Court File No. 07-CL-7313

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

2155489 ONTARIO INC.

Applicant

- and -

SMK SPEEDY INTERNATIONAL INC.

Respondent

APPLICATION UNDER Subsection 47(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, C.B-3 and Section 101 of the *Courts of Justice Act*, R.S.O. 1990, C. C.43

SECOND REPORT OF THE RECEIVER

(Dated as of February 14, 2008)

Submitted to:

SUPERIOR COURT OF JUSTICE
Toronto, Ontario

Prepared by:

SHINER KIDECKEL ZWEIG INC.
10 West Pearce Street, Suite 4
Richmond Hill, Ontario

TABLE OF CONTENTS

I. INTRODUCTION 1

II. BACKGROUND AND COURT-ORDERED SALES PROCESS 5

III. COMPLETION OF PURCHASE AGREEMENT 5

IV. ADMINISTRATION CHARGE CLAIMS 5

V. FEES AND DISBURSEMENTS OF THE RECEIVER AND ITS COUNSEL 5

VI. INTERIM STATEMENT OF RECEIPTS AND DISBURSEMENTS 5

VII. AUTHORIZATION FOR DISTRIBUTION PAYMENT TO 215 5

VIII. OTHER ACTIVITIES OF THE RECEIVER SINCE FIRST REPORT 5

IX. SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS 5

APPENDICES

Appendix A	Appointment Order
Appendix B	Termination Order
Appendix C	Vesting Order
Appendix D	Covenants Agreement
Appendix E	Receiver's Certificate
Appendix F	List of Non-Purchased Assets
Appendix G	Affidavit of Roger Jaipargas
Appendix H	November 29, 2007 order of Mr. Justice Campbell
Appendix I	Copies of the five Mintz statements of account
Appendix J	Copies of the three McCarthy statements of account
Appendix K	Receiver's Statement of Receipts and Disbursements
Appendix L	Estimated Realization
Appendix M	Loan Statement and cover E-mail
Appendix N	Amended Allocation

I. INTRODUCTION

1. Upon application of 2155489 Ontario Inc. ("215"), Shiner Kideckel Zweig Inc. ("SKZ") was appointed as interim receiver and receiver and manager without security (the "Receiver") , of all of the assets, undertakings and properties, except certain real property in the Province of Quebec (the "Quebec Premises"), of SMK Speedy International Inc. ("Speedy" or the "Company") by order of the Honourable Mr. Justice C. Campbell of the Ontario Superior Court of Justice (Commercial List) (the "Court") made on December 4, 2007 (the "Appointment Order"). A copy of the Appointment Order is attached as Appendix "A". By approval and vesting order of Mr. Justice Campbell made on December 14, 2007, discussed in more detail below, the Quebec Premises were included in the property subject to the Appointment Order, effective immediately prior to the closing of the Purchase Agreement, as defined to below (all the assets, undertakings and properties of SMK, hereinafter the "Property").

2. The Appointment Order specifically authorized and directed the Receiver to continue with the sales process (the "Continued Sales Process") authorized and approved by this Court in an endorsement made November 21, 2007 (the "Sales Process Endorsement") and in an order dated November 30, 2007 (the "November 30th Order"), both made by Mr. Justice Campbell in the proceedings commenced by the Company under the *Companies' Creditors Arrangement Act* (the "CCAA") bearing Court File No. 07-CL-7272 (the "CCAA Proceeding"). On December 4, 2007, Mr. Justice Campbell made an order (the "Termination Order"), effective immediately prior to the Appointment Order, terminating the CCAA Proceeding. A copy of the Termination Order is attached as Appendix "B".

3. The Receiver has previously submitted to the Court its First Report dated December 13, 2007 (the "First Report") in support of the Receiver's motion returnable December 14, 2007 for an order approving the asset purchase agreement dated December 13, 2007 between the Receiver and Forum Leasehold Partners Inc. ("Forum") (the "Purchase Agreement") and granting the required vestings of interests and other ancillary relief.

4. The Receiver takes the opportunity to report on:

   a. its activities as Receiver since the First Report, including in respect of the completion of the Purchase Agreement; and

   b. other matters pertinent to the relief requested in the Receiver's current notice of motion, including:

      i. authorizing and approving the fees and disbursements of the Receiver for the period December 1, 2007 to January 31, 2008, as described in the Second Report and affidavit of Alan Shiner sworn February 14, 2008;

ii. authorizing and approving the fees and disbursements of Torys LLP ("Torys"), solicitors for the Receiver, for the period December 1, 2007 to January 31, 2008, as described in the Second Report and affidavit of Michael B. Rotsztain sworn February 14, 2008;

iii. approving, authorizing and directing the Receiver to pay out of the funds held by it the sum of $50,000 to each of Borden Ladner Gervais LLP ("BLG"), Mintz & Partners Limited ("Mintz") and McCarthy Tetrault LLP ("McCarthys") in total satisfaction of the $150,000 first-ranking tranche of the Administration Charge (the "First Tranche") and declaring that upon payment by the Receiver of all such amounts, the First Tranche shall be discharged and the Property and the proceeds thereof shall be free and clear of all charges, interests and claims respecting the First Tranche; and

iv. approving, authorizing and directing the Receiver, subject to the Receiver and 215 entering into a mutually satisfactory reimbursement agreement and subject to the Receiver's maintaining sufficient reserves for known priority claims, if any, that may have priority over the charges in favour of 215, to make distribution payments to 215, including a distribution payment of $1,400,000 after the issuance of this Order, out of the funds held by the Receiver until the Company's indebtedness and liabilities to 215 are fully paid.

