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 FINCORE INDUSTRIES INC.

FIRST REPORT OF THE MONITOR
BDO DUNWOODY LIMITED

INTRODUCTION

1. On September 15, 2004, Fincore Industries Inc. (hereinafter referred to as "Fincore" or the "Company") made an application under the *Companies' Creditors Arrangement Act* (the "CCAA") and obtained an order (the "Initial Order") of the Honourable Madam Justice Pepall of the Ontario Superior Court of Justice (Commercial List) (the "Court") which granted, *inter alia*, a stay of proceedings against the Company until October 15, 2004 (the "Stay Period") and appointed BDO Dunwoody Limited as monitor (the "Monitor"). A copy of the Initial Order is attached as *Exhibit A*.

2. The purpose of this report, is to inform the Court regarding the following:
   i) Background information related to Fincore;
   ii) A summary of Fincore's finances;
   iii) Events leading up to the filing for protection;
   iv) Fincore's activities since the commencement of the CCAA proceedings;
   v) The Monitor's activities to date;
   vi) The Company's cash flow during the period from September 15, 2004 to

September 30, 2004, and projected cash flow for the months of October, November and December 2004;

vii) The Company's planned activities for the period of the requested extension to the Stay Period; and

to recommend in favour of Fincore's request for an extension of the Stay Period to December 15, 2004.

3. The information contained in this report has been obtained from the accounting records of the Company and is based on discussions with, and representations made by management of Fincore, including in particular Mr. Sheldon E. Gross and Mr. Siri Sugirthalingam, CGA, the Company's controller.

4. 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.

5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the Initial Order.

BACKGROUND

6. Fincore is incorporated under the laws of Ontario, with its head office in Toronto. The Company was established in 1992 and commenced operations in 1993. All of the common shares of the Company are owned by Mr. Sheldon E. Gross, who has been a Director of the Company since its inception, and has been actively involved in its day-to-day management.

7. Fincore carries on business as a Tier II supplier to the automotive trade, providing Electrodeposition (E-coat), Powder and Liquid (Base/Coat/Clear) coating services for both metal and plastic substrates. Products include wheels, antennas and seat risers for Tier I suppliers who ship their components to General Motors, Nissan, Chrysler, Bentley, Honda and Ford. Fincore is located in a 115,000 sq. ft. plant located at 10 Medford Drive, Units 1-12, Scarborough, Ontario.

8. Fincore presently employs approximately 80 unionized workers, who are members of the United Steelworkers of America. Additionally, there are approximately 20 non-unionized management and office employees.

FINANCIAL

9. Over the last number of years, Fincore's operating performance has created significant losses. As discussed herein, Fincore has been impacted by a fire in April 2000 and a large customer's CCAA filing 2001. For its last four fiscal years ending 31 October, its performance was as follows (in thousands):

	2004 (10 months to 31 Aug.)	**2003**	**2002**	**2001**	**2000**
Sales	$10,169	$13,488	$11,174	$ 7,536	$11,884
Gross Profit Margin	17.3%	3.1%	19.4%	7.7%	17.1%
Pre-Tax Profit (Loss)	$(1,981)	$ (3,006)	$(1,308)	$(1,762)	$ 814

As can be seen, the gross profit margin has fluctuated significantly over the period, and losses were incurred in every year other than 2000.

10. The audited financial statements for the year ended October 31, 2002, with comparative figures for the year ended October 31, 2001, were attached as Exhibit D to the affidavit of Sheldon E. Gross, sworn September 14, 2004, which supported the Company's filing for protection on September 15, 2004; and the Company's internally prepared financial statements for the year ended October 31, 2003, which were included as part of the 2004 interim financial statements attached to the same affidavit, as Exhibit E. The audit for the 2003 fiscal year was commenced, but not completed to save costs. Copies of this material can be obtained from the Monitor's web site **www.bdo.ca/fincore.**

A summary of the assets and liabilities of the Company for the same period, based on the above financial statements, indicates the following (in thousands):

	Aug. 31 2004	**Oct. 31 2003**	**Oct. 31 2002**	**Oct. 31, 2001**	**Oct. 31 2000**
Current Assets *(Note 1)*	$ 1,089	$1,555	$1,085	$ 664	$1,303
Capital Assets *(Note 2)*	609	614	400	2,048	1,830
	$ 1,698	$2,169	$1,485	$2,712	$3,133
Trade Payables	6,413	5,899	3,598	2,889	3,733
Bank Debt	4	10	35	101	85
Related Party Loans ***(Note 3)***	6,508	5,506	4,092	8,082	5,913
	12,925	11,415	7,725	11,072	9,731
Shareholders' Deficiency	(11,227)	(9,246)	(6,240)	(8,360)	(6,598)
	$ 1,698	$2,169	$1,485	$2,712	$3,133

Note 1:

The figures reflected on the balance sheets have been re-stated to reduce current assets by outstanding cheques and add them to the accounts payable.

