

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

B E T W E E N:

**DBDC SPADINA LTD.,
and THOSE CORPORATIONS LISTED ON SCHEDULE "A" HERETO**

Applicants

- and -

**NORMA WALTON, RONAULD WALTON, THE ROSE & THISTLE GROUP
LTD. and EGLINTON CASTLE INC.**

Respondents

- and -

**THOSE CORPORATIONS LISTED IN SCHEDULE "B" HERETO, TO BE
BOUND BY THE RESULT**

TWELFTH REPORT OF THE MANAGER, SCHONFELD INC.

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I. Introduction

1. This is the Twelfth Report of Schonfeld Inc. (the “**Manager**”) in its capacity as Manager of certain companies listed at Schedule “B” to the Order of Justice Newbould dated November 5, 2013 (the “**Companies**”),¹ together with the real estate properties owned by the Companies (the “**Properties**”).

A. Purpose of this Report

2. Florence Leasholds Limited, Beatrice Leasholds Limited and ADA Leasholds Limited (collectively, the “**Dupont Mortgagees**”), the holders of a first mortgage on 1485 Dupont Street (“**1485 Dupont**”), served a motion to lift the stay against Dupont Developments Ltd. (“**Dupont Developments**”), the Company that owns 1485 Dupont to permit power of sale proceedings by the Dupont Mortgagees. One purpose of this report is to provide information relevant to the Dupont Mortgagees’ motion.

3. The Manager has brought a cross-motion for an Order discharging it from any obligation for the management, control preservation or protection of 1485 Dupont. For greater certainty, the Manager has not sought any discharge or other relief in respect of its mandate as Manager of the Companies that own the Discharge Properties.

4. This Report provides a summary of the circumstances that, in the Manager’s view, require that it be relieved of responsibility for the Discharge Properties and a recommendation that this Honourable Court grant the relief described in the Manager’s Notice of Motion.

B. Terms of reference

5. Based on its review and interaction with the parties to date, nothing has come to the Manager’s attention that would cause it to question the reasonableness of the information presented herein. However, the Manager has not audited, or otherwise attempted to independently verify, the accuracy or completeness of any financial information of the Companies. The Manager therefore expresses no opinion or other form of assurance in respect of any of the Companies’ financial information that may be in this Report.

¹ Schedule “B” was amended by Order dated January 16, 2014.

C. Background

6. The Companies are a group of real estate development corporations incorporated as part of a series of joint ventures between Dr. Stanley Bernstein and companies that he controls (the “**Bernstein Group**”) and Norma and Ronauld Walton and entities that they control (the “**Walton Group**”). Most of the Companies were incorporated to purchase and develop a particular Property.

7. In the summer and fall of 2013, the relationship between the Walton Group and the Bernstein Group broke down amid allegations that the Walton Group had, among other things, placed mortgages on jointly-held properties without the Bernstein Group’s consent and failed to provide reporting required by the agreements that govern the joint venture. The dispute between the Walton Group and Bernstein Group is described in more detail in the Endorsement of Justice Newbould dated November 5, 2013, which is attached as Appendix “1”.

8. Pursuant to the Order of Justice Newbould dated November 5, 2014(the “**November 5 Order**”), which is attached as Appendix “2”, the Manager was appointed to provide independent management of the Companies and the Properties for the benefit of all stakeholders.

II. 1485 Dupont

A. Funding issues

9. Several Properties do not generate revenue or do not generate enough revenue to fund the obligations of the relevant owner Company. The Manager advised the parties early in these proceedings that it would not commingle funds between the various Companies and, accordingly, the Companies that did not generate revenue required an outside funding source. The Manager and the Applicants agreed that the Applicants would provide funding of approximately \$1.3 million between December 20, 2013 and January 31, 2014. That funding was provided.

10. The Applicants had no obligation to advance further amounts unless they agreed to provide further funding in writing or were ordered to provide funding by the Court. Since January 31, 2014, the Manager has submitted monthly funding requests to the Applicants. The Applicants have assessed these funding requests and determined what obligations they were prepared to fund.

11. By e-mail dated February 5, 2014, the Applicants' counsel advised that the Applicants were not prepared to fund any further obligations owed by Dupont Developments in respect of 1485 Dupont. Accordingly, Dupont Developments has been unable to meet its obligations to the Dupont Mortgagees.

B. The Dupont Mortgagees' Motion

12. 1485 Dupont has significant potential environmental remediation issues and several construction liens registered against it. These liens are summarized below:

| Lien Claimant | Amount |
|-----------------------------------|-------------|
| Gentry Environmental Systems Ltd. | \$269,967 |
| CAM Moulding & Plastering Ltd. | \$73,800 |
| Titan Plumbing Ltd. | \$89,899.39 |
| Norel Electric Ltd. | \$248,631 |
| Abaco Glass Inc. | \$139,000 |

13. In addition, the City of Toronto (the "City") issued a work Order for 1485 Dupont in 2013 concerning the deteriorating condition of the exterior. Basic repairs were made in December 2013 to remove loose materials that posed an immediate danger to the public. The exterior deteriorated further over the winter and the City attended at 1485 Dupont in May 2014 with the Manager. The City insists that repairs be made to the exterior. These repairs include stucco work, brick replacement and repair of a broken lintel, all of which pose a safety concern. The Manager is seeking quotes for this work, which is expected to cost in excess of \$50,000. The Manager does not presently have the funding required to undertake the repair work.

