



BDO Dunwoody Limited

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Court file no. 06-CL-6689

**ONTARIO SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF SECTION 47(1) OF THE
*BANKRUPTCY AND INSOLVENCY ACT, R.S.C. 1985 c.B-3 as amended***

**AND IN THE MATTER OF THE INTERIM RECEIVERSHIP OF
SHIELD SPRINKLER FIRE SYSTEMS INC.**

**FIRST REPORT OF THE INTERIM RECEIVER
BDO Dunwoody Limited**

We, BDO Dunwoody Limited, of the City of Mississauga, the Interim Receiver acting in the interim receivership of Shield Sprinkler Fire Systems Inc. (the "Company"), hereby report to the Court as follows:

1. ORDER APPOINTING INTERIM RECEIVER

BDO Dunwoody Limited ("BDO") was appointed Interim Receiver (the "Interim Receiver") of all property and assets of the Company by an Order of the Superior Court of Justice ("Order") dated October 16, 2006. The Order was obtained under an application made by Royal Bank of Canada ("RBC"). A copy of the Order is attached as Appendix I.

2. APPOINTMENT OF TRUSTEE IN BANKRUPTCY

The Interim Receiver, having assessed the affairs of the Company and reached the opinion that assigning the Company into bankruptcy would assist the administration of the estate, assigned the Company into bankruptcy on October 23, 2006, upon the authority granted in sub-paragraph 3 (p) of the Order. The RBC has guaranteed the fees of the Trustee, to administer the bankrupt estate, to a maximum of \$15,000. A copy of the Certificate of Appointment is attached as Appendix II.

3. PURPOSE OF THIS REPORT

The purposes of this report include:

- (a) To report to the Court on the actions of the Interim Receiver to date and request the approval of the Court for those actions;

- (b) To report to the Court on the various competing priority claims against the assets of the Company;
- (c) To request the approval of the Court of the sale of the real property of the Company to Dino Beltrame, in Trust;
- (d) To request the advice and direction of the Court on various live issues including:
 - i. The distribution of the receipts realized from the property of the Company, including the sale of the real property, its personal property and the collection of its accounts receivable;
 - ii. The sale of the personal property of the Company, alternatively the release of the personal property to creditors claiming a secured interest;
 - iii. The priority of the claims of secured creditors as described in this report, and the enforceability of the security against other creditors and the Trustee in Bankruptcy;
- (e) The approval of the professional fees of the Interim Receiver and its legal counsel for the period to December 31, 2006;
- (f) To request such other direction as the court may decide.

4. BACKGROUND

The Company amalgamated with Shield Sprinkler & Fire Systems Ltd. forming Shield Sprinkler Fire Systems Inc. on April 1, 2006. Part of its restructuring included new financing from RBC. The Company designed, installed, serviced and tested fire retardant systems of all types, including for new building construction, residential, industrial and commercial, in the Southern Ontario area. It operated from leased premises located at 320 Vansickle Road, Unit 8, St. Catharines, ON, 155 Regina Road, Unit 3, Vaughan, ON and from a commercial condominium unit it owned, located at 13 Kenview Blvd., unit 10, Brampton, ON (the "Condo Unit").

Immediately prior to the application by RBC to appoint the Interim Receiver, Mr. Frank Marciano, the principal of the Company, advised RBC he had personally made an assignment into bankruptcy, the Company was no longer operating, and he was turning over possession of the premises and the remaining assets to RBC.

While the application for the Court Order was pending, BDO arranged 24hr. security at the premises of the Company at the request of RBC pursuant to their rights under

their security agreement. The premises in Vaughan and the Condo Unit in Brampton were secured on October 13, 2006. The St. Catharines premises were unmarked, however, and there was some doubt as to the actual legal occupant, so it was not possible to secure it until the Order was issued.