5. In preparing this Second Report, the Receiver has relied upon financial and other information provided by Speedy and on information contained in Speedy's financial records. The Receiver has not audited or independently verified the information provided by Speedy or contained in Speedy's financial records.

II. BACKGROUND AND COURT-ORDERED SALES PROCESS

6. Speedy specialized in the sale and service of mufflers, brakes, front-ends, driveline and general mechanical services, tires and oil changes. Speedy was acquired in January 2004 by 2036407 Ontario Inc., a subsidiary of 578098 Alberta Ltd. that operated as Minute Muffler Brake ("Minute Muffler").

7. Following the acquisition, the Company commenced a strategy of franchising Speedy's corporate locations, using a franchise structure similar to the one used by Minute Muffler. As at November 8, 2007, the Company had 47 franchise locations and 27 corporate locations across Canada. The Company's head office was located at 365 Bloor Street East, Toronto, Ontario. As at October 31, 2007, the Company employed approximately 115 full-time equivalent employees at the corporate locations and head office.

8. On November 8, 2007, the Company applied to the Court for an order pursuant to the CCAA, which order was granted by Mr. Justice Campbell (the "Initial Order"). Mintz was appointed as monitor (the "Monitor") pursuant to the Initial Order.

9. The Sales Process Endorsement approved a brief marketing process for the franchise network and other assets of the Company.

10. The November 30 Order, in part, authorized the Monitor to supervise a process to seek offers for the purchase of 21 corporate stores, and any other assets of Speedy, either as part of the November 21 Sales Process or otherwise.

11. The Appointment Order authorized and directed the Receiver to proceed as follows in the Continued Sales Process:

> 3(k) the Receiver be and is hereby specifically authorized and directed to continue with the sales process authorized and approved by this Court in an endorsement made November 21, 2007 and in an order dated November 30, 2007, both made by the Honourable Mr. Justice Campbell in the CCAA Proceeding, provided, however, that subject to subparagraph 3(l) below, the Receiver shall apply for approval of any asset purchase agreement(s) for all or part of the Property by December 11, 2007. In connection therewith, the Receiver shall provide to one or more Persons (as defined below) who submitted letters of intent, within the aforesaid sales process or otherwise, including Meineke Canada Company, ULC, with the opportunity to submit binding offers to purchase for some or all of the Property, including the Additional Stores as defined in paragraph 1 of the November 30, 2007 order no later than December 6, 2007. The Receiver may, with the prior written consent of the Applicant, which consent may be unreasonably withheld, extend any deadline by which the steps in the aforesaid sales process are to be completed. In the event any or all of the Property remains unsold after completion of the aforesaid sales process, the Receiver may market any or all of the remaining Property, including advertising and soliciting offers in respect of the remaining Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;

12. In the First Report, the Receiver:

   a. reported on, among other things, its activities in connection with the Continued Sales Process and the offers it received; and

   b. recommended that the Court approve the Purchase Agreement rather than any

of the 3 other offers received, including the one other offer, from a bidder not disclosed in the First Report (the "Undisclosed Bidder"), that was on the short list of offers pursued by the Receiver.

13. At the December 14, 2007 hearing of the Receiver's motion for an order, *inter alia*, approving the Purchase Agreement, counsel for Minute Muffler opposed the Receiver's recommendation and submitted, among other things, that the Court should re-open or extend the bidding process for Forum and the Undisclosed Bidder. Counsel for the Undisclosed Bidder appeared at the hearing and advised that the Undisclosed Bidder's offer as submitted remained open for acceptance by the Receiver.

14. At the conclusion of the December 14, 2007 hearing, Mr. Justice Campbell granted the Receiver's motion and made an approval and vesting order in respect of the Purchase Agreement (the "Vesting Order"). A copy of the Vesting Order is attached as Appendix "C".

15. On January 30, 2008, as authorized by the Appointment Order, the Receiver filed an assignment in bankruptcy in respect of Speedy and SKZ was appointed to act as trustee of the bankrupt estate (the "Trustee").

III. COMPLETION OF PURCHASE AGREEMENT

16. The Purchase Agreement covered all of the Company's right, title, benefit and interest in all of its assets, property and undertaking of and relating to the Business, including, without limitation, the following assets (Capitalized terms have the meanings set out in the Purchase Agreement):

a. the Lands (i.e., the Quebec Premises and a parcel of real property in each of New Brunswick and Nova Scotia);

b. all plant, buildings, structures, erections, improvements, appurtenances and fixtures situate on or forming part of the Lands;

c. all plans and specifications in the Receiver's possession or under its control relating to the plant, buildings, structures, erections, improvements, appurtenances and fixtures and utility services situate on or forming part of the Lands including all such electrical, mechanical and structural drawings related thereto as are in the possession or under the control of the Receiver;

d. the Corporate Store Leases, the Headleases and the Subleases;

e. the Franchise Agreements;

f. the VTBs;

g. the Accounts Receivable;

h. the Forum Receivable and the Forum Escrow Agreement;

i. the Computer-Related Assets;

j. the Contracts;

k. the Corporate Store Assets;

l. the Head Office Assets;

m. the Cash Collateral;

n. the Supplier Rebate Receivables;

o. the Intellectual Property; and

p. the Books and Records,

but excluding, for greater certainty, in each and every case and notwithstanding anything to the contrary, the Excluded Assets.

