

**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 BURLINGTON TECHNOLOGIES INC.**

**APPLICATION RECORD**

December 9, 2008

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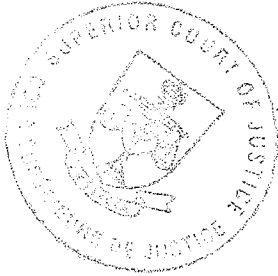
**TAB 1**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF AN APPLICATION UNDER 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 BURLINGTON TECHNOLOGIES INC.**

**Applicant**



**NOTICE OF APPLICATION**

**TO THE RESPONDENTS**

**A LEGAL PROCEEDING HAS BEEN COMMENCED** by the Applicant. The claim made by the Applicant appears on the following pages.

**THIS APPLICATION** will come on for a hearing before a Justice of the Superior Court of Justice at Toronto on December the 9<sup>th</sup> day of December, 2008, at 10:00 a.m., or as soon as practical thereafter, at the Court House, 330 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario.

**IF YOU WISH TO OPPOSE THIS APPLICATION**, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicants' lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

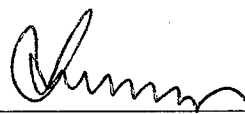
**IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION**, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicants' lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 p.m. on the day before the hearing.

**IF YOU FAIL TO APPEAR AT THE HEARING, JUDGEMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES,**

**LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.**

Date: Monday December 8<sup>th</sup>, 2008

Issued by



Local Registrar **Christina Irwin**  
Registrar, Superior Court of Justice

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*Proposed Monitor*

## APPLICATION

1. The Applicant, Burlington Technologies Inc. (“**BTI**”), makes application for:
  - (a) a declaration that the Applicant is a company to which the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, Chapter C-36, as amended (the “**CCAA**”) applies;
  - (b) an Order abridging the time for service and filing of this Notice of Application and the materials filed in support of this Application, or in the alternative, dispensing with the same;
  - (c) an Order under the CCAA staying proceedings as against the Applicant and providing other relief; and,
  - (d) such further and other relief as this Honourable Court may deem to be just.
  
2. The grounds for the Application are:
  - (a) the Applicant carries on business as a supplier of aluminum diecastings to the global automotive market through its five facilities located in south western Ontario;
  - (b) the Applicant is currently insolvent;
  - (c) the claims against the Applicant exceed \$5,000,000.00;
  - (d) the Applicant intends to attempt a restructuring of its business, as outlined in the Affidavit of Erwin Overmeyer, to be sworn (the “**Overmeyer Affidavit**”);
  - (e) the circumstances that exist make the Order sought by the Applicant appropriate;

- (f) the Applicant urgently requires a stay of proceedings from its creditors;
  - (g) the protection sought by the Applicant will provide the Applicant with an orderly and effective forum for addressing the various claims against it, as well as the time and opportunity necessary to assess and implement a successful restructuring strategy;
  - (h) the Applicant urgently requires additional financing in order to continue as a going concern, and such financing cannot be obtained except pursuant to these proceedings and the Order sought by the Applicant;
  - (i) such other grounds as set out in the Overmeyer Affidavit;
  - (j) the provisions of the CCAA;
  - (k) Rules 2.03, 3.02 and 14.05, and 16 of the Rules of Civil Procedure, R.R.O. 1990, Reg. 194; and
  - (l) such further and other grounds as counsel may advise and this Honourable Court permit.
3. The following documentary evidence will be used at the hearing of the Application:
- (a) the Overmeyer Affidavit and the exhibits annexed thereto;
  - (b) the report of BDO Dunwoody Inc. in its capacity as proposed monitor; and
  - (c) such further and other evidence as counsel may advise and this Honourable Court may admit.

DATE OF ISSUE: December 8<sup>th</sup>, 2008.

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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 BURLINGTON TECHNOLOGIES INC.

**ONTARIO**

**SUPERIOR COURT OF JUSTICE**

PROCEEDING COMMENCED AT TORONTO

**NOTICE OF APPLICATION**

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**TAB 2**

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 BURLINGTON TECHNOLOGIES INC.

**AFFIDAVIT OF ERWIN A. OVERMEYER**  
(Sworn December 9, 2008)

I, **ERWIN A. OVERMEYER**, of the City of St. Catharines, in the Province of Ontario, **MAKE OATH AND SAY:**

1. I am the Chief Financial Officer of Burlington Technologies Inc. ("BTI" or the "**Company**"), a position I have held for the last five months and, as such, I have personal knowledge of the matters to which I hereinafter depose. Where I do not possess such personal knowledge, I have stated the source of my information and, in all such cases, do verily believe it to be true.

**OVERVIEW**

2. This affidavit is sworn in support of the application of BTI for certain relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**").
3. BTI is a privately owned corporation with over 500 employees. It produces high pressure aluminium die-castings, supplying the global automotive market. BTI and its

predecessor companies has been in business serving the automotive market for the past 43 years. Although, the vast majority of BTI's contracts are profitable, the severe slowdown in the automotive industry as a whole has resulted in a substantially reduced volume of sales for BTI. In the past two years BTI has also expended significant capital to establish new product lines which relate to 'green initiatives' including components for new 4 cylinder engine products, hybrid engine products, 6 speed transmissions products, and 3 cylinder diesel engine products. These new 'green initiatives' are not scheduled to come into full production until spring of 2009 and beyond. As a result of reduced sales and the fact that the 'green initiatives' are still in the ramp up stages, BTI's facilities are operating significantly under capacity. Consequently, overhead costs have caused BTI to incur losses in the last three years. As such, a significant restructuring of BTI's operations is the only viable option at this time.

4. As explained in more detail below BTI is insolvent, is suffering from a significant cash flow shortfall and will be unable to meet payroll or continue operations without being granted protection under the CCAA. BTI's primary lender, Royal Bank of Canada ("**RBC**"), has advised that it is not prepared to advance further funds in BTI's current circumstances. There is no immediate alternative source of financing and, in the absence of debtor-in-possession financing, BTI will be forced to shut down its business with the attendant loss of jobs and going-concern value for all stakeholders.
5. The relief requested by BTI includes the granting of a stay of proceedings against BTI, the appointment of BDO Dunwoody Inc. as monitor ("**BDO**"), the appointment of John Walker of Alvarez & Marsal ULC ("**A&M**") as chief restructuring officer ("**CRO**"), the authorizing of debtor-in-possession financing for BTI and the granting of various charges on BTI's assets. Such relief will provide BTI with the time and protection it requires to complete a restructuring of its business.

#### **OVERVIEW OF BTI's BUSINESS**

6. As stated, BTI is a privately owned corporation whose shares are owned by Castings International Inc. ("**Castings**"). Through the operation of its four manufacturing divisions in Southwestern Ontario, BTI is able to provide high volume, vertically

integrated service and supply of aluminum automotive diecastings to the global automotive market, historically shipping over 30 million parts each year.

