Schedule "A"

Court File No. 03-CL-5101

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 PLAN OF COMPROMISE OR ARRANGEMENT OF AJAX PRECISION MANUFACTURING LIMITED

APPLICANT

TENTH REPORT TO THE COURT SUBMITTED BY BDO DUNWOODY LIMITED IN ITS CAPACITY AS MONITOR

SEPTEMBER 21, 2004

INTRODUCTION

1. On August 7, 2003, Ajax Precision Manufacturing Limited ("Ajax") made an application under the *Companies' Creditors Arrangement Act* (the "CCAA") and obtained an initial order (the "Initial Order") of the Honourable Mr. Justice Farley of the Ontario Superior Court of Justice (Commercial List) (the "Court") which granted, *inter alia*, a stay of proceedings against Ajax (the "Stay Period") and appointed BDO Dunwoody Limited as Monitor (the "Monitor") and Prowis Inc. as Chief Restructuring Officer ("CRO"). The proceedings commenced by the Company under the CCAA are referred to herein as the "CCAA Proceedings". There have been a number of extensions of the Initial Order, with the most recent extension expiring November 1, 2004.

2. The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this Report. Any use which any party, other than the Court, makes of this Report, or any reliance on or decision to be made based on it is the responsibility of such party.

PURPOSE OF THE REPORT

3. The purpose of this, the Monitor's Tenth Report, is to outline the provisions of a Plan of Compromise and Arrangement, as filed by Ajax on September 17, 2004, and to advise of the Monitor's recommendation in support of the Plan as filed.

BACKGROUND

4. Ajax was a "Tier-I" manufacturer supplying the automotive industry with stamped and welded parts. Ajax operated out of three facilities in and around Toronto.

5. As stated in the Introduction, Ajax commenced CCAA proceedings on August 7, 2003. After having unsuccessfully conducted a search for a purchaser of the business on a going-concern basis, Ajax proceeded with an orderly liquidation of its assets, with the direct assistance and input of the CRO. To date, substantially all assets have been liquidated with the exception of certain company-owned real estate. A statement of

actual and projected net realizations prepared by the CRO as of the date of this Tenth Report is attached hereto as Exhibit "A", showing a net realization balance of $26.3 million to date after costs, and additional net realizations from the real estate less further accrued costs, that are projected to total between $6.3 and $7.1 million thereby generating a potential net total realization of between $32.65 million and $33.40 million. These funds would be available for distribution to both secured and unsecured creditors in accordance with their determined entitlement subject to additional costs of administration.

6. The sole shareholder of Ajax is Permian Industries Limited ("Permian"). Permian claims that it holds valid and enforceable security over all of the assets of Ajax. Permian obtained its security from Ajax in December 2002, some eight months before the commencement of the CCAA Proceedings. At the time that Permian took its security it had outstanding unsecured debt of $22,325,948. The Monitor has satisfied itself that this obligation is bona fide. Upon the granting of the security, Permian made a further advance of $4,484,584. Significantly, the new security extended to both the old debt and the new advance. With ongoing interest calculated at prime + 2% on its advances, a guarantee fee of $60,000 plus other fees and costs, Permian calculates that the total balance owing to it as at September 30, 2004 is about $30,744,000.

7. By December 2002, Ajax was suffering serious losses on a regular monthly basis and was attempting to effect a return to profitability. It had lost about $13 million during the preceding twelve months, Permian had been required by Ajax's bank to inject additional funds to begin to cover these losses, and Permian had made significant management changes in Ajax including the introduction of a new CEO who specialized in turnarounds. At that time, the new management indicated that it believed that it could reverse Ajax's financial circumstances. However, the company continued to incur losses from January 1, 2003 to July 31, 2003 of approximately $12 million. Despite these losses, Ajax's bank loan was not in default and it was paying its trade liabilities in line with its usual practice.