Subsequent to the granting of the Order on October 16, 2006, the Interim Receiver took possession and secured each of the premises. A physical inventory of the assets, including six work vehicles, and an appraisal, was conducted by Can-Am Apprais ("Can-Am"). We also took possession of the available books and records of the Company, including computerized records, but soon determined the records on several computers had been tampered with and files destroyed. In particular, the Company payroll system was missing, and only miscellaneous hardcopy payroll files were available. Similarly, the data supporting the collection of accounts receivable was very limited. The principal of the Company, Mr. Marciano, had already made a personal assignment into bankruptcy and took little evident interest in the proceedings. He did attend the Interim Receiver's office on October 18, 2006, and a copy of the Order was provided to him at that time, but he only offered minimal assistance, with few answers with respect to the missing records or the location of assets. He offered virtually no assistance producing the payroll records and insisted he would not make any effort to assist in billing and collecting accounts receivable without being paid for his time. To a large extent he has been unresponsive to our requests for assistance. We did identify and obtain the assistance of one former employee of the Company and compensated him for that assistance at a much more reasonable cost than demanded by Mr. Maricano.

The personal property stored at the Vaughan location was transferred to the premises of Can-Am for storage and sale, and the Vaughan premises were vacated as quickly as possible. Similarly for the St. Catherine's location, except the cost to remove the property located there substantially exceeded its realizable value, so the premises and property were abandoned to the landlord. The lease and the interest in the two leased properties, if any, was disclaimed. Additional personal property was also located in a storage locker rented, at the request of Mr. Marciano, in the name of the former employee. The former employee cooperated with us in valuing the property and retrieving some documents located in the storage locker. The valuation of the property in the locker unit was determined to be less than the cost of moving and realizing upon it, so it was abandoned.

5. PRIORITY CREDITORS

The Interim Receiver has utilized the assignment into bankruptcy and provisions of the Bankruptcy and Insolvency Act to help administer the estate, including the identification of creditors and the claims process, particularly as it pertains to potential priority creditors. Fifteen potential creditors with priority to unsecured

creditors (the "Priority Creditors") have been identified. Their claims include property claims and various secured positions. Many have conflicting claims.

We request the court consider any arguments presented by the Priority Creditors, on their own behalf, including the assets to be appropriately charged by any deemed trust claim that may be asserted by Canada Revenue Agency ("CRA") and any appropriate allocation of costs of the administration that should be charged against the disputed assets, considered in the light of paragraph 17 of the Order, and provide us with advice and direction on the realization on, or release of the assets reported upon herein.

A copy of the results of the search of the Personal Property Security Registry (the "Registry"), including an index of the pages of the registrations, is attached as Appendix III.

Notice of our report and application to the court will be provided to all the Priority Creditors to assist them to make any representation to the Court they deem appropriate. To assist the Court we have attempted to summarize the information known to us pertaining to each, including:

(a) Royal Bank of Canada ("RBC")

RBC made the application for the Order. It holds a General Security Agreement on all of the assets of the company, registered in the Personal Property Security Registry (the "Registry") on May 10, 2006. It also holds a mortgage, in the principal amount of \$235,000, registered against the Condo Unit on April 6, 2006. The Interim Receiver has obtained an independent legal opinion that the security of RBC is perfected and enforceable. A copy of the opinion is attached as Appendix IV, Section I.

Postponements, in favour of RBC, were also registered in the Registry, of security registered by many of the Priority Creditors, including Anna Marciano-De Giorgio ("Anna"), Jim Peplinski Leasemaster ("Peplinski"), Citicorp Vendor Finance Ltd., MTC Leasing Inc., NEC Canada Inc. and Onset Capital Corporation.

The Interim Receiver requested copies of documents evidencing the postponement from various parties, including the respective Priority Creditors, and the law firm of Beard Winter LLP who registered the postponements on behalf of the RBC. To date, we have received some documents pertaining to the postponement by three secured creditors. RBC has advised us to expect them to take the position that each of the noted security has been postponed to their

security. We have included any documents that we have obtained concerning the postponements in the attachments pertaining to the respective Priority Creditor.

RBC filed a claim in the bankruptcy for a total debt of \$1,174,499, valuing their security at \$235,000, the value of the mortgage on the Condo Unit, but reserved the right to amend the quantum of their secured claim. The most optimistic estimate of total realization on the assets is expected to be less than \$500,000. Accordingly, even if RBC were successful in asserting a priority against all of the other Priority Creditors, including the entire deemed trust of CRA, they would still suffer a substantial shortfall. Thus, there cannot be any distribution to any other creditor who is not able to successfully assert a priority to the claim of RBC.