7. As indicated, BTI operates out of four divisions and a head office, each of which location is summarized below:
- (a) The Alumetco Division operates out of an 115,006 square foot facility located at 150 Garden Ave. in Brantford, Ontario on land owned by BTI. The Alumetco Division is a die casting facility, employing approximately 90 hourly employees and 20 salary employees. The hourly employees at the Alumetco Division were certified on May 5, 2008 as members of the Canadian Auto Workers Union local 397 (the “**Alumetco CAW**”). No collective agreement has yet been reached with the Alumetco CAW and as of November 10, 2008 the Alumetco CAW has been locked out of the Alumetco Division. In the months prior to the lock out of the Alumetco CAW, the Alumetco Division was operating at approximately 45% capacity.
  - (b) The Burlington Division operates out of an 126,000 square foot facility at 3267 Mainway in Burlington, Ontario on land owned by BTI. Like the Alumetco Division, the Burlington Division is a die casting facility. The Burlington Division employs approximately 160 hourly employees and 30 salary employees. The hourly employees at the Burlington Division are members of the Canadian Auto Workers Union local 504 (the “**Burlington CAW**”). The Burlington Division is currently operating at approximately 50% capacity.
  - (c) The Centennial Division operates out of a 40,000 square foot facility located at 920 Century Drive in Burlington, Ontario on land owned by Burlington Group Inc. (“BGI”), a company related to BTI. The Centennial Division is a tool design, tool sourcing and manufacturing facility. The Centennial Division employees approximately 30 hourly (non-unionized) employees and 20 salary employees.
  - (d) The Dexcam Division operates out of a 60,000 square foot facility located at 1670 Bishop Street in Cambridge, Ontario on land owned by BGI. The Dexcam

Division is a machining and assembly facility and employs approximately 100 hourly (non-unionized) and 20 salary employees.

- (e) The Head Office operates out of a 27,200 square foot facility located at 2380 South Service Road in Oakville, Ontario on land owned by BGI. The Head Office includes the accounting/administration, information systems, sales & marketing, and program management departments. The Head Office employs approximately 45 salary employees.

### **BTI's CUSTOMERS**

- 8. BTI is a supplier to various OEMs and other Tier 1 manufacturers. For many of the parts which BTI supplies to its customers, BTI is the sole supplier. On-going production from BTI is critical to the automotive supply chain. BTI provides value added machining, assembly and pressure testing with BTI owned equipment that would take between nine months to one year to duplicate.
- 9. Ford Motor Company ("**Ford**") is BTI's largest customer, and accounts for approximately 40% of BTI's sales. Other significant customers include Bendix CVX ("**Bendix**") (approximately 12-15% of sales), General Motors Corporation ("**GM**") (approximately 10-12% of sales) and Getrag Corporation (approximately 10-12% of sales).
- 10. On December 8, 2008, BTI contacted representatives of each of Ford and GM to advise them of the contemplated filing.

### **BTI's FINANCIAL SITUATION**

- 11. The unaudited financial statements of BTI for its fiscal year ending September 30, 2008 and the audited financial statements of BTI for its fiscal year ending September 30, 2007, are attached hereto as Exhibit "**A**" and "**B**" respectively to this my affidavit.
- 12. For the fiscal year ending 2006, gross sales of BTI were \$107 million. For the fiscal year ending 2007, gross sales of BTI were \$98 million. For the fiscal year ending 2008 gross

sales were \$89 million. As such, over the last three years gross sales have declined approximately \$18 million.

13. As well, for the fiscal years ending 2006, 2007 and 2008, BTI incurred net losses of approximately \$8.0 million, \$6.2 million and \$6.9 million respectively.
14. As described in this Affidavit, BTI is indebted to RBC in the approximate amount of \$32.5 million now due and owing and has other debt of approximately \$37.5 million (including debt owing to other secured creditors and unsecured trade creditors).
15. BTI is unable to pay its debts generally as they become due, and does not have sufficient assets to satisfy its liabilities. Accordingly, BTI is insolvent with claims significantly in excess of \$5 million.
16. BTI's primary stakeholders include its secured creditors, trade creditors, employees, customers and landlord.

### **Secured Creditors**

17. A summary of the results of a search of registrations against BTI, and its corporate predecessors made under the *Personal Property Security Act* (Ontario) is attached hereto as Exhibit "C" to this my affidavit.
18. The interests of the primary secured creditors, being RBC, Export Development Canada ("EDC"), Maple Trade Finance Inc. ("**Maple Trade**") and parties related to BTI, are described below.

### **RBC**

19. As at December 8, 2008, BTI was indebted to RBC in the approximate total principal amount of \$31.1 million, plus accrued and unpaid interest, fees and other charges accruing pursuant to a credit agreement dated January 11, 2008, as amended, between BTI and RBC (the "**RBC Credit Agreement**"). A copy of the RBC Credit Agreement with amendments is attached hereto as Exhibit "D" to this my affidavit. A list of the security and other supporting documents relating to the RBC Credit Agreement is attached hereto as Exhibit "E" to this my affidavit.

20. Under the RBC Credit Agreement, two facilities remain outstanding: (i) a revolving term facility for a maximum amount of \$15 million, which, according to the latest amendment entered into between RBC and BTI, expired on December 5, 2008; and (ii) a lease facility of a maximum amount of \$17 million, which became due and payable, according to the latest amendment entered into between RBC and BTI on December 5, 2008.
21. BTI is also in default of a number of covenants contained in the RBC Credit Agreement such as those relating to quarterly EBIDTA earnings and the EBITDA and Net Funded Debt plus Postponed Debt to EBITDA ratio.
22. In connection with the RBC Credit Agreement, BTI delivered a general security agreement in favour of RBC dated October 1, 1990 (the "**RBC GSA**"), pursuant to which BTI granted to RBC a security interest over all of BTI's present and future property and assets. A copy of the RBC GSA is attached as Exhibit "**F**" to this my affidavit.
23. RBC also holds mortgages over the property owned by BTI on which the Alumetco Division and the Burlington Division operate. A mortgage over the Alumetco Division property in the amount of \$5 million is held by RBC, a copy of which is attached hereto as Exhibit "**G**" to this my affidavit. There are two mortgages over the Burlington Division property, one in the amount of \$5 million originally held by Castings International Inc. and which was assigned to RBC as security on January 18, 2007 and one in the amount of \$5 million held directly by RBC. A copy of the mortgages and assignment related to the Burlington Division property is attached hereto as Exhibit "**H**" to this my affidavit.
24. On December 8, 2008, RBC delivered to BTI demand letters in respect of the indebtedness owing under the RBC Credit Agreement. As well RBC delivered a notice pursuant to section 244 of the *Bankruptcy and Insolvency Act* to BTI on December 8, 2008. BTI is also in the process of negotiating a forbearance agreement with RBC in respect of the RBC Credit Agreement.

