

**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

**FIRST REPORT OF THE MONITOR
BDO DUNWOODY LIMITED
August 14, 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 (the "CCA") pursuant to an order of this Honourable Court dated July 20, 2005 (the "**Initial Order**").
2. Pursuant to the Initial Order, BDO Dunwoody Limited was appointed monitor of the Applicant during these CCAA proceedings (the "**Monitor**").
3. The purpose of this First Report of the Monitor (the "**First Report**") is to provide this Honourable Court with a preliminary update in respect of the following:
 - (a) Notices issued to creditors;
 - (b) The status of the Applicant's restructuring activities;
 - (c) The status of the Applicant's cash flow; and

(d) The Applicant's request for an extension to the Stay Period with an increase in the role of the Monitor in the sale process.

4. Capitalized terms not defined in this First Report are as defined in the Initial Order.

TERMS OF REFERENCE

5. In preparing this First Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Applicant. The Monitor has not performed an audit, review or other verification of such information, and assumes no responsibility or liability for any loss or damage occasioned by any party as a result of a circulation, publication, reproduction or use of this Report. Any use which any party, other than this Honourable Court, makes of this Report, or any reliance on or decisions made based on it, is the sole responsibility of such party.
6. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

BACKGROUND

7. The Applicant is a single purpose entity that owns a simple parcel of undeveloped real estate located at 66 Temperance Street, Toronto (the "**Property**"). The Applicant has no active employees other than Harry Stinson, who is the sole officer and director of the Applicant.
8. The Property is leased on a month-to-month basis for rent of \$20,000.00 (the "**Rent**") plus GST to Canada Auto Parks (the "**Tenant**"). Prior to the making of the Initial Order, the City of Toronto, acting through a bailiff, S. Wilson & Co., had attorned the Rent. Following the making of the Initial Order, the Monitor advised the Tenant, the City of Toronto and the bailiff of the terms of the Initial Order and the Rent for the month of August was, accordingly, paid by the Tenant to the Applicant.

9. A copy of the Initial Order and the Application Record of the Applicant filed with this Honourable Court (the “**Application Record**”) have been posted by the Monitor on its website at <http://www.bdo.ca/sapphire>.

NOTICE TO CREDITORS

10. Pursuant to the terms of the Initial Order, the Monitor has mailed a notice to every know creditor of the Applicant having a claim of more than \$250 against the Applicant, notifying the creditor of the making, and enclosing a copy, of the Initial Order in accordance with paragraph 34 of that Order (the “**Monitor’s Letter**”). A copy of the Monitor’s Letter is attached to this Report as Schedule “A”.

FINANCIAL PERFORMANCE SINCE THE DATE OF THE INITIAL ORDER AND CASH FLOW FORECAST

11. The sole monthly receipt of the Applicant is the Rent, and the monthly disbursements are estimated by the Applicant to be in the range of \$20,000.00, primarily to make “on-account” payments for the Applicant’s legal fees and disbursements, the fees of the Monitor and its counsel and fees for services invoiced to the Applicant by corporations related to the Applicant.

RESTRUCTURING ACTIVITIES

12. In the Application Record, the Applicant advised this Honourable Court of an offer (the “**Offer**”) for the Property from a company controlled by Tulip Business Developers (“**TBD**”) that was accepted by the Applicant and was scheduled to close on October 31, 2007. Under the terms of the Initial Order, the Applicant was authorized to do whatever was reasonably necessary to complete the sale of the Property on the terms of the Offer.
13. The Applicant advised the Monitor on August 8, 2007 that the Offer had been terminated by TBD and that the deposit paid by TBD to the Applicant under the terms of the Offer had been returned to TBD. The Applicant has advised the

Monitor that the Applicant had satisfactorily responded to all due diligence enquiries from TBD prior to the termination of the Offer.