A copy of the relevant documents supporting the claim of RBC is attached as Appendix IV, Section 2.

(b) Anna Marciano-DeGiorgio (“Anna”)

A General Security Agreement was registered on December 2, 2005 in favour of Anna and a postponement of that security in favour of RBC was registered on April 12, 2006. Documents have been provided which appear to adequately evidence the postponement. Accordingly, in light of the inevitable shortfall on the claim of RBC, the Interim Receiver is of the view there is no prospect for any distribution to Anna on her secured claim and there is no reason to expect her to have any further interest in this administration.

A copy of the relevant documents provided to us supporting the claim of Anna and its postponement are attached as Appendix V.

(c) Canada Revenue Agency (“CRA”)

CRA provided to us correspondence dated December 19, 2006, claiming indebtedness to CRA for employee source deductions amounting to \$521,280, including \$124,004 in penalties and interest. In addition, they have provided us with evidence of their registration, on September 28, 2006 in the Land Registry, of a lien on the title to the Condo Unit, for a debt in the amount of \$501,151. On that date they also registered a charge against all other property of the Company in the Registry. CRA also issued Requirements to Pay in amount in excess of \$500,000 on certain customers of the Company. They also filed with us an unsecured claim in the amount of \$202,463 arising from arrears in the remittance of GST.

To our knowledge, we have not collected any accounts receivable that would have been subject to the Requirements to Pay issued by CRA.

RBC provided copies of documents dated May 26, 2006, supplied to RBC by the Company but originating from CRA, evidencing arrears at that time of \$175,254, plus applicable penalties and interest, an acknowledgement the penalties and interest were under review under the fairness legislation, and acknowledging the payment of the arrears of \$175,254 (the "Directed Payment"). We have not seen evidence of the application of the Directed Payment to the deemed trust claim of CRA, however, and have requested they review their claim and provide an accounting for that amount paid. CRA has requested we provide a copy of the cancelled cheque to facilitate the tracing of the funds, but it has not yet been located. At the time of writing this report, the Directed Payment has not yet been accounted for by CRA.

The documents relating to the Directed Payment also included a payment of \$48,562 for the principal amount of un-remitted GST outstanding at that time. A similar accounting for the arrears, penalties and interest, and appeal of the penalties and interest, was included. Any balance currently due for un-remitted GST, however, only forms an unsecured claim in the bankruptcy. CRA is not considered to be a Priority Creditor for any remaining outstanding GST remittances, and that claim is not relevant to this application.

A copy of the relevant documents pertaining to the claims of CRA are attached as Appendix VI, the property (deemed trust) claim of CRA in Part A, Section 1, the unsecured claim in Part B, Section 1, the Directed Payment in Section 2, the lien on the Condo Unit in Section 3, and relevant correspondence in Section 4.

(d) Jim Peplinski's Leasemaster National ("Peplinski")

Peplinski has filed a secured claim against four vehicles specifically registered in the Registry by their Vehicle Identification Numbers (the "Disputed Vehicles"). Humberview has registered against the Disputed Vehicles, however a postponement from Humberview in favour of Peplinski is also registered. Humberview received notice of the proceedings, including notice to prove their claim sent to them on November 23, 2006, but they have not advanced any claim. The evidence suggests the vehicles were purchased through Humberview, but financed through Peplinski, prior to the financing of the Company by RBC. Registrations of postponement in favour of the RBC were registered on the security of both the Peplinski and Humberview on June 1, 2006. We have been provided with copies of correspondence from the law firm of Beard Winter LLP notifying they had authority to register the postponements, along with change statements purportedly executed by Peplinski. The claim filed by Peplinski did not include any information concerning the postponement. Further, they have responded that they had no knowledge of any postponement.

The gross appraised value of \$62,500 is substantially less than the payout amount of approximately \$113,000 for the Disputed Vehicles, making it evident there was no equity in them.

A copy of the relevant documents provided to us supporting the claim of Peplinski is attached as Appendix VII, Section 1.

