

**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 PLAN OF COMPROMISE OR ARRANGEMENT OF
BURLINGTON TECHNOLOGIES INC.*

APPLICANT

**REPORT OF BDO DUNWOODY LIMITED
IN ITS CAPACITY AS PROPOSED MONITOR**

DECEMBER 5, 2008

INTRODUCTION

1. Burlington Technologies Inc. ("BTI" or the "Company") has brought an application before this Honourable Court seeking various relief under the *Companies' Creditors Arrangement Act* ("CCAA").
2. BDO Dunwoody Limited ("BDO") has consented to act as Monitor in these CCAA proceedings. This report is prepared by BDO, as the Proposed Monitor of the Applicant, to assist this Honourable Court in considering the Applicant's request for relief.
3. Capitalized terms not otherwise defined in this Report are as defined in the affidavit of Erwin A. Overmeyer, sworn in support of BTI's request for relief under the CCAA.

TERMS OF REFERENCE

4. In preparing this Report, BDO has relied upon unaudited financial information, the Company's books and records, the financial information

prepared by the Company and its advisors, and discussions with management of BTI. BDO has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information, and, accordingly, BDO expresses no opinion or other form of assurance on the information contained in this Report.

ENGAGEMENT OF BDO

5. BDO was initially retained by BTI in February 2008, with a mandate, *inter alia*, to review BTI's financial position in order to gain knowledge of the business and financial affairs of the Company, to assist BTI in preparing monthly margin reports to its operating lender, Royal Bank of Canada ("RBC"), to review BTI's operating results and other matters referred to BDO by BTI's management, and to report thereon to the Company, and to RBC, all while the Company attempted to address the concerns of RBC related to the Company's deteriorating financial position in light of a worsening in the economy generally, and a significantly worsening in the automotive sector of the manufacturing economy specifically.

BACKGROUND

6. BTI is a privately held corporation incorporated under the laws of the Province of Ontario. It is an automotive parts manufacturer specializing in mould-making, die casting and precision machining of aluminum components and castings of automotive engine, transmission and other parts. At this time, BTI has a staff of approximately 530, employed in four separate plants. The plants are as follows; the Allumetco plant, located in Brantford, ON; the Burlington plant, located in Burlington, ON; the Dexcam plant, located in Cambridge, ON; and the Centennial plant, located in Burlington, ON.

7. These plants, operating as separate divisions of BTI, are more fully described in the affidavit of Erwin A. Overmeyer, sworn December 9, 2008.
8. BTI has been seriously impacted by the severe economic downturn of the past couple of years, and particularly over the last number of months, which has seen automotive manufacturers dramatically curtail production as inventories of unsold vehicles have accumulated in dealer lots and factory yards.
9. Since a significant portion of BTI's production of parts relates to pick-up trucks, sports utility vehicles and V8-engined automobiles, BTI has been particularly impacted by the contraction of sales of such vehicles, and manufacturers' resultant cut-backs of purchases of components for such vehicles.

FINANCIAL DIFFICULTIES

10. For the fiscal years ended 30 September, 2006, 2007 and 2008 sales at BTI declined from \$107 million in 2006 to \$98 million in 2007, and \$89 million in 2008. Significant losses of over \$6 million per year were incurred.
11. Much of these losses has been funded by cash contributions from the owners of BTI, and to date these contributions exceed \$17 million. The owners hold security for these advances, but the security is postponed to the advances of the three major lenders to BTI, as noted hereafter.
12. The major operating lender to BTI is RBC, with operating loans of approximately \$15 million, and capital lease loans of an additional approximately \$16 million. Additionally, an asset based lender, Maple Trade Finance Inc. ("Maple Finance"), is owed approximately \$4.8 million, for accounts receivable financing provided on certain accounts receivable

from Ford Motor Company ("Ford") and General Motors ("GM"). Export Development Canada ("EDC") is owed approximately \$5.2 million, having financed certain accounts receivable from various BTI customers related to the manufacture of moulds and dies ("tools") for such customers in advance of production of specific new automotive components. These secured obligations are more fully described in the affidavit of Erwin A. Overmeyer, referred to herein.

