

District of Ontario
Division No.: 7
Court No.: 32-157239
Estate No.: 32-157239

IN THE MATTER OF THE BANKRUPTCY OF
I. WAXMAN & SONS LIMITED
HAVING ITS HEAD OFFICE IN THE CITY OF HAMILTON
IN THE PROVINCE OF ONTARIO

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

Section A: Background and Chronology of Events

I. Waxman & Sons Limited ("IWS" or the "Company") is a private corporation that carried on business as a scrap metal processor and broker at 75 Windermere Road, Hamilton.

IWS was incorporated on December 21, 1956; however its predecessor company, was founded by Isaac Waxman ("Isaac") in 1911. Morris Waxman ("Morris") and Chester Waxman ("Chester"), the sons of Isaac, began working for the predecessor company in the 1940s and by the mid-1960s had together grown IWS into a thriving scrap metal business with entrenched relationships with marquee suppliers and customers in the heart of Canada's steel producing region. In the 1980s, IWS acquired and moved much of its operations to 480-500 Centennial Parkway (the "Centennial Property") where the Company continued to grow under the joint management of Morris and Chester.

In December 1983, Morris signed a variety of documents that effected the sale and transfer of his 50% ownership interest in IWS to his brother Chester. Based on the findings of the Court, it was determined that Morris was unaware that his shares were sold to Chester. When Morris became aware of the sale of these shares, he sought to privately undo the transaction through direct negotiations and discussion with Chester during the period 1984 to mid-1988.

In late 1988, Morris determined that these discussions had reached an impasse and on November 18, 1988, Morris et al filed a Statement of Claim against Chester et al regarding the terms and conditions of the sale of Morris' IWS shares in December 1983. At this same time, Morris did not continue in a management capacity with IWS and the management of the Company was assumed by Chester along with his sons Warren Waxman, Gary Waxman and Robert Waxman.

This litigation continued for several years and in June 2002, the Ontario Superior Court of Justice issued its Judgment and Reasons for Decision (the "Decision") in favour of Morris. The Decision held, among other items, that Chester had held Morris' 50% shares in IWS on constructive trust for Morris since December 1983. This judgment also included the retroactive participation of Morris in any economic distributions to IWS shareholders since that time, including Morris' interest in the 1993 sale of IWS operating assets to Phillip Environmental Inc.

As a result of the Decision, Morris and Chester held discussions with respect to the compensation of Morris; however, these discussions ultimately reached an impasse and on September 1, 2005, the

Honourable Mr. Justice Farley issued an Order (the "September Order") that all the operating assets of the Company be sold, including the Centennial Property and certain real property owned by a separate holding company of Morris (50%) and Chester (50%), municipally known as 75 Windermere Road, Hamilton (the "Windermere Property").

In order to facilitate the sale of IWS, the September Order included the appointment of Deloitte & Touche Corporate Finance Canada Inc. as the marketing agent (the "Marketing Agent").

The Marketing Agent undertook an exhaustive sales process (the "Sales Process"); however, the process ultimately generated only one strategic purchaser for all the assets of the Company. In the Marketing Agent's Fourth Report to the Court dated February 27, 2007, the Marketing Agent concluded that the strategic purchaser provided no greater return than a liquidation value.

The strategic purchaser had offered a price of \$6.9 million for the operating assets of IWS consisting of accounts receivable, scrap inventory, bins, stationary and mobile equipment, office furniture and the Windermere Property. At the date of this \$6.9 million offer, the month-end book value of accounts receivable averaged approximately \$4.0 million leaving approximately \$2.9 million to be allocated among the other assets, including the Windermere Property. Another significant difficulty with this identified purchaser's offer was it included the purchase of leased assets. It was estimated that the payouts with respect to these leased assets would have likely resulted in a downward purchase price adjustment or a required payout by IWS of approximately \$900K.

