

No. S-137743
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

**IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*
R.S.C., 1985, c. C-44 AS AMENDED**

AND

**IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*
SBC, 2002, C-57 AS AMENDED**

AND

**IN THE MATTER OF LEAGUE ASSETS CORPORATION AND THE
PETITIONERS LISTED IN APPENDIX "A"
(COLLECTIVELY "LEAGUE" OR THE "COMPANY")**

**MONITOR'S FIFTEENTH REPORT TO COURT
(Prepared for the Court Hearing on the Monarch transaction)**

April 22, 2014



**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S FIFTEENTH REPORT TO COURT**

April 22, 2014

TABLE OF CONTENTS

1.	INTRODUCTION	1
2.	MONARCH PURCHASE TRANSACTION	2
3.	PROPOSED SETTLEMENT OF MONARCH PURCHASE OBLIGATION.....	4
4.	CONCLUSION	7

APPENDIX

- A. List of Petitioners**

LEAGUE ASSETS CORPORATION, ET AL MONITOR'S FIFTEENTH REPORT TO COURT

April 22, 2014

1. INTRODUCTION

- 1.1 On October 18, 2013 (the “**Filing Date**”) on the application of League Assets Corporation and those parties listed in Appendix “A” (collectively referred to as “**League**” or the “**Company**”), the Supreme Court of British Columbia (the “**Court**”) made an order (the “**Initial Order**”) granting League protection from its creditors pursuant to the Companies’ Creditors Arrangement Act (the “**CCAA**”). Under the Initial Order, PricewaterhouseCoopers Inc. (“**PwC**”) was appointed Monitor of the Companies (the “**Monitor**”).
- 1.2 The 13th report of the Monitor provided a background and recommendation with respect to the Company’s plans to sell the HFG Shares. The Monitor is supportive of this sale.
- 1.3 The purpose of this report is to provide the Court with information regarding League’s investment in Monarch (defined below) and the Monitor’s views on League’s intended use of \$150,000 from the sale of the HFG Shares to fund a settlement agreement with respect to League’s investment in Monarch.
- 1.4 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein are as defined in previous reports of the Monitor.
- 1.5 The Monitor has set up a website at:
- www.pwc.com/car-leagueassets
- 1.6 All prescribed materials filed by League and the Monitor relating to this CCAA proceeding are available to creditors, Investors, and other interested parties in electronic format on the Monitor’s website. The Monitor continues to make regular updates to the website to ensure creditors, Investors, and interested parties are kept current and to add prescribed materials as required.

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR’S FIFTEENTH REPORT TO COURT**

April 22, 2014

2. MONARCH PURCHASE TRANSACTION

- 2.1 In November 2012, League Capital Markets Ltd. (“**LCM**”) completed the purchase of the Catalyst and Monarch Shares (the “**Monarch APA**”) from Forbes & Manhattan Asset Management Corp. (“**Forbes**”). Forbes and Catalyst together owned Monarch Wealth Corporation (“**Monarch Wealth**”) and Catalyst owned directly Monarch Wealth Assurance Agencies Inc. (“**Monarch Assurance**”), Monarch Wealth Deposit Group Inc. (“**Monarch Deposit**”) and Monarch Delaney Financial Inc. (collectively “**Monarch**”).
- 2.2 Catalyst and Monarch are not petitioners in these proceedings; they are what have been referred to through these proceedings as ‘white box entities’. LCM is one of the petitioners in these proceedings.
- 2.3 Monarch is an Ontario based investment advisor which manages in excess of \$550 million on behalf of its clients through investments in mutual funds, segregated funds and guaranteed investment certificates issued by financial institutions.
- 2.4 Monarch earns commission revenue on the placement of its client’s funds. The sales of various investments are conducted through one of three Monarch companies as follows:
 - 2.4.1 Mutual funds are sold by Monarch Wealth, a registered mutual fund dealer;
 - 2.4.2 Insurance products are sold by Monarch Assurance, a licensed insurance dealer; and
 - 2.4.3 Guaranteed Investment Certificates are sold by Monarch Deposit which acts as a GIC broker.
- 2.5 Throughout these proceedings, the operations of Monarch have continued uninterrupted.