(e) Humberview Motors Incorporated (“Humberview”)

As stated above, Humberview also registered against the Disputed Vehicles, however appear to have at least postponed in favour of Peplinski. Humberview received notice of the proceedings, including notice to prove their claim within 30 days sent to them on November 23, 2006, and they have not yet advanced any claim. It appears they have no further interest in the Disputed Vehicles.

A copy of the relevant documents pertaining to the notices to Humberview is attached as Appendix VII, Section 2.

(f) Woodbine Pontiac Buick GMC Ltd. (“Woodbine”)

Woodbine filed a secured claim against one vehicle specifically registered in the Registry by its Vehicle Identification Number. No postponements were registered against this vehicle. The gross appraised value of \$10,000, compared to the payout amount of \$11,657, made it evident there was no equity in this vehicle. No postponements of this security were registered. Upon conferring with RBC, the only creditor likely to be affected, and with independent legal counsel, the Interim Receiver complied with the request of Woodbine and released the vehicle to them.

A copy of the relevant documents provided to us supporting the claim of Woodbine is attached as Appendix VIII, Section 1.

(g) BMW Canada Inc. (“BMW”)

BMW filed a secured claim against one vehicle specifically registered in the Registry by Vehicle Identification Number on a lease that was jointly in the name of the Company and its principal, Mr. Marciano. They also filed a Property Proof of Claim with respect to the vehicle. No postponements were registered against this security. A comparison of the estimated market value of \$45,000 to \$50,000 provided in the Canadian Black Book Used Truck, Van and SUV Guide, and the secured claim of \$85,241, made it evident there was no equity in it. The Interim Receiver did not take possession of this vehicle, disclaimed all interest in it and informed BMW we did not take any issue with their right to enforce their security.

A copy of the relevant documents provided to us supporting the claim of BMW is attached as Appendix VIII, Section 2.

(h) Citicorp Vendor Finance, Ltd. (“Citicorp”)

Citicorp has filed both a property proof of claim, and a secured claim, claiming both a secured interest and a property interest in a Yale Fork Lift. Their interest, as registered in the Registry, claimed a secured interest against equipment described as “material handling equipment, together with all parts, attachments”. The description did not include an identifying Serial Number, even though it was available on the invoice filed in support of their secured claim. A registration of postponement in favour of the RBC was made on June 1, 2006. We have been provided with copies of correspondence from the law firm of Beard Winter LLP notifying they had authority to register the postponements, along with change statements purportedly executed by Citicorp. The claim filed by Citicorp did not include any information concerning the postponement, and we have not received a response to our request they provide their position on the postponement issue.

Citicorp valued their secured claim in the amount of \$2,240 and the gross appraised value of the forklift is \$5,000, so a small amount of equity may be available.

A copy of the relevant documents provided to us supporting the claim of Citicorp is attached as Appendix IX, Section 1.

(i) MTC Leasing Inc. (“MTC”)

MTC has not yet filed a claim in this administration, even though a demand, sent to them on November 23, 2006, was made that they prove their secured claim, if any, within 30 days. They registered in the Registry as secured against equipment which was not further described. A registration of postponement in favour of the RBC was made on June 1, 2006. We have been provided with copies of correspondence from the law firm of Beard Winter LLP notifying they had authority to register the postponements. We have not, however, received a response to our request to MTC that they provide their position on the postponement issue.

A copy of the relevant documents pertaining to the potential claim of MTC is attached as Appendix IX, Section 2.

(j) NEC Canada Inc. (“NEC”)

NEC has not yet filed a claim in this administration in spite of demand, sent to them on November 23, 2006, to prove their secured claim, if any, within 30 days. They registered in the Registry as secured against equipment described only as “all goods supplied by the secured party pursuant to a lease between the debtor and the secured party, together with all parts and accessories . . .”. A registration of postponement in favour of the RBC was made on June 1, 2006. We have been provided with copies of correspondence from the law firm of Beard Winter LLP notifying they had authority to register the postponements. We have not, however, received a response to our request to NEC they provide their position on the postponement issue.

