

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.**

FIRST REPORT OF THE MONITOR

(January 5, 2009)

INTRODUCTION

1. On December 9, 2008, Burlington Technologies Inc. (“**BTI**” or the “**Company**”) filed for and obtained protection from its creditors by Order of this Honourable Court (the “**Initial Order**”) made pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to the Initial Order, BDO Dunwoody Limited (“**BDO**”) was appointed as monitor (the “**Monitor**”) of BTI during these CCAA proceedings (the “**CCAA Proceedings**”). A copy of the Initial Order is attached as Exhibit “A”.
2. The purpose of this first report of the Monitor (the “**First Report**”) is to advise this Honourable Court with respect to:
 - (a) the activities of the Monitor and the Company since the date of filing;
 - (b) the status of payments for goods and services supplied to the Company prior to the date of the Initial Order (“**Supplier Payments**”) including those under an agreement between BTI and Reko Automation & Machine Tool, a division of REKO Tool & Mould (1987) Inc. (“**Reko Automation**”) dated December 18, 2008 (the “**Reko Automation Agreement**”);

- (c) communications with BTI's customers including Ford Motor Company ("**Ford**"), General Motors Corporation ("**GM**") and Bendix CVX ("**Bendix**") with respect to entering into accommodation agreements;
 - (d) the status of certain key employee arrangements (the "**KERP**");
 - (e) the proposed marketing and sale process;
 - (f) the terms of the proposed engagement letter with Trenwith Group, LLC ("**Trenwith**");
 - (g) the repudiation of the services contract with Crosbie & Company Inc. ("**Crosbie**");
 - (h) the arrangement reached with Maple Trade Finance Inc. ("**Maple Trade**");
 - (i) ongoing communications with Export Development Canada ("**EDC**");
 - (j) BTI's actual cash-flow for the period ending December 26, 2008;
 - (k) DIP Loan and cash flow projections to March 27, 2009; and
 - (l) the Monitor's comments and recommendations in connection with BTI's motion to extend the Stay of Proceedings until January 30, 2009.
3. This First Report contains the Monitor's conclusions and recommendations to this Honourable Court in connection with BTI's motion seeking approval of:
- (a) the First Report and the Monitor's activities outlined therein;
 - (b) an extension of the Stay Period contained in the Initial Order from January 8, 2009 to January 30, 2009;
 - (c) the terms of the Reko Automation Agreement;
 - (d) amendments to the Initial Order to deal with various issues detailed in this report, including:

- (i) an increase in the permitted Supplier Payments;
 - (ii) an increase in the permitted KERP limit;
 - (e) a marketing and sales process of some or all of the assets, properties, undertaking and business of BTI; and
4. the engagement letter with Trenwith and specifically the break fee referred to therein. Capitalized terms not defined in this First Report are as defined in the Initial Order. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

5. BTI is a privately owned Canadian corporation that produces and supplies high pressure aluminum die-castings to the global automotive market. Prior to filing, BTI operated out of four manufacturing facilities located in southwestern Ontario, with a head office in Oakville, Ontario. BTI employed some 533 hourly and salary employees.
6. The major operating lender to BTI is Royal Bank of Canada (“RBC”). RBC has agreed to continue financing BTI through a DIP Loan Agreement to assist BTI in its restructuring efforts in these CCAA Proceedings. BTI has two additional lenders: Maple Trade which finances receivables generated from Ford and GM, and EDC which finances tooling orders from several of BTI’s customers related to the manufacture of moulds and dies. The ongoing communications with EDC and Maple Trade regarding their respective ongoing financial support are addressed below.

BTI’S AND MONITOR’S ACTIVITIES

7. On December 12, 2008, BTI mailed a notice to BTI’s creditors advising of the CCAA filing, the Initial Order and the means by which to obtain a copy of the Initial Order. A copy of the letter is attached as Exhibit “B”.
8. The Monitor has posted the Initial Order and other documents filed with this Honourable Court to date on a website maintained by the Monitor with the following URL: www.bdo.ca/BTI.