LEAGUE ASSETS CORPORATION, ET AL MONITOR'S FIFTEENTH REPORT TO COURT

April 22, 2014

- 2.6 The Monitor reported in its 13th report to Court dated April 15, 2014 that it had not completed its review of definitive documentation in respect of the purchase by LCM of the Catalyst and Monarch Shares (the “**Initial Purchase**”). The Monitor has now completed that review and notes the following key elements of the agreements relative to the Initial Purchase of the Catalyst and Monarch shares:
- 2.6.1 Under the Initial Purchase, the purchase price of the Catalyst and Monarch shares was \$1.95 million, of which \$750,000 was payable on closing, with the remaining \$1.2 million payable during 18 months following closing. LCM paid the initial payment of \$750,000 to Forbes and took title to the Catalyst and Monarch Shares but has failed to make any of the instalment payments.
- 2.6.2 Under the Initial Purchase, Forbes agreed to indemnify LCM for any liability related to Monarch Wealth’s sales of leveraged product claims through a process dictated by the Mutual Fund Dealers Association (the “**MFDA Claims**”). The Monitor understands that Monarch Wealth has made settlement payments in respect of the MFDA Claims, which claims are subject to indemnification by Forbes. Accordingly, the balance of the purchase price in the amount of \$1.2 million was subject to a downward adjustment to reflect the settlement and payment by LCM of the MFDA Claims.
- 2.6.3 The Monitor understands that the leverage issues in Monarch Wealth have been rectified and the Monitor has been advised by League that any further claims must be submitted to Monarch prior to December 31, 2014 for settlement consideration. Any further settlement amounts paid by Monarch Wealth will reduce the future installment payments owing by LCM.
- 2.7 Prior to the Initial Purchase, Forbes acquired the Catalyst and Monarch Shares by way of financing provided by Dacha Capital Inc. (“**Dacha**”). The Monitor understands that Forbes is related to Dacha. Pursuant to a convertible debenture granted by Forbes in favour of Dacha dated January 15, 2010, as amended by an amended convertible debenture dated July 19, 2010, Forbes is indebted to Dacha (the “**Convertible Debenture**”). The Convertible Debenture is secured over all of the property of Forbes, which at that time included the Catalyst and Monarch Shares. In addition, the obligations under the Convertible Debenture were guaranteed on a secured basis by Monarch Wealth, Monarch Assurance and Catalyst.

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR’S FIFTEENTH REPORT TO COURT**

April 22, 2014

- 2.8 Pursuant to a Release and Discharge of Security Agreement dated November 1, 2012 (the “**Release**”), the principal owing on the Convertible Debenture was reduced to \$1.2 million (i.e. the amount owing by LCM under the Monarch APA) and it was to reduce in lockstep with the payments made by LCM under the Monarch APA. As a result of this mechanism, the Monitor understands that the amounts owing by Forbes to Dacha was to be paid from LCM’s acquisition of the Catalyst and Monarch Shares from Forbes.
- 2.9 Pursuant to the Release, Forbes assigned the proceeds from the Monarch APA to Dacha and Dacha agreed to release the guarantees and security interests granted to Dacha upon payment of the installment payments owing by LCM to Forbes under the Monarch APA.
- 2.10 Dacha has demanded payment from Catalyst, Monarch Deposit and Monarch Assurance as guarantors – none of which are petitioners within these proceedings.