17. As permitted under the Purchase Agreement, Forum assigned its rights under the Purchase Agreement to an affiliate, Speedy Corporation ("New Speedy").

18. The Receiver and New Speedy entered into an agreement on certain covenants dated as of December 21, 2007 (the "Covenants Agreement") to clarify certain matters in respect of the Purchase Agreement, including the treatment of Franchise Agreements in a manner similar to the treatment under the Purchase Agreement of leases (and in particular, Corporate Store Leases) and other contracts for which consents of counter-parties are required to assignments. Attached as Appendix "D" is a copy of the Covenants Agreement.

19. In consideration of the entering into of the Covenants Agreement, New Speedy agreed to increase the Purchase Price and Deposit from $2,150,000 to $2,183,333, an increase of $33,333. In addition, New Speedy indemnified the Receiver from certain losses and claims arising out of, in part, the Receiver's not disclaiming the Franchise Agreements on closing and agreed to pay to the Receiver at the closing an indemnity fund in the amount of $175,000 as security for New Speedy's indemnification obligations contained in Section 4(e) of the Covenants Agreement. The Receiver is not at this time aware of any claims with respect to which it is entitled to seek indemnification from New Speedy.

20. Pursuant to the Purchase Agreement, New Speedy had the right, on or before closing, to

delete and remove any Purchased Asset from the definition thereof whereupon, subject to the provisions of the Purchase Agreement, no right, title or interest of the Company in such deleted or removed Purchased Asset (a "Non-Purchased Asset") was to be purchased by or transferred to New Speedy. Any such deletion or removal would not reduce or otherwise give rise to any adjustment of the Purchase Price.

21. Pursuant to the Purchase Agreement and the Covenants Agreement, with respect to any Non-Purchased Asset that is a Corporate Store Lease or a Franchise Agreement, New Speedy had an option to acquire such Corporate Store Lease or Franchise Agreement at no additional cost to New Speedy, to be exercised within 60 calendar days of the Closing Date, and no such Corporate Store Lease or Franchise Agreement was to be repudiated or terminated during such time by the Receiver. In addition, pursuant to the Purchase Agreement, in the event that any consent to the assignment of any lease, license or contract included in the Purchased Assets could not be obtained on or before closing, until the consent could be obtained, but in any event for a period not exceeding 60 calendar days after closing, the Receiver was to hold in trust for New Speedy and, at New Speedy's sole expense, provide New Speedy with the benefit of all of the Receiver's and the Company's respective right, title and interest, if any, to the Purchased Assets to which the consents pertained.

22. The Purchase Agreement was completed on December 21, 2007, and at 4:10 p.m. on that day the Receiver delivered the Receiver's Certificate contemplated by the Vesting Order, which was filed with the Court later that day. Attached as Appendix "E" is a copy of the Receiver's Certificate.

23. At the closing of the Purchase Agreement, New Speedy designated as Non-Purchased Assets various assets described in the listing attached as Appendix "F". The principal Non-Purchased Assets were all Corporate Store Leases, except that in respect of Store 214 in Hamilton, Ontario, and all Franchise Agreements. In addition, pursuant to the Covenants Agreement, New Speedy notified the Receiver that it would not be exercising its purchase option in respect of the Franchise Agreements relating to Franchise Store 617 in Coquitlam, British Columbia, and Franchise Store 815 in Calgary, Alberta. Accordingly, as required by the Covenants Agreement, the Receiver proceeded to repudiate these 2 Franchise Agreements by notices of repudiation delivered on December 24, 2007. On that day, the Receiver delivered notices of disclaimer of the Store 617 and Store 815 Headleases.

24. By letter dated January 29, 2008, counsel for Forum and New Speedy, Goodmans LLP, advised counsel for the Receiver, Torys, that New Speedy did not intend to exercise its option to purchase any of the Franchise Agreements and that New Speedy requested that the Receiver proceed forthwith to repudiate all of the Franchise Agreements by notification to the respective franchisees effective as of 11:59 p.m. on February 16, 2008. New Speedy has provided Torys with a copy of an email it sent to all franchisees on February 2, 2008 that, in part, advised that New Speedy had elected not to exercise its option to acquire the Franchise Agreements and

that the Receiver would be sending the franchisees notices of repudiation of the Franchise Agreements effective midnight on February 16, 2008. Such email indicated as well that all franchisees were being offered the opportunity to continue as New Speedy franchisees by entering into new franchise agreements.

25. On February 6, 2008, the Receiver forwarded by prepaid registered mail and email to the franchisees under the remaining 46 Franchise Agreements notices of repudiation of such Franchise Agreements effective as at 11:59 p.m. on February 16, 2008.

