

IN THE MATTER OF THE BANKRUPTCY OF  
GENFAST MANUFACTURING COMPANY  
IN THE CITY OF BRANTFORD  
IN THE COUNTY OF BRANT  
IN THE PROVINCE OF ONTARIO

TRUSTEE'S REPORT ON PRELIMINARY ADMINISTRATION

SUPERINTENDENT'S NUMBER: 32-157091

**Background**

Genfast Manufacturing Company ("Genfast" or the "Company") is a company incorporated pursuant to the laws of Ontario, with its main office and operations located in Brantford, Ontario. The Company carried on business from an approximately 250,000 square foot leased facility where it manufactured fasteners (i.e. threaded bolts, solid steel pins and rivets) used in the automotive and industrial applications. The Company employed approximately 185 unionized and 50 salaried employees.

The Company was purchased by General Fasteners Company of Livonia, Michigan ("General Fasteners") in 1998 from Stelco. In December 2001, MNP Corporation of Utica, Michigan, a related company with General Fasteners, acquired a majority position of General Fasteners Company.

The Company has suffered from the reduced market share of the North American automakers culminating in reduced sales and cost reduction pressures resulting in net losses for fiscal 2006. On March 8, 2007, the Company filed for protection under the Companies Creditors Arrangement Act and an initial stay of proceedings was granted until April 6, 2007 (the "CCAA Period"). The stated plan during the CCAA Period was to wind down the operations in an orderly fashion over the period to June 2007.

As described in the Monitor's first report to the Court, during the CCAA Period the Company experienced a number of critical issues including labour instability, the resignation of all the directors, and major customers switching to new suppliers quickly. All of these items resulted in major deviations from the Company's financial projections and a consequent material adverse change to Genfast's continued operations. The various stakeholders determined that the wind down time horizon was not sustainable and that the CCAA Period should terminate and not be extended.

On the April 5, 2007 the Ontario Superior Court of Justice (the "Court") issued a Bankruptcy Order appointing KPMG Inc. the Trustee of the Estate of Genfast (the "Trustee"). In addition, the Court made an order terminating the Company's CCAA protection and appointing KPMG Inc. as Receiver of Genfast (the "Receiver's Appointment Order").

The nature of the security and corresponding indebtedness to each secured creditor is summarized as follows:

<u>Secured Creditor</u>	<u>Nature of Security</u>	<u>Outstanding Indebtedness</u>
LaSalle Business Credit	General Security Agreement	\$20,609,349
MNP Corporation	To be determined	955,600
General Fasteners	To be determined	487,728

### **Section A: Trustees Duties**

The Bankruptcy and Insolvency Act (“BIA”), requires the Trustee to give security in cash and or by bond of a guaranty company in an amount set by the Official Receiver. There has been no bond set in this estate.

### **Class I – Stocks of Merchandise**

Genfast ceased manufacturing operations on April 5, 2007 due to the bankruptcy. The Receiver has taken possession of all inventories and is selling all inventory on an “as is”, “where is” basis. The inventory consisted of raw materials, work-in-process and various finished parts. The Receiver conducted an inventory count commencing on April 9, 2007.

### **Class II – Plant, Machinery and Equipment**

The Receiver will be entering into a Court approved marketing process to sell the assets.

There are various leased assets at the premises. The Receiver’s independent counsel is reviewing the leases to determine their priority. Once this analysis is complete, the Receiver will contact the various lessors to discuss the status of the leased assets and, if appropriate, arrange to return the assets to the lessors or sell the assets with the other Company equipment.

### **Class III - Buildings and Real Estate**

Genfast operates from a leased facility located at 225 Henry Street, Brantford, Ontario and does not own the real property.

### **Class IV – Books and Records**

The books and records are in the possession of the Receiver. The Receiver will realize on the assets of the estate and will therefore require full access to the estate books and records.

## **Class V – Other Assets**

The accounts receivable balance at the date of the appointment of the Trustee was approximately CDN \$5,524,000 and U.S. \$4,500,000. There are over 60 U.S. and Canadian customers. During the CCAA Period, most of the major customers signed agreements with the Company setting out, amongst other things, the timing for payment of, and the nature of set-offs that may be permitted against the receivable. The Receiver will be collecting the accounts receivable.

## **Section B: Conservatory and Protective Measures**

None of the Company's assets are in the Trustee's possession. Per the Receiver's Appointment Order, the Receiver will be dealing with all of the Company's assets. The Receiver has engaged a security company to patrol the premises. The books and records of the company are in the possession of the Receiver.

## **Section C: Legal Proceedings**

The Trustee is not aware of any outstanding legal proceedings.

## **Section D: Provable Claims**

Insufficient proofs of claim have been filed to date to permit the Trustee to fully ascertain if the statement of affairs is accurate.

## **Section E: Secured Creditors**

See **Background** section.

## **Section F: Anticipated Realization and Projected Distribution**

The Receiver is preparing a marketing package seeking Proposals for the purchase of the assets of Genfast (hereinafter referred to as the "Information Package"). The Information Package is expected to be advertised in the national edition of the Globe & Mail and will be distributed to a number of prospective purchasers (both possible "going concern" purchasers and auctioneers). The terms and conditions of the Information Package will provide for sealed bids to be received by the Receiver.

It is unclear at this point whether there will be sufficient proceeds available to pay the outstanding secured debts, and therefore, we are unable to comment on whether there will

be funds available for distribution to the preferred and ordinary unsecured creditors of the estate.

### **Section G: Reviewable Transactions and Preference Payments**

The BIA defines a fraudulent preference as:

any conveyance, transfer, charge, payment, etc. given within 3 months of bankruptcy by an insolvent person with a view to prefer a creditor and that the intent to prefer is to be presumed, in the absence of evidence to the contrary, if the effect of the conveyance, transfer, charge, payment, etc. is to give the creditor a preference over other creditors. In the case where the transactions in question were between related persons, the period is extended to one year before the initial bankruptcy event.

We have reviewed Genfast's bank statements and identified and reviewed, through discussions with former accounting staff and tracing to supporting documentation all payments made by Genfast greater than \$100,000 for the three months prior to bankruptcy. Nothing unusual has been noted. It appears that the majority of the cheques and wire transfers were made to pay suppliers of steel and gas, payroll and secured loan payments and thus appear to be in the normal course of business, based on terms with the Company.

This review will be extended to one year for a review of payments made to related persons (eg. MNP Corporation and General Fasteners Company). The Trustee has not yet had the opportunity to review all of the transactions (e.g. a sale leaseback) that were made with related persons in the twelve month period prior to bankruptcy and will report to the Inspectors, if any, upon completion of our review.

### **Section H: Other Matters**

KPMG Inc. was appointed by the Court as Receiver on April 5, 2007. In accordance with the BIA, prior to its appointment, KPMG Inc. retained the law firm of Blake, Cassels & Graydon LLP ("Blake"), as independent counsel to the Trustee to advise as to the validity and priority of LaSalle's security over the Trustee's interest in the assets of Genfast. Blake has provided its written opinion that LaSalle's security is valid and enforceable as against the Trustee's interest.

DATED AT HAMILTON, ONTARIO this 24<sup>th</sup> day of April, 2007.

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