3. PROPOSED SETTLEMENT OF MONARCH PURCHASE OBLIGATION

- 3.1 League has entered into discussions with Dacha to reach a settlement of the remaining payment obligations. Dacha has agreed in principle to accept \$700,000 (the “**Settlement Amount**”) in full satisfaction of the \$1.2 million owing by LCM. The \$700,000 will be paid by an immediate payment of \$300,000 followed by periodic payments over 16 months for the remaining \$400,000. A definitive agreement is still to be negotiated.
- 3.2 League proposes to fund the Settlement Amount as follows:
 - 3.2.1 \$150,000 of the initial \$300,000 payment will be funded from cash on hand with Monarch;
 - 3.2.2 The remaining \$150,000 will be funded from the proceeds of sale of the HFG Shares which LALP will receive should the Court approve the Harris Fraser transaction that is the subject matter of the 13th Report of the Monitor (the “**HFG Funding**”); and
 - 3.2.3 The periodic payments totaling \$400,000 will be funded by cash flows from Monarch’s future operations (the “**Internal Funding**”).

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S FIFTEENTH REPORT TO COURT**

April 22, 2014

- 3.3 League is confident that Monarch's cash resources and cash flow from future operations will be sufficient to provide the Internal Funding. The Monitor has reviewed a cash flow projection compiled by Monarch for its 2014 operations and notes that it supports the proposed payments.
- 3.4 Roynat Inc., Firm Capital Mortgage Fund Inc., FCC Mortgage Associates Inc. and Davis LLP (collectively the "**LALP Secured Creditors**") hold security over LALP. Therefore, LALP Secured Creditors hold security over the HFG Funding as well as LALP's shares of LCM, who owns the Catalyst and Monarch Shares.
- 3.5 LCM's only asset is its investment in the Catalyst and Monarch Shares while its obligations consist of the following:
- 3.5.1 An unsecured intercompany debt of approximately \$669,000 owing to League Opportunity Fund Ltd. and unsecured trade debt of approximately \$208,000 resulting in total unsecured liabilities of approximately \$877,000.
- 3.5.2 A secured claim of approximately \$718,000 made by GODA Incorporators Inc. ("**GODA**") pursuant to a guarantee provided by LCM for obligations owing by other League entities.
- 3.6 A formal valuation of LCM's investment in Monarch has not been performed; however, League is of the view that the current value of the Catalyst and Monarch Shares is substantial. The Monitor notes that the financial statements of Monarch show it to be profitable before the financial settlement of the MFDA Claims. In addition, the Monitor has reviewed the 2014 consolidated cash flow projections prepared by Monarch and the ongoing operations are cash flow positive.
- 3.7 As further support for the view that Monarch is a meaningful asset, League has received an unsolicited letter of intent ("**LOI**") for Monarch in the amount of \$1.5 million (the "**LOI Consideration**"), less the payment by the potential purchaser of any MFDA Claims which would decrease the total LOI Consideration payable to LCM. The Monitor understands that over the past several months, the settlement of the MFDA Claims has reduced in magnitude as the general market conditions have reduced or eliminated the negative consequences of the overleveraged positions. Accordingly, Monarch anticipates that the remaining MFDA Claims between now and December 31, 2014 will not significantly erode the value of the LOI.

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S FIFTEENTH REPORT TO COURT**

