

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.**

SECOND REPORT OF THE MONITOR

(January 26, 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. By Order of this Honourable Court on January 9, 2009 (the "**Extension Order**"), the stay of proceedings was extended from January 8, 2009 to January 30, 2009. A copy of the Extension Order is attached as **Exhibit "B"**.
3. The purpose of this second report of the Monitor (the "**Second Report**") is to advise this Honourable Court with respect to:
 - (a) the activities of the Monitor and the Company since the First Report of the Monitor dated January 5, 2009 and the Supplement Report to the First Report of the Monitor dated January 7, 2009 (collectively, the "**First Report**");

- (b) ongoing discussions with BTI's customers including Automotive Components Holdings, LLC ("ACH"), Bendix Commercial Vehicle Systems LLC ("Bendix"), Ford Motor Company ("Ford"), Gates Canada Inc. ("Gates"), General Motors Corporation ("GM"), Getrag Corporation ("Getrag"), Schaeffer Group USA Inc. ("Schaeffer") and TRW Automotive Systems Inc. ("TRW") and collectively with ACH, Bendix, Ford, Gates, GM, Getrag and Schaeffer, the ("Key Customers") regarding entering into accommodation agreements;
 - (c) the marketing and sale process of the core assets and operations of BTI (the "Core Assets");
 - (d) the proposed bidding and auction procedure in respect of BTI's Redundant Assets (as such term is defined in the First Report);
 - (e) BTI's actual cash-flow for the period ending January 17, 2009;
 - (f) the DIP Loan and cash flow projections to March 27, 2009; and
 - (g) the Monitor's comments and recommendations in connection with BTI's motion to extend the Stay of Proceedings until March 16, 2009.
4. This Second Report contains the Monitor's conclusions and recommendations to this Honourable Court in connection with BTI's motion seeking approval of:
- (a) the Second Report and the Monitor's activities outlined therein;
 - (b) an extension of the Stay Period contained in the Initial Order from January 30, 2009 to March 16, 2009 ;
 - (c) a Second DIP Loan Amendment Agreement dated January 27, 2009, which, among other things:
 - (i) increases the maximum limit of borrowings under the DIP Facility (as defined in the Initial Order) from \$1,500,000 to \$2,500,000;

- (ii) extends the term of the DIP Loan agreement to March 16, 2009 (subject to certain events of default);
 - (iii) provides for payments from the DIP Facility to be applied against pre filing indebtedness owing by BTI to RBC in respect of any amounts by which BTI falls below the projected margin calculations as set out in the revised cash flows discussed below; and
 - (iv) provides for the further reduction of the pre-filing indebtedness owing by BTI to RBC in the amount of the net proceeds of sale of the Redundant Assets and, at the option of RBC, in the amount of such other collections in respect of assets subject to security in favour of RBC.
5. Capitalized terms not defined in this Second Report are as defined in the Initial Order and the First Report. All references to dollars are in Canadian currency unless otherwise noted.

BTI'S AND MONITOR'S ACTIVITIES

6. The Monitor continues to work closely with Mr. John Walker of Alvarez & Marsal ULC, the Company's Chief Restructuring Officer ("CRO"), who is directing the execution of BTI's restructuring plan with the support of the Monitor.
7. The Monitor also continues to advise and assist BTI on a number of matters, and since the First Report, specifically with the following:
- (a) thrice-weekly review of BTI's receipts and disbursements;
 - (b) bi-weekly cash-flow reporting obligations to the DIP Lender and the Export Development Bank ("EDC");
 - (c) monthly reporting obligations to the DIP Lender and EDC;
 - (d) preparation of the Confidential Information Memoranda for both the sale of the Core Assets and the Redundant Assets; and

- (e) various creditor and reporting matters.

BTI'S OPERATIONS

Overview

8. BTI continues to provide the Monitor with full co-operation and unrestricted access to its premises, books and records. The operations of BTI since the First Report are described in detail in the affidavit of Erwin A. Overmeyer, sworn January 27, 2009 (the "**Overmeyer Affidavit**").

Customers

9. BTI continues to be in communication with its customers, including its Key Customers, and continues to assure the customers that all customer orders and obligations will be respected during the CCAA Proceedings.
10. In addition, BTI is presently negotiating term sheets with its Key Customers seeking their co-operation throughout the CCAA Proceedings and hopes to enter into accommodation agreements with these Key Customers by mid-February, 2009.
11. BTI has commenced discussions with Deutsche Bank related to the bank's interest in factoring the accounts receivable of the Company due from Bendix. The benefit to BTI of such a factoring arrangement would be to accelerate cash flow from the collection of these accounts by up to \$1.5 million.

Employee related matters

12. The Monitor is advised that effective as of January 19, 2009, BTI temporarily laid off 25 hourly employees for a period of three weeks due to lower customer releases.