**EDC**

25. As at November 28, 2008, BTI was indebted to EDC in the approximate total principal amount of \$5,180,000, plus accrued and unpaid interest, fees and other charges accruing pursuant to a loan agreement with EDC as lender dated as of June 17, 2008 (the “**EDC Loan Agreement**”). A copy of the executed EDC Loan Agreement is attached hereto as Exhibit “**I**” to this my affidavit.
26. The EDC Loan Agreement provides for financing by EDC related to receivables owing to BTI from BTI’s customers for tooling orders (the “**Tooling Orders**”).
27. In connection with the EDC Loan Agreement, BTI delivered a security agreement to EDC dated June 17, 2008 (the “**EDC Security Agreement**”). Pursuant to the EDC Security Agreement, BTI has granted EDC a security interest in the Tooling Orders, and the inventory and receivables related thereto. The form of the EDC Security Agreement is attached as schedule “**D**” to the EDC Loan Agreement.
28. EDC also provides insurance to BTI in respect of BTI’s accounts receivable.
29. BTI contacted EDC representatives on December 5, 2008 and made them aware of the contemplated CCAA filing. BTI remains in discussion with EDC representatives.

**Maple Trade**

30. As at December 8, 2008, BTI was indebted to Maple Trade in the approximate total principal amount of \$3,831,000, plus accrued and unpaid interest, fees and other charges accruing thereon pursuant to a credit agreement with Maple Trade as Lender dated May 29, 2008 (the “**Maple Trade Credit Agreement**”). The Maple Trade Credit Agreement contains a confidentiality provision and therefore a copy the Maple Trade Credit Agreement is not attached hereto.
31. The Maple Trade Credit Agreement provides for financing of certain accounts receivable owing to BTI by Ford and GM. As security for the Maple Trade Credit Agreement, BTI has entered into an assignment of receivables agreement, dated May 29, 2008 with Maple Trade, a copy of which is attached as Exhibit “**J**” to this my affidavit. As well, BTI has

granted a security interest in the applicable receivables to Maple Trade under a security agreement dated May 29, 2008, a copy of which is attached as Exhibit “K” to this my affidavit.

32. BTI contacted Maple Trade representatives on December 5, 2008 and made them aware of the contemplated CCAA filing. BTI remains in discussion with Maple Trade representatives.

### **Related Party Secured Obligations**

33. BTI is also indebted to its shareholder, Castings in the approximate amount of \$16 million. As security for the indebtedness owing by BTI to Castings, BTI has granted Castings security interests in the assets of BTI pursuant to a general security agreement dated April 26, 2006 (the “**Castings Security Agreement**”). A copy of the Casting Security Agreement is attached hereto as Exhibit “L” to this my affidavit.

### **Subordination / Inter-creditor Agreements**

34. I understand that as a result of various subordination and inter-creditor agreements the following is the relationship among the primary secured creditors:
- (a) EDC – first priority with respect to tooling receivables and related collateral;
  - (b) Maple Trade – first priority with respect to certain receivables owing by Ford and GM;
  - (c) RBC – blanket first priority over all assets, but subordinate to EDC and Maple Trade on the collateral noted above; and
  - (d) Castings – subordinate in priority to RBC, EDC and Maple Trade.

### **Other Stakeholders**

#### **Trade Creditors**

35. As of November 1, 2008, BTI owed its trade creditors approximately \$17.2 million, a significant portion of which has been extended beyond payment terms. A listing of BTI’s

accounts payable as of December 8, 2008 is attached hereto as Exhibit "M" to this my affidavit.

36. BTI does not have sufficient cash available to continue to pay the amounts owing to its trade creditors in the ordinary course of business.
37. The largest trade payable owing by BTI is to Aleris International Inc. in the approximate amount of \$5.77 million. Aleris supplies liquid aluminium, a key raw material in BTI's manufacturing process and Aleris is the only supplier of liquid aluminium in Ontario.
38. There are no overdue government remittances of BTI that I am aware of.

### **Employees**

39. BTI currently employs approximately 380 hourly employees and 140 salary employees at its five divisions. Of the 380 hourly employees, approximately 255 are members of the Alumetco CAW or Burlington CAW. As noted above, the Alumetco CAW does not yet have a collective agreement in place, and those employees are currently locked out of the Alumetco Division.
40. BTI manages its payroll for both the hourly and salary employees through Automatic Data Processing, Inc. ("ADP"). The total bi-weekly payroll remitted to ADP, including governmental remittances is approximately \$1.1 million. I understand that the governmental remittances obligations of BTI related to payroll are current.
41. BTI has two defined contribution pension plans in place in respect of its employees. The Burlington CAW employees are members of CWIPP, a labour sponsored pension plan. All other hourly and salary employees are members of a defined contribution pension plan through Group Retirement Services / London Life. The total amount of the monthly contributions of BTI in respect of the pension plans is approximately \$150,000. The payments are made monthly in arrears and are current.

### **Landlords**

42. As noted BTI leases the property on which the Centennial Division, Dexcam Division and the Head Office are located. The landlord, BGI is a corporation related to BTI. The

approximate total amount of the monthly lease payments is \$82,000. The rent is paid on the 1<sup>st</sup> day of the month and the leases expire in 2022.

43. BTI also operates out of a leased warehouse facility located at 1200 Franklin Blvd. in Cambridge, Ontario. The landlord of the warehouse facility is Access Warehousing Services.

### **BTI'S FINANCIAL TROUBLES**

44. BTI is currently facing financial crisis. The poor financial condition of BTI is due largely to the state of the automotive industry generally and the decline in the automotive market. BTI currently has excess capacity and high fixed overhead costs relative to sales.
45. Historically, a large portion of BTI's business related to supplying engine components and products for heavy truck and sport utility vehicles. As customer demand has softened in respect of these products, BTI has seen orders decrease which has resulted in overcapacity.
46. Approximately two years ago, in order to attempt to diversify away from BTI's reliance on the large vehicle market, BTI began to expand into new 'green initiatives'. These initiatives include the manufacturing of components for new 4 cylinder engine products, hybrid engine products, 6 speed transmissions products and 3 cylinder diesel engine products. Capital expenditures regarding these green initiatives have been costly, and although this business has begun to take shape and BTI has obtained significant contracts in respect of these green initiatives, a number of such products are not due to come into full production until March, 2009 and beyond.
47. At the same time, BTI has experienced a sharp decrease in the manufacture of its traditional component orders. These circumstances, when added to the dire state of the automotive industry in general, have contributed to BTI's current financial troubles.