April 22, 2014

- 3.8 The Monitor notes that the potential purchaser who submitted the LOI is a logical strategic purchaser and appears to be bona fide. In addition, the Monitor has received unsolicited inquires about Monarch, suggesting that there is real interest in this asset if it can be preserved from enforcement proceedings by Dacha.
- 3.9 At this stage, League has not negotiated the LOI, focusing instead on preserving the value of the Monarch asset through a settlement with Dacha. As League intends to sell Monarch, a settlement with Dacha will permit the negotiation of a sale for the Monarch business that is not compromised by a forced sale and an unfavourable timeline.
- 3.10 The investment of the HFG Funding will permit the Dacha settlement to be consummated with the involvement of the Monitor and provide League the opportunity to sell Monarch for a value significantly in excess of the HFG Funding. The anticipated proceeds from a future sale of Monarch will firstly be used to repay LALP in respect of the HFG Funding advanced on a secured basis. The Monitor expects that GODA's claim will be satisfied by assets from other League entities. As a result, the remaining proceeds would be used to satisfy the approximately \$877,000 of unsecured claims of LCM (including LOF and its investors) and finally to fund a distribution to LALP in respect of its equity investment in LCM. As a result, the LALP secured creditors would realize the return of the HFG Funding and benefit from an equity distribution from LCM.
- 3.11 If the settlement with Dacha cannot be reached, the Monitor understands that Dacha will enforce its security over the Catalyst and Monarch Shares. If this occurs, not only will the proceeds from the sale of the Catalyst and Monarch Shares be subject to a distressed sale discount but the proceeds obtained by Dacha for the sale of the Catalyst and Monarch Shares would be applied to its outstanding balance owing of \$1.2 million plus accrued interest rather than the \$700,000 proposed pursuant to the settlement with Dacha. The Monitor further notes that Dacha has demanded a sum in excess of \$5 million on the basis that the Release does not apply given LCM's default. As a result, League will lose the opportunity to secure a substantial reduction in the purchase price and its obligation to Dacha.
- 3.12 In the Monitor's view, the proposed settlement with Dacha provides an opportunity for League to enhance its recovery from Monarch for the benefit of various League creditors including the LALP secured creditors with little risk to the recovery of the HFG Funding. As a result, subject to definitive agreements reached between Dacha and LCM, substantially on terms outlined herein or that are otherwise satisfactory to the Monitor,

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S FIFTEENTH REPORT TO COURT**

April 22, 2014

the proposed settlement with Dacha appears to be reasonable and appropriate and in the Monitor's view, it should be pursued. Without the approval for the use of the HFG Funding, the Monarch asset will be at risk.

4. CONCLUSION

- 4.1 Based on the foregoing, and subject to definitive agreement reached between Dacha and LCM substantially on terms outlined herein or that are otherwise satisfactory to the Monitor, the Monitor supports League's application to direct \$150,000 of the proceeds from the sale of the HFG Shares to LCM on a first secured basis in order to fund a definitive settlement agreement with Dacha.

This report is respectfully submitted this 22nd day of April, 2014.

PricewaterhouseCoopers Inc.
Court Appointed Monitor of
League Assets Corporation, et al



Michael J. Vermette, CA, CIRP
Senior Vice President



Neil Bunker, CA, CIRP
Vice President

APPENDIX A

List of Petitioners

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S THIRTEENTH REPORT TO COURT**

April 22, 2014

List of Petitioners

Corporations

1. 0781591 B.C. Ltd.
2. 0811883 B.C. Ltd.
3. 0812307 B.C. Ltd.
4. 0827524 B.C. Ltd.
5. 0873201 B.C. Ltd.
6. 0891146 B.C. Ltd.
7. 0895249 B.C. Ltd.
8. 0895251 B.C. Ltd.
9. 0908150 B.C. Ltd.
10. 2128273 Ontario Inc.
11. 2146431 Ontario Inc.
12. 2148711 Ontario Inc.
13. 2164613 Ontario Inc.
14. 2164614 Ontario Inc.
15. 2246329 Ontario Limited
16. 2291088 Ontario Inc.
17. 2314845 Ontario Inc.
18. 473 Albert St. Office GP Inc.
19. 7667906 Canada Inc.
20. 8252220 Canada Inc.
21. Arbutus Industrial Park Ltd.
22. Colwood Belmont Developments Ltd.
23. Colwood City Centre Corp.
24. Colwood City Centre GP Inc.
25. Colwood Jerome Developments Ltd.
26. Colwood Sooke Developments Ltd.
27. Colwood's Triumph GP Ltd.
28. Cowichan District Financial Centre GP Inc.

