

**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 THIRD REPORT TO THE COURT

A. INTRODUCTION

BDO Dunwoody Limited (the "Monitor") was appointed Monitor of Brake Pro, Ltd. (also referred to as "Brake Pro", the "Applicant" or the "Company") by an Initial Order of the Honourable Mr. Justice Stinson of the Ontario Superior Court of Justice on 24 July 2007 (the "Initial Order"), pursuant to the application (the "Application") to the Court by the Applicant for protection from its creditors under the *Companies' Creditors Arrangement Act* (the "CCAA"). The Applicant was granted protection for an initial period of 24 days until 17 August 2007 (the "Stay Period").

The Application was made on notice to the Applicant's major secured creditor, Wachovia Capital Finance Corporation (Canada) ("Wachovia" or the "Bank"), which did not oppose the Initial Order. Pursuant to the Initial Order, Wachovia is an unaffected creditor.

On 23 July 2007, Brake Pro entered into a Forbearance Agreement with Wachovia (the "Forbearance Agreement"), pursuant to which Wachovia agreed to extend credit to Brake Pro through the CCAA process subject to various conditions.

In addition to the Stay Period, the Initial Order authorized Brake Pro and the Monitor to undertake a sale process (the “Sale Process”) whereby the assets of the Company would be marketed for sale as a going-concern.

By Order dated August 17, 2007, Justice Spence granted an extension of the stay of proceedings established in the Initial Order, to October 1, 2007. On October 1, 2007, Justice Campbell granted a further extension of the stay of proceedings to October 15, 2007 (the “Second Extension Order”) to determine if a going-concern sale was possible and, in the alternative, for the Company, with the assistance of the Monitor, to prepare a winding-up plan.

The purpose of this report is to advise the Court on the following:

- (a) Brake Pro’s activities since the last report of the Monitor;
- (b) The Monitor’s activities to date;
- (c) Brake Pro’s planned activities during the requested extension of the Stay Period to October 25, 2007.

This Report is filed in order to recommend in favour of Brake Pro’s request for an extension of the Stay Period to October 25, 2007. The Monitor will provide a more detailed report on the return of this matter on or about October 25, 2007.

B. EXECUTIVE SUMMARY

In summary, the Monitor reports as follows:

- The Company continues to collect accounts receivable and to sell inventory, at market prices to customers;
- The Company and the Monitor have been seeking a going-concern or en-bloc offer for the assets. Several parties have expressed interest and two offers have been received for the intellectual property, the machinery and the equipment of the Company; and
- The Company with the assistance of the Monitor and the Bank’s consultants, Lissner Associates Limited, has drafted a winding-up plan to realize on the assets of the Company for the benefit of the creditors.

Terms of Reference

The information contained in this report has been obtained from the accounting records of Brake Pro and is based on discussions with, and representations made by management, including in particular Mr. Russ Armer, President.

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

Capitalized terms not otherwise defined are as defined in the Initial Order and/or in the Affidavit of Russell Armer, sworn 23 July 2007. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

C. BACKGROUND

As previously reported, Brake Pro and the Monitor pursued the marketing timetable established in agreement with Wachovia. A number of interested parties were identified and information was distributed. Four potential purchasers submitted expressions of interest or letters of intent. Two potential bidders conducted substantial due diligence while a third was interested in conducting due diligence but was unable to meet the deadline. Notwithstanding the extensive due diligence conducted, no binding offers were submitted by the September 19, 2007 deadline. As a result, a condition of the Forbearance Agreement entered into between Brake Pro and Wachovia was not met.

During the period following the Initial Order, the Company continued to pursue its business, within the parameters of the Forbearance Agreement. 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 Wachovia was reduced by some \$400,000. The Company was able neither to meet many of its obligations nor to purchase new raw materials.

On September 25, 2007, Wachovia advised that it would no longer support the Company. The Company determined that, in the circumstances, it had no choice but to shut down the plant and lay off all employees.

Employees were paid up to and including September 25, 2007. However, due to the lack of funds, the Company has been unable to pay certain liabilities incurred since the Initial Order. These unpaid liabilities are still being quantified at this time. Based on the information available to the Monitor, it appears that there will be a shortfall to the Bank.

D. BRAKE PRO'S ACTIVITIES SINCE THE ISSUANCE OF THE SECOND EXTENSION ORDER

With the consent of the Bank, the Company called back a small number of employees on a day-to-day basis in order to maintain the computer and accounting systems, to maintain the security of the plant, negotiate and collect accounts receivables, and organize the inventory and machinery and equipment for a potential sale.

With the assistance of the Monitor and the Bank's consultants, Lissner Associates Limited, The Company has developed a winding-up plan to realize on the assets of the Company for the benefit of its creditors. This draft plan, which has been reviewed by Wachovia, includes the ongoing collection of Accounts Receivable and the marketing of the Inventory to customers of the Company. The draft plan is in the process of being finalized. It is anticipated that this plan will be presented to this Honourable Court for its approval on the return of this matter on or about October 25, 2007.

As of October 9, 2007, the Company has collected some \$580,000 from the accounts receivable and has continued to sell inventory at market prices to customers. All funds received have been

paid into the lockbox arrangement maintained in favour of Wachovia as permitted by the provisions of the Initial Order.

As well, the Company and the Monitor have been seeking either a going-concern or an en-bloc offer for the assets. The Monitor and the Company have been working with several parties, including several new parties, with interest in blocks of assets. At the time of writing, two offers have been received for the intellectual property and the machinery and equipment of the Company. It is anticipated that a specific transaction will be recommended to this Honourable Court for its approval on the return of this matter on or about October 25, 2007.

E. EXTENSION OF THE STAY PERIOD

An extension of the Stay Period to 25 October 2007 will allow the Applicant time to negotiate a sale of the machinery and equipment and intellectual property, to finalize arrangements for a realization process, to continue the collection of accounts receivable and the sale of inventory to customers at the best possible prices under the circumstances.

F. RECOMMENDATION

The Monitor reviewed a draft copy of this Report with Brake Pro's management who concurred with the factual content of same.

The Monitor is of the view that Brake Pro is acting in good faith and with due diligence. Based on the information currently available, the Monitor believes that creditors would not be materially prejudiced by an extension of the Stay Period and recommends that this Honourable Court approve an extension of the Initial Stay of Proceedings until October 25, 2007.

The Monitor therefore makes this Report in support of an Order:

(a) Extending the Stay Period to October 25, 2007.

All of which is respectfully submitted this 11th day of October, 2007.

BDO DUNWOODY LIMITED

Monitor

Per:

A handwritten signature in black ink, appearing to read 'ced mck', is written over the printed name of Clark McKeown.

Clark McKeown, CFE, CA, CIRP
Senior Vice-President

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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 THIRD REPORT TO COURT

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