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21 September 2004

TO THE CREDITORS

*Re: In the Matter of the Plan of Compromise and Arrangement of
Ajax Precision Manufacturing Limited, and the matter of the
Companies' Creditors Arrangement Act (CCAA)*

PURPOSE OF THIS LETTER

This letter is prepared by BDO Dunwoody Limited, the Court-Appointed Monitor of Ajax Precision Manufacturing Limited, for the purposes of providing background facts and details pertaining to Ajax's insolvency, and the Monitor's analysis and its recommendation in favour of the Plan of Arrangement which is to be voted on by the creditors of Ajax at a meeting of creditors called for October 15, 2004.

DOCUMENTS ATTACHED

Attached to this letter is a copy of the Plan of Arrangement, a proxy form, and a copy of the Notice calling the meeting of October 15, 2004, to be held at 11 a.m. at the Holiday Inn Select Toronto Airport, 970 Dixon Road, Toronto, ON. Additionally, we attach a copy of the Monitor's Tenth Report to Court, which explains the Plan in more detail, and includes two exhibits which will be helpful to you in reaching a decision whether or not to support the Plan.

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BACKGROUND

Ajax commenced CCAA proceedings on August 7, 2003 by obtaining an Initial Order of the Honourable Mr. Justice Farley of the Ontario Superior Court of Justice (Commercial List) which granted, amongst other things, a Stay of

Proceedings, appointed BDO Dunwoody Limited as Monitor, and appointed Prowis Inc. as Chief Restructuring Officer (the "CRO"). There have been a number of extensions of that Initial Order, with the most recent extension expiring November 1, 2004.

Immediately after the issuance of the Initial Order, the Monitor forwarded to every known creditor of Ajax with a claim of over \$5,000, a copy of that Order as directed by the Court. There have been no other formal communications with the creditors until May of this year, when it became evident that there would likely be funds available for the creditors. The Monitor has, however, been contacted informally by many creditors, over the months, and has informed them of then current events, to the best of its ability.

By August 2003, Ajax had been incurring regular and significant monthly operating losses for a period of at least 19 months. It had lost about \$13 million during the calendar year ended December 31, 2002, and had incurred further losses of approximately \$12 million during 2003 to the date of filing for protection, on August 7, 2003. Despite these losses, Ajax's bank loan was not in default and it was paying its trade liabilities in line with its usual practice. This was because prior to the end of 2001, Ajax had been quite profitable, and had built up sufficient surpluses to be able to weather an extended period of financial downturn. By the end of December 2002, the bank, however, required Permian Inc., the parent company of Ajax, to commence funding operating losses. As a result, at the end of January 2003, Permian advanced approximately \$4.5 million to Ajax on account of losses incurred in the last quarter of 2002. In anticipation of that need for funding, Permian obtained from Ajax a General Security Agreement providing security on all of the assets of Ajax, not only for the \$4.5 million dollar loan to be made, but also for the then outstanding debt to Permian of approximately \$22.5 million, which had accumulated over a number of years, and had not previously been securitized.

In the fall of 2002, in recognition of the unprofitable situation in which Ajax found itself, Permian had replaced management of Ajax with new turnaround management mandated to restore Ajax to profitability. At the beginning of 2003, it appeared for a short while that the new management might be successful in its endeavours, as monthly losses started to decline, although they were still significant. However, by about April 2003 the monthly losses increased even beyond earlier levels, and Permian by the beginning of August concluded that it could not continue to financially support Ajax and that no turnaround was forthcoming. As a result, Ajax acknowledged its insolvency and on 7 August 2003 filed for protection, under the CCAA.

The mandate of the CRO was to attempt to restructure the operations of Ajax so as to return it quickly to profitability and, if that was not immediately possible, to seek a wind-down of its operations and/or sale of the business, on a going concern basis. The three main customers of Ajax, including particularly General Motors, after protracted negotiations with the CRO entered into a temporary supply agreement for a period of 4 months, agreeing to pay reasonable prices, on an accelerated basis, for all product which could be produced for them by Ajax during the period ending December 19, 2004, by which time the customers hoped to either approve an acceptable purchaser for the business or to have arranged alternate supply. During the intervening period, the CRO was authorized to try to sell the business on a going concern basis. Eventually, no buyer acceptable to the customers could be found, at prices acceptable to Ajax, the CRO or the Monitor.