26. The Receiver will be disclaiming a number of Corporate Store leases in the event that New Speedy does not exercise its option to acquire any or all of the Corporate Store Leases within 60 calendar days of the Closing Date, February 19, 2008. Unless otherwise agreed with New Speedy, the Receiver expects to disclaim no later than February 19, 2008 those Headleases for which required consents of landlords to assignment are not received by that date.

27. The Purchase Agreement provides that the Purchase Price shall be reduced (by way of adjustment after the Closing Date) by an amount equal to (collectively, the "Post-Closing Adjustments"):

a. the aggregate amount paid by New Speedy to pay any arrears owing as of the Closing Date for base rent and for operating expenses and realty taxes to the extent that such operating expenses and realty taxes are payable as rent under: (i) any Corporate Store Lease that is included in the Purchased Assets; and (ii) any Sublease that is included in the Purchased Assets and, in the case of such Sublease, only to the extent the tenant under such Sublease has paid such base rent, operating expenses and realty taxes to the Company, cheques for such amounts have been deposited by the Company in a bank or other depository, such cheques have cleared by the 60th calendar day of the Closing Date, and the Company has not paid over such amounts to the landlord under the corresponding Headlease, in order to obtain the consents of any counter-party to the assignment of the Corporate Store Lease, the Sublease and the Headlease, respectively. Such adjustment shall be made on the 60th calendar day of the Closing Date and there shall be no further adjustment thereafter; and

b. the costs required to be paid by New Speedy to a maximum of $1,000 per Corporate Store Lease and Headlease for landlords' fees and legal fees of the landlord in order to obtain landlords' consents to the assignments of the Corporate Store Leases and the Headleases. For greater certainty, there shall be no such adjustment for any of such fees payable to New Speedy or any of its affiliates or related parties.

IV. ADMINISTRATION CHARGE CLAIMS

28. Paragraph 8 of the Termination Order provides as follows with respect to the Court-ordered charges in these proceedings:

> 8. THIS COURT ORDERS that these proceedings be and are hereby terminated, provided that nothing herein contained shall in any way affect the Administration Charge and the Directors' Charge established by the Initial Order or the Bank Security or any of the provisions of the Initial Order pertaining thereto, provided, however, that the priority of such charges shall be as set out in the order appointing an interim receiver and receiver and manager of the Application [sic] (the "Receivership Order"), which relief is sought in a concurrent application brought by 215 (the "Receivership Application").

29. Paragraph 17 of the Appointment Order, in part, confirms the priority of the various Court-ordered charges against the Property as follows:

> 17. ... For clarity, the priority of the Receiver's Charge and the charges created by the Initial Order, as between them with respect to any Property to which they apply, shall be as follows:
>
> First - the Administration Charge (to the maximum amount of $150,000);
>
> Second - the Receiver's Charge;
>
> Third - the Bank Security and Receiver's Borrowings Charge (as that term is defined below) *pari passu*;
>
> Fourth - the Administration Charge (for any balance, up to the maximum amount of $100,000); and
>
> Fifth - the Directors' Charge (to the maximum amount of $250,000).
>
> For greater certainty, all beneficiaries of the Administration Charge shall first seek payment out of retainers received in respect of their fees and disbursements prior to asserting their interest in the Administration Charge against the Property.

30. The Receiver has received the following claims from the beneficiaries of the Administration Charge:

BLG, the Company's former counsel	$111,878.17
Mintz, the former Monitor	$ 50,000.00
McCarthys, Monitor's counsel	$ 50,000.00
TOTAL	$211,878.17

31. Thus, the total claims under the Administration Charge exceed the $150,000.00 maximum amount of the First Tranche.

32. The affidavit of Roger Jaipargas, sworn November 28, 2007, in support of BLG's motion

for an order, *inter alia*, removing BLG as solicitors for record for Speedy, provides information, including copies of BLG's statements of account, in support of BLG's Administration Charge claim of $111,878.17. Attached as Appendix "G" is a copy of such affidavit of Roger Jaipargas, including the exhibits thereto.

33. In paragraph 9 of his affidavit, Mr. Jaipargas has deposed that there is an agreement among BLG, Mintz and McCarthys that the First Tranche shall be shared among the firms each as to $50,000 and that to the extent not needed by a firm, any excess will be shared *pro rata* between the others.

34. On November 29, 2007, Mr. Justice Campbell made an order that, in part, removed BLG as solicitors of record for Speedy and provided as follows with respect to the Administration Charge:

> 4. THIS COURT ORDERS that BLG be entitled to the benefit of the administration charge ("Administration Charge") as set out in paragraph 40 of the Initial Order of the Honourable Mr. Justice Campbell dated November 8, 2007 (the "Initial Order") in accordance with the priorities provided for at paragraph 41 of the Initial Order, but subject to the agreement amongst BLG, the Monitor and counsel to the Monitor.

Attached as Appendix "H" is a copy of the November 29, 2007 order of Mr. Justice Campbell.