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S THIRTEENTH REPORT TO COURT**

April 22, 2014

29. Cygnet Apartments GP Inc.
30. Cygnet Properties GP Inc.
31. Duncan City Centre GP Inc.
32. Durham Portfolio GP Inc.
33. Fort St. John Retail GP Inc.
34. Gatineau Centre Development GP Inc.
35. Gatineau Centre Real Estate Development Corporation
36. IGW Cash Management Fund Ltd.
37. IGW Diversified Redevelopment Fund GP Inc.
38. IGW Energy Capital GP Inc.
39. IGW Industrial GP Inc.
40. IGW Mortgage Investment Corporation
41. IGW Properties GP I Inc.
42. IGW Public GP Inc.
43. IGW REIT GP Inc.
44. IGW Residential Capital GP Inc.
45. Jesken Development GP Inc.
46. Jesken Investment GP Inc.
47. LAPP Global Asset Management Corp.
48. League Acquisition Corp.
49. League Assets Corp.
50. League Assets GP Inc.
51. League Assets International Inc.
52. League Capital Markets Ltd.
53. League Capital Partners Ltd.
54. League Debt Corp.
55. League Financial Partners Inc.
56. League Founding Limited Partner Ltd.
57. League Holdings Corp.
58. League Investment Fund Ltd.
59. League Investment Services Inc.

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S THIRTEENTH REPORT TO COURT**

April 22, 2014

- 60. League Opportunity Fund Ltd.
- 61. League Realty Advisory Ltd.
- 62. League Realty Services Ltd.
- 63. League REIT Investco Inc.
- 64. Londondale Shopping Centre GP Inc.
- 65. Market Square Properties GP Inc.
- 66. Member-Partners' Consolidated Properties GP Inc.
- 67. North Vernon Properties Inc.
- 68. Partners Equity Finance Inc.
- 69. Residences at Quadra Village GP Inc.
- 70. Stoney Range Industrial GP Inc.
- 71. Sundel Square Ltd.
- 72. Tsawwassen Retail Power Centre GP Inc.
- 73. Tyee Plaza GP Inc.
- 74. Village Green Holdings #2 Ltd.
- 75. Village Green Holdings #3 Ltd.
- 76. Zeus Energy Ltd.

Limited Partnerships

- 77. 473 Albert St. Office Limited Partnership
- 78. Colwood City Centre Limited Partnership
- 79. Colwood's Triumph Limited Partnership
- 80. Cowichan District Financial Centre Limited Partnership
- 81. Duncan City Centre Limited Partnership
- 82. Durham Portfolio Limited Partnership
- 83. Fort St. John Retail Limited Partnership
- 84. Gatineau Centre Development Limited Partnership
- 85. IGW Diversified Redevelopment Fund Limited Partnership
- 86. IGW Energy Capital Limited Partnership
- 87. IGW Industrial Limited Partnership
- 88. IGW Properties Limited Partnership I

**LEAGUE ASSETS CORPORATION, ET AL
MONITOR'S THIRTEENTH REPORT TO COURT**

April 22, 2014

- 89. IGW Public Limited Partnership
- 90. IGW REIT Limited Partnership
- 91. IGW Residential Capital Limited Partnership
- 92. Jesken Development Limited Partnership
- 93. Jesken Investment Limited Partnership
- 94. League Assets Limited Partnership
- 95. Londondale Shopping Centre Limited Partnership
- 96. Market Square Properties Limited Partnership
- 97. Member-Partners' Consolidated Properties Limited Partnership
- 98. North Vernon Properties Limited Partnership
- 99. Redux Duncan City Centre Limited Partnership
- 100. Residences At Quadra Village Limited Partnership
- 101. Stoney Range Industrial Limited Partnership
- 102. Tsawwassen Retail Power Centre Limited Partnership
- 103. Tyee Plaza Limited Partnership
- 104. Village Green Holdings Limited Partnership

Real Estate Investment Trusts

- 105. League IGW Real Estate Investment Trust