14. The Monitor has been made aware of an article that appeared in the Business Section of The Toronto Star on Friday, August 10, 2007 (a copy of which is attached to this Report as Schedule "B") in which it is stated that "the Tulip deal is still alive."
15. Subsequent to the publication of the article, the Applicant after consultation with the Monitor, has again confirmed that the Offer has been terminated by TBD.
16. The Applicant has proposed and the Monitor concurs, that it is appropriate, given the extended marketing of the Property by the Applicant and the termination of the Offer, that BDO Dunwoody Limited, as Monitor be granted supplemental powers to take a primary role in the control and implementation of the sale of the Property in order to facilitate the distribution of the net sales proceeds thereof as part of a Plan of Compromise or Arrangement of the Applicant with its creditors (the "Plan").

CLAIMS OF CREDITORS

17. The Monitor had noted in the Monitor's Letter that it is the Applicant's intention to file a Plan once a sale is finalized and to implement a Claims Bar process at that time to settle the quantity and priority ranking of the claims of the various creditors and groups of creditors of the Applicant.
18. The Application Record discloses that the following charges are registered against the Property:

<u>Chargee</u>	<u>Principal Amount of Charge</u>	<u>Date of Registration</u>
Graphic Arts Building Incorporated	\$10,500,000.00	2005/05/05
Stinson Financial	\$6,000,000.00	2005/05/05

<u>Chargee</u>	<u>Principal Amount of Charge</u>	<u>Date of Registration</u>
Corporation, as bare Trustee for a number of investors		
Leslie Steven Mason, in trust (for Shibley Righton LLP)	\$250,000.00	2007/04/18
Oro Properties Limited	\$250,000.00	2007/05/23
Leslie Steven Mason, in trust (for Shibley Righton LLP)	\$275,000.00	2007/06/19
Peter Walmsley, Glenda Dell and Roberta Mattson	\$155,000.00	2007/06/19

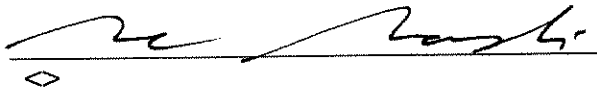
19. The Monitor notes that it is not within its mandate under the Initial Order or otherwise in this CCAA proceeding to review or formulate any opinion at this time as to whether any of the charges in the preceding paragraph may be subject to review by the creditors or their representatives, and creditors should be seeking their own advice in this regard.
20. The affidavit of Harry Stinson included in the Application Record also notes that there are indirect obligations of approximately \$1,500,000.00 related to the development of the Property. The Monitor has requested copies from the Applicant of the documentation relating to these obligations and expects to be in a position to provide a summary of the terms of those obligations in the next Report of the Monitor to this Honourable Court.

THE APPLICANT REQUEST FOR AN AMENDMENT TO THE INITIAL ORDER AND AN AMENDMENT TO THE INITIAL ORDER AND AN EXTENSION TO THE STAY PERIOD

21. In the Monitor's view, the sale of the Property is essential to the successful restructuring of the Applicant.
22. Pursuant to the Initial Order, the Stay Period expires on August 19, 2007. The Applicant is seeking an extension of the Stay Period.
23. An extension to the Stay Period, together with the proposed expanded role of the Monitor in the sale process, is necessary to market and sell the Property so that the Applicant will be in a position to develop the Plan.
24. In the Monitor's view, the Applicant has been and is acting in good faith and with due diligence during this CCAA proceeding. The Monitor is of the view that the extension to the Stay Period is appropriate in the circumstances and therefore recommends that an extension of the Stay Period be granted..

All of which is respectfully submitted this 14th day of August, 2007.

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



Handwritten signature of a representative of BDO Dunwoody Limited, written in black ink over a horizontal line. The signature is stylized and appears to be 'R. Singh'.