9. The Monitor is working closely with Mr. John Walker of Alvarez & Marsal ULC, the Company's Chief Restructuring Officer ("CRO"). The CRO is directing execution of BTI's restructuring plan with the support and guidance of the Monitor.
10. The Monitor has also advised and assisted BTI on a number of matters since the date of filing, which matters are described in detail below and include:
 - (a) thrice-weekly review of BTI's receipts and disbursements;
 - (b) assisting BTI with its bi-weekly cash-flow reporting obligations to the DIP Lender;
 - (c) assisting BTI with its monthly reporting obligations to the DIP Lender, the first such report being due on January 15, 2009; and
 - (d) various creditor and reporting matters.

BTI'S OPERATIONS

Overview

11. BTI has provided the Monitor with full co-operation and unrestricted access to BTI's premises, books and records. The Monitor has implemented procedures for thrice-weekly monitoring of receipts and disbursements and is working with BTI's management to prepare the financial reporting required by the DIP Lender.
12. Since the commencement of the CCAA Proceedings, BTI has, with the assistance of the Monitor, stabilized its operations and continues to operate in compliance with the DIP Loan Agreement.
13. The operations of BTI since the initial order are further described in the affidavit of Erwin A. Overmeyer, sworn January 5, 2009 (the "**Overmeyer Affidavit**").

Vendors

14. Upon issuance of the Initial Order, BTI contacted its major suppliers to advise them of the CCAA Proceedings. BTI, with the assistance of the Monitor, continues to promptly

address supplier concerns to ensure an orderly and cohesive communication strategy with suppliers. BTI has been required to pay most suppliers on a COD basis to ensure continued supply.

15. The communication with suppliers has addressed supplier concerns with respect to pre-filing arrears and arrangements to assist in the continued flow of goods and services, as well as continued performance by suppliers under existing contracts.

Reko Automation Agreement

16. On December 18, 2008, BTI and Reko Automation entered the Reko Automation Agreement, with respect to, firstly, the payment by BTI for services rendered by Reko Automation prior to the date of the Initial Order and, secondly, the installation of machine #2573 and #2464 (the “Tools”) essential for BTI’s ongoing production for Ford. A copy of the Reko Automation Agreement is attached as **Exhibit “C”**. Due to the commercially sensitive nature of the business terms contained in the Reko Automation Agreement, the Monitor understands that BTI is asking the Court to seal the Reko Automation Agreement and treat such as confidential. The Monitor supports this request. In accordance with paragraph 6(c) of the Initial Order, the Monitor and RBC consented to the Reko Automation Agreement. The Monitor recommends approval of this agreement.

Supplier Payments

17. Excluding payments made pursuant to the Reko Automation Agreement, the Company has made payment of pre-filing liabilities in the amount of \$124,508, to have tooling that was made in China, shipped to the Company. Payment of these invoices to obtain tooling was critical to the Company’s operations in order to avoid any major operational disruption.
18. Payment of these balances was made quickly and the Company did not have the opportunity to obtain the prior written consent of RBC and the Monitor; however both the Monitor and RBC have subsequently approved these disbursements. As the supplier payments were quoted in US currency, on conversion to Canadian currency, when

combined with the Reko Automation Agreement payments made to date, the Company inadvertently exceeded the \$200,000 limit set out in the Initial Order.

19. The Company anticipates having to make further Supplier Payments to obtain the release of tooling and other necessary supplies. The Company is therefore requesting an increase in the permitted Supplier Payments to \$300,000, excluding amounts paid and payable under the Reko Automation Agreement. The Monitor supports the increase in the limit of Supplier Payments being requested by the Company.

Customers

20. Upon issuance of the Initial Order, BTI advised its customers that the CCAA filing would not impact BTI's immediate commitments to its customers or BTI's day-to-day operations.
21. On December 24, 2008, BTI sent an update e-mail to its customers, a sample copy of which is attached as Exhibit "DD".
22. BTI is in continuous communication with its key customers, which include Ford, GM and Bendix, to assure the customers that all customer orders and obligations will continue to be respected during the CCAA Proceedings.
23. In addition, BTI is communicating with Ford, GM and Bendix seeking their co-operation throughout the CCAA Proceedings towards entering into accommodation agreements with each of the customers. BTI hopes to enter into accommodation agreements and/or term sheets with key customers by mid-January, 2009.

