Proceedings but have not been fully completed by the issuance of the Receivership Order. These transactions include: (a) the sale of First Leaside Tax and Accounting Services Inc.'s interest in four accounting firms in Western Canada, as approved by this Court on August 23, 2012, (b) entry into

and implementation of the Custodial Agreement, (c) completion of the Structform Transaction (as defined in the order of Mr. Justice Newbould, dated November 20, 2012) and (d) post-closing activities and adjustments arising out of Transaction (as defined in the Amended Sale and Vesting Order of Mr. Justice Pattillo dated October 22, 2012, as amended on November 28, 2012) between certain of the Companies and BayBridge Senior Housing Trust.

RECEIVERSHIP ORDER

39. The Receivership Applicants have requested an order (the "**Receivership Order**"), pursuant to section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended, appointing GTL as Receiver over the assets, undertakings and properties of the Receivership Applicants.

40. The draft Receivership Order generally follows the Ontario Model Receivership Order and grants powers to the Receiver to, *inter alia*, take possession of and exercise control over the Receivership Applicants' property; manage, operate and carry on the business of First Leaside; receive and collect all monies and accounts owed or owing to First Leaside; initiate, prosecute and continue the prosecution of any and all proceedings, and to defend all proceedings now pending or hereafter instituted with respect to First Leaside; sell, convey, transfer, lease or assign First Leaside's property upon consultation with Representative Counsel and/or Court approval, as necessary; and apply for advice and directions from the Court with respect to any outstanding matters in the receivership.

41. The draft Receivership Order also absolves the Receiver of the requirement to file notices under sections 245(1), 245(2) and 246 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-3, as amended, because all relevant stakeholders are already aware of the CCAA Proceedings and will receive adequate notice of the transition to a receivership. Furthermore, it is anticipated that there will be regular updates by Representative Counsel to all investors, and all Court reports and motion materials filed with the Court in the receivership proceedings will be posted to the proposed receiver's website, accessible by the public.

42. The draft Receivership Order also authorizes the Receiver to commence a Claims Process (as described in more detail below)

43. The proposed Receivership Order maintains the stay in respect of the directors and officers of First Leaside for the time being. The Receiver intends to undertake a review of the issue of the stay and the D&O Charge, and obtain the Court's direction in respect of these issues in due course.

44. The Monitor supports First Leaside's request for relief as it relates to the Receivership Order.

PROPOSED CLAIMS PROCEDURE ORDER

Background

45. The Receivership Applicants are seeking approval of a claims process (the "**Claims Process**"), which has been reviewed and developed in consultation with the Monitor and Representative Counsel, whereby the Receiver will call for all

Claims against the Receivership Applicants, and bar any Claims not submitted by the Claims Bar Date.

46. The Claims Process will provide the Receiver with a mechanism to determine the amounts of Claims against the Applicants. The proposed Claims Procedure Order permits the Receiver to deliver Acknowledgements of Claim to Investors, and will require other Creditors of the Companies to file Proofs of Claim. Once all Claims have been received and reviewed, the Receiver will make recommendations to Representative Counsel and the Court regarding the methodology and procedures for making distributions to Creditors, including Investors.

47. The Monitor and Representative Counsel have had discussions with the Canadian Investment Protection Fund ("**CIPF**") with a view to developing a process that would possibly also form the basis for filing claims with CIPF. It is intended that these discussions continue.

48. The proposed order provides for a delivery of Claims Packages to Known Creditors. Known Creditors of the Applicants are comprised of the following:

(i) Investors that hold units in limited partnerships, trust units in certain First Leaside proprietary funds (the "**FL Funds**"), as well as units in mortgage participation ownership certificates which total approximately $330 million;

(ii) creditors of the Applicants (excluding mortgages and inter-company claims) totaling approximately $1.8 million;

(iii) employee Claims of approximately $370,000 for unpaid termination and severance pay; and

(iv) inter-company loans as between the various First Leaside entities (both subject to the Inter-Company Charge and otherwise).

49. The Claims Process is also intended to take into account any Claims that have arisen subsequent to the commencement of the CCAA Proceedings. The Monitor understands that based on the Applicants' books and records, that the accounts payable of the Applicants are current, and are paid on 30 day terms.

50. A description of the proposed Claims Process is provided in the following sections. The complete details of the proposed Claims Process are set out in the draft Claims Procedure Order, which is attached hereto as **Appendix** "**6**".

<u>Investor Claims:</u>

51. Based on the information available in First Leaside's books and records, the Receiver will provide the following Investor Information relating to the Investor Claims in an Acknowledgment of Claim:

(i) Investor's legal name and contact information;

(ii) Date of Purchase / Investment;

(iii) Dollar amount Purchase / Investment;

(iv) Number of Units / Shares Purchased;

(v) Return of Capital;

(vi) Distribution of Income; and

(vii) At-Risk Capital Amount as at December 31, 2011.

52. Investors who agree with the information provided in the Acknowledgement of Claim need not take any further action for such information to be acknowledged and accepted by the Receiver for the purposes of the Claims Process.

53. It is the position of the Monitor and proposed Receiver that an Acknowledgement of Claim is the most appropriate method of identifying an Investor Claim under these circumstances, given that First Leaside kept generally accurate and up to date books and records, the Receiver will have access to such books and records, and the majority of Investors are individuals who are not familiar with a Claims Process and have relied almost exclusively on the Companies to provide information related to their investments with First Leaside.

54. If an Investor has a Claim against any Applicant in addition to and independent of the information contained in an Acknowledgement of Claim, such Investor will be required to separately file a Proof of Claim by the Claims Bar Date (defined below).