### **THE PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT**

48. In light of the financial troubles outlined above, BTI believes it is necessary to file for CCAA protection. BTI has begun work with the proposed monitor, BDO and the CRO in order to formulate a restructuring plan.
49. At this time, BTI's restructuring plan involves two stages. The initial stage involves consolidation to reduce overhead costs and to return BTI to a cash neutral position. The second stage involves BTI seeking and obtaining refinancing in order to formulate a plan of arrangement.
50. During the initial stage, BTI intends to terminate the employment of approximately 150 employees (the "**Surplus Employees**") and immediately begin to consolidate the Alumetco Division into the Burlington Division which will reduce overhead costs by approximately \$400,000 per week. In this regard, BTI provided written notices to the Surplus Employees of the termination of their employment on the afternoon of December 8, 2008 and the morning of December 9, 2008. This consolidation will take two facilities that were operating at approximately 45% capacity and merge operations into the Burlington Division which would then be operating at approximately 80-90% capacity. As well, in order to reduce costs, BTI plans an extended holiday shutdown during which it will utilize inventory banks which currently exist (and were established to build up inventory for use during the Alumetco Division labour dispute). During the holiday shutdown, a furnace and other equipment will be relocated from the Alumetco Division property to the Burlington Division property in order to ensure sufficient production capability in January at the Burlington Division following the holiday shutdown.
51. Although the initial consolidation will require some capital expenditures, the consolidation is expected to eliminate the cash shortfall within 12 weeks with the ultimate goal of returning BTI to a cash flow positive position.
52. As part of the broader restructuring plan, BTI will offer for sale the Alumetco Division property and other surplus property. Concurrently, BTI will be working with advisors to explore refinancing for the remaining core business in order to develop a plan of compromise or arrangement. BTI will also canvass the market regarding a sale of the other BTI operations.

53. BTI intends to work with its advisors to refine and implement its restructuring plan should BTI be granted CCAA protection.
54. If CCAA protection is not granted to BTI and were BTI to face an immediate shut down and liquidation, I believe that such would result in loss of employment for all of BTI's employees, significant disruption to BTI's customers and the loss of going concern value for all stakeholders.

### **PROJECTED CASH FLOW**

55. A copy of BTI's projected cash flow until the week ending March 27, 2008 (the "**Cash Flow**") is attached hereto as Exhibit "N" to this my affidavit.
56. The Cash Flow projections indicate the need for debtor-in-possession financing, which is discussed in further detail below.

### **INITIAL CCAA ORDER SOUGHT**

#### **Need for a Stay of Proceedings**

57. As a result of the financial condition of BTI, a stay of proceedings is essential for the continued operation of BTI's business. Such stay would create the necessary environment to allow BTI to refine and implement its restructuring plan as outlined above. Stability is also necessary to facilitate on-going customer, supplier and employee support critical to a successful reorganization of the business.
58. BDO has consented to act as monitor in BTI's CCAA proceedings, if such relief is granted by the Court.

#### **Need for a Chief Restructuring Officer**

59. Given the resources that I expect will be necessary to deal with issues related to the CCAA proceedings as well as to implement and refine the restructuring plan, I believe that it is necessary to have the assistance of a CRO during this time.
60. There are a large number of stakeholders with varying interests which will need to be addressed quickly given the financial circumstances BTI is facing. As such, I believe that

engaging a CRO with experience in the automotive industry who will have the confidence of RBC and other stakeholders is critical to moving the restructuring process forward effectively. As well, a CRO will provide independence and the objectivity necessary for the restructuring process.

61. A CRO will also provide unique restructuring expertise, as there is simply not time for existing management to ramp up the steep learning curve required to effectively deal with the numerous issues that I understand arise during a restructuring of this type.
62. I believe that John Walker is a capable CRO and that his extensive experience in restructurings in the automotive industry will be a great benefit to BTI and its stakeholders. I also understand that RBC supports John Walker in the role of CRO during the CCAA proceedings and with respect to the restructuring plan. A copy of John Walker's biographical information, which he provided to me, is attached hereto as Exhibit "O" to this my affidavit.
63. BTI has entered into an engagement letter with A&M, a copy of which is attached as Exhibit "P" to this my affidavit (the "**Engagement Letter**"). Among other things, the Engagement Letter provides that if BTI seeks and is granted protection under the CCAA, BTI must obtain court authorization to continue to engage the CRO on the terms set out in the Engagement Letter.
64. The form of order sought by BTI contains provisions authorizing the appointment of the CRO and providing for an indemnification and charge relating to the fees and expenses of the CRO (as part of the Administration Charge described below).

#### **Need for Debtor-in-Possession Financing**

65. Based on BTI's cash flow projections, BTI will require additional financing during the CCAA period to assist with its working capital requirements, essential capital expenditures and other financing requirements necessary to continue to carry on business in the ordinary course so that the business may be sustained and restructured.

66. BTI has sought initial debtor-in-possession financing from RBC (the “**DIP Lender**”) and it is seeking to enter into arrangements to obtain a revolving credit facility (the “**DIP Facility**”) from the DIP Lender up to a maximum principal amount of \$1.5 million, substantially in accordance with a DIP loan agreement between the DIP Lender and BTI (the “**DIP Loan Agreement**”) in the form attached as Exhibit “**Q**” to this my affidavit (as such agreement may from time to time thereafter be amended by the parties thereto with the consent of BTI’s proposed CCAA monitor).
67. The DIP Loan Agreement provides for a charge of all existing and after-acquired assets of BTI in favour of the DIP Lender as security for payment of all present and future indebtedness owing to the DIP Lender in respect of the DIP Facility. Such charge would have priority over all other charges except the Administration Charge referred to below.

#### **Payment of Professional Fees and the Administration Charge**

68. I believe it is in the interests of BTI and its stakeholders that the CRO, BTI’s legal advisors, the Monitor, and the Monitor’s legal advisors assist BTI through this process in order to proceed with a restructuring of BTI. Consequently, it is necessary to continue to pay such advisors’ reasonable fees and disbursements, whether incurred before, on or after the date of the initial CCAA order requested by BTI in these proceedings and that such advisors be granted a charge in the total amount of \$750,000 (the “**Administration Charge**”) on all assets of BTI as security for all amounts owing by BTI to them.

#### **D&O Charge**

69. Kenneth Carpenter is the sole director of BTI. He is also its president and chief executive officer. In order for me to remain as an officer and, I am advised by Kenneth Carpenter that in order for him to remain as an officer and director, we require that BTI seek an order under the CCAA which provides for the indemnification by the Company of the directors and the officers of the Company and which grants to the directors and officers a charge on all assets of BTI in the total amount of \$3 million (the “**D&O Charge**”) as security for such indemnification.


70. The D&O Charge is required in order to provide a level of protection to the director and officers of BTI with respect to liabilities imposed on individuals in their capacities as directors or officers of a corporation. We require the protection afforded by the D&O Charge due to the uncertainty created by the filing of these proceedings. BTI is requesting that the D&O Charge rank third in priority, directly behind the Administration Charge and the charge in favour of the DIP Lender.

