

Court File No

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL COURT

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 BRUCE R. SMITH LIMITED

REPORT OF THE PROPOSED MONITOR KPMG INC.

October 6, 2009

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Schedule 1 – Thirteen Week Cash-Flow Statement

I. Introduction

KPMG Inc. (“KPMG” or the “Proposed Monitor”) understands that Bruce R. Smith Limited (“BRS” or the “Company”) intend to bring an application before this Honourable Court seeking certain relief under the Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the “CCAA”) granting, inter alia, a stay of proceedings and appointing KPMG as Monitor.

This is the pre-filing report of the Proposed Monitor in these proceedings. The purpose of this report is to provide the Honourable Court with information on the following:

- KPMG’s qualifications to act as Monitor (if appointed);
- General information about BRS and their business;
- The relevant debt structure;
- BRS’ cash flow and funding during the CCAA period;
- The Proposed Monitor’s conclusions; and,
- The order sought

II. KPMG’s Qualifications to Act as Monitor

KPMG was retained by BRS in July 2009 to provide financial and restructuring advice and to assist the Company in its negotiations with its secured lenders. KPMG has been integral to those communications and with the review of the Company’s financial position and in preparing a potential restructuring plan.

Kevin Treacy and Brad Newton, individuals within KPMG with primary carriage of this matter, are licensed trustees in bankruptcy and would continue to have carriage of this matter if KPMG were appointed Monitor pursuant to the provisions under the CCAA.

III. Background

As more particularly described in the affidavit of John Smith, BRS is a corporation incorporated pursuant to the laws of the province of Ontario, with their respective head offices in the town of Simcoe, in the province of Ontario.

BRS is well known in the trucking industry and has specialized equipment, including trailers for refrigerated and heated product transportation, multi axel vans for heavy commodities, multi axel flat decks for the steel industry, and fifty-three (53) foot quad vans and tandem trailers for the beer industry.

Because of BRS' expertise and reputation in many specialized sectors, its customers include Tim Horton's, Kraft Foods, Loblaws, Nestle, S.C. Johnson, U.S. Steel, Arcelor Mittal, Purolator, Unilever, The Liquor License Board of Ontario and Labatts and Molsons Breweries. BRS' Canadian customers generate approximately eighty (80) per cent of its revenues with the balance of its revenues being generated in the United States.

BRS currently employs approximately three hundred and twenty-seven (327) employees of which one hundred and fifty-four (154) are non-unionized and one hundred and seventy-three (173) employees are members of the Communication Energy Paperworkers Union (Local 8117) (the "Union").

Over the past year, BRS has suffered a progressively deteriorating financial situation. The severe North American economic recession and particularly its impact on the North American automotive/manufacturing sectors, is primarily responsible for BRS' current dire financial circumstances. Discussed below are certain specific factors that affected BRS.

The Steel and Automotive Industries

The slow down in the steel and automotive manufacturing sectors of Ontario has had a significant impact on BRS. The slow down in steel shipments began in or about October 2008 and continued with a complete shut down of U.S. Steel (formerly Stelco) in March 2009. In June 2009 International Truck & Engine ("ITE") also shut down its Chatham facility.

In BRS' fiscal 2008 year, which ended June 30, 2008, BRS' major steel and automotive industry customers accounted for the following revenues:

Customer name	Total revenues (in millions)	% of total revenues
Arcelor Mittal (formerly Dofasco)	\$3.2	4.5%
Mittal (formerly Stelwire)	\$1.1	1.5%
U.S. Steel	\$9.2	12.8%
ITE	\$0.87	1.2%
Totals	\$14.4	20%

In fiscal 2009 the revenue from these customers declined substantially, eliminating over \$7.2 million or 12.3 % from BRS' revenue base.

Lost Customers

In addition to the steel industry slow down certain large volume customers have also been lost to competition. The two largest of these losses are Purolator and CP Rail. The CP Rail contract was lost at the end of April 2009 and the Purolator contract will be lost at the end of October 2009.