Creditor Claims:

55. The Receiver will provide a Claims Package to all Known Creditors and potential Creditors who request such a package prior to the Claims Bar Date, which shall include an Instruction Letter and along with a Proof of Claim, by ordinary mail no later than January 15, 2013.

56. As soon as reasonably possible upon receiving a request from a potential Creditor (provided such request is made prior to the Claims Bar Date), the Receiver will send such Creditor a Claims Package by ordinary mail, courier, facsimile or electronic mail.

57. In addition, the Receiver shall cause the Notice of Creditors to be published for one day in the Globe and Mail by no later than January 15, 2013 and will make a Claims Package available on its website at www.grantthornton.ca/firstleaside.

Claims Bar Date:

58. The Claims Process provides that the **Claims Bar Date for all Claims will be 5:00 p.m. (Toronto time) on February 28, 2013** (the "**Claims Bar Date**").

59. Any Creditor, other than an Investor who has received an Acknowledgement of Claim, must file a Proof of Claim such that it is **actually received** by the Receiver prior to the Claims Bar Date. Failure to submit a Proof of Claim by the Claims Bar Date will result in such Creditor's Claim being forever barred and extinguished, released and discharged.

60. If an Investor, after receiving its Acknowledgment of Claim, disputes the information set out in the Acknowledgment of Claim, that Investor will be required to deliver a Request for Amendment, which form is included in the Claims Package, so that it is **actually received** by the Receiver prior to the Claims Bar Date. An Investor that does not deliver a completed Request for Amendment to the Receiver by the Claims Bar Date shall be deemed to have accepted the Investor Information in the Acknowledgement of Claim and will be forever barred from making or enforcing any Claim against the Applicant other than a Claim based on the Investor Information.

61. An Investor who has not received an Acknowledgment of Claim and who does not file a Proof of Claim prior to the Claims Bar Date will have its Claim forever barred and will not be entitled to receive any distribution thereunder nor receive any further notice in the receivership.

62. For further clarity, any Investor that received an Acknowledgment of Claim but believes that he or she has an additional Claim independent of or other than one based on the information set out in the Acknowledgement of Claim will also be barred from asserting such a Claim unless it is filed with the Receiver on or before the Claims Bar Date.

Review of Proofs of Claim:

63. Pursuant to the proposed Claims Procedure Order, the Receiver will review the Requests for Amendment and Proofs of Claim that are received from the Investors and/or Creditors, respectively, on or before the Claims Bar Date to determine the adequacy of the manner in which Requests for Amendment and Proofs of Claim have been completed and executed.

Notice of Revision or Disallowance:

64. The Receiver, in consultation with the CRO if required, will accept or, by way of Notice of Revision or Disallowance, revise or disallow (in whole or in part) the Investor Information set out in any Request for Amendment, and the amount and/or status of the Claim set out in any Proof of Claim.

65. At any time, the Receiver may request additional information with respect to any Claim (including in respect of any Acknowledgment of Claim) and may request that the Creditor file a revised Request for Amendment or a revised Proof of Claim, as the case may be. The Receiver will send a form of Notice of Dispute to any Creditor whose claim has been revised or disallowed at the time the Notice of Revision or Disallowance of Claim is sent to that Creditor.

66. Where Investor Information or a Claim has been revised or disallowed (in whole or in part) by a Notice of Revision or Disallowance, the revised or disallowed portion of that Claim will not establish a Proven Claim unless the Creditor disputes the revision or disallowance and proves the revised or disallowed Claim (or portion thereof) in accordance with the Claims Procedure Order.

Disputed Notices of Revision or Disallowance:

67. Any Creditor who receives a Notice of Revision or Disallowance and intends to dispute such Notice of Revision or Disallowance must deliver a Notice of Dispute to the Receiver no later than 5:00 p.m. (Toronto time) on the Business Day that is fourteen days after the Receiver sends the Notice of Revision or Disallowance. The filing of a Notice of Dispute with the Receiver within the time limit would constitute an application to have the amount or status of such Claim resolved as set out below.

68. Where a Creditor that receives a Notice of Revision or Disallowance fails to file a Dispute Notice with the Receiver within the time limit, the amount and status of such Creditor's Claim would be deemed to be as set forth in the Notice of Revision or Disallowance and such amount and status, if any, would constitute such Creditor's Proven Claim.

Resolution of Claim:

69. Upon receipt by the Receiver of a Notice of Dispute from a Creditor, the Claims Procedure Order provides for the resolution of Claims by the Creditor and the Receiver by first attempting to consensually resolve and settle the Creditor's Claim. If it is not possible to resolve and settle the Creditor's Claim consensually, the Receiver or the Creditor may make a motion to the Court for the final determination of the Creditor's Claim.

70. In addition, the Receiver may make a motion to the Court for the final determination of a Claim at any time, whether or not the Receiver has sent the Creditor a Notice of Revision or Disallowance.

Distribution to Creditors:

71. The proposed Claims Procedure Order addresses only the identification of Claims. It does not address entitlement to a distribution, or the priority of such Claims. The receipt by an Investor of and Acknowledgement of Claim, or the acceptance by the Receiver of a Claim does not mean that there will be funds available to be distributed to that Investor or Creditor. The matter of distributions will be the subject matter of further direction from the Court.

72. After the conclusion of the Claim Process, the Receiver, in consultation with Representative Counsel, will report to the Court in respect of a proposed methodology and basis for distribution, and will seek the approval of this Court of a proposed distribution.

APPLICANTS' REQUESTED RELIEF

73. The Monitor respectfully recommends that this Court grant the relief requested by First Leaside as set out in First Leaside's Notice of Motion and Notice of Application, returnable December 7, 2012.

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
Senior Vice President