Note 2 & 3:

On October 31, 2002 the Company sold its manufacturing machinery and equipment to a related company, 999361 Ontario Inc., which is owned by Sheldon E. Gross. Particulars of this transaction are set out in Notes 3 and 5(d) to the audited financial statements of Fincore as at October 31, 2002, attached as an exhibit to the affidavit of Sheldon E. Gross sworn September 14, 2004. The Monitor is advised that this transaction was entered into in order to use up tax losses of Fincore which otherwise were expiring. The Monitor is reviewing this transaction with its counsel and will comment at a subsequent point in time upon any issues that this transaction may raise for creditors.

EVENTS LEADING UP TO THE FILING FOR PROTECTION

11. As can be seen from the financial information discussed in the previous paragraphs, Fincore has been unprofitable for at least four years. The Monitor is advised that Fincore was profitable in 1999 through to April 2000 when it experienced a fire which resulted in a loss of over 75% of the production capacity of the plant. Nonetheless, the fiscal year ended October 31, 2000 was still profitable due to the pre-April profitability. Thereafter, considerable time and effort were expended to regain the previous level of operations. Fincore's Customers' programs are quoted many years in advance, making it difficult to recover sales when they are suddenly and unexpectedly lost. Another factor involves the significant upfront developmental and tooling costs which affect the resourcing of programs. Additionally, the Monitor has been advised that there was an uninsured Business Interruption loss of in excess of $2,000,000.

12. During 2001, while on the road to recovery from the fire, one of Fincore's largest customers filed for bankruptcy protection, occasioning additional losses. As discussed previously, the unexpected loss of planned business leaves unabsorbed capacity allocated to the customer. Immediate replacement of this type of loss of business in problematic. While sales recovered thereafter, costs increased as well, and sizable operating losses were incurred both in 2002 and in 2003.

13. At the beginning of the current fiscal year, it appeared that sales were continuing to improve, and profitability seemed to be imminent. However, in April 2004, Fincore's unionized employees went on strike. The strike lasted for eight weeks until the end of May, and Fincore lost a significant number of its customers, who were Tier I automotive suppliers and needed to immediately find alternate sources of supply. While Fincore employed approximately 240 production employees prior to the strike, since then that number has been greatly reduced, to approximately 70. While pre-strike monthly sales were in the range of $1,000,000 to $1,200,000, and had risen to $1,776,000 for the month of March 2004, post-strike monthly sales have been in the range of $700,000. While the month of March showed a profit of $183,000, there had been losses totaling approximately $1,500,000 for the preceding four months. The months of the strike added an additional $575,000 of losses, but the months of June to August 2004 added only additional losses totaling $68,000.

14. It appears that the Company has made significant efforts to increase its efficiency at lower volumes so that its monthly operations, although greatly reduced in volume, are almost reaching the breakeven point. Indeed, the Monitor is advised that a breakeven point will likely be reached in the month of September, and in the months following due to continuing, gradual increases in sales, and improvements in efficiency at lower volumes.

15. Notwithstanding the fact that monthly operating performance has been improving slightly since the strike, cash has been extremely tight, and Fincore had over time built up significant arrears with Enbridge related to its usage of natural gas. An amount in excess of $400,000 was owing to Enbridge on the date of the commencement of the CCAA proceedings. On or about September 10, 2004, Enbridge terminated service to Fincore, temporarily causing a close down of the manufacturing plant. While short term arrangements were made late that day for restoration of the supply of gas, management of Fincore then realized that a formal restructuring process would be unavoidable, and sought legal and insolvency related advice which culminated in the filing for protection on September 15, 2004.

