

**ONTARIO SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR
ARRANGEMENT WITH RESPECT TO
BRAKE PRO, LTD.**

MONITOR'S SECOND SUPPLEMENT TO THE THIRD REPORT TO THE COURT

A. UNPAID SUPPLIERS

As reported in the Monitor's Second Report, on 25 September 2007 the Company determined that it had no choice but to shut down the plant and lay off all employees.

As also reported in the Monitor's Third Report, due to a lack of funds the Company has been unable to pay certain post-filing liabilities incurred after the date of the Initial Order. The Company has now been able to update its records and to calculate that the unpaid balance of post-filing obligations is approximately \$460,000, owed to some 100 creditors.

Based on the information available to the Monitor, it appears that there is likely to be a shortfall to the first secured creditor, being the company's operating lender, Wachovia Capital Finance (Canada) (the "Bank"), and accordingly it seems there will be no funds available for the second secured creditor, or the unsecured creditors.

This Report is filed in order to advise this Honourable Court of this matter. Furthermore, the Monitor anticipates that an extension order and possibly a transaction approval order for the sale of the machinery, equipment and intellectual property of the Company will be recommended to this Honourable Court for its approval on the return of this matter on or about October 25, 2007.

B. DISCUSSION

During the period following the Initial Order, the Company continued to pursue its business, within the parameters of a Forbearance Agreement with the Bank. During the first number of weeks operating under the CCAA, the Company exceeded forecast with respect to its income and expenses. Unfortunately, starting on or about September 10, 2007 the Canadian dollar appreciated rapidly against the US Dollar. As a result, over a two week period, the borrowing availability from the Bank was reduced by some \$400,000. The Company was not then able to meet its outstanding obligations, or to continue operations.

On September 25, 2007, the Bank advised that it would no longer support the Company. As a result, the Company had no choice but to shut down the plant and lay off its employees.

Many of the Company's suppliers had put the Company on COD, after the commencement of the CCAA proceedings. Others did not, because it was logistically impractical for them to administer COD arrangements, or because they were willing to extend credit in view of the company's ongoing financial arrangements with the Bank. However, as set out above, in view of the rapid rise of the Canadian Dollar, as against the US Dollar, the resultant significant reduction in lending availability left the Company unable to pay all liabilities incurred since the Initial Order, and unable to continue in business.

Notwithstanding the lack of any further borrowing availability, the Bank has agreed to fund certain Company obligations, including employee salary, wages and expenses up to and including the shut down on September 25, 2007, as well as other ongoing expenses required to be paid by the Company after September 25, 2007, while it undertakes a liquidation process. Some of these obligations have already been paid, and others will be funded out of the sale proceeds and liquidation efforts.

The Company has meanwhile been able to update its accounts payable records, after recalling its Accounts Payable Clerk to record all invoices received up to 16 October 2007. The Company calculates that the unpaid liabilities total about \$460,000. A listing of these amounts is attached

as Appendix "A". This includes \$38,000 for US employees' vacation pay , \$62,000 for employee benefits, \$3,400 for certain contract payments, and about \$85,500 owing to suppliers who appear to have the ability to offset against amounts due by them to the Company. Appendix "A" does not include certain outstanding employee related costs incurred up to the date of shut-down or future costs that are anticipated to be paid as ongoing costs during a self-liquidation process, since, as pointed out above, the Bank has agreed to fund such costs.

The unpaid liabilities are summarized by magnitude below:

<u>Unpaid Liability</u>	<u># of Creditors</u>	<u>Total</u>
Over \$20,000	2	\$86,211
Over \$10,000	8	118,142
Over \$5,000	9	60,893
Under \$5,000	59	64,688
Accounts Receivable setoff Anticipated	5	85,532
Employees and Individual Contractors	17	41,346
TOTAL	100	\$456,812

Notice of this report, in the form attached as Appendix "B", is being sent by ordinary mail to the known creditors listed in Appendix "A" and is being posted on the Monitor's website at www.bdo.ca/brakepro.

All of which is respectfully submitted this 22nd day of October, 2007.

BDO DUNWOODY LIMITED

Monitor

Per:



Uwe Manski, FCA, FCIRP
President

IN THE MATTER OF THE COMPANIES CREDITORS ARRANGEMENT ACT, R.S.C., 1985 c. C-36
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
BRAKE PRO, LTD.

Court File No. 07-CL-7106

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**MONITOR'S SECOND SUPPLEMENT TO THE
THIRD REPORT TO COURT**

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Appendix "A"

