

CANADA
Province of Ontario

COURT NO. 31-1034085
ESTATE NO. 31-1034085

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF
SMK SPEEDY INTERNATIONAL INC.
WITH ITS HEAD OFFICE IN THE CITY OF TORONTO
IN THE PROVINCE OF ONTARIO

On January 30, 2008, an assignment pursuant to the *Bankruptcy and Insolvency Act* was filed for SMK Speedy International Inc. ("Speedy" or the "Company") by Shiner Kideckel Zweig Inc. ("SKZ") the Court Appointed interim receiver and receiver and manager pursuant to an Order of the Ontario Superior Court of Justice dated December 4, 2007. SKZ was appointed the Trustee by the Official Receiver.

On February 5, 2008, the Notice to Creditors advising of the Bankruptcy and of the First Meeting of Creditors, a list of Creditors, and a Proof of Claim form, along with proxy, were sent to all known creditors of the Company. The Notice of Bankruptcy was published in the February 4, 2008, edition of the Globe & Mail newspaper.

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").

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.

On November 8, 2007, the Company applied to the Ontario Superior Court of Justice (the "Court") for an order pursuant to the *Companies' Creditors Arrangement Act* ("CCAA"), which order was granted by Mr. Justice Campbell (the "Initial Order"). Mintz & Partners Limited was appointed as monitor (the "Monitor") pursuant to the Initial Order.

The Monitor was authorized, *inter alia*, to supervise a process to seek offers for the purchase of 21 corporate stores, and ultimately other assets of Speedy, pursuant to an endorsement made by the Court on November 21, 2007 and an Order of the Court dated November 30, 2007.

Upon application of 2155489 Ontario Inc. ("215"), Shiner Kideckel Zweig Inc. was appointed as interim receiver and receiver and manager (the "Receiver"), of all of the assets, undertakings and properties of the Company by order of Mr. Justice C. Campbell of the Court made on December 4, 2007 (the "Appointment Order"). The Appointment Order specifically authorized and directed the Receiver to continue with the sales process commenced by the Company under the CCAA proceedings. On December 4, 2007, Mr. Justice Campbell made an order, effective immediately prior to the Appointment Order, terminating the CCAA proceedings.

On December 14, 2007, the Court granted the Receiver's motion and made an approval and vesting order ("Vesting Order") in respect of the purchase of various assets of the Company by Forum Leasehold Partners Inc. The transaction closed on December 21, 2007 and the Receiver received sale proceeds of \$2,183,333 subject to certain adjustments.

The information contained in this report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited by the Trustee, consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.

ASSETS

The assets of the Company according to its Statement of Affairs can be summarized as follows (the "Assets"):

- net funds as estimated by Shiner Kideckel Zweig Inc. \$1,400,000

The net funds is an estimate of the funds which will be available upon the completion of the court receivership. These funds are subject to the security of 215.

Books and Records

The Trustee has in its possession certain records of the Company. The following is a summary of key financial data from the Company's corporate income tax returns:

	Year ending <u>Dec 31 2006</u>	Year ending <u>Dec 31, 2005</u>	Year ending <u>Dec 31, 2004</u>
Revenue	\$ 45,490,733	\$ 60,716,517	\$ 78,790,672
Net loss	(3,334,050)	(3,499,194)	(6,411,850)

Conservatory and Protective Measures

At the date of bankruptcy, all assets requiring protective measures had been sold.

LEGAL PROCEEDINGS

Shiner Kideckel Zweig Inc. requested the law firm of Tory's LLP ("Torys") to provide an opinion on the validity of the security agreement of 215. Torys and counsel in certain provinces engaged by Torys, have provided written opinions that, subject to various assumptions and qualifications, the security of 215 is valid, enforceable and perfected against the Trustee. There is a possible exception to the forgoing with respect to certain property in Quebec, which is subject to further review. We do not believe the outcome of the Quebec issue can have a material effect.

No other legal procedures have been initiated by the Trustee prior to the First Meeting of Creditors.

PROVABLE CLAIMS

	Statement of Affairs	Total Claims Filed to Date
Secured	\$ 3,163,000	\$ --
Preferred	323,215	33,636
Unsecured	4,742,972	624,936
	<u>\$ 8,229,187</u>	<u>\$ 658,572</u>

SECURED CREDITORS

2155489 Ontario Inc.	\$ 3,163,000	General security agreement
Bank of Montreal	150,485	Cash collateral
Chrysler Canada	unknown	lease
Toyota Credit Canada Inc.	unknown	lease
	<u>\$ 3,313,485</u>	

As noted above, the Trustee has obtained a legal opinion of the validity of the Security held by 215.

Given the quantum of the secured creditor's debt, the total realizations from the sale of Assets will not be sufficient to repay the secured creditor in full. Funds will be distributed to 215 as ordered by the court.

ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

There will be no funds available for the unsecured creditors, assuming that the Court authorizes the distribution of net funds to 215.

REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

To date the Trustee has not reviewed the books and records of the Company. The Trustee will discuss this matter with the Inspectors.

OTHER MATTERS

The fees and expenses of the Trustee will be paid with funds provided by the Receiver.

Dated: February 20, 2008

Shiner Kideckel Zweig Inc.
Trustee