Though the Marketing Agent was not able to identify an appropriate strategic buyer for all of the assets, it did identify and negotiate a sale of the Centennial Property to 2104796 Ontario Limited, a company affiliated with SmartCentres for approximately \$16.5 million.

Receivership

By Order of the Court dated March 26, 2007, Deloitte & Touche Inc. was appointed as the Receiver (the "Receiver") of all of the assets, properties and undertakings of IWS, when it was apparent that offers to purchase the assets of IWS were less than liquidation values and would not be sufficient to fund the Company's liabilities.

The Receiver was able to negotiate a sale of IWS' operating assets (excluding accounts receivable) and the Windermere Property to American Iron and Metal Company Inc. ("AIM"), for an amount of approximately \$6.9 million which was approved by an Order of the Ontario Superior Court of Justice dated June 19, 2007. Of the \$6.9 million in sales proceeds, \$4.0 million was attributed to the Windermere Property and approximately \$2.9 million was attributed to the operating assets of IWS.

The sale proceeds of \$4.0 million attributed to the Windermere Property were not an asset of IWS. Morris' share of the Windermere Property sales proceeds have been paid to Morrision Investments Limited, Morris' holding company, whereas the Receiver has withheld the amount owing to a company, owned and controlled by Chester pending a further Order of the Court.

As mentioned above, the Receiver's sale to AIM excluded accounts receivable on hand at the date of receivership as well as leased assets. To date the Receiver has collected approximately \$4.8 million from accounts receivable on hand as at the date of the receivership.

Bankruptcy

By Order of the Court dated September 4, 2007, IWS was adjudged bankrupt, and Deloitte & Touche Inc. was appointed as trustee in bankruptcy of the estate of IWS (the "Trustee").

Causes of Insolvency

Historically the Company was profitable; however in recent years the Company's level of business activity and customer base had declined. This trend continued through the course of 2006 and into 2007. As previously mentioned, the Court approved Sales Process failed to generate financially acceptable offers for the business as a going concern. In particular, purchasers cited issues that the customer base was being redirected to other competitors, resulting in a persistent and steady decline in the more profitable customer relationships formerly enjoyed by IWS with an increasing reliance on less stable and less profitable "broker" type relationships. The decline in the Company's financial health can mainly be attributed to the lengthy litigation between Morris and Chester and the frequent impasses reached by both parties to settle their dispute which resulted in the current situation of neither IWS nor Chester having the financial means to pay Morris' substantial award of \$46.4 million.

Separate from the litigation issue was Chester's need to spend time away from the normal day-to-day management of IWS, which resulted in the loss of the guiding member of the IWS management team which potentially further attributed to the decline in the financial health of the Company.

Section B: Conservatory and Protective Measures

On March 26, 2007, upon its appointment, the Receiver attended at 75 Windermere Road to take possession and control of the property of the Company. All employees were automatically terminated and a small number of employees were subsequently retained by the Receiver to perform various tasks required to facilitate the shut down of the business.

The Receiver has taken possession of the Company's books and records. Based on our review to date, it appears that the Company's books and records were adequate in the circumstances.

Currently, the Company's assets remain in the possession of the Receiver and are in the process of being transferred to the Trustee bank accounts. At this time there are no assets for the Trustee to preserve and protect, except for potential preference claims.

Section C: Trustee's Preliminary Evaluation of Assets and Details of Security Interest

As at September 4, 2007, the Receiver had substantially completed its realization of the assets of IWS. As at September 20, 2007 the assets of the Company consisted of the following:

	<i>Net Book Value</i>	<i>Estimated Realization</i>
Cash	\$33,800,000	\$33,800,000
Recovery on disputed matter	5,600,000	0
Shares	<u>23,000</u>	<u>20,000</u>
	<u>\$39,423,000</u>	<u>\$33,820,000</u>

For details of the activities of the Receiver to date, please refer to the Receiver's reports to the Court dated April 19, 2007, June 13, 2007, August 9, 2007, August 20, 2007 and August 22, 2007 (available at www.deloitte.com/ca/waxman).