13. In addition to the obligations to secured creditors, trade creditors are owed in excess of \$16 million, of which amount, up to \$6 million is owed to Aleris International Inc., a supplier of liquid aluminum, the primary raw material used in producing the castings of automotive part components manufactured by the various divisions of BTI.

CASH FLOW

14. Due to the unexpectedly rapid and severe decline in sales orders from customers, accounts receivable have similarly declined rapidly. Meanwhile, the Company continues to incur significant wage costs for a skilled and unionized work force, and would incur significant severance costs associated with a required downsizing of capacity. The anticipated high severance costs have, until now, prevented the Company from taking strong remedial measures which are required to curtail the Company's ongoing operating losses and bring the Company to at least a break even position, on a going-forward basis.
15. As a result of decreasing cash flow, BTI has defaulted on a number of covenants of its lending arrangements with RBC, and has exceeded the margin limits of its borrowing availability. BTI may also be in default of its lending arrangements with EDC. Further, industry-wide concerns as to the financial viability of GM, and, to a lesser degree of Ford, have

further increased the concerns of BTI's management as to its ability to work out of its financial problems and looming cash shortfalls, without resorting to the protection of the CCAA. BTI needs protection so as to conserve cash and obtain a mechanism for an effective downsizing of operations to meet current market realities, and far-reaching refocusing of its operations on more fuel efficient vehicles utilizing more aluminum components, which, of course, are lighter than steel components, thereby further reducing fuel consumption.

CCAA RESTRUCTURING

16. BDO has been consulted in and has assisted in the preparation of the specific plans of downsizing, the refocusing of the operations of BTI, and the preparation of cash flows and sales forecasts recognizing these extraordinary circumstances.
17. Additionally, BDO has communicated throughout with the operating lender, RBC, and has attended meetings between BTI and RBC, the result of which has been a commitment by RBC for additional financing of up to \$1.5 million, subject to BTI meeting certain operational performance covenants in line with the cash flow forecasts presented to RBC. Further, BDO expects to participate in meetings with Maple Finance and EDC to seek agreement for continued financing throughout the restructuring process, and expects to participate in meetings with the Company's major customers, to seek their continued support as the Company downsizes its operations and seeks to formulate a Plan of Compromise or Arrangement for its creditors, while fully meeting its customers' requirements for the continued production of quality, cost efficient components.
18. As part of any successful restructuring, it is expected that BTI will be required to reduce costs by trimming its staff and permanently or

temporarily vacating certain of the premises out of which it operates. Based on our involvement to date, the first steps in this regard will likely involve the shut down of the Alumetco division and their plant located in Brantford, Ontario and the movement of some of the equipment at Alumetco (and its corresponding capabilities) to another BTI location.

19. It is apparent that BTI is insolvent and is suffering from a severe cash flow shortfall. In the absence of a Debtor in possession (DIP) loan, it will be unable to sustain its immediate obligations, including its payroll obligations. Consequently, in the absence of a DIP loan, the Company would likely lose many, if not all, of its employees, and, in turn, significant going concern value.

CONCLUSION

20. Over the last number of weeks and months, BDO has been increasingly consulted by management of BTI as it recognized the worsening financial crisis in the automotive sector, strove to understand the extent of these difficulties and their impact on BTI, and began to consider the various alternatives available to BTI to begin to effect a turnaround, utilizing the protection afforded by the CCAA.
21. BDO is supportive of BTI's efforts to restructure and reduce overhead costs, and is supportive of the arrangements it has made to date with RBC for limited additional financial support.
22. BDO believes the Company has dealt and continues to deal in good faith to design and implement a restructuring plan that can lead to its continued existence and viability. While there can be no certainty that viability can be achieved post restructuring, there is a reasonable prospect of same if the Company can implement the measures it is contemplating.

23. BDO is advised that BTI wishes to nominate BDO as Monitor pursuant to the pending CCAA proceedings, and BDO has consented to so act, should this Honourable Court agree to so appoint BDO.

All of which is respectfully submitted.

BDO DUNWOODY LIMITED

Per:

Uwe Manski, FCA, FCIRP

President

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