MARKETING AND SALES PROCESS

Core Assets and Operations

13. In the First Report, the Monitor detailed the timeline for the marketing and sale of BTI's Core Assets, as amended below. Since then, the Monitor has been assisting the

Company and Trenwith in finalizing the Confidential Information Memorandum for the Core Assets (the “Core Asset CIM”) and the potential purchasers list. As well, the Monitor has provided the Company with the information requirements for the data room and has recommended an electronic data room provider.

PHASE	TIMING	ACTION
I	December 16, 2008 to January 16, 2009	<p>Develop sales objectives, timeline, sales process and marketing strategy</p> <p>Trenwith to conduct site visits, review projections and other valuation data and compile preliminary potential purchaser’s list</p> <p>Draft Core Asset CIM</p>
II	January 17, 2009 to January 31, 2009	<p>Finalize potential purchaser’s list and sales strategy</p> <p>Commence preparation of the data room</p>
III	January 26, 2009 to February 27 2009	<p>Advertisements will be placed in national newspapers and publications as Trenwith and BTI deem appropriate</p> <p>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 Core Asset CIM</p> <p>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</p>
IV	February 27 2009 to May, 30, 2009	<p>Such interested purchasers will be given access to the due diligence data room and site visits will be arranged</p> <p>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</p> <p>Negotiations with top bidders / preferred parties will be entered into and a purchaser will be selected pursuant to a process to be outlined to these parties.</p> <p>A definitive purchase and sale agreement will be negotiated, executed and court approval of the sale will be sought</p>

14. Trenwith, with the assistance of the Monitor, has drafted the Core Asset CIM, from information provided by the Company and other sources.

15. The Core Asset CIM provides prospective purchasers of the core assets who have executed a non-disclosure agreement with a detailed overview of the following:

- BTI's business;
- Key investment considerations;
- Growth opportunities in relation to BTI;
- The ownership and history of BTI and the current management;
- BTI's market and products;
- BTI's customers and competition;
- BTI's operations;
- BTI's past, current and projected financial information;
- Legal and regulatory matters; and
- A detailed assets list.

Redundant Assets

16. In the First Report, the Monitor detailed the anticipated timing for the marketing and sale of Redundant Assets. The Monitor and BTI hereby provide an update on the timing of the sale of the Redundant Assets as follows:

- The Redundant Asset list has been reviewed and updated to reflect changes in the assets deemed redundant;
- The draft Confidential Information Memorandum for the Redundant Assets (the "**Redundant Asset CIM**"), which includes a detailed listing of the Redundant Assets, has been reviewed by the Royal Bank of Canada, which holds security over the Redundant Assets, and its counsel;
- Twenty-one interested purchasers, which had been previously identified and contacted, were provided with the Redundant Asset CIM on January 26, 2009;
- Interested parties will be provided access to the locations with Redundant Assets for physical inspection;
- Offers are to be submitted by potential purchasers by 5:00 p.m. on Friday February 27, 2009;

- BTI expects to be able to accept an offer by March 6, 2009; and
 - If the purchaser is an auctioneer, a sale of the Redundant Assets, by way of auction and the restoration of the auction premises to their pre-auction condition is anticipated to be completed by May 31, 2009.
17. BTI, with the assistance of the Monitor, has drafted the Redundant Asset CIM in relation to the sale of the Redundant Assets.
18. The Redundant Asset CIM provides prospective purchasers of the Redundant Assets with detailed information on the sale and auction process to be followed, a summary of which is as follows:
- (a) Detailed description and location of the assets; and
 - (b) The form of Purchase/Auction Agreement, outlining the terms and conditions relating to the purchase of the Redundant Assets and the use of the premises of BTI to conduct a subsequent sale/auction of the purchased Redundant Assets by the purchaser/auctioneer.

ACTUAL CASH FLOWS FOR THE PERIOD ENDING JANUARY 17, 2009

19. The Monitor has reviewed BTI's actual unaudited cash flow for the period from December 8, 2008 through January 17, 2009 and compared it to management's forecast cash flow for the same period. Actual net cash flow for the period ending January 17, 2009 was \$1.55 million, an improvement over the forecasted break-even position. The comparison of the actual cash flows to the forecast is attached as **Exhibit "C"**.
20. The actual net cash flow for the period ending January 17, 2009 shows the following significant adjustments:
- (a) collections of \$6.8 million were substantially on forecast;
 - (b) disbursements were substantially less than forecast largely as a result of timing differences. Anticipated disbursements for utilities, machinery relocation costs and professional fees have not yet been incurred.

- (c) the Contingency Reserve has a cumulative total of \$600,000. As of January 17, 2009, \$193,000 had been disbursed for unanticipated retroactive equipment lease payments. The Contingency Reserve has a favourable variance to date of \$407,000.