Employee related matters

24. As part of its restructuring plan, BTI has shut-down its Alumetco Division in Brantford. Production has been concentrated in its Dexcam, Burlington and Centennial divisions. The operations of BTI and employee related matters are more fully described in the Overmeyer Affidavit.

25. Effective as of December 19, 2008, all of BTI's plants were shut down for the holiday season. Operations re-commenced on January 5, 2009.
26. The Monitor is advised that, as a result of the restructuring, to date, 156 employees have been terminated, as follows:

	Hourly	Salary	Total
Alumetco Division	92	22	114
Other	32	10	42
<hr/> Total	124	32	156

KERP AGREEMENTS

27. The CRO has advised the Monitor that the Company has entered into a KERP agreement with one employee and is negotiating with another, both of whose roles are considered critical to its operations. In accordance with the Initial Order, the Monitor and RBC have approved the agreement entered into and have approved, in principal, the negotiations with the other individual.
28. The KERP arrangements are anticipated to have a total cost to BTI, assuming that all performance benchmarks are met, of approximately \$200,000.
29. This exceeds the cumulative threshold permitted in the Initial Order of \$100,000. BTI is requesting an increase in this threshold to \$200,000. Both the Monitor and RBC support this request.
30. The Company advises that it does not anticipate the need to make further KERP arrangements.

TRENWITH ENGAGEMENT LETTER

31. BTI, with RBC and the Monitor's consent, engaged the services of Trenwith as exclusive financial advisors to assist BTI in selling some or all of BTI's assets or refinancing the

business as part of its reorganization plan (the “Sales Transaction”), pursuant to the terms of an engagement letter dated December 16, 2008 (the “Trenwith Engagement”). As certain information in the Trenwith Engagement relate to particular deal structures and specific third-party companies, portions of it have been redacted. The redacted Trenwith Engagement is attached as Exhibit “E”.

32. The significant terms and conditions contained in the Trenwith Engagement are as follows:

Services provide input and assistance to BTI in the preparation and completion of a confidential information memorandum (the “CIM”) for submission to potential purchasers.

provide assistance and advice, as requested by BTI, with the evaluation and negotiation of formal offers and the closing of the Sales Transaction.

Payment for services monthly non-refundable work fee of \$15,000 for 6 months starting December 16, 2008.

upon closing of the Sales Transaction, a cash closing fee equal to 2% of the sale transaction value (the percentage is to be adjusted depending on certain events) to be paid out of closing proceeds.

in the event Trenwith sources debt or equity for BTI, Trenwith will be paid as follows:

(i) 2% for senior secured debt;

(ii) 3% for convertible or subordinate secured debt;

and

(iii) 4% for equity.

Trenwith is to be reimbursed for advertising costs, travel and other reasonable out-of-pocket expenses.

Break-up Fee in the event of termination of the agreement or the liquidation of BTI, BTI will pay Trenwith a break fee of \$100,000.00.

33. The Monitor considers the Trenwith Agreement to be on commercially reasonable terms consistent with industry practice and the Monitor supports the Company's retention of Trenwith in accordance therewith.
34. Trenwith is an independent firm affiliated with BDO Seidman LLP, the American member firm of BDO International. Each member firm of BDO International is an independent legal entity created under its own country's laws.

REPUDIATION OF SERVICES BY CROSBIE & COMPANY INC.

35. Early in 2008, BTI entered into an agreement with Crosbie to locate a purchaser or investor for the Dexcam Division of the Company. As Crosbie's efforts have not resulted in a transaction and as BTI has entered into the Trenwith Engagement, the Company has repudiated the services contract with Crosbie pursuant to Paragraph 10(d) of the Initial Order, on January 5, 2009. A copy of the repudiation letter is attached as Exhibit "F"

MARKETING AND SALES PROCESS

Core Assets and Operations

36. Subject to the authorization and approval of this Honourable Court, Trenwith's proposed timeline for the Sales Transaction is outlined in the table below:

PHASE	TIMING	ACTION
I	December 16, 2008 to January 16, 2009	Develop sales objectives, timeline, sales process and marketing strategy Trenwith to conduct site visits, review projections and other valuation data and compile preliminary potential purchaser's list Draft CIM