8. In the course of the CCAA proceedings of Ajax, questions arose as to the validity of Permian's security. A challenge to Permian's security, if brought, would be based primarily on the preference provisions of the *Bankruptcy and Insolvency Act* ("BIA").

The reason that the BIA rules are relevant is that, although Ajax is presently in a CCAA proceeding, a failure of its plan would likely result in bankruptcy thus bringing the BIA into play. Sections 95 and 96 of the BIA provide that security granted by a debtor in favour of a related party at a time when it is insolvent is presumed to be void. In this case, it can be argued that the security granted is void, at least as to the $22,325,948 which was outstanding to Permian and unsecured on the date the security was granted, if an initial bankruptcy event occurs within one year of the date of the grant of the security. The one year requirement has been satisfied in this case because Namasco Limited issued a Bankruptcy Petition within the required period. The rebuttal argument by Permian would be that Ajax was still solvent when it granted the security to Permian, and that, accordingly, the presumption of preference does not apply.

9. As per the Comparative Analysis of Alternative Scenarios, attached as Exhibit "B", if the Permian security is valid, the amount which is projected to be available to unsecured creditors after satisfaction of Permian's entire claim would range from NIL to $2.4 million. The low range estimate of NIL assumes that additional funds would be expended to unsuccessfully litigate the validity of the Permian security and that additional interest charges would continue to increase the total of Permian's secured claim. The $2.4 million projected high range under this scenario assumes that Permian's security position would be considered valid without challenge and resultant related legal and other professional costs and ongoing interest. This high range further assumes that the realization from Ajax's presently unsold real estate will be essentially as reflected in Exhibit "A" hereto. (Purchase agreements have been signed for the Etobicoke and Mississauga locations, but the deals have not yet closed). While the total amount of unsecured claims may still be impacted by several filed claims that are subject to dispute and a determination as to their quantum, this estimated range of net funds available for distribution would yield between NIL and 14.5 cents on the dollar for Ajax's unsecured creditors.

10. On the other hand, if Permian's asserted security claim is not fully valid, there could be a much higher recovery for unsecured creditors. There are, however, two points of note. First, the Monitor has received an opinion from its legal counsel that Permian's claim for the $4.5 million in new money advanced on January 30, 2003 plus almost $1 million

accrued interest and costs thereon would most likely be upheld as a valid secured claim ranking in priority to the claims of unsecured creditors. Secondly, if the balance of Permian's claim is held to be unsecured, that balance, being almost $25.5 million, would still constitute the largest unsecured creditor claim entitled to share in the distribution to Ajax's unsecured creditors. As indicated in Scenario 3 of Exhibit "B", the aggregate of such unsecured creditor claims including Permian would total between $42 million and $44 million. As such, after allowing from $650,000 to $1,300,000 for costs of litigation and additional interest, the net realization proceeds available to unsecured creditors would range from approximately $25.85 million to $27.25 million which, based on the above referenced combined range of unsecured claims (i.e. $42 million to $44 million) is estimated to result in a dividend to Ajax's unsecured creditors, including Permian, of between 58.7 cents and 64.8 cents on the dollar.

11. The key factual issue in determining the validity of the Permian security, we are advised, is the question of whether Ajax was solvent in December 2002 when it took its security. A debtor is insolvent within the meaning of the BIA if it is failing to pay creditors (the "Cash Flow Test") or if the amount of its debts exceeds the value of its assets (the "Balance Sheet Test"). It is the Monitor's view that since there was no material deviation from historical payment patterns, which saw Ajax generally meet its obligations when due and accruing due, it would be difficult to argue that Ajax did not meet the Cash Flow Test in December 2002 when Permian's security was taken. Accordingly, the issue as to solvency turns mostly on the question of whether in December 2002 the value of Ajax's assets exceeded its liabilities due and accruing due and whether it was reasonably foreseeable that Ajax would become insolvent.

