

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 SAPPHIRE TOWER DEVELOPMENT CORP.

APPLICATION UNDER THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

SECOND REPORT OF THE MONITOR/INTERIM RECEIVER
BDO DUNWOODY LIMITED
August 30, 2007

INTRODUCTION

1. On July 20, 2007, the Applicant filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c.C-36, as amended ("CCAA") pursuant to an order of this Honourable Court dated July 20, 2005 (the "Initial Order").
2. Pursuant to the Initial Order, BDO Dunwoody Limited ("BDO") was appointed Monitor of the Applicant (the "Monitor").
3. By order dated August 16th 2007 an extension of the CCAA proceedings was made to September 4, 2007. At the same time BDO was appointed as Interim Receiver with a mandate to prepare a marketing and sale process, to disseminate it to stakeholders and to bring the same before the Court for approval on September 4, 2007. As part of the extension motion BDO filed its First Report dated August 14, 2007 ("First Report").

4. The purpose of this Second Report of the Monitor/Interim Receiver (“**Second Report**”) is to support a request for a further extension of the CCAA proceedings to November 16, 2007 and to:
 - (a) report to this Honourable Court on the activities of the Monitor/Interim Receiver from the date of its first Report to the present; and
 - (b) seek approval of a marketing and sales plan.
5. Capitalized terms not defined in this Second Report are as defined in the Initial Order.

TERMS OF REFERENCE

6. In preparing this Second Report, the Monitor/Interim Receiver has relied upon unaudited financial information, company records and discussions with management of the Applicants and CCAA parties and various consultants and advisors. The Monitor/Interim Receiver has not performed an audit, review or other verification of such information.

BACKGROUND

7. The Applicant is a single purpose entity that owns a single parcel of undeveloped real estate located at 66 Temperance Street, Toronto (the “**Property**”) in the core down town area of Toronto. The site is currently leased out as a parking lot. The Applicant has no active employees other than Harry Stinson (“**Stinson**”), who is the sole officer and director of the Applicant. The Applicant had been pursuing the development of this site as a high rise condominium project of 50 or more stories in height.
8. The stakeholders in this matter are various parties holding mortgages or liens on the property, trade creditors, and various individuals who appear to be unsecured creditors who had advanced money in arrangements which included an interest in units in the prospective development.

POSTING OF EXTENSION ORDER AND MONITOR'S FIRST REPORT

9. The Monitor/Interim Receiver follows the practice of posting all court material on a website at <http://www.bdo.ca/Sapphire>. A copy of the Monitor's First Report, the Applicant's motion record returnable August 16, 2007 and the order of this court dated August 16, 2007 have been posted on this site along with all prior orders and motion records.

POSSESSION OF ASSETS

10. Immediately following its appointment as Interim Receiver, the Monitor/Interim Receiver took possession of all of the personal property and books and records of the Applicant. The Monitor/Interim Receiver has taken steps to ensure that the rental payments by the tenant of the company's real property are made to the Monitor/Interim Receiver. The Monitor/Interim Receiver has not gone into possession of the real property owned by the Applicant as it does not believe that there is any necessity to do so at this time.

CONSULTATION WITH INVESTORS/UNSECURED CREDITORS

11. Following its appointment the Monitor/Interim Receiver has had various discussions and meetings with stakeholders with a view to soliciting their input and views. In particular, the Monitor/Interim Receiver met with certain creditors whose advances included a contracted interest in units which were to be built in the contemplated condominium project. Input from these creditors included the fact that there may be interest in a purchaser arrangement which could include the opportunity for stakeholders to continued to be invested in the project.
12. In addition, persons in this group have raised the issue of legal representation for this group being obtained and funded out of the project. The Monitor/Interim Receiver is supportive of this group obtaining representation. Unfortunately, there is no cash available to fund counsel nor would the Monitor/Interim Receiver view it as appropriate that assets over which other stakeholders have priority be deployed to support the interests of this group. The Monitor/Interim Receiver

would, however, support a charge being given in favour of counsel for this group so long as such a charge was given a ranking immediately behind the interest of the secured creditors.