35. Based upon information provided by BLG to Torys, the Receiver understands that BLG continues to assert a priority charge ahead of the Bank Security (now held by 215) for all amounts owing to BLG up to November 27, 2007. BLG sought this relief in its notice of motion for the order made on November 29, 2007 and has advised Torys that this part of its motion was adjourned to a 9:30 appointment for scheduling.

36. Mintz has advised Torys that it issued five statements of account in this matter for an amount totaling $182,348.74 and that it has thus far received a total of $132,348.74, leaving a balance outstanding of $50,000. Attached as Appendix "I" are copies of the five Mintz statements of account.

37. McCarthys has advised Torys that it issued three statements of account in this matter for a total of $52,792.48 and that it thus far has received payment of $2,792.48, leaving a balance of $50,000 outstanding. Attached as Appendix "J" are copies of the three McCarthys statements of account.

38. The Receiver is not objecting to the payment of the sum of $50,000 to each of BLG, Mintz and McCarthys in order to pay and discharge the First Tranche in full and release the Property and the proceeds thereof from the three firms' charges, interests and claims respecting the First Tranche.

V. FEES AND DISBURSEMENTS OF THE RECEIVER AND ITS COUNSEL

(a) *Receiver's Fees*

39. For the period December 1, 2007 to January 31, 2008, the Receiver has expended 346.5 hours, amounting to fees and disbursements of $144,867.01, inclusive of GST, pursuant to the following accounts:

Date of Account	Amount
December 7, 2007	$ 26,579.84
December 17, 2007	19,263.44
January 11, 2008	54,521.79
February 11, 2008	44,501.94
TOTAL	$144,867.01

40. A separate affidavit of Alan Shiner, President of SKZ, regarding the Receiver's fees and disbursements, is being filed. The Receiver respectfully requests that this Court approve the Receiver's fees and disbursements to January 31, 2008, details of which are provided in Alan Shiner's affidavit.

41. Of the total amount of the Receiver's fees and disbursements, $14,419.48 will be billed to New Speedy, pursuant to various provisions of the Purchase Agreement and the Covenants Agreement.

(b) *Receiver's Counsel's Fees*

42. For the period November 30, 2007 to January 31, 2008, the Receiver's counsel, Torys, has expended 457.1 hours, amounting to fees and disbursements of $243,257.24, inclusive of GST, pursuant to the following accounts:

Date of Account	Amount
December 7, 2007	$ 34,760.78
December 13, 2007	55,950.22
January 11, 2008	102,120.72
February 5, 2008	50,425.52
TOTAL	$243,257.24

43. A separate affidavit of Michael Rotsztain, a partner with Torys, regarding its fees and

disbursements, is being filed. The Receiver has reviewed the fees and disbursements of Torys and finds them to be fair and reasonable. The Receiver therefore requests that this Court approve Torys' fees and disbursements to January 31, 2008, details of which are provided in Michael Rotsztain's affidavit.

44. Of the total amount of Torys' fees and disbursements, $7,192.76 will be billed to New Speedy, pursuant to various provisions of the Purchase Agreement and the Covenants Agreement.

VI. INTERIM STATEMENT OF RECEIPTS AND DISBURSEMENTS

45. Attached as Appendix "K" is a copy of the Receiver's Statement of Receipts and Disbursements for the period of December 4, 2007 to February 13, 2008 (the "Interim Statement").

46. The largest receipt was the Purchase Price paid under the Purchase Agreement, $2,183,333.

47. Another significant receipt was $536,573 in a bank account of the Company (the "Pre-Receivership Speedy Bank Account") at the Jane and Langstaff branch of Bank of Montreal ("BMO"). After the Appointment Order, these funds were transferred from the Pre-Receivership Speedy Bank Account to a new account in the name of the Receiver at Royal Bank of Canada. At the time BMO released these funds to the new Receiver's account, it imposed no conditions, including any conditions relating to possible future charge backs by BMO.

48. The funds in the Pre-Receivership Speedy Bank Account included amounts for December, 2007 rents paid to the Company by franchisees under the applicable Subleases with the Company, which had been previously deposited by the Company into another bank account of the Company at BMO (the "First Speedy Bank Account"). Out of these Sublease rent payments, the Company would pay the amounts due to the landlords under the Headleases between them and Speedy.

49. On December 21, 2007, the closing date under the Purchase Agreement, the Receiver paid a total of $221,112 (including GST) to the landlords under the Headleases for rents due for December, 2007. Prior to making such payments, the Receiver was aware that BMO was asserting charge back claims of $29,476.71 against the Pre-Receivership Speedy Bank Account as a result of some franchisees' cheques having been returned to BMO after these franchisees issued stop payments in respect of such cheques. The Receiver therefore withheld payment to the applicable landlords of the Headlease rents owed by the Company for which BMO had asserted charge back claims as a result of returned franchisee cheques for Sublease payments.

50. In January, 2008, subsequent to the Receiver's making the payments of $221,112 to landlords for December, 2007 Headlease rents, net of the withheld amount referred to above, BMO notified the Receiver that it had received more returned cheques in the total amount of

$63,020.93 as a result of additional stop payments issued by franchisees and therefore that BMO was asserting additional charge back claims for $63,020.93 against the Pre-Receivership Speedy Bank Account.