**Schedule "A" to the First Report
of the Monitor BDO Dunwoody
Limited dated August 14, 2007**



BDO Dunwoody Limited

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31 July 2007

TO THE CREDITORS:

Re: *In the Matter of the Companies' Creditors Arrangement Act and
In the Matter of a Plan of Compromise or Arrangement of
Sapphire Tower Development Corp.*

Please be advised that Sapphire Tower Development Corp. ("Sapphire") filed for protection under the Companies' Creditors Arrangement Act ("CCAA") on 20 July 2007. BDO Dunwoody Limited was appointed by the Court as Monitor.

We attach hereto a copy of the Initial Order of the Honourable Mr. Justice P.A. Cumming, which is served on you as required by paragraph 34 of the Order.

A copy of the Initial Order can also be found on the Monitor's website, www.bdo.ca/sapphire and the website will be updated from time to time with news updates, Monitor's reports, and further Court Orders.

Sapphire filed for protection under the CCAA in the face of imminent power of sale proceedings initiated by the first mortgagee at 66 Temperance Street. Sapphire had on 17 July 2007 accepted an offer for the sale of that property, (as noted in paragraph 9 (a) of the Initial Order), and believes that the accepted offer is more attractive than what could likely be achieved in a distressed sale initiated by a mortgagee. The accepted offer is currently in a one-month due diligence period expiring about 17 August 2007.

The Initial Order provides a 30 day Stay of Proceedings, at the expiry of which Sapphire will likely seek extensions pending closing of the sale (or to seek another sale if this one were to abort), in the expectation of finalizing a sale of the real estate as soon as possible, and thereby maximizing a return for the creditors.

It is not necessary at this time to provide the Monitor with full particulars of your claims, or to submit supporting documentation.

It is Sapphire's intention to file a Plan of Compromise or Arrangement with its creditors, once a sale is finalized, and at that time a Claims Bar process would be implemented to settle the quantity and priority ranking of the claims of the various creditors, and groups of creditors.

Yours very truly,
BDO DUNWOODY LIMITED
Monitor
Per:

Uwe Manski, FCA, FCIRP
President

/bc
Encl.

**Schedule "B" to the First Report
of the Monitor BDO Dunwoody
Limited dated August 14, 2007**



BUSINESS



THE TIRE MAKES MONEY
Canadian Tire profits up 18.4% in second quarter
PAGE B6

MARKET WATCH

S&P/TSX composite 280.18 to 13,478.01 -2.04%
Dow Jones industrials 38738 to 13,270.68 -2.83%
Canadian dollar 0.71¢ U.S. to 94.65¢ \$1 U.S.=\$1.0565 Cdn.
Oil 56¢ U.S. a barrel to \$71.59

MOST DEPENDABLE
Buick ties Lexus as tops for reliability
PAGE B3

REAL ESTATE

Stinson's tower of big dreams tumbling down

Beleaguered developer has been granted protection for his shimmering, elusive Sapphire condo project

JENNIFER WELLS
BUSINESS COLUMNIST

If I have to work my ass off for the rest of my life, I will not screw people.
— Harry Stinson

Not so long ago, Harry Stinson's dreamscape floated high above his condo-hotel at 1 King West, soaring to 81 storeys of shimmering blue glass that would arise from a parking lot at 66 Temperance St.

Naturally enough, he called it the Sapphire Tower.

As Stinson imagined it, there would be a sky-lit infinity pool, glass-walled shuttle elevators, circular apartments with two-sided "Citizen Kane" fireplaces, and a "Sky Spa," which even on the cloudiest days would never be gloomy.

There are no blue skies for Harry Stinson these days.

On July 20, Sapphire Tower Development Corp., of which Stinson is the sole shareholder, officer and director, filed for, and was granted, bankruptcy protection.