As a result, by the end of December 2003 it became necessary to winddown the operations of Ajax and liquidate the assets.

Contrary to earlier expectations, the operations of Ajax during the wind-down period were quite profitable, and additionally it was possible to collect outstanding accounts receivable and sell inventories at attractive prices. Accordingly, it was possible to pay off existing bank indebtedness, pay all costs of operations, and realize surplus funds for the benefit of creditors, whether secured or unsecured. Further, this surplus was then augmented by proceeds from the sale of machinery and equipment, and will be further augmented on completion of the sale of the three plants of Ajax, located in Brampton, Etobicoke and Mississauga.

At present, funds on hand in the bank account of the Monitor and of the CRO total approximately \$24 million net of all costs to date, and these funds are expected to increase to between \$32.65 and \$33.4 million once the real estate has been sold.

PERMIAN'S SECURITY

Questions have arisen as to the validity of Permian's security, obtained about eight months prior to the acknowledged insolvency of Ajax. These issues are fully explained in the Monitor's Tenth Report to the Court (the "Monitor's Report"), a copy of which is provided to you herewith. The issues involve the question of solvency or insolvency of Ajax in December 2002 when the security was taken, and whether the granting of the security represented a fraudulent preference under the *Bankruptcy and Insolvency Act*.

THE PLAN OF COMPROMISE AND ARRANGEMENT

As explained in the Monitor's Report, the Plan of Arrangement, as filed by Ajax on September 17, 2004, is designed to propose a settlement of the above described issues regarding Permian's security. This settlement has been negotiated at length between the Monitor, Ajax and Permian. The Plan proposes a settlement that represents an equitable split, at roughly 50/50, of the difference between the distribution unsecured creditors would receive if:

1. Permian was successful in sustaining a fully secured claim for all of its loans, interest and costs,
and the distribution unsecured creditors would receive if
2. the unsecured creditors were successful in challenging the larger portion of Permian's claim as being secured.

If the Plan is accepted by Ajax's unsecured creditors, the Monitor projects that creditors would receive a dividend of between 33.5 cents and 38.8 cents on the dollar depending on the resolution of a small number of large dollar disputed claims and the costs incurred in dealing with same.

Creditors should also review Exhibit "B" of the Monitor's Report, which sets out four scenarios which were considered by the Monitor in deciding whether to litigate or settle.

The Plan is attached to this letter, and its terms are further explained in the Monitor's Report.

Article 2 of the Plan provides that \$6.6 million will be paid by Ajax to the Monitor, for distribution to all creditors other than Permian. Permian will release its claim to security over this amount. In exchange, creditors would release Ajax, Permian, Prowis (the CRO) and the Monitor from any claims they might otherwise have, and accept that Permian's claims and security are valid. The Monitor would distribute the funds within 30 days of the "Effective Date", being the date the Monitor certifies that the required majority of creditors have approved the Plan, that the Court has approved it, that there is no stay or appeal from the Court Order, and that all other actions required to implement the Plan have been completed. This is further set out in Articles 4.1 and 4.2 of the Plan.

Article 3 clarifies that a creditors' meeting will take place on 15 October 2004, at 11:00 a.m., 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 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)

Provided the Plan is approved by the required majority of creditors, Ajax undertakes in Article 5.1 of the Plan to seek Court Sanction of the Plan on October 29, 2004.

Creditors are urged to read the Plan carefully, and to contact the Monitor with any questions or concerns.

CLAIMS PROCEDURE

As described in the Monitor's Tenth Report to Court, a claims procedure has already been conducted, and the creditor's claims reviewed, accepted and tallied, subject to a small number of large dollar claims being disputed.

RECOMMENDATION

The Monitor recommends acceptance of the Plan, since 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.

Should you have any questions or concerns, please do not hesitate to contact the Monitor at any time, by calling the writer at 416-369-3072 or email at umanski@bdo.ca, or his associate Clark McKeown at 416-369-6126, or email cmckeown@bdo.ca.

Yours very truly,
BDO DUNWOODY LIMITED
Monitor
Per:



Uwe Manski, FCA, FCIRP
President

/bc
Encl.