A secured claim was filed by De Lage, and De Lage appears to have a common address with NEC, but there is no clear connection with the security registered by NEC. The De Lage claim will be further discussed below.

A copy of the relevant documents pertaining to the potential claim of NEC is attached as Appendix IX, Section 3.

(k) De Lage Landen Financial Services Canada (“De Lage”)

De Lage filed a secured claim in the amount of \$28,905, claiming to be secured against a Xerox Work Centre Pro 123 and a NEC Elite IPK system. They did not register their security in the Registry. A demand was sent to them on November 23, 2006 to provide, within 30 days, any additional information they may have that would support their secured claim. They have not yet responded to that demand.

Although De Lage apparently has a common address with NEC, there is no clear connection between the De Lage secured claim and the security registered by NEC. The NEC secured position is discussed above. It is not possible to identify the equipment claimed as security by De Lage as the same equipment that is subject to the registration by NEC. The appraised value of the equipment described by De Lage, in their claim, does not appear to exceed \$1,000. The NEC security is also subject to a registered postponement in favour of RBC.

A copy of the documents provided to us supporting the claim of De Lage is attached as Appendix IX, Section 4.

(l) Onset Capital Corporation (“Onset”)

Onset has not yet filed a claim in this administration even though a demand was sent to them on November 23, 2006 to prove their secured claim, if any, within 30

days. They registered in the Registry as secured against equipment described as “535 machines(s), Ridgid threading machine(s), together with all attachments accessories . . .” A registration of postponement in favour of the RBC was made on June 1, 2006. We have been provided with copies of correspondence from the law firm of Beard Winter LLP notifying they had authority to register the postponements. We have not had a response to our request to Onset they provide their position on the postponement to RBC. The Company did send correspondence to RBC, dated June 2, 2006, confirming the Company would not proceed in obtaining credit from Onset as of that date.

Two machines, described as “Ridgid 535 Pipe Threaders” are in the possession of the Interim Receiver, appraised at a total amount of \$2,000 for both. A secured claim was filed by Irwin, claiming a secured interest in a Ridgid 535 Pipe Threader. It is further discussed below, but the connection between the claim of Irwin and the security registered by Onset is a clear one.

A copy of the relevant documents pertaining to the potential claim of Onset is attached as Appendix IX, Section 5.

(m) Irwin Commercial Finance (Irwin”)

Irwin filed a secured claim in the amount of \$1,809, claiming to be secured against one Ridgid 535 Pipe Threader. They did not register their security in the Registry. Part of the support for their claim includes agreements between Onset and the Company and evidence of the registration by Onset in the Registry. The documents provided are only partially legible, but do not appear to contain any evidence of a transfer of rights from Onset to Irwin. A demand was sent to Irwin on November 23, 2006 to provide, within 30 days, any additional information they may have that would support their secured claim. They have not yet responded.

The Onset secured position is discussed above, and it is subject to a postponement registered in favour of RBC. The equipment claimed as security, whether by Onset or Irwin, is not described by serial number, making the identification of the security uncertain. The total gross appraised value of both threading machines, one of which might be the subject of the Irwin secured claim, is \$2,000. Correspondence from Irwin to the Company, dated March 30, 2006 confirms Lease Contract #36853, pertaining to a Ridgid Threader and other equipment, was paid in full, but the claim they filed is supported by a different rental agreement #46729.

A copy of the documents provided to us supporting the claim of De Lage is attached as Appendix IX, Section 6.

(n) United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada Local 853 Sprinkler Fitters of Ontario (“Local 853”)

Local 583 filed a secured claim, asserting lien rights on specified projects, on behalf of former employees, pursuant to the Construction Lien Act (Ontario). The Interim Receiver demanded payment of outstanding amounts on those projects, however, encountered deficiency claims against the amounts due. We have not, and do not expect to collect any amounts due on those projects. Accordingly, regardless of any other issues that may be raised against their claim by other Priority Creditors, there are no funds from those projects against which Local 583 could assert a priority or secured position. The Interim Receiver recommends their claim be rejected as a secured claim, but accepted by the Trustee in Bankruptcy as an ordinary unsecured claim. There is, however, no potential for a distribution to unsecured creditors.

