Court File No. 04-CL-5552

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.

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

10 FEBRUARY 2005

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"). The Company has sought, and received, two extensions to the Initial Order, the last being to February 15, 2005 (the "Extension Order"). A copy of the Extension Order is attached as Exhibit "A".

2. The purpose of this, the Monitor's Third Report, is to inform the Court regarding the following:

   i. Fincore's activities since the date of the Monitor's Second Report;
   ii. The Company's actual cash flow during the month of January 2005 and projected cash flow for the months of February, March and April 2005;
   iii. The Company's planned activities for the period of the requested extension to the Stay Period;
   iv. The Monitor's activities to date; and

   to provide a recommendation in favour of Fincore's request for an extension of the Stay Period to April 15, 2005.

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, the Company's principal, and Mr. Sid Persaud, 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.

FINCORE'S ACTIVITIES SINCE THE MONITOR'S SECOND REPORT

6. The Company, with the assistance of the Monitor, initiated a bidding procedure for the sale of its assets and/or business on October 18, 2004, including selected assets of 999361 Ontario Inc. ("999361"), a related party of Fincore not subject to the CCAA proceedings. The initial deadline for final bids was November 17, 2004; however, the Monitor and management of Fincore extended this deadline to December 20, 2004 in order to facilitate the due diligence requirements of potential purchasers. A number of parties expressed an interest with respect to the bidding procedure and the acquisition of the assets and/or business offered for sale; however, no acceptable offers were received by the extended deadline. Hence, no sale of assets and/or business has occurred to date. At present, the Company is continuing its efforts in marketing the assets and or business for sale, or obtaining new equity.

7. A summary of the assets and liabilities of the Company as at November 30 and December 31, 2004, (and as previously reported at September 30 and October 31, 2004), is as follows (in thousands):

	Dec-04	Nov-04	Oct-04	Sep-04
Assets				
Current	$425	$693	$852	$928
Capital	587	594	601	602
	$1,012	$1,287	$1,453	$1,530
Liabilities				
Trade Payables	$6,266	$6,171	$6,153	$6,332
Bank Debt	4	4	4	4
Related Party Loans	6,508	6,508	6,508	6,508
Foreign Exchange on Loans	(560)	(560)	(560)	(220)
Net Related Party Loans	5,948	5,948	5,948	6,288
Total Liabilities	12,218	12,123	12,105	12,624
Excess of Liabilities over Assets	(11,206)	(10,836)	(10,652)	(11,094)
	$1,012	$1,287	$1,453	$1,530

As shown above, total current assets have continued to decline over the previous two months, the reason being a decrease in accounts receivable resulting from a reduction in sales, due particularly to the loss of a major customer in November 2004.

8. A summary of the financial performance of the Company for the months of November and December 2004, and, as previously reported, September and October 2004, is as follows:

	Dec-04	Nov-04	Oct-04	Sep-04
Sales	$143	$497	$628	$677
Gross Profit Margin	46.0%	33.5%	17.9%	30.1%
Loss from Operations	(364)	(106)	(198)	(171)
Gain/(Loss) on Foreign Exchange [(1)]	(3)	6	351	223
Other Income	0	0	24	24
Interest Expense	(2)	0	(4)	(3)
	(5)	6	371	244
Gain/(Loss) for Period	($369)	($100)	$173	$73

Notes

(1) The gains booked in September and October recognize Canadian dollar exchange rate gains, since the secured indebtedness of approximately Canadian $6 million owed to the related parties is owed in US dollars, which had previously been converted into Canadian funds at higher rates of exchange.

9. As noted in the Monitor's Supplement to the Second Report, filed with the Court on January 14, 2005, both sales and cash collections were down significantly in December 2004 due to the loss of a major customer and lower than expected sales prior to the seasonal industry shutdown. The Company has advised the Monitor that sales are expected to total about $285,000 in January 2005, and reach levels in excess of $360,000 in the months of February, March, and April 2005.

CASH FLOW

10. Attached as *Exhibit B* to this report is a Statement of Cash Flow, comparing actual cash flow for the period from September 15, 2004 to January 31, 2005, to the initially budgeted cash flow, and providing an updated cash flow forecast for the months of February, March, and April 2005, which shows that additional sums of approximately $200,000 will need to be injected into the Company during those months so as to cover all necessary disbursements.