In fiscal year 2008 these two customers accounted for the following revenues:

Customer name	Total revenues (in millions)	% of total revenues
Purolator	\$3.7	5.1%
CP Rail	\$8.1	11.3%
Totals	\$11.8	16.4%

In fiscal 2009 these two customers accounted for the following revenues:

Customer name	Total revenues (in millions)	% of total revenues
Purolator	\$4.8	8.2%
CP Rail	\$5.9	10.1
Totals	\$10.7	18.3%

Other Lost Freight Revenue

In addition, BRS has suffered other customer revenue reductions as a result of the general economic slow down. BRS' revenue from other customers declined approximately \$4.8 million or 6.7% from fiscal 2008 to fiscal 2009.

Fuel Surcharge Revenue

When BRS loses freight revenue there is a multiple effect on net operating revenue as a result of the way the fuel surcharge is calculated. Not only is the fuel surcharge calculated as a

percentage of the declining revenues, but it is a scaled percentage where it is actually better for BRS where the price of fuel is high. However, the cost of fuel has, on average, been less in 2009 than in 2008.

Fiscal 2008/2009 Comparison

- Freight and fuel surcharge revenues declined by \$16.9 million or 19.8% from approximately \$85.5 million in fiscal 2008 to approximately \$68.8 million in fiscal 2009; and,
- EBITDA from freight operations declined by \$1.7 million from approximately \$5.0 million in fiscal 2008 to approximately \$3.3 million in fiscal 2009.

Current status of equipment

As a result of the lost revenue, BRS presently has for more equipment than it needs. Further, it is no longer able to service the related debts. Out of the approximately 260 tractors owned by BRS, 34 tractors are currently idle. BRS has approximately 1,170 trailers. At least 10% of those trailers are idle.

IV. Current Debt Structure

BRS has an operating line of credit with Royal Bank of Canada (“RBC”), which is margined on the Company’s accounts receivable. Currently the Company is in excess of its margin by approximately \$1.4 million. However, RBC has permitted the Company to remain in excess of its margin as long as the operating line does not exceed \$6 million. The Company’s operating line is currently at approximately \$5.8 million.

The Company also has several conditional sales contracts and leases with various equipment lenders. A summary of the secured debts with the equipment lenders is as follows:

GE Canada Equipment Finance G.P.	\$15,830,000
CIT	\$5,350,000
Wells Fargo	\$2,250,000
De Lage Landen	\$2,200,000
Volvo Financial Services	\$1,900,000
RoyNat	\$815,000
Alter Moneta	\$560,000
Stoughton Trailers	\$170,000
Ford Credit Corporation	\$50,000
Total	\$29,125,000

Accordingly, the Company's total secured debt is approximately \$35 million.

The Company has not been able to pay the majority of its secured lenders their contractual principal payments since July 2009 and accordingly is in default with those secured lenders as well as RBC.

V. Cashflow

Attached as **Schedule 1** to this report is the statement of projected cash flow (the "Cash-Flow Statement") of Bruce R. Smith Limited, as of the 6th day of October, 2009, consisting of cash receipts and disbursements on a weekly basis for the thirteen week period October 12, 2009 to January 8, 2010, has been prepared by the management of the Company for the purpose described in Note 12, using the Probable and Hypothetical Assumptions set out in the notes.

KPMG Inc. has performed an in-depth review of the Cash-Flow Statement. Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash-Flow Statement.

We have spent considerable time analyzing the projected revenues by customer relative to prior year results to assess the quantum and cyclical nature of the projected revenues. We analyzed the

costs projected to be incurred to support those revenues to be satisfied the costs have not been understated. In addition, we have analyzed the collection cycle expected from these revenues compared to historical results in order to assess the Company's cash flow availability and the need for interim financing. We have also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash-Flow Statement.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the Hypothetical Assumptions are not consistent with the purpose of the Cash-Flow Statement;
- b) as at the date of this report, the Probable Assumptions developed by management are not Suitably Supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash-Flow Statement, given the Hypothetical Assumptions; or
- c) the Cash-Flow Statement does not reflect the Probable and Hypothetical Assumptions.