DIP LOAN AND CASH FLOW PROJECTIONS TO MARCH 27, 2009

- 21. As of January 17, 2009, BTI had not drawn on the DIP Loan facility.
- 22. BTI has updated and revised the projected cash flow for the sixteen week period ending March 27, 2009, a copy of which is attached as **Exhibit “D”** (the “**Second Updated Projected Cash Flow**”). The Second Updated Projected Cash Flow has been prepared by BTI, reviewed by the Monitor and submitted to the DIP Lender.
- 23. The Second Updated Projected Cash Flow reflects actual results for the first six weeks to January 17, 2009 and updated projections for the period to March 27, 2009, re-forecasted to incorporate expedited payment terms requested of Key Customers under proposed accommodation term sheets with regard to tooling but not parts. Collection of receivables related to the sale of parts continue to be forecast based on existing customer payment patterns and related Maple Trade and EDC financing for Ford and GM. The overall Second Updated Projected Cash Flow is materially different from the projected cash flow filed with the application for the Initial Order, with the overall net cash flows projected to be some \$3.4 million less than forecast in the First Report.
- 24. The Second Updated Cash Flow reflects the following developments:
 - (a) Customers issue weekly releases on a rolling 12 week basis. As at January 13, 2009, total releases received are down by approximately 20% or \$3,700,000 from early December. This appears to reflect extended plant closures and reduced demand in the automotive industry;
 - (b) Reduced labour and material costs to reflect the lower production levels now forecast;

- (c) It was originally forecast that the Company would be able to use the anticipated proceeds from the sale of the Redundant Assets for its operating requirements. However, it is a term of the Second DIP Loan Amendment Agreement that such funds be applied against the pre-filing RBC indebtedness.
 - (d) Increased financing costs of some \$200,000 as a result of the EDC Confirmation Agreement (as such term is defined in the First Report), which provides for fees, interest and payments against un-remitted pre-filing accounts receivable collections, and EDC advances and repayments net of hostage payments;
 - (e) The key employee arrangement payments, as described in the First Report;
 - (f) Reduction of the go-forward contingency reserve by \$200,000 for a total contingency of \$900,000; and
 - (g) Provisions for increased professional fees.
25. BTI has had ongoing discussions with RBC with regards to the extension of the DIP Loan Agreement. A copy of the Second DIP Loan Amendment Agreement extending the DIP Loan Agreement to March 16, 2009 is attached as **Exhibit "E"**. Among other things, the Second DIP Loan Amendment Agreement:
- (i) increases the maximum limit of borrowings under the DIP Facility (as defined in the Initial Order) from \$1,500,000 to \$2,500,000;
 - (ii) extends the term of the DIP Loan agreement to March 16, 2009 (subject to certain events of default);
 - (iii) provides for payments from the DIP Facility to be applied against pre-filing indebtedness owing by BTI to RBC in respect of any amounts by which BTI falls below the projected margin calculations as set out in the revised cash flows discussed below; and
 - (iv) provides for the further reduction of the pre-filing indebtedness owing by BTI to RBC in the amount of the net proceeds of sale of the

Redundant Assets and, at the option RBC, in the amount of such other collections in respect of assets subject to security in favour of RBC.

MONITOR'S ANALYSIS AND RECOMMENDATION

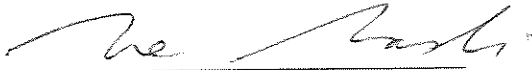
26. The Initial Order was granted on December 9, 2008 and provided for a stay of proceedings until January 8, 2009. The Extension Order extended the stay of proceedings to January 30, 2009. Since the date of the Extension Order, BTI and its advisors have worked diligently in advancing the restructuring for the benefit of stakeholders.
27. BTI and its advisors have also been working diligently towards continuing financing arrangements with RBC and have been working closely with BTI's suppliers and customers in making arrangements for the continued supply of manufactured components.
28. 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 March 16, 2009 is in the best interests of BTI's stakeholders.
29. The Monitor recommends that:
 - (a) this Honourable Court approve BTI's motion seeking an extension of the stay from January 30, 2009 to March 16, 2009 ;
 - (b) this Honourable Court approve the activities of the Monitor to date, as disclosed in this Second Report;
 - (c) this Honourable Court approve the Second DIP Loan Amendment Agreement dated January 27, 2009, extending the DIP Loan Agreement to March 16, 2009; and
 - (d) this Honourable Court approve the amendment to the Initial Order to increase the borrowing limit under the DIP Facility to \$2,500,000.

This Second 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:

A handwritten signature in black ink, appearing to read "Uwe Manski", written over a horizontal line.

Uwe Manski, FCA, FCIRP
President