11. Cash collection of sales/accounts receivable was down in January 2005 due to the above noted loss of a major customer and slower than expected sales orders from customers after the seasonal industry shut down. Cash disbursements were also lower than budget, partly due to lower production variable costs, unpaid rent, and unpaid insurance. The reduced collections also caused temporary delays in paying post-filing obligations for December and/or January to a number of critical creditors, including particularly the Union, for employee benefit plan premiums, the landlord for rent (which is payable on a weekly basis), the supplier of natural gas, used for the heat ovens as well as premises heat, and to Hydro. The Monitor has been in contact with these creditors, and with management, to maintain communications between the parties as management sought to arrange the required funding from related party secured creditors to bring these payments current.

12. Management has updated budgeted figures for February 2005 from the previous cash flow forecast filed with the Monitor's Supplement to the Second Report and has also provided budgeted figures for March and April 2005. Although management is forecasting lower cash collection of sales/accounts receivable during the above noted months, the closing cash balance is expected to stay positive with inclusions of advances from related party secured creditors.

13. In view of the Company's tight financial situation and management's request for an extension of the Stay Period, so as to continue to identify a buyer, or investor, the Monitor required that all accounts payable that were outstanding and due by February 9, 2005, be paid by the Company. At the time of drafting this report, the Monitor has had extensive meetings with the Company, and has been assured that on or before Monday, February 14, 2004, the Company will either have paid all payments due by February 11, 2005, or will have made short-term payment arrangements with the affected creditors to fully pay such amounts over the next few weeks. The Monitor intends to advise the Court orally on the return of the motion that this has in fact been done.

14. As noted in our previous reports, the secured creditors of Fincore, or more precisely Mr. Sheldon Gross, had provided an undertaking to the Monitor to fund payments to the post-filing creditors up to a maximum amount of $250,000, in the event Fincore's cash flows prove insufficient to meet all such obligations. Mr. Gross has advised the Monitor that considering the fact that the forecasted total injection of funding approximates $300,000 to the end of April, which exceeds the aforementioned sum of $250,000, he is committed to injecting sufficient funding into Fincore to ensure that all post-filing obligations are met during the period of the requested extension of stay, and that he will immediately increase the aforesaid undertaking as to funding to reflect the required $300,000. The Monitor is documenting this arrangement and expects to have it in hand by the return date of the extension motion.

PLANNED ACTIVITIES DURING THE NEXT TWO MONTHS

15. During the next two months, the Monitor expects to continue to oversee the day-to-day operations of Fincore to ensure that cash flow will be sufficient to pay all applicable day-to-day expenses. Arrangements have been made to meet weekly with management, at least by telephone, to review and confirm that all currently due post-filing obligations will in fact have been paid. Additionally, the Monitor has met with Mr. Gross and has been assured that he is both willing and financially able to fund these obligations on a weekly basis, to the extent that Fincore's cash flow is deficient.

16. In accordance with the sales process for the assets and/or business of Fincore, management of Fincore, with the assistance of the Monitor, will continue to review and assess offers received from potential purchasers, or consider alternatives for re-financing or restructuring of Fincore. The Monitor has been regularly consulted as to the status of negotiations with interested parties and is satisfied that there are serious ongoing discussions with several realistic purchasers, which will resolve during the requested extension period.

17. Fincore will continue to pursue opportunities to supply product to new customers during the stay period. Fincore has been successful in securing some new business from the date of the Initial Order to the present, but such business is not yet sufficient to offset the business lost as the result of the loss of one particular customer, in November 2004.

MONITOR'S ACTIVITIES SINCE THE ISSUANCE OF THE INITIAL ORDER

18. Following the issuance of the Initial Order, the Monitor 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.

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

20. Further, the Monitor has been available to answer questions of all stakeholders and has acted as a liaison between the creditors and Fincore. The Monitor established the website www.bdo.ca/fincore in order to provide court documents to creditors.

21. In addition, the Monitor has assisted in Fincore's sales process by providing sales packages to potential purchasers, being involved in meetings with potential purchasers, and facilitating the overall sales process.

CONCLUSION

22. 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, in view of Mr. Gross' undertaking as set out in paragraph 14 herein, creditors would not be materially prejudiced by an extension of the Stay Period to April 15, 2005 and that the extension requested is appropriate in the circumstances.

23. The Monitor therefore recommends that Fincore's request for an extension of the Stay period to April 15, 2005 be granted.

All of which is respectively submitted.

BDO DUNWOODY LIMITED

Per:

Uwe Manski, FCA, FCIRP

President

/bc

Encl.