Since the Cash-Flow Statement is based on Assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash-Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

The Cash-Flow Statement has been prepared solely for the purpose described in Note 12, and readers are cautioned that it may not be appropriate for other purposes.

Based on the Cash-Flow Statement, the Company does not appear to require interim financing during the CCAA period. However, we understand that the Company may return to this Honourable Court seeking interim financing in the future should the need arise.

VI. Proposed Monitor's Conclusions

The Company is under severe pressure from its creditors. Its current revenue base is not sufficient to support the debt level the Company currently has, particularly considering the quantum of idle equipment.

BRS has an excellent reputation in the industry and fully expects to be able to grow its revenue base as the economy recovers, in particular as the steel industry restarts in Southern Ontario. BRS needs to be able to lower its debt to a level that can be sustained by current revenues. BRS believes it can make a successful proposal to all of its creditor classes and restructure its affairs. Accordingly, BRS is seeking a CCAA stay order to stabilize its operations while it prepares its plan.

It is the Proposed Monitor's view that BRS is insolvent and accordingly supports the Company's application and recommends granting the stay and initial order pursuant to the CCAA.

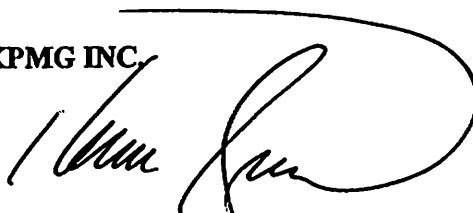
VII. Order Sought

This report is filed in support of an application by Bruce R. Smith Limited for an Order pursuant to the CCAA for *inter alia*:

- a) authorizing the Company to prepare and file with the Court a plan of arrangement or compromise between the Company and its creditors;
- b) staying all proceedings and remedies taken or which might be taken in respect of the Company, any of its property or any default by the Company, except with leave of the Court being granted; and,
- c) appointing KPMG as Monitor of the Company in this proceeding.

This Report of the Proposed Monitor is respectfully submitted this 6th day of October 2009.

KPMG INC.