A copy of the documents provided to us supporting the claim of Local 583 is attached as Appendix X.

(o) City of Brampton (“Brampton”)

Brampton filed a secured claim in the amount of \$2,767 for municipal taxes arising from the ownership of the Condo Unit. The Interim Receiver recommends this secured claim be accepted, and paid from the proceeds of the sale of the Condo Unit at the time of closing.

A copy of the documents provided to us supporting the claim of Brampton is attached as Appendix XI.

6. ASSETS

Accounts receivable

The Company's aged accounts receivable records as at the date of the Interim Receiver's appointment showed an outstanding balance of \$446,264. It is now apparent the amount actually collectible is significantly less for reasons including a lack of evidence to substantiate the debt due; collections made, but not posted, prior to the date of the appointment; claims of deficiency and/or set-off due to warranty issues, uncompleted jobs, poor workmanship and mutual debt; the effect of the Requirement to Pay Notices' by CRA on several customers; and general deficiencies in the maintenance of the books and records.

The Interim Receiver, with the help of a former employee, was able to invoice an additional \$34,000 subsequent to the appointment date. We have also commenced

legal proceedings against one customer, Ivanhoe Cambridge, for work completed but not paid for, issuing a statement of claim in the amount of \$131,862. This claim has not yet been served, but it was issued to preserve the limitation period.

After necessary adjustments, it was estimated that accounts receivable totaling approximately \$95,000 should be collectible and \$84,000 has been collected to date. We continue to pursue the collection of the remaining outstanding receivables.

Inventory

There was limited inventory on site and is of negligible value. During the period immediately preceding the appointment, the Company was on a cash only basis with most suppliers and only ordered as needed. Any inventory worth moving was consolidated and secured at the Condo Unit or the premises of Can-Am.

Equipment

The Interim Receiver inventoried and secured the equipment located at the Vaughan and Brampton locations. An appraisal totaling \$103,000 was obtained from Can-Am on all of the equipment and inventory, including assets subject to claims by various Priority Creditors. A copy of the appraisal is attached as Appendix XII, Section 1.

Some machinery and tools were apparently left on job sites abandoned by the Company. A former employee confirmed the equipment on the job sites was not marked or clearly identified as belonging to the Company. The Interim Receiver made enquiries at job sites suspected to have tools, but failed to locate any additional property. They are not believed to be of significant value, in any event and we cannot justify incurring additional expense in this pursuit.

<u>Equipment</u>	<u>Appraised Value</u>	<u>Potential Claims Against By</u>
NEC Telephones	\$ 1,250	NEC or De Lage
Xerox Work Station	\$ 300	NEC or De Lage
Ridgid 535 Pipe Threaders	\$ 2,000	Onset/Irwin
Yale Forklift	\$ 5,000	Citicorp
Truck, VIN 0133	\$ 10,000	Woodbridge
Truck, VIN 6766	\$ 27,500	Peplinski/Humberview
Truck, VIN 6101	\$ 14,000	Peplinski/Humberview
Truck, VIN 7233	\$ 7,000	Peplinski/Humberview
Truck, VIN 6173	\$ 14,000	Peplinski/Humberview
Total Potential Claims	\$ 81,050	
Truck, VIN 0861	\$ 2,500	No lease or PMSI security
Truck, VIN 9446	\$ 4,500	No lease or PMSI security

Truck, VIN 0177	\$ 3,500	No lease or PMSI security
Total	\$ 10,500	
Total Appraised Value	\$ 103,000	
Total, net of Potential Claims	\$ 26,950	

The gross appraisal value of equipment and inventory not subject to lease or PMSI claims is less than \$27,000, of which \$10,000 is the appraised value of three trucks. Thus, the expected net realization on equipment, after costs, is unlikely to significantly exceed \$20,000.

Condo Unit

As reported above, the Company owns a commercial condominium unit located at 13 Kenview, Unit 10, Brampton, Ont. RBC registered a first charge mortgage in the principal amount of \$235,000 against it. Prior to financing the unit, Schaufler Realty Advisors Ltd. ("Schaufler") prepared an appraisal for RBC, appraising the Condo Unit in the amount of \$235,000. In addition, the Interim Receiver retained the services of Hendren Appraisals ("Hendren") who appraised the Condo Unit at \$240,000. A copy of the appraisals is attached as Appendix XII, the Schaufler appraisal in Section 2 and the Hendren appraisals in Section 3.