12. The Monitor has conducted an extensive review and analysis of Ajax's solvency as at December 2002. Based on the successful results of the liquidation process initiated from August 2003, Permian argues that if Ajax had commenced a similar liquidation in December 2002, Ajax would have been able to pay all of its debts at that time in full, and that it was therefore solvent when Permian took its security in December 2002. This result occurs because $12 million of losses which Ajax incurred between January 2003 and the commencement of the CCAA Proceedings would not have been incurred, and therefore, in Permian's view, the claims of creditors would have been lower by a similar

amount. The Monitor believes that this point is far from clear and requires assumptions as to solvency, made with the benefit of hindsight. In fact, Permian in December 2002 chose to continue the operations of Ajax; it did not choose to liquidate.

13. It is also of note that the results of Ajax's liquidation produced a recovery which greatly exceeded what was anticipated at the commencement of the CCAA Proceedings due to a series of favourable events which occurred even though many were far from certain at the outset and would in many like cases have failed to materialize. In litigation, an issue could be raised as to whether in valuing Ajax's assets for solvency purposes in December of 2002 the higher than usual value actually achieved should be used instead of the much lower amount that would likely have been predicted by a competent liquidator at the time of commencement of the liquidation process.

14. Nonetheless, the issue of solvency or insolvency is arguable either way and would likely require protracted litigation and expert testimony to determine precisely.

CLAIMS PROCEDURE

15. On April 29, 2004 the Ontario Superior Court of Justice (Commercial List) issued an Order (the "Claims Bar Order") ordering the Monitor to mail to all known creditors of Ajax as at August 7, 2003 a copy of the Notice to Creditors and a Proof of Claim together with detailed instructions on its completion. The court also instructed the Monitor to place a notice in the national edition of the Globe and Mail inviting parties to file a proof of claim with the Monitor. In addition, the Court ordered that the claims bar date (final date to submit a claim) be May 31, 2004 at 5pm (the "Claims Bar Date"). By operation of the Claims Bar Order, any claim against Ajax not submitted by the Claims Bar Date was forever barred and extinguished.

16. The Monitor mailed the required notice and Proof of Claim to all known creditors and placed an advertisement in the Globe and Mail National Edition on Thursday, May 6, 2004. In addition, the Monitor also created a web site that was referred to in the advertisement to help creditors file their claim and access the Proof of Claim and instructions online.

17. By the Claims Bar Date, the Monitor had received 248 claims valued at approximately $10.12 million, plus an additional 29 claims for $13.2 million that are being disputed. In total, 277 claims aggregating $23.32 million were received. Most of the disputed claims are represented by 4 claims amounting to $9.6 million. The Monitor is attempting to negotiate settlements with respect to the disputed claims; however, if reasonable settlements cannot be reached and it is in the best interests of the creditors of Ajax in general as determined in consultation between the Monitor and the inspectors to be elected under the terms of the Plan, the Monitor is prepared to litigate.

THE PLAN

18. This summary is an overview only and reference should be made to the Plan itself for specific details. Creditors are cautioned to seek advice from counsel if necessary in order to fully understand the Plan and how it may impact on their own particular situation.

19. The Plan, as recently filed by Ajax, is designed to propose a settlement of the above described issue regarding Permian's security. This settlement has been negotiated at length between the Monitor, Ajax and Permian. The Plan provides for the establishment of a fund of $6.6 million called the Unsecured Creditor Fund which will be available to make payments to all unsecured creditors of Ajax with valid proven claims. Creditors with valid proven claims will share in this fund on a pro rata basis. An initial distribution of the money in the Unsecured Creditor Fund will be made within 30 days of the Effective Date of the Plan, subject to reserves for disputed claims and the cost of dealing with same and other administrative matters.

20. The Unsecured Creditor Fund will be the sole source of recovery for any claim that can be made by any person (other than Permian) against Ajax, its property or its officers and directors, such that the balance of the realization from the assets of Ajax will flow to Permian. Permian will agree not to claim against the Unsecured Creditor Fund, either as a secured or unsecured creditor. In return for this concession, other creditors accept that Permian's claims and security are valid, and agree to waive any other claims they might

have against Permian, Ajax, its property or its directors and officers, as well as the CRO and the Monitor.