II	January 17, 2009 to January 31, 2009	Finalize potential purchaser's list and sales strategy Prepare data room
III	January 26, 2009 to February 23, 2009	Advertisements will be placed in national newspapers and publications as Trenwith and BTI deem appropriate Potential purchasers will be contacted and interested parties will be asked to execute a confidentiality agreement ("CA"). Parties that execute a CA will be provided with the CIM A timeline will be given for interested purchasers to submit non-binding indications of interest and these interested parties will constitute the second round of potential purchasers
IV	February 23, 2009 to May, 30, 2009	Interested purchasers will be given access to the due diligence data room and site visits will be arranged A draft purchase and sale agreement will be circulated and binding offers will be required to be submitted substantially in the form of the draft purchase and sale agreement Negotiations with top bidders / preferred parties will be entered into and a purchaser will be selected. A definitive purchase and sale agreement will be negotiated, executed and court approval of the sale will be sought

37. As the parties recognize that this timeline is aggressive and circumstances may warrant some deviation, it is contemplated that the Company would be able to vary this timetable with the consent of the Monitor and RBC.

Redundant Assets

38. As a result of the closing of the Alumetco Division and the rationalization of operations, BTI has redundant production machinery and equipment (the "Redundant Assets"). At the request of the Company, the Monitor is assisting BTI in organizing and managing the marketing and sale of the Redundant Assets.
39. It is anticipated that an arrangement will be made with a liquidator by way of a private agreement to auction or sell the Redundant Assets and that the net proceeds will be paid to RBC in reduction of pre-filing debt or otherwise used as RBC shall direct.

40. The Monitor anticipates timing for the marketing and sale of Redundant Assets as follows:

PHASE	TIMING	ACTION
I	December 16, 2008 to January 8, 2009	Develop sales objectives, timeline, sales process and marketing strategy BTI to provide detailed list of Redundant Assets Monitor to prepare Information Memorandum Monitor and BTI to prepare list of target liquidators
II	January 8, 2009 to January 16, 2009	Monitor to contact targeted liquidators On execution of Confidentiality Agreement, Monitor to provide Information Memorandum BTI to provide access to locations with Redundant Assets for physical inspection Monitor to advise BTI on preparing site for auction Liquidators to provide proposal. Liquidators to be asked for: <ul style="list-style-type: none"> • Purchase Price • Net Minimum Guarantee • Auction Commission
III	January 16, 2009 to January 30, 2009	Receipt and analysis of liquidator proposals Selection of liquidator Negotiation of auction services agreement with selected liquidator Commence process to anticipated auction
IV	February 1, 2009 to April, 30, 2009	Liquidator to prepare for auction Monitor and BTI to supplement advertising through their contacts and connections Liquidator to conduct auction and other sales Period for removal of purchase assets Monitor to advise BTI on supervising liquidator, purchasers and riggers for damage

41. As with the core assets and operations, it is contemplated that the Company would be able to vary this timetable with the consent of the Monitor and RBC.

RECEIVABLES FINANCING

Maple Trade

42. On December 17, 2008, Maple Trade entered into a confirmation agreement with BTI (the “**Confirmation Agreement**”), confirming that Maple Trade would continue to provide financing for BTI’s account receivables in accordance with the terms set out in its credit agreement with BTI dated May 29, 2008 and the related security documents (collectively, the “**Maple Financing Documents**”). A copy of the Confirmation Agreement is attached as **Exhibit “G”**.
43. In accordance with paragraph 10(f) of the Initial Order, the Monitor and RBC consented to the Confirmation Agreement and the continued financing by Maple Trade.
44. Pursuant to the Maple Financing Documents and as confirmed by the Confirmation Agreement, Maple Trade shall continue to have a first ranking security interest in the account receivables of Ford and GM financed by Maple Trade.
45. Under the terms of the Confirmation Agreement, BTI confirmed that it will make all reasonable efforts to enter into Accommodation Agreements with Ford and GM.

EDC

46. BTI and its advisors have been in continuous contact with EDC and its counsel to negotiate the terms of continued financing from EDC of BTI’s tooling orders.
47. To date, BTI has had positive discussions with EDC, although EDC has not yet confirmed that it will continue to finance tooling orders for BTI during the CCAA Proceedings.