**CONCLUSION**

71. BTI believes that its core business and operations of the Company are viable and that, if it is provided with a reasonable period of protection, it will be in a position to refine and implement a restructuring plan for BTI so as to maximize value for its stakeholders and preserve jobs for its employees.

72. I swear this Affidavit in support of BTI's application for an order under the CCAA and for no other or improper purpose.

SWORN before me at the City of Toronto )  
in the Province of Ontario this 9 day of )  
December, 2008 )

  
\_\_\_\_\_  
A Commissioner, etc. )



ERWIN A. OVERMEYER

Jane Olive Dietrich

Court File No: 08-CL-  
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 BURLINGTON TECHNOLOGIES INC.

**ONTARIO**

**SUPERIOR COURT OF JUSTICE**

PROCEEDING COMMENCED AT TORONTO

**AFFIDAVIT OF ERWIN A.  
OVERMEYER**  
(sworn December 9, 2008)


**FRASER MILNER CASGRAIN LLP**  
1 First Canadian Place  
100 King Street West,  
Toronto, Ontario  
M5X 1B2

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Telephone: 416 863-4740 / 416-863-4467  
Facsimile: 416 863-4592

LAWYERS FOR the Applicant Burlington  
Technologies Inc.

**TAB A**

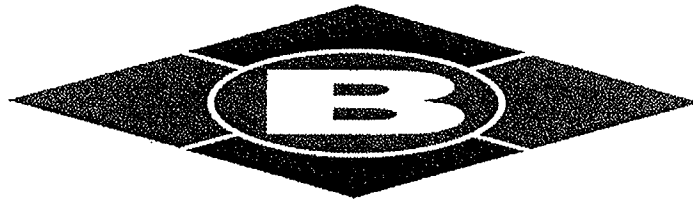
Exhibit "A" to the Affidavit of **Erwin A. Overmeyer**,  
sworn before me this 9<sup>th</sup> day of December, 2008.



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Commissioner for Taking Affidavits, etc.

Jane Oliver-Drelich



**Burlington  
Technologies Inc.**

*BURLINGTON TECHNOLOGIES INC.  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008*



**BURLINGTON TECHNOLOGIES INC.**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	5 WEEKS ENDED APRIL 5, 2008	4 WEEKS ENDED MAY 2, 2008	4 WEEKS ENDED MAY 31, 2008	5 WEEKS ENDED JULY 5, 2008	4 WEEKS ENDED AUGUST 2, 2008	4 WEEKS ENDED AUGUST 30, 2008	4 WEEKS ENDED SEPTEMBER 30, 2008	YEAR ENDED SEPTEMBER 30, 2007	
<b>SALES</b>									
Costing	\$7,675,097	\$5,340,694	\$5,901,644	\$6,993,953	\$4,136,394	\$5,412,182	\$4,400,534	\$37,541,568	88.1%
Total	1,227,747	1,307,245	487,533	1,410,263	1,271,761	388,711	2,983,853	10,690,858	10.6%
	8,902,844	7,647,939	6,389,177	8,404,216	5,408,154	5,800,893	7,384,386	98,232,524	100.0%
<b>COST OF SALES</b>									
Costing	7,047,090	5,435,476	4,998,558	5,932,765	4,108,616	5,418,649	4,358,560	77,517,719	86.5%
Total	1,110,865	1,142,607	415,059	1,226,544	1,076,251	256,492	2,700,017	9,046,078	84.6%
	8,157,954	6,578,083	5,413,617	7,159,309	5,184,866	5,745,142	7,058,577	86,563,797	88.1%
<b>GROSS PROFIT</b>	744,880	1,069,856	985,562	1,184,906	223,288	155,752	338,809	11,674,728	11.8%
<b>RESEARCH AND DEVELOPMENT</b>	125,394	113,639	112,125	118,400	126,700	154,451	9,966	1,402,115	1.0%
<b>SELLING AND ADMINISTRATION</b>	498,583	474,280	396,327	506,680	397,485	489,927	543,873	5,054,721	4.6%
<b>EARNINGS BEFORE INT. TAXES AND DEPRECIATION (EBITDA)</b>	120,902	480,936	477,110	559,827	(300,898)	(488,626)	(217,059)	2,513,869	2.8%
<b>DEPRECIATION &amp; AMORTIZATION</b>	589,815	502,572	530,508	591,673	400,678	546,078	1,277,545	7,018,998	7.8%
<b>EQUIPMENT RENTAL</b>	191,185	195,177	183,241	175,078	176,072	177,072	151,293	2,311,892	2.6%
<b>INTEREST ON EQUIPMENT RENTAL</b>	14,275	11,284	13,218	8,321	8,325	7,325	6,314	164,128	0.2%
<b>INTEREST</b>	145,693	157,253	158,798	181,657	284,633	204,384	288,375	2,177,621	2.4%
<b>OPERATING PROFIT</b>	(820,038)	(385,361)	(418,655)	(396,902)	(1,170,806)	(1,224,065)	(1,820,566)	(8,157,988)	-10.3%
<b>OTHER INCOME</b>	0	0	58	0	0	0	(83,011)	(445)	-0.1%
<b>NET INCOME BEFORE TAXES</b>	(820,038)	(385,361)	(418,655)	(396,902)	(1,170,806)	(1,224,065)	(1,820,566)	(8,157,988)	-10.2%
<b>RESTRUCTURING COSTS</b>							907,442	601,455	0.6%
<b>TAXES</b>	(260,000)	(120,000)	(150,000)	(150,000)	(400,000)	(650,000)	(689,269)	(3,145,000)	-3.5%
<b>NET INCOME</b>	(560,038)	(285,361)	(328,655)	(326,902)	(570,806)	(597,065)	(652,393)	(5,651,533)	-5.7%



**Burlington**  
Technologies Inc.

**BURLINGTON TECHNOLOGIES INC.**

**BALANCE SHEET**

**AS AT SEPTEMBER 30, 2008**

Per Royal Bank Reporting Requirements

**ASSETS**

	DECEMBER 29, 2007	APRIL 5, 2008	JULY 5, 2008	AUGUST 2, 2008	AUGUST 30, 2008	SEPTEMBER 30, 2008	SEPTEMBER 30, 2007
Bank	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accounts Receivable	10,012,456	12,021,161	17,695,576	18,376,355	18,154,750	19,115,193	11,942,679
Inventories	13,662,518	12,080,292	12,355,288	12,164,424	12,660,395	14,448,808	10,586,947
Deposits on Fixed Assets	1,032,562	1,688,620	0	0	0	0	1,183,780
Income taxes recoverable	2,446,581	3,414,838	3,834,836	4,234,838	4,684,838	5,249,088	1,977,364
Prepaid Expenses	438,081	491,456	640,912	715,731	636,221	719,627	309,103
	27,592,199	29,696,367	34,526,593	35,491,348	36,136,204	39,532,715	25,999,874