21. Ajax will pay all fees and professional costs up to the date of the filing of the Plan, being September 17, 2004. The fees of the Monitor and its counsel for work done after this date will be paid out of the Unsecured Creditor Fund. There are certain disputed claims which are not yet resolved and which may need to be litigated. The Plan provides for the election of inspectors to advise the Monitor concerning the resolution or settlement of these claims, establishing cost reserves related to litigation and to deal with other administrative matters which may arise.

22. The Plan provides for timely distribution of the fund to the creditors, delayed only by the need to resolve disputed claims. The inspectors to be appointed will assist the Monitor in determining whether a partial distribution can take place prior to final settlement of the disputed claims. The Monitor is not at present able to forecast whether such a partial payment is practical; this will depend on the course of ongoing negotiations with the claimants.

23. The creditors will meet at 11 a.m. on October 15, 2004, at the Holiday Inn Select Toronto Airport, MacDonald Room, 970 Dixon Road, Toronto, to vote on the Plan. To accept the Plan, a simple majority of the number of eligible creditors represented at the meeting must vote in favour, but the dollar value of the claims of the supportive creditors must represent at least two-thirds of the total dollar value of all undisputed claims represented at the meeting (50% majority plus one creditor, and 66 2/3% of the debt).

24. If the Plan is accepted by Ajax's creditors, the Monitor projects, as per Scenario 4 of Exhibit "B", that creditors will receive between 33.5 cents and 38.8 cents on the dollar depending on the resolution of outstanding disputed claims and the costs incurred in dealing with same. The Plan proposes a settlement that represents an equitable split of the difference between

(i) Permian being successful in sustaining a fully secured claim for all of its loans, interests and costs and,

(ii) the unsecured creditors being successful in challenging the larger portion of Permian's claim as being secured.

RECOMMENDATION

25. The Monitor recommends acceptance of the Plan. Compared with the uncertain prospects of success in challenging Permian's position as being secured for the full amount of its claim and the potential for diminishing the asset realization otherwise available for distribution due to additional costs related to the litigation, the Plan provides unsecured creditors with an assured recovery. Even if ultimately successful, litigation would likely be lengthy and result in a significant delay in realizing any recovery for unsecured creditors. The Monitor estimates that the proceedings could last up to three years. It is also unclear whether there would be sufficient undisputed funds available to fund the litigation. If the plan is accepted, the estimated range of recovery will vary only due to presently unresolved disputed claims filed with the Monitor. The Monitor believes that the Plan provides certainty, minimizes ongoing costs and enables the unsecured creditors to receive an imminent monetary recovery rather than waiting over an extended period of time for an uncertain payment or no payment at all.

All of which is respectfully submitted.

BDO DUNWOODY LIMITED

Per:

Uwe Manski, FCA, FCIRP

President

EXHIBIT A

Ajax Precision Manufacturing Limited

Projected Post Filing Assets & Liabilities

As at September 30, 2004

	Range	
	CDN $	CDN $
	(' 000)	(' 000)
Assets		
Cash	26,340	26,340
Accounts Receivable	-	250
Real Estate (Note 2)	7,800	8,300
Total Assets	34,140	34,890
Liabilities		
Capital Tax	200	200
Professional Fees to Sep. 30	1,290	1,290
Total Liabilities	1,490	1,490
Projected Surplus	32,650	33,400

Note 1: The above is an estimate prepared by the CRO and actual results may vary.

Note 2: The real estate values are based on the average of two appraisals with an allowance for legal fees, closing costs, carrying costs, and remedial costs incurred to date. There is a further provision for future remedial costs which may be required once full environmental and engineering studies have been completed by potential purchasers as part of their due diligence.