This is not to be confused with 1 King, which was granted protection

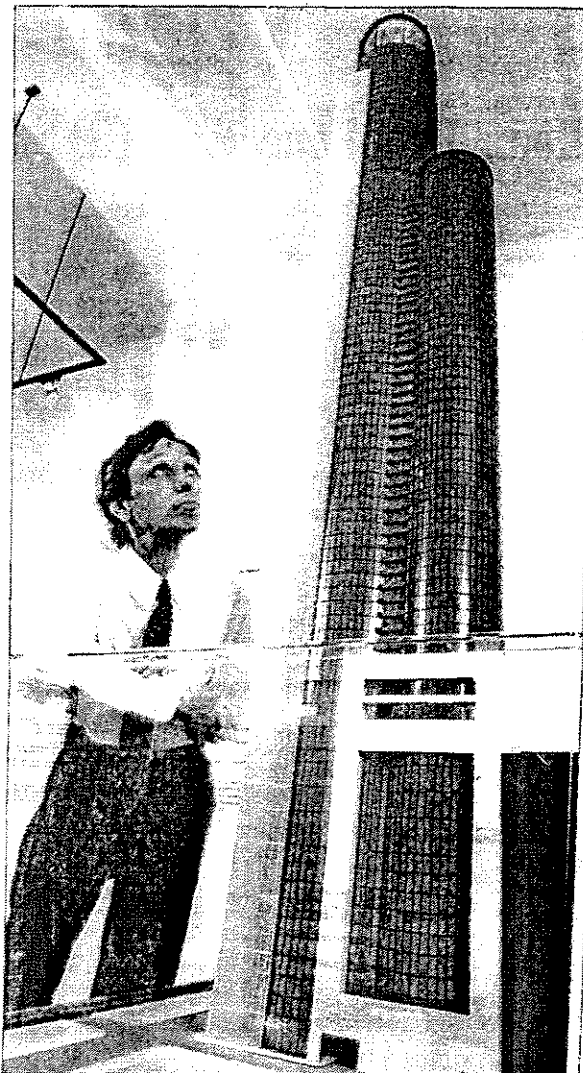
from creditors in April. Last week, theatre producer David Mirvish, who is owed more than \$12 million by Stinson, filed a notice of motion to have Stinson removed from 1 King and to have a receiver appointed to take over operations. That motion, originally set to be heard today, has been put over to Aug. 20.

There's no other way to look at it: the dreams of the mercurial Stinson are coming undone.

He sounds exhausted. He is certainly beleaguered. "What do you think is in it for me at this stage?" he asks. "It would have been a lot simpler to formally walk away from this thing. And maybe I should have."

In an affidavit filed in support of his Sapphire application, Stinson reveals that a first mortgage on 66 Temperance, to the tune of \$10.5 million, is in default. That mortgage is held by Graphic Arts Building Corp., which sold Stinson the site in May 2005.

STINSON continued on B6



RON BULL/TORONTO STAR FILE PHOTO

Harry Stinson with a model of his Sapphire Tower in August 2004. Construction was to start in 2005, but the project never got off the ground.

Private deal with Dubai developer still alive: Stinson

STINSON from B1

Further indebtedness, including small mortgages attached by mom-and-pop investors, take Sapphire's total indebtedness to \$27.6 million.

Facing a forced power of sale by Graphic, Stinson sought protection from the courts, giving him time to finalize, he says in his affidavit, a private sale of the building to Tulip Business Developers, a Dubai-based development firm.

The precise sum of the Tulip offer is not revealed but is, the affidavit states, in excess of \$29 million. A "significant deposit" has been made with respect to the purchase price. Tulip's due diligence period expires Aug. 14.

Stinson says he believes the Tulip deal is still alive, that two other buyers remain extremely interested, and that he is trying desperately to secure maximum value for a whole host of investors who believed in the Stinson vision.

The vision Harry Stinson has often said that the real estate tapestries he has woven in the city are far too complex to be explained in the conventional language of mortgagee and mortgagor, and certainly far too creative to be understood by conventional lenders.