Per: Kevin J. Treacy
Senior Vice President

Bruce R Smith
13 Week CCAA Cash Flow Forecast

		12-Oct-09	19-Oct-09	26-Oct-09	2-Nov-09	9-Nov-09	16-Nov-09	23-Nov-09	30-Nov-09	7-Dec-09	14-Dec-09	21-Dec-09	(Shut down)	4-Jan-10	Total
		18-Oct-09	23-Oct-09	30-Oct-09	6-Nov-09	13-Nov-09	20-Nov-09	27-Nov-09	4-Dec-09	11-Dec-09	18-Dec-09	25-Dec-09	28-Dec-09	8-Jan-10	
Notes		Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	
Cash Receipts:															
	Accounts receivable - Trade	\$ 1,210,000	\$ 1,200,000	\$ 1,140,681	\$ 1,350,000	\$ 1,150,000	\$ 1,150,000	\$ 1,002,641	\$ 1,432,632	\$ 1,100,000	\$ 1,100,000	\$ 750,000	\$ 822,149	\$ 1,200,000	\$ 14,608,103
Total cash receipts		\$ 1,210,000	\$ 1,200,000	\$ 1,140,681	\$ 1,350,000	\$ 1,150,000	\$ 1,150,000	\$ 1,002,641	\$ 1,432,632	\$ 1,100,000	\$ 1,100,000	\$ 750,000	\$ 822,149	\$ 1,200,000	\$ 14,608,103
Cash Disbursements:															
	Driver Wages (4)	\$ 60,000	\$ 532,443	\$ 60,000	\$ 503,643	\$ 60,000	\$ 503,643	\$ 60,000	\$ 509,344	\$ 60,000	\$ 509,344	\$ 60,000	\$ 509,344	\$ 60,000	\$ 3,487,760
	Management Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Administrative Salaries (4)	\$ -	\$ 38,212	\$ -	\$ 38,212	\$ -	\$ 38,212	\$ -	\$ 38,213	\$ -	\$ 38,213	\$ -	\$ 38,213	\$ -	\$ 220,273
	Operations Salaries (4)	\$ -	\$ 87,681	\$ -	\$ 88,531	\$ -	\$ 88,531	\$ -	\$ 89,190	\$ -	\$ 89,190	\$ -	\$ 89,190	\$ -	\$ 532,312
	Maintenance Wages (4)	\$ -	\$ 88,285	\$ -	\$ 88,531	\$ -	\$ 88,531	\$ -	\$ 88,214	\$ -	\$ 88,214	\$ -	\$ 88,214	\$ -	\$ 827,989
	CPP, EI and EHT (8) 8.70%	\$ 5,220	\$ 64,782	\$ 5,220	\$ 62,548	\$ 5,220	\$ 62,548	\$ 5,220	\$ 63,071	\$ 5,220	\$ 63,071	\$ 5,220	\$ 44,313	\$ 23,979	\$ 416,828
	Group Insurance (9)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,652	\$ -	\$ -	\$ -	\$ 64,253	\$ -	\$ -	\$ -	\$ 127,905
	Truck Expenses - Fuel (2)	\$ 265,000	\$ 265,000	\$ 273,732	\$ 260,000	\$ 260,000	\$ 280,000	\$ 260,000	\$ 260,000	\$ 260,000	\$ 260,000	\$ 210,000	\$ 100,000	\$ 205,000	\$ 3,138,732
	Truck Expenses - Repairs (3)	\$ 54,811	\$ 54,811	\$ 54,811	\$ 60,048	\$ 60,048	\$ 60,048	\$ 60,048	\$ 49,081	\$ 49,081	\$ 49,081	\$ 49,081	\$ 60,557	\$ 60,557	\$ 721,456
	Truck Expenses - Licenses (5)	\$ 99,290	\$ 55,000	\$ -	\$ -	\$ -	\$ 34,500	\$ -	\$ -	\$ -	\$ 44,500	\$ -	\$ -	\$ -	\$ 99,500
	Truck Expenses - Insurance (1)	\$ 107,045	\$ -	\$ -	\$ 110,000	\$ -	\$ -	\$ -	\$ 110,000	\$ -	\$ -	\$ -	\$ -	\$ 110,000	\$ 332,790
	Trip Expenses (8)	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 16,250	\$ 211,260
	Owner Operator Expenses - Payroll (11)	\$ 246,849	\$ -	\$ 248,849	\$ -	\$ 230,341	\$ -	\$ 230,341	\$ -	\$ 233,789	\$ -	\$ 233,789	\$ -	\$ 248,849	\$ 1,688,207
	Brokerage Surcharge Expenses	\$ 32,368	\$ -	\$ 32,368	\$ -	\$ 47,232	\$ -	\$ 47,232	\$ -	\$ 47,716	\$ -	\$ 47,716	\$ -	\$ 21,577	\$ 276,205
	Brokerage Expenses (3)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 327,500
	Equipment Rental (7)	\$ 10,037	\$ -	\$ 16,857	\$ -	\$ -	\$ -	\$ 18,857	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,857	\$ 60,808
	Building Rental (7)	\$ -	\$ -	\$ 47,672	\$ -	\$ 105,000	\$ -	\$ 47,672	\$ -	\$ 105,000	\$ -	\$ -	\$ -	\$ 47,672	\$ 353,016
	Damage Claims (3)	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 65,000
	General Office Expense (3)	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 7,425	\$ 86,625
	Capital Tax	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 13,000
	Advertising & Promotion (3)	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 4,025	\$ 52,325
	Communication Expense (3)	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 18,525	\$ 240,825
	Interest & Service Charges (7)	\$ -	\$ -	\$ 32,499	\$ -	\$ -	\$ -	\$ 32,499	\$ -	\$ -	\$ -	\$ -	\$ 32,499	\$ -	\$ 97,497