BRAKE PRO LIMITED
BREAKDOWN OF AP OUTSTANDING

Type	Company	Amount	Total
US Payables			
Benefits & Contracts	United Healthcare		45,636
Vacation Pay	US Employees		38,000
Lease	Pitney Bowes Credit Corp.		297
Other - Sales Rebates	VIPAR		26,942
Overhead	Carolina Water Co.	19	
	Great Lakes Customs	1,710	
	Ikon Financial Services	341	
	Link Testing	39,575	
	UPS	171	
	Yellow of Ontario	19,598	61,414
Professional Fees	Alston & Bird		3,621
Rent - Kennesaw	Maxwell Young		2,230
Trade Payables	Brake Machinery Sales	1	
	CT Corporation	320	
	D&W Clutch and Brake	7,950	
	EI DuPont	9,074	
	European Friction Ind.	3,750	
	Hawkhead Automotive	162	
	Mutual Reman. Inc.	7,102	
	Mutual Remanufacturing	18,842	
	Sirco Industries	1,014	
	Thermo Rock East	5,494	
	Western States Friction	10,827	64,535
CDN Payables			
Benefits & Contracts	Cartier, Donald	854	
	Dennis Bolden	2,492	
	Equitable Life Insurance	14,974	
	Morel Benefits Consulting	1,060	
	RBC Life Insurance	379	19,759
Lease	Irwin Commercial	331	
Lease	JH Ryder Machinery	1,383	
Lease	LIFCO Hydraulics	555	
Lease	Xerox Canada	1,180	
Lease	Yale Industrial Trucks	8,126	
Lease	GN Johnston Equipment	6,938	
Lease	York-Simcoe Mailing	274	18,788
Other - Sales Rebate	VIPAR		24,697
Overhead	Abell Pest Control	91	
Overhead	Ace Taxi	93	
Overhead	Bell Mobility	72	
Overhead	CCH Canadian Ltd.	605	
Overhead	Cintas Document Mgmt.	148	
Overhead	Cintas Limited	7,073	
Overhead	Compressors Air US	567	

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Type	Company	Amount	Total
Overhead	Digital Postage on Call	500	
Overhead	Federal Express	5,944	
Overhead	Firetronics 2000 Inc.	106	
Overhead	Four Seasons Controlled	3,825	
Overhead	GE Security Canada	157	
Overhead	GO Express Couriers Ltd.	1,413	
Overhead	Grand & Toy		
Overhead	Great Northern Data	579	
Overhead	Hummingbird Landscaping	933	
Overhead	Iron mountain	431	
Overhead	MultiCycl Inc.	1,477	
Overhead	MultiFreight Express	120	
Overhead	National Income Protection	1,227	
Overhead	NRG Innovative Solutions	403	
Overhead	Precision Elevator	312	
Overhead	Preferred Office Prod.	305	
Overhead	Proforma Total Graphics	3,248	
Overhead	Reilly's Locksmiths	14	
Overhead	Russell A Farrow	1,783	
Overhead	Technical Standards	227	
Overhead	TigerDirect.ca	227	
Overhead	Trimark Maintenance	1,670	
Overhead	UCX Freight Systems	14,119	
Overhead	UPS	2,981	
Overhead	UPS Freight	2,394	
Overhead	Waste Management	4,650	
			57,694
Trade Payables	Bodycote	286	
Trade Payables	Combat Industrial Batteries	232	
Trade Payables	Debro Chemicals	1,707	
Trade Payables	DJ Industrial Sales	650	
Trade Payables	Empire Carbide	623	
Trade Payables	Extender Minerals Canada	6,581	
Trade Payables	Grace Canada	5,684	
Trade Payables	Industrial Bottled Gas	225	
Trade Payables	LV Lomas	3,291	
Trade Payables	Nucap Industries	5,978	
Trade Payables	Premier Rivet	19,584	
Trade Payables	Brake Machinery Sales	2,703	
Trade Payables	Meritor Automotive	15,211	
Trade Payables	CCG	13,144	
Trade Payables	Simerus Incorporated	2,527	
Trade Payables	Valenite Modco	11,687	
Trade Payables	Videojet Technologies	870	
Trade Payables	Wheelabrator APC	1,846	
Trade Payables	Wikoff Colour Corp.	371	
			93,200
			<u>456,812</u>

NOTE

All US payables are denominated in US dollars, but are considered at par with CDN dollars for the totals calculation

22 October 2007

Appendix B

TO POST-FILING CREDITORS:

Dear Sirs:

Re: In the Matter of the Companies' Creditors Arrangement Act ("CCAA") and Brake Pro, Ltd. (the "Company" or "Brake Pro")

Brake Pro obtained an Initial Order of the Ontario Superior court of Justice (the "Order") pursuant to the provisions of the CCAA on July 24, 2007, which provided a stay of proceedings for an initial period expiring August, 17 2007. Subsequent extensions were granted, with the current extension expiring on October 25, 2007. The Monitor has been advised that the Company will be applying for a further extension at that time, and asking for the approval of a sale transaction.

We understand that you may be a post-filing creditor of Brake Pro for obligations incurred subsequent to the Order. Accordingly, we refer you to the Monitor's Second Supplement to the Third Report to the Court which is posted on our website, at www.bdo.ca/brakepro, as it outlines the events which caused Brake Pro's rapid collapse, and resultant inability to pay all of its post-filing obligations.

Should you require a paper copy of the report, please so advise.

If on reading the report, you have any questions, please contact Christopher Porter, at 416-865-0210 or by email to cporter@bdo.ca.

Yours very truly,
BDO DUNWOODY LIMITED
Monitor
Per:

Uwe Manski, FCA, FCIRP
President

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