51. The total of the BMO charge back claims against the Pre-Receivership Speedy Bank Account is $92,497.60, made up as follows:

Amount of which Receiver was aware at the time of the December, 2007 rent payments to Headlease landlords	$29,476.71
Amount of which Receiver became aware after the time of the December, 2007 rent payments to Headlease landlords	63,020.93
TOTAL	$92,497.64

52. While BMO's charge back claims are against the Pre-Receivership Speedy Bank Account, the Receiver notes that the returned cheques to which the charge back claims relate had been deposited by the Company in the First Speedy Bank Account, not the Pre-Receivership Speedy Bank Account. As noted above, it is the latter account from which the amount of $536,573 was transferred into the Receiver's account.

53. The Interim Statement shows available cash as at February 13, 2008 of $1,939,581, after reserving for the $92,497.64 of BMO charge back claims, which have been described as a contingent liability.

54. The Receiver does not anticipate that there will be any significant additional receipts.

55. The Receiver is not at this time aware of any statutory claims against the funds on hand that may have priority over the security interests and charges in favour of 215.

56. The Receiver has prepared a statement of estimated realization as at February 13, 2008, which is attached as Appendix "L", that estimates that there could be $1,542,581 available for distribution to 215, in the event that the Court authorizes such a distribution. Based on the foregoing, the Receiver submits that an appropriate initial distribution to 215 would be $1,400,000 on the condition that 215 enter into a mutually satisfactory reimbursement agreement with the Receiver.

VII. AUTHORIZATION FOR DISTRIBUTION PAYMENT TO 215

57. 215 is the assignee of the indebtedness, loan documents and security formerly held by the previous lenders to the Company, FCCD Limited and FCCO Limited (collectively, "Fortress") and, prior to that, Northcastle Loan LP ("Northcastle"). The assignment from Fortress to 215 occurred on November 27, 2007.

58. In paragraph 13 of his affidavit sworn on November 8, 2007 in support of the Initial Order, Dorsy Asplund, President and Chief Executive Officer of the Company as well as the Chief Executive Officer of Minute Muffler, deposed that as at October 17, 2007, Fortress was owed $2,496,129.38 plus additional amounts which are provided for in certain arrangements between Fortress and the Company.

59. On February 13, 2008, 215 provided the Receiver with a loan statement in respect of the indebtedness of the Company to 215 as of February 1, 2008, stated to be $3,211,033.14. Attached as Appendix "L" is a copy of such loan statement and cover e-mail from Dean Topolinsky, President of 215.

60. Minute Muffler's counsel, Minden Gross LLP, have advised Torys that Minute Muffler has contested the extent and validity of the indebtedness claimed by 215 in a disputed Alberta proceeding in which 215 has applied for the appointment of a receiver of Minute Muffler. Minden Gross LLP have not provided Torys with any details of Minute Muffler's contestation.

61. The credit agreement, dated as of May 11, 2006 (the "Credit Agreement"), was between the Company and Minute Muffler, as borrowers, a number of other loan parties and guarantors and Northcastle, as a lender and as agent for Northcastle and other entities from time to time lenders under the credit agreement.

62. The security assigned to 215 consists of the following, initially granted in favour of Northcastle:

a. a security agreement dated as of May 11, 2006 granted by, *inter alia*, the Company (the "Security Agreement") against its Accounts, Inventory, Intellectual Property, Equipment, Intangibles, Documents of Title, Money, Chattel Paper, Instruments, Securities, Records, Proceeds, Leaseholds, and Undertaking, each as defined in the Security Agreement;

b. a pledge agreement dated as of May 11, 2006 granted by, *inter alia*, the Company (the "Pledge Agreement") against certain securities and other interests;

c. a demand debenture dated May 11, 2006 granted by the Company (the "New Brunswick Debenture");

d. a debenture pledge agreement dated as of May 11, 2006 granted by the Debtor (the "New Brunswick Debenture Pledge");

e. a demand debenture dated May 11, 2006 granted by the Company (the "Nova Scotia Debenture");

f. a debenture pledge agreement dated as of May 11, 2006 granted by the Company (the "Nova Scotia Debenture Pledge");

g. a deed of hypothec granted on May 10, 2006 by the Company (the "Hypothec"); and

h. a bond pledge agreement dated May 10, 2006 granted by the Company (the "Bond Pledge Agreement").

Each of the security agreements listed in clauses a to f above (collectively, the "Ontario Security Documents") provides that it is to be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. Each of the security documents listed in clauses g to h above provides that it is to be governed by and construed in accordance with the laws of the Province of Quebec and the federal laws of Canada.