48. While these negotiations are ongoing, BTI has agreed to reserve the EDC financed portion of tooling receivables collected after the Initial Order, pending an arrangement with EDC for financing of future tooling orders.
49. BTI hopes to reach an agreement with EDC before the January 8, 2009 motion and would, if appropriate, then seek approval of such agreement from this Honourable Court.

ACTUAL CASH FLOWS FOR THE PERIOD ENDING DECEMBER 26, 2008

50. The Monitor has reviewed BTI's actual unaudited cash flow for the period from December 8, 2008 through December 26, 2008 and compared it to management's forecast cash flow for the same period. Actual net cash flow for the period ending December 26, 2008 was \$811,000 representing a positive variance over forecast of \$1,284,000. The comparison of the actual cash flows to the forecast is attached as **Exhibit "H"**.
51. After segregating net tooling cash flows, net cash flows from receivables collections shows a negative variance of (\$205,000). This (6%) variance is due to timing differences in the collection of receivables.
52. To date, BTI's disbursements are less than projected by some \$1,250,000. This positive variance is largely the result of timing differences in anticipated utility and group health insurance costs.

DIP LOAN AND CASH FLOW PROJECTIONS TO MARCH 27, 2009

53. As of December 26, 2008, BTI had not drawn upon any of the funds available to it under the DIP Loan Agreement.
54. BTI has updated and revised the initial projected cash flow for the sixteen week period ending March 27, 2008, a copy of which is attached as **Exhibit "I"** (the "**Updated Projected Cash Flow**"). The Updated Projected Cash Flow has been prepared by BTI, reviewed by the Monitor and submitted to the DIP Lender

55. The Updated Projected Cash Flow reflects actual results for the first three weeks to December 26, 2008 and updated projections, largely the re-forecasting of timing differences, in the period to March 27, 2009.
56. The overall Updated Projected Cash Flow is not materially different from the projected cash flow filed with the application for the Initial Order. Overall net cash flows are projected to be marginally better than those originally projected.
57. BTI has had discussions with RBC with regards to the extension of the DIP Loan Agreement. A copy of the DIP Loan Amendment Agreement extending the DIP Loan Agreement to January 30, 2009 is attached as **Exhibit "J"**.

MONITOR'S ANALYSIS AND RECOMMENDATION

58. The Initial Order was granted on December 9, 2008 and provides for a stay of proceedings until January 8, 2009. Since the date of the Initial Order, BTI and its advisors have worked diligently in stabilizing BTI's operations and advancing the restructuring for the benefit of stakeholders.
59. BTI and its advisors have also been working diligently towards continuing financing arrangements with RBC, EDC and Maple Trade. Moreover, BTI and its advisors have been working closely with BTI's suppliers and customers in making arrangements for the continued supply of manufactured components.
60. Consequently, it is the Monitor's view that BTI has acted and continues to act in good faith and with due diligence and that an extension of the Stay Period to January 30, 2009 is in the best interests of BTI's stakeholders.
61. The Monitor recommends that:
 - (a) this Honourable Court approve BTI's motion seeking an extension of the stay from January 8, 2009 to January 30, 2009;
 - (b) this Honourable Court approve the activities of the Monitor to date, as disclosed in this First Report;

- (c) this Honourable Court approve BTI's motion seeking authorization and approval to increase the permitted KERP payments to \$200,000;
- (d) this Honourable Court approve the terms of the Reko Automation Agreement;
- (e) this Honourable Court approve BTI's motion seeking authorization and approval to increase the permitted Supplier Payment limit (excluding the payment to Reko under the Reko Automation Agreement) to \$300,000;
- (f) this Honourable Court approve BTI's motion seeking the authorization and approval of the Trenwith Agreement and the break fee referenced therein; and
- (g) this Honourable Court approve the marketing and sales process described in paragraphs 33 – 38 hereof.

This First Report is respectfully submitted.

BDO DUNWOODY LIMITED

In its capacity as Monitor in the Matter of a Plan
or Compromise or Arrangement of Burlington Technologies Inc.

Per:



Clark McKeown, CA, CA•CIRP, CFE, CMC
Senior Vice-President