Note 3: There will be additional professional fees (other than those incurred by the Monitor and its counsel who are to be paid out of the Funds paid by Ajax to the Monitor,) incurred by Ajax on an as needed Basis. No provision has been made in this regard in this calculation.

EXHIBIT B

Comparative Analysis of Alternative Scenarios

The following is a brief analysis of the different scenarios being presented to the creditors of Ajax to help them make a more informed decision and evaluate the benefits and risks associated with each scenario. These scenarios outline the likely results that would flow from the possible decisions that creditors could make concerning the acceptance or challenge of the validity of Permian's security.

Scenario 1
Entire secured claim is valid. No challenge by Monitor

	Scenario 1 High	Scenario 1 Low
Funds Available for Distribution	$33,400,000	$32,650,000
Permian's Secured Claims	$31,000,000	$31,000,000
Funds available for Unsecured	$2,400,000	$1,650,000
Unsecured Claims	$16,500,000	$18,500,000
Est. Dividend to Unsecured	14.50%	8.90%

Scenario 2
Security is valid. Monitor unsuccessful with challenge

	Scenario 2 High	Scenario 2 Low
Funds Available for Distribution	$33,400,000	$32,650,000
Permian's Secured Claims	$31,000,000	$31,000,000
Available for Unsecured Creditors	$2,400,000	$1,650,000
Additional Costs of Challenge		
• Additional Interest	$900,000	$1,700,000
• Additional Professional Costs	$500,000	$ 700,000
Adjusted funds Available to Unsecured	$1,000,000	NIL
Unsecured Claims	$16,500,000	$18,500,000
Est. Dividend to Unsecured	6.00%	NIL

Scenario 3
Only Advance after Dec 2002 is valid. Monitor challenges balance of security and is successful

	Scenario 3 High	Scenario 3 Low
Funds Available for Distribution	$33,400,000	$32,650,000
Permian's Secured Claims	$5,500,000	$5,500,000
Funds Available for Unsecured	$27,900,000	$27,150,000
Additional Costs of Challenge		
• Additional Interest	$150,000	$300,000
• Additional Professional Costs	$500,000	$1,000,000
Funds Available to Unsecured	$27,250,000	$25,850,000
Unsecured Claims	$42,000,000	$44,000,000
Est. Dividend to Unsecured	64.80%	58.70%

Scenario 4
Unsecured Creditor Fund of $6.6 Million

	Scenario 4 High	Scenario 4 Low
Funds Available for Unsecured	$6,600,000	$6,600,000
Estimated Costs to Distribute	$200,000	$400,000
Adjusted Funds Available to Unsecured	$6,400,000	$6,200,000
Unsecured Claims	$16,500,000	$18,500,000
Est. Dividend to Unsecured	38.80%	33.50%

Commentary on different scenarios

Scenario 1 – This scenario should be used as the base model since it shows what the unsecured creditors would receive if Permian successfully asserts its full claim. In that event there would be an estimated dividend of 8.90 to 14.50 cents on the dollar.

Scenario 2 – This scenario contemplates that the Monitor challenges the secured claim and is not successful, resulting in additional professional charges and interest costs. Under this scenario there is a risk that creditors would not receive a dividend.

Scenario 3 – This scenario contemplates that the Monitor challenges the security and is successful with the exception of the new funds and related charges that were advanced after the security was taken. This scenario provides for an estimated dividend of 58.7 to 64.8 cents on the dollar. While this scenario provides the best possible dividend for unsecured creditors, there could be a timeline of up to three years to see litigation to a conclusion, and there is an estimated risk of between 25% to 50% of being unsuccessful (based on legal advice from the Monitor's counsel), and thereby reverting back to the scenario 2 recovery between NIL and 6 cents on the dollar to unsecured creditors.

Scenario 4 – In the Monitor's opinion, the Plan represents a reasonable compromise, will reduce ongoing interest and professional charges and will result in a timely dividend being paid to unsecured creditors, and provide a certainty of recovery.