Certain assets will remain under the control of the Receiver until such time as the receivership administration is fully completed. Sales proceeds associated with the Windermere Property and the Centennial Property, which are not included in the above, and a holdback of \$4 million as a contingency for, among other things, taxes arising during the receivership and the costs of completing the administration of the receivership. Any residual amount at the conclusion of the receivership will be turned over to the Trustee. The Trustee is currently in the process of establishing trust accounts and will transfer the Receiver's funds as the term deposits come due.

The Trustee will continue to follow-up on miscellaneous trade account receivables and the Trustee is currently in preliminary discussions with Chester to determine the amount of legal fees that were paid by IWS for the benefit of Chester in relation to his litigation with Morris. The Trustee will also be meeting with Chester in relation to other potential amounts owing to IWS that were historically paid by IWS for the benefit of Chester and/or related parties of Chester.

Security Interests

The Trustee has been provided with a proof of claim from the Ministry of Finance outlining a secured claim of approximately \$1.4 million. The Trustee has also been advised that a related party to IWS has a secured claim; however as at the date of this report no value has been provided to the Receiver by the related party, nor has any supporting documentation been provided for the Trustee's review.

Section D: Information Relating to Claims

A summary of the claims filed to date versus the Statement of Affairs is set out below:

	Claims Per Statement of Affairs	Claims Filed as at September 20, 2007
Secured	-	\$1,446,020.15
Preferred	-	-
Unsecured	\$57,738,314.50	54,932,855.12
Contingent	-	7,800,510.00
Total	\$57,738,314.50	\$64,179,385.27

Secured claims

The secured claim by the Ministry of Finance in respect of corporate tax arrears represents the majority of the filed secured claims and these amounts remain subject to the Trustee's review.

Unsecured claims

Based on the Company's records and information received to date, the unsecured creditors of the Company are potentially owed in excess of \$62 million as at September 20, 2007; however, these amounts remain subject to the Trustee's review.

Section E: Legal Proceedings, Reviewable Transactions and Preference Payments

The Trustee has not initiated any legal proceedings and has not identified any reviewable transactions or preference payments to date. The Trustee is aware that, prior to the Receiver's appointment CRA seized approximately \$700,000 on or about March 19, 2007 from the Company's accounts pursuant to a jeopardy Order. After becoming aware of the seizure, the Receiver filed the necessary appeals in Federal Court to freeze the appropriation of those funds. The Trustee will investigate its remedies against those amounts seized pursuant to the provisions of the BIA.

Section F: Conflicts Of Interest, Details of Fee Guarantees

The reasonable professional fees and disbursements of Deloitte & Touche Inc. acting in its capacity as Trustee in Bankruptcy are expected to be paid from the bankruptcy estate. The Trustee has not been provided with any fee guarantees.

Section G: Projected Distribution and Trustee's Comments on Anticipated Asset Realization

There are a small number of issues that continue to be addressed in the receivership. However, the Trustee anticipates that the primary proceeding going forward will be the bankruptcy as the claim process is implemented and the claims are resolved. Recognizing that the receivership is not fully completed, the amount that will be available for distribution to unsecured creditors has not been determined at this time. The proceeds of realization will remain subject to a first charge in favour of the Receiver for its proper fees, costs and expenditures in concluding the balance of the receivership administration.

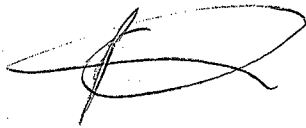
Section H: Other Matters

None.

DATED AT TORONTO, Ontario this 21st day of September 2007.

Deloitte & Touche Inc.

In its capacity as Trustee of the Estate of
I. Waxman & Sons Limited, a bankrupt
And not in its personal capacity

A handwritten signature in black ink, appearing to be 'P. van Eyk', written in a cursive style.

Paul van Eyk, CA•CIRP, CA•IFA
Senior Vice-President