FINCORE'S ACTIVITIES SINCE THE ISSUANCE OF THE INITIAL ORDER

16. During the second half of September, the Company met with its major customers to assure them of continued operations, and ability to supply. It also contacted Enbridge and negotiated payment of post-filing obligations and met with its landlord, its union (with relation to outstanding employee benefits claims) and other ongoing suppliers either in person or by telephone, to make arrangements for the payment of ongoing post-filing obligations. The Company actively continues to pursue opportunities to supply product to new customers even during the CCAA proceedings.

17. On the recommendation of the Monitor, all outstanding cheques as at September 15, 2004, which had not yet then cleared the Bank, were cancelled since these related to pre-filing obligations. Please see the cash flow statement for the second half of September, and the anticipated future cash flow over the next three months, as per paragraphs 23 and 24 dealing with cash flow, and *Exhibit B* to this report.

MONITOR'S ACTIVITIES SINCE THE ISSUANCE OF THE INITIAL ORDER

18. Pursuant to the Initial Order, the Company was required to mail out notices related to the Initial Order, and the Monitor assisted the Company in preparing an appropriate letter to the creditors, and in mailing such a letter, which directed the creditors to a specific website set up by the Monitor at **www.bdo.ca/fincore.** This website contains the Company's application record, including the affidavit of Sheldon E. Gross sworn September 14, 2004, and the attachments thereto, and also contains the Initial Order. This First Report of the Monitor, as well as all subsequent reports, will also be posted on the website.

19. The Monitor has assisted the Company in negotiating payment arrangements with suppliers and ensuring that the normal operations are not disrupted.

20. Immediately after the CCAA filing, the Monitor contacted Enbridge and facilitated negotiations between Enbridge and Fincore for the continued supply of gas, and the payment of an appropriate deposit to satisfy Enbridge that future supply would be paid.

21. Further, the Monitor communicated with the landlord in relation to rent arrears and the prompt payment of rent for the post-filing period, and assisted the debtor in negotiating with the union for the reinstatement of employee benefit coverage, which had been terminated by the union for non-payment of premiums.

22. In addition, the Monitor attended at the Company's premises to review the books and records of the Company, and to obtain information pertaining to its assets and liabilities and has instituted a daily cash flow reporting system by Fincore in order to assist the Monitor in determining whether the Company is meeting its cash flow projections.

CASH FLOW

23. Attached as *Exhibit B* to this report is a Statement of Cash Flow, comparing actual cash flow for the second half of September to the initially budgeted cash flow, and providing an updated cash flow forecast for the period from October 1, 2004 to December 31, 2004.

24. As can be seen, the actual cash flow for the second half of September 2004 has been better than had been forecast, largely because disbursements where somewhat lower then had initially been anticipated. Further, the months of October to December 2004 are now expected by the Company to generate more cash then had initially been forecast when it sought protection. The Company has meanwhile met with its major customers and has advised the Monitor that the customers have assured the Company of continued support for the immediate future, at levels greater then had initially been expected. Accordingly, the updated cash flow forecast for the three months of October, November and December 2004 now reflects a cumulatively positive cash flow, with a forecasted closing bank balance at

the end of December 2004 of approximately $71,000, when the initial cash flow had indicated a cumulative negative cash balance of $17,372, before any provisions for professional fees which are meanwhile budgeted to approximate $90,000 for the three months. The Monitor believes that Fincore has been paying its post filing obligations as they fall due and, based upon the projected Cash flows and the assurances of continued support by the secured creditor, the Monitor believes that Fincore should be able to continue to do so up to December 15, 2004, the period of the extension now being sought.

EXPECTED ACTIVITIES DURING NEXT TWO MONTHS

25. During the next two months, the Monitor expects to continue to oversee the day-to-day operations of Fincore to ensure that the forecasted cash flow materializes.

26. The Monitor is advised by management of Fincore that it intends to canvas a number of parties to seek further equity and to keep the Monitor advised as these activities progress.

27. Management of Fincore have advised the Monitor that they have had discussions with certain parties who have expressed an interest in purchasing the business of Fincore. Fincore intends to develop, with the assistance of the Monitor, a process to determine the extent of interest in the purchase of the assets of the Company on a going concern basis.

CONCLUSION

28 The Monitor is of the view that Fincore 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 to December 15, 2004 and that the extension requested is appropriate in the circumstances.

29. The Monitor therefore recommends that the Company's request for an extension of the Stay period to December 15, 2004 be granted.

All of which is respectively submitted.

BDO DUNWOODY LIMITED

Per:

Uwe Manski, FCA, FCIRP

President

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Encl.

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