	Utilities (5)	\$ 15,000	\$ -	\$ -	\$ 22,000	\$ -	\$ -	\$ 27,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,500
	Professional Fees	\$ 40,000	\$ -	\$ 80,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 2,000	\$ 2,000	\$ 264,000
	Bad Debt Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Accounts payable payments	\$ -	\$ -	\$ 70,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 210,000
Total cash disbursements		\$ 1,012,443	\$ 1,261,239	\$ 932,302	\$ 1,414,263	\$ 779,084	\$ 1,420,888	\$ 779,084	\$ 1,432,865	\$ 757,031	\$ 1,412,090	\$ 707,031	\$ 839,837	\$ 1,203,132	\$ 13,951,348
Net cash surplus/(deficiency) from operations		\$ 197,557	\$ (61,239)	\$ 208,379	\$ (64,263)	\$ 370,936	\$ (270,888)	\$ 223,577	\$ (233)	\$ 342,969	\$ (312,090)	\$ 42,969	\$ (17,788)	\$ (3,132)	\$ 656,755
	Secured note payment (10)	\$ -	\$ -	\$ (117,970)	\$ -	\$ -	\$ (185,363)	\$ -	\$ -	\$ -	\$ -	\$ (185,363)	\$ -	\$ -	\$ (488,696)
	Other payments (10)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net cash surplus/(deficiency)		\$ 197,557	\$ (61,239)	\$ 90,409	\$ (64,263)	\$ 370,936	\$ (270,888)	\$ 38,214	\$ (233)	\$ 342,969	\$ (312,090)	\$ (142,394)	\$ (17,788)	\$ (3,132)	\$ 168,059
Funds required to fund net cash deficiency:															
	DIP loan - Opening	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Additions to DIP loan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Repayments of DIP loan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	DIP loan - Closing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Summary of borrowings:															
	Operating loan - Opening	\$ (6,132,332)	\$ (5,934,775)	\$ (5,996,014)	\$ (5,905,605)	\$ (5,969,668)	\$ (5,598,832)	\$ (5,889,817)	\$ (5,831,603)	\$ (5,831,837)	\$ (5,488,868)	\$ (5,800,958)	\$ (5,943,352)	\$ (5,981,141)	\$ -
	Net payment (addition) to operating loan	\$ 197,557	\$ (61,239)	\$ 90,409	\$ (64,263)	\$ 370,936	\$ (270,888)	\$ 38,214	\$ (233)	\$ 342,969	\$ (312,090)	\$ (142,394)	\$ (17,788)	\$ (3,132)	\$ -
	Operating loan - Closing	\$ (5,934,775)	\$ (5,996,014)	\$ (5,905,605)	\$ (5,969,668)	\$ (5,598,832)	\$ (5,889,817)	\$ (5,831,603)	\$ (5,831,837)	\$ (5,488,868)	\$ (5,800,958)	\$ (5,943,352)	\$ (5,981,141)	\$ (5,984,273)	\$ -

Notes

- October amount based upon 15 of 22 working days insured times monthly amount of \$157K. Assume prepay monthly amount
- Based upon history of 5 loads per week. Average of \$205K per week.
- Expenses spread evenly over the month
- Bi-weekly payroll. October 23 based on 15 of 21 working days.
- Assume licenses paid on 15th of Month
- CPP percentage 4.95%, EI percentage 1.80%, and EHT 1.95%
- Rent paid on the 1st of the month
- Interest taken on the last business day of the month
- Group Insurance paid approx 15th of the month. Premiums paid up to date
- Assume payments taken last day of month
- The Company charges back the owner operators for their fuel and then pays the fuel on their behalf. Therefore, for presentation in this cash flow we have subtracted \$120K from bi-weekly owner operator payroll and increased the gas expense by \$60K per week.
- The purpose of this projection is to show that the Company can generate sufficient cash flow to operate during the restructuring period.
- The cash flow is based on the assumption that certain equipment will be returned to the related secured lender and no payments will be made with respect to those loans.
- The cash flow is based on the assumption that certain lenders will agree to payments of interest only on their loans during the projection period.
- The Bank continues to allow the Company to operate outside its loan margin so long as the operating loan does not exceed \$6 million.