14. The Manager does not oppose the relief sought by the Dupont Mortgagees and the Dupont Mortgagees have advised that they would prefer for the Manager to stay in place while they conduct power of sale proceedings. However, neither the Dupont Mortgagees nor the Applicants are prepared to fund such a mandate. Accordingly, the Manager has brought a motion to be relieved of any obligation for the management, control, preservation or protection of 1485 Dupont.

15. The Manager intends to continue as manager/receiver of Dupont Developments to ensure that it is able to effectively exercise whatever rights it may have in respect of the Dupont Mortgagees' ongoing power of sale proceedings.

C. Efforts to sell 1485 Dupont

16. The Manager previously entered into an Agreement of Purchase and Sale ("APS") with respect to 1485 Dupont. However, that APS was terminated by the purchaser during the due diligence phase.

17. The Manager has negotiated with other purchaser groups and has identified a potential purchaser. The transaction proposed by this purchaser would, if completed, be sufficient to pay out all amounts secured against 1485 Dupont. The terms proposed by the potential purchaser are set out in the e-mail attached as Confidential Appendix "A".

18. The Dupont Mortgagees have engaged in preliminary discussions relating to the assumption of the Dupont Mortgage by the potential purchaser. However, the Dupont Mortgagees have refused to execute a confidentiality agreement and, accordingly, have not been provided with detailed information relating to the potential purchase.

19. The potential purchaser has insisted on a 60 day due diligence period and a further 30 days before closing. Accordingly, the proposed transaction cannot be completed if the Dupont Mortgagees' motion is granted.

III. Conclusion and Recommendations

20. For the reasons set out above, the Manager respectfully recommends that, if the relief sought by the Dupont Mortgagees is granted, then the relief sought by the Manager should also be granted and possession of, and responsibility for, 1485 Dupont should be transferred to the Dupont Mortgagees.

All of which is respectfully submitted this 6th day of June, 2014.

SCHONFELD INC.

**In its capacity as Manager pursuant to
the Order of Newbould, J. dated
November 5, 2013**

Per: _____

Harlan Schonfeld CPA•CIRP

SCHEDULE "A" COMPANIES

1. Dr. Bernstein Diet Clinics Ltd.
2. 2272551 Ontario Limited
3. DBDC Investments Atlantic Ltd.
4. DBDC Investments Pape Ltd.
5. DBDC Investments Highway 7 Ltd.
6. DBDC Investments Trent Ltd.
7. DBDC Investments St. Clair Ltd.
8. DBDC Investments Tisdale Ltd.
9. DBDC Investments Leslie Ltd.
10. DBDC Investments Lesliebrook Ltd.
11. DBDC Fraser Properties Ltd.
12. DBDC Fraser Lands Ltd.
13. DBDC Queen's Corner Ltd.
14. DBDC Queen's Plate Holdings Inc.
15. DBDC Dupont Developments Ltd.
16. DBDC Red Door Developments Inc.
17. DBDC Red Door Lands Inc.
18. DBDC Global Mills Ltd.
19. DBDC Donalda Developments Ltd.
20. DBDC Salmon River Properties Ltd.
21. DBDC Cityview Lands Ltd.
22. DBDC Weston Lands Ltd.
23. DBDC Double Rose Developments Ltd.
24. DBDC Skyway Holdings Ltd.
25. DBDC West Mall Holdings Ltd.
26. DBDC Royal Gate Holdings Ltd.
27. DBDC Dewhurst Developments Ltd.
28. DBDC Eddystone Place Ltd.
29. DBDC Richmond Row Holdings Ltd.

SCHEDULE "B" COMPANIES

1. Twin Dragons Corporation
2. Bannockburn Lands Inc. / Skyline – 1185 Eglinton Avenue Inc.
3. Wynford Professional Centre Ltd.
4. Liberty Village Properties Ltd.
5. Liberty Village Lands Inc.
6. Riverdale Mansion Ltd.
7. Royal Agincourt Corp.
8. Hidden Gem Development Inc.
9. Ascalon Lands Ltd.
10. Tisdale Mews Inc.
11. Lesliebrook Holdings Ltd.
12. Lesliebrook Lands Ltd.
13. Fraser Properties Corp.
14. Fraser Lands Ltd.
15. Queen's Corner Corp.
16. Northern Dancer Lands Ltd.
17. Dupont Developments Ltd.
18. Red Door Developments Inc. and Red Door Lands Ltd.
19. Global Mills Inc.
20. Donalda Developments Ltd.
21. Salmon River Properties Ltd.
22. Cityview Industrial Ltd.
23. Weston Lands Ltd.
24. Double Rose Developments Ltd.
25. Skyway Holdings Ltd.
26. West Mall Holdings Ltd.
27. Royal Gate Holdings Ltd.
28. Royal Gate Nominee Inc.
29. Royal Gate (Land) Nominee Inc.
30. Dewhurst Development Ltd.
31. Eddystone Place Inc.
32. Richmond Row Holdings Ltd.

33. El-Ad (1500 Don Mills) Limited
34. 165 Bathurst Inc.

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