**Land, Building and Equipment**

	61,065,759	62,501,506	67,054,191	66,976,212	66,573,000	65,283,957	60,072,042
Other Assets	6,074,227	6,154,227	6,154,227	6,154,227	6,154,227	6,040,000	6,275,227
Investments	0	0	0	0	0	0	0
	\$94,732,185	\$98,352,100	\$107,735,011	\$108,621,787	\$108,663,432	\$110,856,672	\$92,347,142

**LIABILITIES**

Current							
Bank indebtedness	\$13,074,408	\$13,042,942	\$12,273,965	\$13,336,068	\$12,767,061	\$14,331,537	\$11,981,129
Payables and accruals	12,783,002	13,638,551	13,773,455	13,111,067	13,176,100	16,585,956	13,241,138
EDC Tool Line	0	0	3,336,925	4,640,438	4,924,444	5,031,540	0
Maple Trade	0	0	3,972,783	4,264,566	4,667,921	4,003,618	0
Income taxes payable	0	0	0	0	0	0	0
Current portion of long term debt	1,392,020	1,392,000	1,266,740	1,266,740	1,266,740	1,848,160	1,184,660
	27,249,430	28,273,493	34,623,868	36,618,898	36,802,256	41,800,812	26,406,927

**Payable to Related Parties**

	8,865,750	12,359,876	13,761,675	13,762,338	15,012,338	15,228,732	7,270,750
Long Term Debt	12,847,347	13,569,202	15,954,281	15,660,373	15,369,270	14,577,753	12,565,471
Deferred Revenue	888	10,002	36,633	2,431	65,887	2,924	86
Deferred Tax Credit	0	0	0	0	0	0	0
	48,963,415	54,212,573	64,376,457	66,034,040	67,249,750	71,610,220	46,243,233

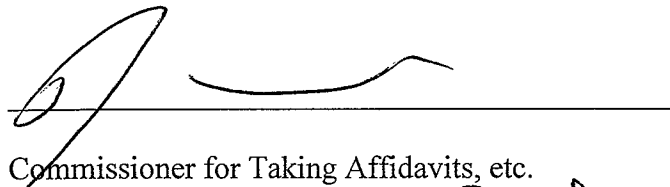
**SHAREHOLDERS' EQUITY**

Capital Stock	21,063,008	21,063,008	21,063,008	21,063,008	21,063,008	21,063,008	21,063,008
Retained Earnings	24,705,762	23,076,519	22,295,544	21,524,738	20,560,673	18,183,443	25,040,901
	45,768,770	44,139,527	43,358,552	42,587,746	41,613,681	39,246,451	46,103,909
	\$94,732,184	\$98,352,100	\$107,735,010	\$108,621,786	\$108,663,431	\$110,856,672	\$92,347,142



**TAB B**

Exhibit "B" to the Affidavit of **Erwin A. Overmeyer**,  
sworn before me this 9<sup>th</sup> day of December, 2008.



A handwritten signature in black ink, consisting of a large, stylized initial 'J' followed by a long horizontal line and a wavy flourish.

Commissioner for Taking Affidavits, etc.

Jane Olive D. Arich

**Burlington Technologies Inc.**  
**Financial Statements**  
September 30, 2007

Grant Thornton 

## Contents

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Statements of Loss and Retained Earnings	2
Balance Sheet	3
Statement of Cash Flows	4
Notes to the Financial Statements	5-12

Grant Thornton LLP  
Chartered Accountants  
Management Consultants

## Auditors' Report

To the Shareholder of  
Burlington Technologies Inc.

We have audited the balance sheet of Burlington Technologies Inc. as at September 30, 2007 and the statements of loss and retained earnings and cash flows for the year then ended. These financial statements have been prepared, with the unanimous consent of the company's shareholders, in accordance with Canadian generally accepted accounting principles using differential reporting options available to non-publicly accountable enterprises, as described in Note 2 to the financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2007 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Hamilton, Canada  
November 30, 2007

*Grant Thornton LLP*

Grant Thornton LLP  
Chartered Accountants  
Licensed Public Accountants

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Canadian Member of Grant Thornton International

# Burlington Technologies Inc.

## Statements of Loss and Retained Earnings

Year Ended September 30

2007

2006

Sales	\$ 98,332,930	\$ 107,399,691
Cost of sales	<u>86,424,623</u>	<u>89,988,059</u>
Gross profit	<u>11,908,307</u>	<u>17,411,632</u>
Research and development	1,319,772	1,341,619
Selling and administration	<u>4,560,685</u>	<u>5,877,379</u>
	<u>5,880,457</u>	<u>7,218,998</u>
Earnings before interest, taxes and depreciation (EBITD) and other items	<u>6,027,850</u>	<u>10,192,634</u>
Depreciation and amortization	5,194,477	5,834,812
Equipment rental	4,788,920	7,135,673
Interest	<u>1,720,265</u>	<u>1,151,840</u>
	<u>11,703,662</u>	<u>14,122,325</u>
Operating loss	(5,675,812)	(3,929,691)
Severance costs	601,455	-
Partial plant closing and restructuring (Note 12)	-	(4,546,729)
Gain on disposal of assets	<u>(111,429)</u>	<u>-</u>
Loss before income taxes	(6,165,838)	(8,476,420)
Income taxes (Note 14)	<u>5,855</u>	<u>(449,871)</u>
Net loss	<u>\$ (6,171,693)</u>	<u>\$ (8,026,549)</u>
Retained earnings, beginning of year	\$ 30,992,468	\$ 39,019,017
Net loss	<u>(6,171,693)</u>	<u>(8,026,549)</u>
Retained earnings, end of year	<u>\$ 24,820,775</u>	<u>\$ 30,992,468</u>

See accompanying notes to the financial statements.

# Burlington Technologies Inc.

## Balance Sheet

September 30

2007

2006

### Assets

#### Current

Receivables (Note 4)	\$ 12,234,157	\$ 10,724,931
Income taxes receivable	1,977,364	1,554,702
Inventories (Note 5)	10,586,952	12,668,015
Prepays	309,103	255,226
Deposits on equipment	1,183,780	1,066,322

26,291,356 26,269,196

Property and equipment (Note 6) 56,363,857 53,401,153

Other assets (Note 7) 6,275,227 4,543,327

\$ 88,930,440 \$ 84,213,676

### Liabilities

#### Current

Bank indebtedness (Note 8)	\$ 11,981,129	\$ 7,548,272
Payables and accruals	13,241,139	13,502,118
Long-term debt payable (within one year) (Note 9)	<u>1,184,660</u>	<u>707,969</u>

26,406,928 21,758,359

Payable to related parties (Note 10) 7,270,750 2,589,118

Long-term debt (Note 9) 8,857,285 7,273,120

Deferred revenue 86 25,995

42,535,049 31,646,592

### Shareholder's Equity

#### Special shares (Note 11)

403,496 Class A special shares, redeemable  
at the option of the holder for \$4,034,960 4,034,960 4,034,960

1,502,501 Class B special shares, redeemable  
at the option of the holder for \$15,025,010 15,025,010 15,025,010

Common shares (Note 11) 2,003,038 2,003,038

Retained earnings 24,820,775 30,992,468

Contributed surplus 511,608 511,608

46,395,391 52,567,084

\$ 88,930,440 \$ 84,213,676

Commitments (Note 16)

On behalf of the Board

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

See accompanying notes to the financial statements.

