

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.**

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

10 DECEMBER 2004

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”). On October 12, 2004, the Company sought, and received, an extension of the Initial Order to December 15, 2004 (the “Extension Order”). A copy of the Extension Order is attached as Exhibit “A”.

2. The purpose of this, the Monitor’s Second Report, is to inform the Court regarding the following:
 - i. Fincore’s activities since the date of the Monitor’s First Report;
 - ii. The Company’s cash flow during the period from September 15, 2004 to November 30, 2004, and projected cash flow for the month of December 2004;
 - 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 February 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. Siri Sugirthalingam, 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 FIRST 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 (subject to the Court granting an order extending the Stay Period) in order to facilitate the due diligence requirements of potential purchasers. A number of parties have expressed an interest with respect to the bidding procedure and the acquisition of the assets and/or business offered for sale.
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7. A summary of the assets and liabilities of the Company as at 31 August 2004, 30 September 2004, and 31 October 2004, is as follows (in thousands):

| | Oct-04 | Sep-04 | Aug-04 |
|-----------------------------------|-----------------|-----------------|-----------------|
| <u>Assets</u> | | | |
| Current | \$852 | \$928 | \$1,089 |
| Capital | 601 | 602 | 609 |
| | <u>1,453</u> | <u>1,530</u> | <u>1,698</u> |
| <u>Liabilities</u> | | | |
| Trade Payables | 6,153 | 6,332 | 6,413 |
| Bank Debt | 4 | 4 | 4 |
| Related Party Loans | 6,508 | 6,508 | 6,508 |
| Foreign Exchange on Loans | (560) | (220) | 0 |
| Net Related Party Loans | <u>5,948</u> | <u>6,288</u> | <u>6,508</u> |
| Total Liabilities | 12,105 | 12,624 | 12,925 |
| Excess of Liabilities over Assets | <u>(10,652)</u> | <u>(11,094)</u> | <u>(11,227)</u> |
| | <u>\$1,453</u> | <u>\$1,530</u> | <u>\$1,698</u> |

As shown above, the balances of various categories of assets and liabilities have declined steadily from month to month. Management informs us that changes are mainly due to the strengthening of the Canadian dollar, and as a result, a decrease in values of assets and liabilities denominated in US dollars.

8. A summary of the financial performance of the Company for the last three months and for the last two fiscal years is as follows:

| | Oct-04 | Sep-04 | Aug-04 | Year End Oct. 31 | |
|-------------------------------------|--------|--------|---------|------------------|-----------|
| | | | | 2004 | 2003 |
| Sales | \$628 | \$677 | \$683 | \$11,474 | \$13,488 |
| Gross Profit Margin | 17.9% | 30.1% | 34.9% | 18.1% | 3.1% |
| Loss from Operations | (198) | (171) | (64) | (1,668) | (4,005) |
| Gain/(Loss) on Foreign Exchange (1) | 351 | 223 | (48) | 417 | 651 |
| Other Income | 24 | 24 | 0 | 381 | 356 |
| Interest Expense | (4) | (3) | (4) | (20) | (7) |
| | 371 | 244 | (52) | 778 | 1,000 |
| Gain/(Loss) for Period | \$173 | \$73 | (\$116) | (\$890) | (\$3,005) |

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. Sales have dropped off slightly in the months following the Initial Order due to loss in business of one particular customer. Fincore has been able to mitigate this loss of business by adding new customer sales. The Company has made efforts to increase its efficiency at lower volumes so that its monthly operations, once normalized, showed reduced losses from the periods prior to its filing for CCAA protection.

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 November 30, 2004, to the initially budgeted cash flow, and providing an updated cash flow forecast for the month of December 2004.

11. Cash collection of sales/accounts receivable is down slightly in October and November due to a net loss of customer sales. Despite this, the Company's actual cash position at the end of November was ahead of forecast by approximately \$17,000 (Actual \$165,557; Budget \$148,421). This is mainly due to lower utility disbursements than had initially been anticipated and a provision for miscellaneous expenditures that did not fully materialize. Management has updated budgeted figures for December from the previous cash flow forecast filed with the Extension Order. Although management is forecasting lower cash collection of sales/accounts receivable during December, the closing cash balance at the end of December is expected to stay positive with a balance of approximately \$14,000.

12. The Monitor has been informed by the Company that it cannot at this time provide a meaningful cash flow forecast for the period from January 1, 2005 to February 15, 2005, part of the period of the further extension of the Stay Period being sought. Fincore's manufacturing facilities, along with most of the automotive industry, will be shut for two weeks with production recommencing on January 4, 2005. Accordingly, Fincore will not learn from its customers their needs for the months of January and February until sometime in the second week in December. The secured creditors of Fincore have confirmed that they continue to be prepared to advance further funding within reasonable limits to Fincore in order to permit it to continue its operations until February 15, 2004.

13. Under the circumstances, the Monitor has arranged with the Company to be provided with a cash flow forecast for the months of January and February 2005 by Friday, December 31, 2004. The Monitor will then review such forecast and file a supplemental report, commenting on the cash flow forecast, by Friday, January 14, 2005.
14. Further, the Monitor has now arranged with the secured creditors of Fincore to secure their undertaking to advance further funding to Fincore, as referred to in paragraph 12 herein, by agreeing to pay the post-filing creditors, out of the proceeds from the realization of the secured creditors' security, up to a maximum amount of \$250,000, in the event Fincore's cash flows prove insufficient to meet all such obligations.

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.
 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 review and assess offers received from potential purchasers, or consider alternatives for re-financing or restructuring of Fincore.
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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 about 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 and facilitating the overall sales process.
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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 creditors would not be materially prejudiced by an extension of the Stay Period to February 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 February 15, 2005 be granted.

All of which is respectively submitted.

BDO DUNWOODY LIMITED

Per:



Uwe Manski, FCA, FCIRP

President

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Encl.