63. The Company's assets were located in the Provinces of British Columbia, Alberta, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. With the advice of Torys, the Receiver determined that it was necessary to obtain security opinions on the security assigned to 215 from counsel in the following provinces:

a. Ontario, since that is the choice of provincial law in most of the security agreements. In addition, Ontario may have been the jurisdiction where the Company was "located" (i.e., where its chief executive office was located) at the time the security interests attached, within the meaning of section 7(1) of the *Personal Property Security Act* (Ontario) (the "PPSA"). In that case, pursuant to such section, the laws of Ontario would govern the validity, perfection, effect of perfection or non-perfection and the priority of the security interests in, among other things, "intangibles", as defined in the PPSA. It would appear that virtually all the proceeds recovered by the Receiver are attributable to the Company's intangibles. The Ontario opinion was provided by Torys;

b. Alberta, since Alberta may have been the jurisdiction where the Company was "located" (i.e., where its chief executive office was located). The Alberta opinion was provided by Gowling Lafleur Henderson LLP ("Gowlings");

c. Quebec, since that is the choice of provincial law in the Hypothec and the Bond Pledge Agreement. In addition, Quebec is where the Quebec Premises (real property at 3855 Jean-Talon Street East, Montreal and 2400 Ste. Anne Boulevard, Quebec City) are located. The Quebec opinion was provided by Lavery, de Billy ("Lavery");

d. New Brunswick, in which the Company owned real property at 99 City Road, Saint John. The New Brunswick opinion was provided by Cox & Palmer ("Cox"); and

e. Nova Scotia, in which the Company owned real property at 179 Herring Cove, Halifax. The Nova Scotia opinion was provided by Cox.

64. An indication of the value of the Purchased Assets sold to New Speedy under the Purchase Agreement is provided in the amended allocation of purchase price (Schedule J to the Purchase Agreement) delivered on closing (the "Amended Allocation"). Attached as Appendix "M" is a copy of the Amended Allocation.

65. The following summarizes the opinions provided by Torys, which are limited to the laws of the Province of Ontario and the federal laws of Canada applicable therein, and are subject to various assumptions and qualifications:

a. under Ontario law, the Security Agreement constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms against the Trustee;

b. under Ontario law, the Pledge Agreement constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms against the Trustee;

c. under Ontario law, the New Brunswick Debenture constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms against the Trustee;

d. under Ontario law, the New Brunswick Debenture Pledge constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms against the Trustee;

e. under Ontario law, the Nova Scotia Debenture constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms against the Trustee;

f. under Ontario law, the Nova Scotia Debenture Pledge constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms against the Trustee;

g. under Ontario law, each of the Ontario Security Documents creates a valid security interest in the collateral described therein;

h. under Ontario law, registration has been made under the provisions of the PPSA where such registration is necessary to perfect the security interests created by each of the Ontario Security Documents; and

i. in addition to the various security interests against the Company's assets contained in the Ontario Security Documents, by virtue of the Initial Order and the Appointment Order, the Bank Security (as defined in the Initial Order) constitutes a charge on the Property to secure all advances and indebtedness

pursuant to the Credit Agreement and an accommodation agreement dated November 8, 2007.

66. Torys has indicated that the above-noted opinions address the enforceability, validity and perfection of the Ontario Security Documents against SKZ in its capacity as trustee-in-bankruptcy as a result of the recent decision in 1231640 Ontario Inc. (Re) in which a majority of the Ontario Court of Appeal held that an interim receiver appointed by court order pursuant to section 47 of the *Bankruptcy and Insolvency Act* is not a "person who represents the creditors of the debtor" within the meaning of subsections 20(1)(b) and 20(2)(b) of the PPSA.

67. The following summarizes the opinions provided by Gowlings, which are limited to the laws of the Province of Alberta and the federal laws of Canada applicable therein and are subject to various assumptions and qualifications:

a. the Security Agreement and the Pledge Agreement (the "Alberta Security Documents") create in favour of 215 a valid security interest under the laws of Alberta in any Collateral described therein and in which the Company or the Trustee now has rights, to secure the payment and performance of the Obligations (as such term is defined in the Alberta Security Documents), which security interests are valid as against the Company and the Trustee; and

b. registration been made in all public offices provided for under the laws of Alberta or the federal laws of Canada applicable therein where such registration is necessary or desirable to perfect the security interests created by the Alberta Security Documents and the Collateral described therein in favour of 215 (subject to a qualification relating to the fact that a financing statement was not registered to give notice of the assignment of the Alberta Security Documents to 215, which, in Gowlings' opinion, does not affect the validity of the security interests created by the Alberta Security Documents).

68. The following summarizes the opinions provided by Cox which are restricted to the laws of the Provinces of New Brunswick and Nova Scotia and the laws of Canada applicable therein, and are subject to various assumptions and qualifications:

a. registration of the New Brunswick Debenture has been made in accordance with the *Land Titles Act* (New Brunswick), being the only public office where such registration is necessary to create a valid charge on the specific parcels charged thereby in favour of the holder of the New Brunswick Debenture so as to be effective against the Receiver and the Trustee;

b. registration of the Nova Scotia Debenture has been made in accordance with the *Land Registration Act* (Nova Scotia) for the Registration District of Halifax, being the only public office where such registration is necessary to create a valid charge on the specified parcel charged thereby in favour of the holder of the

Nova Scotia Debenture so as to be effective against the Receiver and the Trustee; and

c. the holder of the New Brunswick Debenture and the Nova Scotia Debenture is the only encumbrancer on the real properties in Halifax, Nova Scotia and Saint John, New Brunswick described in and charged by the Nova Scotia Debenture and the New Brunswick Debenture, respectively, and as such is entitled to receive the net proceeds from the realization by the Receiver of such properties.