# Burlington Technologies Inc.

## Statement of Cash Flows

Year Ended September 30

2007

2006

Increase in cash and cash equivalents

<b>Operating</b>		
Net loss	\$ (6,171,693)	\$ (8,026,549)
Depreciation	3,754,477	5,834,812
Amortization	1,440,000	133,100
(Gain) loss on sale of equipment	<u>(111,429)</u>	<u>75,227</u>
	(1,088,645)	(1,983,410)
Change in non-cash operating working capital		
Receivables	(988,722)	1,840,614
Inventories	2,081,063	(162,733)
Income taxes receivable	(422,662)	(462,773)
Deposits on equipment	(117,458)	(74,139)
Prepays	(53,877)	42,361
Payables and accruals	(260,979)	(1,468,717)
Deferred revenue	<u>(25,909)</u>	<u>(341,741)</u>
	(877,189)	2,610,538
<b>Financing</b>		
Advances from related parties	4,681,632	2,589,118
Issue of long-term debt, net	<u>2,060,854</u>	<u>3,523,262</u>
	6,742,486	6,112,380
<b>Investing</b>		
Proceeds on disposal of investment in Burlington Group	-	1,000,000
Proceeds on sale of equipment	158,612	7,300
Purchase of building and building improvements	(427,020)	-
Purchase of equipment	<u>(10,029,746)</u>	<u>(9,822,269)</u>
	(10,298,154)	(8,814,969)
Net decrease in cash and cash equivalents	(4,432,857)	(5,313,127)
Cash and cash equivalents, net of bank indebtedness		
Beginning of year	<u>(7,548,272)</u>	<u>(2,235,145)</u>
End of year	\$ <u>(11,981,129)</u>	\$ <u>(7,548,272)</u>

### Supplemental cash flow information

Interest paid	\$ <u>1,727,825</u>	\$ <u>1,153,698</u>
Income taxes paid	\$ <u>5,855</u>	\$ <u>25,638</u>

See accompanying notes to the financial statements.

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# Burlington Technologies Inc.

## Notes to the Financial Statements

September 30, 2007

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### 1. Nature of operations

The company designs, engineers and builds automotive components.

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### 2. Summary of significant accounting policies

#### Differential reporting

The company, with the unanimous consent of its shareholders, has elected to prepare its financial statements in accordance with Canadian generally accepted accounting principles, using the differential reporting options available to non-publicly accountable enterprises described below:

#### (a) Income taxes

The company has elected to apply the differential reporting measurement option allowed for income taxes and, accordingly, to account for income taxes using the taxes payable method under which the company reports as an expense of the current year only the cost of current income taxes for that year, determined in accordance with the rules established by taxation authorities.

Income tax credits relating to research and development expenditures are accounted for as a reduction of the cost of such expenses or as a reduction of the related capital asset. These investment tax credits are recorded when there is reasonable assurance they will be realized.

#### (b) Share capital

The company has elected to apply the differential reporting recognition and measurement option allowed for preferred shares issued in a tax planning arrangement, and accordingly, to present those shares as equity at their stated value and any related dividends paid thereon as a charge to retained earnings.

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with banks, and highly liquid temporary money market investments with original maturities of three months or less from the date of the acquisition. Bank borrowings are considered to be financing activities.

#### Sale of receivables

The transfer of receivables is recognized as a sale when the company relinquishes control over the receivables to the extent that consideration other than beneficial interest is received in exchange. Any difference in consideration received from the carrying value of the receivables transferred is reported as a gain or loss in other income (expense).

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# Burlington Technologies Inc.

## Notes to the Financial Statements

September 30, 2007

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### 2. Summary of significant accounting policies (continued)

#### Inventories

Inventories are valued as follows:

Castings	- lower of cost and replacement value
Raw materials	- average cost or lower of cost and replacement value
Tools and dies	- lower of cost and replacement value

The cost of castings and tools and dies includes materials, labour, and an allocation of overhead.

#### Depreciation

Depreciation is recorded using the diminishing balance method at the rates indicated in Note 5. One-half of this rate is used in the year an asset is put in use. Leasehold improvements are depreciated using the straight line method over the life of the lease. General purpose machinery and equipment is depreciated using the diminishing balance method at the rate of 11%, 15% and 30% per year. Product-specific equipment included in machinery and equipment is depreciated based on expected production volumes.

#### Other assets

During the pre-operating phase of a new division, the related incremental costs are deferred and amortized on a straight-line basis over periods up to five years from the date commercial production is achieved.

#### Research and development

Research costs are expensed as incurred. Development costs are also expensed unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized over three years based on sales forecasts following first production of the related products. Investment tax credits related to research and development are credited to the related expense accounts unless the related development costs are capitalized, in which case the amounts are credited to development costs.

#### Revenue recognition

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue on dies is recognized on a percentage of completion basis.

#### Deferred revenue

A portion of the automotive parts sales invoices are for the future replacement of dies and have been recorded as deferred revenue. Costs incurred to repair and replace dies are charged against this balance.

#### Pension costs

The company has various contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue.

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# Burlington Technologies Inc.

## Notes to the Financial Statements

September 30, 2007

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### 2. Summary of significant accounting policies (continued)

#### Foreign currency translation

Transactions denominated in foreign currencies are recorded in the accounts of the company at the rate of exchange prevailing during the date of the transaction. At year end, monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at year end rates of exchange.

#### Use of estimates

In preparing the company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

#### Financial instruments

On October 1, 2007, the Company is required to and will adopt CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement; CICA Handbook Section 3865, Hedges; CICA Handbook Section 1530, Comprehensive Income; and the amendments to CICA Handbook Sections and Accounting Guidelines resulting from the issuance of these Sections. Under the new standards, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading and other. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost. Available-for-sale financial assets will be measured at fair value with changes in fair value recognized in other comprehensive income (OCI). All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net income unless the derivative is part of a hedging relationship that qualifies as a fair value hedge, cash flow hedge or hedge of a net investment in a self-sustaining foreign operation. The Company is required to present OCI and its components as well as the components of accumulated OCI in its consolidated financial statements. Major components of OCI include changes in fair value of financial assets classified as available-for-sale, exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations, and the changes in fair value of effective cash flow hedging items. The Company will assess the impact that these Sections will have on its 2008 financial statements and will be designating certain of the financial assets as available for sale and will be required to record derivative financial instruments at fair value.