Prior to the appointment, the property sustained water damage on the main floor, due to a ruptured hot water tank at a neighbouring unit. The damage occurred over a weekend while the business was closed. The floors, electrical and baseboards on the main floor were all damaged. The Company was in the process of making repairs at the time of the appointment, however, the repairs do not appear professionally done. Any party purchasing the property will consider the additional costs required to complete the repairs.

7. SALE OF 13 KENVIEW BOULEVARD, UNIT 10, BRAMPTON, ON

The Interim Receiver arranged for the placement of an advertisement in the Globe & Mail newspaper's Commercial Real Estate Investment section. The ads ran on Thursday November 23, 2006 and Tuesday November 28, 2006. An information sales package was produced by the Interim Receiver to provide to parties expressing interest. Entertainment of offers was open until December 8, 2006. Appendix XIII attached includes a copy of the advertisement in Section 1 and the sales package in Section 2.

In addition to the newspaper advertisement, two large window signs were placed in the windows of the Condo Unit to provide information in support of the sales effort and an open house of the property for prospective purchasers was held on December 5, 2006.

We received eight queries in response to the advertisements, plus queries from four groups who currently own units in the condominium and expressed interest in purchasing an additional unit. Five different parties viewed the Condo Unit. All expressed concern over the state of the interior and the water damage. Five offers were received by the Interim Receiver, a summary of them is attached as Appendix XIII, Section 3.

The highest and best offer received was from Dino Beltrame who increased his offer to \$225,000. No real estate commission, normally 5% to 6% of the purchase price, is applicable, therefore it is comparable to a purchase price of approximately \$237,000 obtained through an MLS listing. A copy of the Agreement of Purchase & Sale is attached as Appendix XIII, Section 4.

8. PROFESSIONAL FEES

The Order was applied for by RBC, and Her Majesty was represented at the application. Paragraph 17 of the Order grants a first charge against the assets in favour of the Interim Receiver for its costs and those of its legal counsel. In addition, particularly in the light of the uncertainty on the quantum of the CRA deemed trust claim, we corresponded with CRA specifically notifying them of the first charge granted in the Order. We also requesting the Crown to grant us an agreement under Directive 12R of the Bankruptcy and Insolvency Act so that the Interim Receiver may take its reasonable fees in this estate for preserving and realizing upon the assets in the event the deemed trust claim is determined to be as great or greater than the realizable value of the assets. Correspondence pertaining to that request may be found in Appendix VI, Section 4.

The Interim Receiver requests that the Court approve its professional fees and disbursements for a total amount of \$54,969.50, plus applicable Goods and Services Tax, for the period up to December 31, 2006. A copy of the summary of services provided is attached as Appendix XIV, Section I.

The Interim Receiver also requests that the Court approve the professional fees and disbursements of its legal counsel, Lawrence, Lawrence, Stevenson, Barristers & Solicitors, in a total amount of \$6,135.67, plus applicable Goods and Services Tax, for the period up to December 31, 2006. A copy of the summary of services provided is attached as Appendix XIV, Section 2.

9. INTERIM STATEMENT OF RECEIPTS AND DISBURSEMENTS

The Interim Receiver requests that the Court approve its receipts and disbursements as reported in its Interim Statement of Receipts and Disbursements as at December 31, 2006, attached as Appendix XV, Section 1. The Interim Receiver anticipates further receipts of approximately \$215,000 from the sale of the Condo Unit, approximately

\$10,000 from the collection of accounts receivable and between \$20,000 and \$100,000 from the realization on the equipment subject to the release of equipment subject to leases or PMSI security. A summary of the estimated total realization is attached as Appendix XV, Section 2.

All of which is respectfully submitted this 16th day of January, 2007.

BDO DUNWOODY LIMITED
in its capacity as Interim Receiver
of the property and assets of
Shield Sprinkler Fire Systems Inc.

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