SALE PROCESS

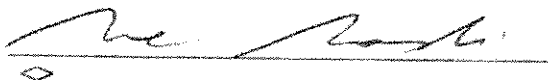
13. After receiving its appointment as Interim Receiver, the Monitor/Interim Receiver has held a series of interviews and consultations with persons familiar with the property, and the development and sale of such properties with a view to developing a marketing strategy which will balance the need to have a sale accomplished in a reasonable time frame while at the same time achieving a market price for this property.
14. Attached as schedule A to this report is a proposed sale process and time line. It is the Monitor/ Interim Receiver's view, based on its own expertise and the advice that it has received, that the proposed time line and process strikes a proper balance between the need to accomplish a sale within a reasonable time, and the desire to maximize recovery.
15. The Monitor/Interim Receiver is in the process of completing certain arrangements with consultants to assist it in the marketing of the project which agreements it intends to bring to court for approval forthwith after their conclusion.
16. Unfortunately, the fact finding and consultation process that has been necessary in order to determine the terms and timelines of an appropriate and fair sales process proposal has been such that the period of time for discussion and input from creditor stakeholders in advance of the September 4, 2007 CCAA extension deadline has been cut short. Accordingly, the Monitor/Interim Receiver proposes that the approval of the sale process be given subject to notifying all known creditors in writing, directing them to the Monitor/Interim Receiver's website, and granting them the opportunity to come back to Court to seek any appropriate variation to the sale process.

CCAA EXTENSION

17. As stated above, in discussions with certain unsecured creditors who invested in the Sapphire project, it has become apparent that certain members of this group could be interested in an arrangement where they would obtain some sort of continuing and participating involvement in the project if the same were to be offered by a successful bidder. If such were to become part of an offer it is likely that the implementation of same would necessitate a plan of arrangement being filed. Accordingly, in order keep open all possible sales options, the Monitor/Interim Receiver recommends that these CCAA proceedings be kept in place pending the completion of the Sale process. Accordingly, the Monitor/Interim receiver recommends the extension of the CCAA proceedings until November 16, 2007 at which time it hopes to have identified a short list of bidders and would expect to be able to determine whether any of the proposals in hand would likely require implementation utilizing a plan of arrangement..
18. In the Monitor/Interim Receiver's view, the Applicant and CCAA Parties are acting in good faith and with due diligence during this CCAA proceeding. The Monitor/Interim Receiver is of the view that the extension to the Stay Period is appropriate in the circumstances and therefore recommends that the Applicant's request for an extension of the Stay Period be granted to, and including, November 16, 2007.

All of which is respectfully submitted this 30th day of August, 2007.

BDO DUNWOODY LIMITED
in its capacity as Court Appointed
Monitor/Interim Receiver of the
Applicant



TAB A

Re: Sapphire Marketing Process

1.) PREPARATION FOR MARKETING PROCESS

- September 4, 2007 to September 21, 2007
- publish Court-approved marketing process on BDO's website www.bdo.ca/sapphire;
- prepare marketing documents, including marketing brochure;
- prepare due diligence room and relevant documentation;
- prepare Confidential Information Memorandum (CIM) and Confidentiality Agreement;
- prepare procedures for submission of offers, and structure of transaction including a form of agreement of Purchase and Sale;
- compile lists of potential purchasers based on past and/or current expressions of interest, and any and all other available sources.
- Enter into and if necessary obtain court approval of agreements with consultants

2.) FORMAL MARKETING PERIOD

- September 22, 2007 to October 19, 2007
- publish advertisements in national newspaper(s);
- contact prospective purchasers;
- distribute CIM and Confidentiality Agreements to interested parties;
- respond to preliminary inquiries;
- obtain non-binding Letters of Intent (LOI's) by October 19,2007 including bidder's comments on agreement of Purchase and Sale;
- commissions will be protected.

3.) EVALUATION OF LOI'S

- October 20, 2007 to October 26,2007
- pre-qualify bidders and short-list selected bidders.

4.) FORMAL DUE DILIGENCE PERIOD

- October 27, 2007 to November 23, 2007
- assist short listed bidders in due diligence process.
- the expectation will be that due diligence will be completed and formal offers will be unconditional.

- If bidder require conditions they should be specified and set out in agreement of purchase and sale.
- Preference will be given to unconditional offers.

5.) DEADLINE FOR FORMAL OFFERS

- November 28, 2007
- obtain final formal offers.

6.) FINALIZATION OF SALE

- selection of successful bidder, with final bid accepted by December 5, 2007;
- Court approval and Vesting Order by December 10, 2007;
- Closing in accordance with the terms of the Agreement.
- Interim Receiver reserves right to adjust timelines if in its view the same is prudent and necessary.