#### Fair value of financial instruments

The carrying value of cash and cash equivalents, receivables, income taxes receivable, demand loan, and payables and accruals reflected in the balance sheet approximate their respective fair value due to the relatively short-term maturities of these instruments.

The fair value of capital leases is assumed to approximate their carrying amounts.

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# Burlington Technologies Inc.

## Notes to the Financial Statements

September 30, 2007

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### 2. Summary of significant accounting policies (continued)

#### Financial risk

The financial risk is the risk to the company's earnings that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The company's exposure to interest rate risk relates to its operating line which bears interest at fluctuating rates. The company does not use derivative instruments to reduce its exposure to interest and foreign currency risk.

#### Concentrations of credit risk

The company is subject to credit risk through trade receivables. Although a substantial portion of its debtors' ability to pay is dependent upon the automotive sector, credit risk with respect to trade receivables is limited by insurance covering a majority of the receivables and the company's historically low bad debt experience.

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### 3. Accounting change

During the year, management reassessed the remaining useful lives of the company's die cast machinery at its Alumetco division. Management has determined that such remaining useful lives are extended to 15 years, where they were previously assessed at 12 years. Accordingly, 2007 depreciation on this equipment has been provided using these revised estimated useful lives. For the year ended September 30, 2007, this change in estimate has resulted in a reduction in depreciation expense resulting in an decrease in the net loss for the year of \$300,000.

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### 4. Sale of receivables

The company periodically enters into a revolving receivable purchase agreement with a chartered bank, whereby it can sell trade accounts receivable of a specific customer. The company accounts for the receivable purchase agreement as a sale with the related accounts receivable being removed from the balance sheet, as control over the transferred accounts receivable is relinquished once proceeds from the customer have been received.

At September 30, 2007 the total balance of trade accounts receivable transferred was \$6,028,768 (2006 - \$5,149,108).

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### 5. Inventories

	<u>2007</u>	<u>2006</u>
Castings	\$ 4,644,197	\$ 5,623,614
Raw materials	4,951,400	5,639,907
Tools and dies	<u>991,355</u>	<u>1,404,494</u>
	<u>\$ 10,586,952</u>	<u>\$ 12,668,015</u>

# Burlington Technologies Inc.

## Notes to the Financial Statements

September 30, 2007

6. Property and equipment		2007		2006	
	Rate	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land		\$ 1,119,354	\$ -	\$ 1,119,354	\$ 1,082,554
Buildings	5%	13,009,781	6,116,735	6,893,046	7,101,511
Leasehold Improvements	(Note 2)	837,078	151,500	685,578	465,192
Machinery and equipment	(Note 2)	126,259,123	80,539,758	45,719,365	42,658,002
Fixtures and shop equipment	20%	1,461,679	1,097,011	364,668	341,914
Furniture and fixtures	20%	1,251,139	1,097,116	154,023	190,135
Computer hardware	40%	3,006,927	2,824,418	182,509	202,324
Computer software	50%	1,369,828	1,281,114	88,714	112,893
Returnable packaging	20%	4,306,367	3,150,034	1,156,333	1,246,261
Automobiles	30%	30,367	30,100	267	367
		<u>\$ 152,651,643</u>	<u>\$ 96,287,786</u>	<u>\$ 56,363,857</u>	<u>\$ 53,401,153</u>

Machinery and equipment with a net book value of \$1,582,419 and building with a net book value of \$313,874 are not being amortized as the assets were not used during the year.

Included in the cost of machinery and equipment is \$11,165,760 of equipment under capital lease. Amortization is taken on this equipment in accordance with the policy disclosed in Note 2.

7. Other assets	2007	2006
Deferred pre-production costs net of amortization	\$ 6,055,000	\$ 4,120,000
Start-up costs of new division net of amortization	<u>220,227</u>	<u>423,327</u>
	<u>\$ 6,275,227</u>	<u>\$ 4,543,327</u>

### 8. Bank indebtedness

The company has a \$15,000,000 operating line facility, of which \$760,000 is unused at September 30, 2007. Interest is payable at prime plus 0.75%. The company has provided a general security agreement against all assets other than real property. In addition, the company has a \$20,000,000 revolving lease line of credit, by way of capital leases (Note 9).

# Burlington Technologies Inc.

## Notes to the Financial Statements

September 30, 2007

### 9. Long-term debt

#### Capital leases

Future minimum payments under capital leases for manufacturing equipment are as follows:

2008	\$ 1,610,902
2009	1,648,836
2010	1,648,836
2011	1,658,726
2012	2,269,055
Thereafter	<u>431,955</u>
	9,268,310
Add: advance of lease funds (terms to be determined)	2,113,060
Less: amount representing interest at various rates (5.49% to 6.16%)	<u>(1,339,425)</u>
Present value of minimum lease payments	10,041,945
Less: amount due within one year	<u>(1,184,660)</u>
	<u>\$ 8,857,285</u>

As security for long-term debt the company has provided a general security agreement covering all assets other than real property.

### 10. Payable to related parties

	<u>2007</u>	<u>2006</u>
Note payable to shareholder of the parent company, Castings International Inc., non-interest bearing, secured by a mortgage on property, with no set terms of repayment.	\$ 2,430,000	\$ 674,118
Note payable to parent company, Castings International Inc., non-interest bearing, secured by a mortgage on property, with no set terms of repayment.	4,840,750	985,000
Note payable to company under common control, Burlington Group Inc., transferred to note payable Castings International Inc. during the year.	<u>-</u>	<u>930,000</u>
	<u>\$ 7,270,750</u>	<u>\$ 2,589,118</u>

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# Burlington Technologies Inc.

## Notes to the Financial Statements

September 30, 2007

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**11. Capital stock** 2007 2006

**Authorized:**

566,917 Class A special shares  
12% voting, non-cumulative, redeemable at  
\$10 per share at the option of the holder  
Unlimited number of Class B special shares  
7% voting, non-cumulative, redeemable at  
\$10 per share at the option of the holder  
10,000 common shares

**Issued:**

403,496 Class A special shares	\$ 4,034,960	\$ 4,034,960
1,502,501 Class B special shares	15,025,010	15,025,010
10,000 common shares	<u>2,003,038</u>	<u>2,003,038</u>
	<u>\$ 21,063,008</u>	<u>\$ 21,063,008</u>

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**12. Partial plant closing and restructuring**

Partial plant closing and restructuring costs include labour, and severance and other costs associated with the partial closing of one of the facilities, and the transfer of equipment and setup at another facility.

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**13. Defined contribution pension plans**

The company operates defined contribution pension plans for its employees. The assets of the plans are held separately from those of the company in independently administered funds. Contributions paid and expensed by the company for the year amounted to \$1,804,896 (2006 - \$2,080,372) respectively. This expense is recorded in cost of sales and selling and administration within the statement of earnings.