69. The following summarizes the opinions provided by Lavery (which are limited to the laws of the Province of Quebec and the federal laws of Canada applicable therein, and are subject to various assumptions and qualifications) and various matters that Torys indicate are relevant to such opinions:

a. in connection with the loans provided under the Credit Agreement, the Company issued a bond in favour of Northcastle, as Agent, in the amount of $10,000,000 (the "Bond"). As security for its obligations under the Bond, pursuant to the Hypothec, the Company hypothecated its property, including the Quebec Premises and the proceeds thereof, in the amount of $10,000,000 in favour of the Agent. In addition, as security for its obligations under the Credit Agreement and the other loan documents, pursuant to the Bond Pledge Agreement, the Company pledged and hypothecated the Bond in favour of the agent and the lenders under the Credit Agreement;

b. as set out in the Lavery opinion, the security interests created under the Hypothec can be perfected by registration in the applicable movable and immovable registers. In contrast, the security interests created under the Bond Pledge Agreement must be perfected by possession of the pledged property (in this case, possession of the original Bond), and such perfection continues so long as the beneficiary of the Bond Pledge Agreement continues to hold the pledged property (in this case, the original Bond);

c. Lavery has advised that the pledge and hypothec of the Bond pursuant to the Bond Pledge Agreement, which secures the Company's obligations under the Credit Agreement and the other loan documents, is the necessary link to the Hypothec and the property secured and hypothecated thereunder. Accordingly, if the pledge of Bond pursuant to the Bond Pledge Agreement is not properly perfected by possession of the pledged property (i.e. the Bond), then notwithstanding the fact that the Hypothec is properly perfected by registration, the pledgee is not entitled to turn to the property secured and hypothecated under the Hypothec in satisfaction of the obligations under the Credit Agreement and the loan documents;

d. in the context of 215's entitlement to the proceeds from Property in Quebec (the

"Quebec Proceeds"), the Lavery opinion provides that the Hypothec creates a legal and valid conventional hypothec on the property secured thereunder including the Quebec Premises, enforceable against the Company, the Receiver and the Trustee in accordance with its terms, save and except with respect to certain Special Property, which has been registered in the movable and immovable registers in compliance with the requisite formalities;

e. the Lavery opinion provides that each of the Bond and the Bond Pledge Agreement constitutes a legal, valid and binding obligation of the Company, enforceable against the Company, the Receiver and the Trustee in accordance with its terms, respectively and that delivery of the Bond in the Province of Quebec to, and continued possession by, Northcastle and subsequently by Fortress and 215, as assignees, constitutes a valid pledge of the Bond;

f. however, as of the date of the Lavery opinion, evidence or confirmation that Northcastle, Fortress or 215 continued to possess the original Bond was not available. Since the pledge of Bond pursuant to the Bond Pledge Agreement must be perfected by possession of the original Bond, and such possession could not be confirmed, Lavery could not conclude that perfection continued to exist; and

g. as perfection of the pledge of Bond is necessary to turn to the property secured and hypothecated under the Hypothec in satisfaction of the obligations under the Credit Agreement and the loan documents, and such perfection could not be established, Lavery could not conclude that 215 was entitled to the Quebec Proceeds.

70. Torys has asked counsel for 215 to provide evidence or confirmation of the matters discussed in clauses f and g above, and any additional information obtained by Torys will be provided at the hearing of the Receiver's motion.

71. There may not be any material consequences resulting from the matters referred to in the preceding paragraph since, based on the Amended Allocation, the Quebec Proceeds were relatively modest and it appears that the realizations from non-Quebec Property exceed the amount of the proposed initial distribution to 215, $1,400,000.

VIII. OTHER ACTIVITIES OF THE RECEIVER SINCE FIRST REPORT

72. In addition to the activities described in the previous sections of this Second Report, the Receiver has been engaged in the following activities since the First Report:

a. attending to post-closing matters under the Purchase Agreement, including calculating and making various lease payments and arranging for new utility accounts;

b. communicating with landlords, utilities and New Speedy;

c. responding to creditor enquiries;

d. completing various government reporting;

e. reviewing payroll regarding 2007 T4s; and

f. preparing this Second Report and the Interim Statement and statement of estimated realizations appended thereto.

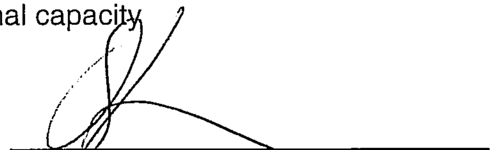
IX. SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

73. Therefore, based on the foregoing, the Receiver respectfully requests that this Honourable Court grant the various orders sought by the Receiver in its notice of motion.

74. This concludes the Second Report of Shiner Kideckel Zweig Inc. in its capacity as Receiver of the Company.

All of which is respectfully submitted this 14th day of February, 2008.

SHINER KIDECKEL ZWEIG INC., in its capacity as interim receiver and receiver and manager of all the assets, undertakings and properties of SMK SPEEDY INTERNATIONAL INC., and not in its personal capacity



Per: ______________________

Alan Shiner, BBA, CA, CIRP, CA-CIRP
President