SAPPHIRE TOWER

- Originally planned to reach 81 storeys on a site on Temperance St., the tower was to have two connected cylinders covered with blue glass, capped with a globe that would minimize building sway in the wind.
- The 1,000-unit project was to feature studio and one-bedroom units in the lower levels, two-bedroom units in the higher levels and some full-floor suites.
- The project was later redesigned and reduced to 62 storeys. Amenities were to include a private hotel, spa, 24-hour grocery store, dry cleaning service, daycare and valet parking.
- In December 2006, the Ontario Securities Commission alleged Stinson broke securities laws by selling units without issuing a prospectus, and Stinson agreed to pay a fine.
- The construction start date had been set for 2005, but the project has never broken ground.
- Harry Stinson's Sapphire Tower Development Corp. entered bankruptcy protection on July 20.

This is particularly true of Sapphire, a development that morphed from the initially conceived "Toronto Plaza," to the swish Sapphire, which was meant to rival the sky-high ambitions of Donald Trump. When rezoning for the blue glass cylinder was rejected by the city's planning department due to the shadow it would cast on Nathan Phillips Square, the Sapphire was redesigned by Turner Fleischer Architects as a less thrusting, 62-storey condominium with multi-tiered residences geared for families seeking downtown living.

Through the transformation, investors who had made deposits on units in what we will call Sapphire 1 were offered the option of placing those funds in so-called Stinson Hospitality bonds. In his affidavit, Stinson states that approximately \$1.5 million in such "indirect obligations" have been made by Stinson Hospitality Inc.

Additionally, an undisclosed number of investors provided funds directly to Sapphire Tower Development Corp. by way of promissory notes. While court filings do not document the size of this total investment, a copy of a single promissory note shows that one Toronto investor entrusted \$400,000, on which Stinson pledged a rate of interest, payable semi-annually, of 20 per cent.

The investor received a single interest payment in May 2006 and has not seen a penny since.

Stinson declined to comment on how many such note holders there are, nor the sums invested. "There are," he would say, "a lot of small people who are being crushed by the repercussions to me."

He expressed impatience with the impatience of the investors.

"When you invest in a development, if you believe you are going to receive 20 or 25 per cent return on your investment, and it is unsecured, then to be running around saying this evil fellow tricked me, I think it's not entirely fair. They were investing in a development. They were not buying notes from

the Bank of Canada."

What were they investing in? Stinson Hospitality is the company Stinson incorporated to encompass his operations within 1 King, which means the interests of the Sapphire group bleed into the interests of 1 King, which means we've got a mess on our hands.

Through last spring, facing the very real prospect of a forced power of sale of 66 Temperance, Stinson launched an email initiative meant to appease these Sapphire investors. Vigorous negotiations were ongoing with a plethora of prospective developers, he wrote, including: "the hoteliers" (unnamed); a West Coast entrepreneur — "a wealthy, very old but very active gent in Vancouver (not Jimmy Pattison)"; "Jimmy Pattison himself (a long shot, but they DID express interest a year ago and I am trying to revive it)"; "two very aggressive young guys in New York who invest money on behalf of Cargill Corporation (a very large U.S. group, apparently tied in with Cheney, Bush and other morally vacuous — but wealthy — characters)"; "the Las Vegas boys"; and "the Russians."

Toronto developer Murray Goldman thought he had a deal with Stinson to purchase the property for \$21 million. "He pulled the deal on me and it died," Goldman says. "The next day he signed an offer with somebody else." That, too, evaporated as Stinson sought a buyer at a price above his \$27.6 million debt load. "He'll be able to sell it," Goldman says, "but not at the prices he's talking about."

"I could have sold," Stinson says. "They would have taken care of the first (mortgage), they would have taken care of the second, but they wouldn't have taken care of everybody."

Harry Stinson insists he has only the interests of others at heart. As his dreams whisper into the sunset, he can but lament, "There is not going to be anything in it for me."

jwells@thestar.ca