

RSM Richter

Third Report of RSM Richter Inc. as CCAA Monitor of NMC Canada, Inc., 2515080 Nova Scotia Company and SKD Company

RSM Richter Inc.
Toronto, February 26, 2009

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**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
NMC CANADA, INC. AND 2515080 NOVA SCOTIA COMPANY**

**THIRD REPORT OF RSM RICHTER INC.
AS CCAA MONITOR OF
NMC CANADA, INC., 2515080 NOVA SCOTIA COMPANY
AND SKD COMPANY**

February 26, 2009

1. INTRODUCTION

Pursuant to an order (the "Initial Order") of the Ontario Superior Court of Justice (the "Court") made on January 21, 2009, NMC Canada, Inc. ("NMC"), 2515080 Nova Scotia Company ("2515") and SKD Company ("SKD") (collectively, the "Company") commenced proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") and RSM Richter Inc. ("Richter") was appointed the monitor (the "Monitor"). A copy of the Initial Order can be found at Tab "1" of the Company's compendium of orders, filed with the Court in these proceedings.

The Company's stay of proceedings currently expires on February 27, 2009.

1.1 Purposes of this Report

The purposes of this report (“Report”) are to:

- a) Provide background information about the Company and these CCAA proceedings; and
- b) Recommend that this Honourable Court make an order granting the Company’s request for an extension of its stay of proceedings from February 27, 2009 to March 6, 2009.

1.2 Currency

Unless otherwise noted, all currency references in this Report are to Canadian dollars.

1.3 Terms of Reference

In preparing this Report, the Monitor has relied upon unaudited financial information prepared by the Company’s management, the Company’s advisors, the Company’s books and records and discussions with its management. The Monitor has not performed an audit or other verification of such information. An examination of the Company’s financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on management’s assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Monitor in preparing this Report.

All capitalized terms not otherwise defined herein have the meaning ascribed to them in the Initial Order.

2. BACKGROUND

NMC and 2515 are the general partners of SKD. The only assets and liabilities of NMC and 2515 relate to SKD. NMC and 2515 own 1% and 99% of SKD, respectively. In addition to SKD's Canadian manufacturing operations, automotive parts manufacturing is carried on by SKD L.P. in the US and SKD de Mexico, S. de R.L. de C.V. in Mexico (collectively, SKD and its related entities are referred to as the "SKD Group").

The SKD Group is primarily a tier-one supplier of stampings and welded assemblies to the North American automotive industry.

Additional information concerning the Company and these proceedings is provided in the proposed monitor's report and the Monitor's two reports filed in these proceedings. Copies of these reports can be found on the Monitor's website at www.rsmrichter.com.

3. UPDATE SINCE THE MONITOR'S SECOND REPORT

Since February 13, 2009, the date of the Monitor's second report (the "Second Report"), the Company, Comerica Bank ("Comerica") and the Company's major customers, being Ford Motor Company ("Ford"), Chrysler Canada Inc. and Chrysler LLC (jointly, "Chrysler") and Honda of America Mfg. Inc., Honda Manufacturing of Indiana, LLC and Honda Manufacturing of Alabama, LLC (collectively, Honda), (Ford, Chrysler and Honda are collectively referred to as the "Customers") have been in discussions regarding the terms of an extension of these proceedings and the relevant amending agreements required to allow the Company to continue to operate throughout the extension period. Amending agreements are currently being negotiated for the period through the end of March, 2009 with respect to the Accommodation Agreement (including the Access Agreement and the Budget), the Forbearance Agreement, the Subordinated Participations Agreement and the Additional Participations and Allocation Agreement (the aforementioned agreements are

collectively referred to as, the “Agreements”). (The key terms of the Agreements were summarized in the Affidavit of John Chen sworn January 21, 2009, filed with this Court in connection with the Company’s initial CCAA application.) In addition to negotiating the amendments to the various Agreements, the Company and its advisors have been working with the Monitor and the Customers’ financial advisors to finalize a budget for the term of the extension. Due to the complexity and number of the Agreements, as well as the number of parties involved in the negotiations, the parties do not anticipate finalizing the revised budget and the amendments to the Agreements on or before the return date of this motion. Accordingly, in the interim, the Company, the Customers and Comerica are working to enter into extensions of the Agreements through to March 6, 2009.

4. SALE PROCESS

The Monitor conducted the sale process (“Sale Process”) as required pursuant to the terms of the Initial Order. A summary of the Sale Process is provided in the Second Report, a copy of which is attached as Appendix “A” (without appendices).

On February 18, 2009, the deadline for submission of offers, the Monitor received two offers for certain business of certain Customers. The offers were received from parties that are known to the relevant Customers. No going-concern offers were received for the business. The Monitor is in discussions with the Company and its stakeholders regarding the direction of the business, which may be different for each of the Company’s various Canadian facilities and for the various Customers. Once the direction of the business has been determined, the Monitor will consider how and if the Sale Process can be advanced.

Additional information regarding the outcome of the Sale Process and the Company’s direction will be provided in a subsequent motion.

5. CASH FLOW

As at February 20, 2009, Comerica was owed approximately US\$14.2 million, excluding interest, costs and expenses, and excluding Customer funding, which is by way of subordinated participations in the Comerica facility. Total Customer funding through to February 24, 2009 (which includes Customer funding for the week ending February 27, 2009) was approximately US\$7.9 million. Accordingly, the total secured indebtedness under the Comerica facility (including the Customer funding) was approximately US\$22.1 million as at February 24, 2009. Funding provided to date has been consistent with the terms of the Accommodation Agreements.

The Company is in the process of finalizing its cash flow projection for the period ending March 6, 2009. A copy of the cash flow projection will be provided by the Company or by the Monitor to this Honourable Court on the return date of this motion.

6. COMPANY'S REQUEST FOR AN EXTENSION

The Company is seeking an extension of the stay of proceedings to March 6, 2009.

The Monitor supports the Company's request for an extension of the stay of proceedings, subject to the Company filing a cash flow that reflects adequate funding through the proposed extension period, for the following reasons:

- The Company is acting in good faith and with due diligence;
- It should not prejudice any employee or creditor, as arrangements are to be in place to pay post-filing services and supplies;
- Comerica and the Customers support the extension;

- It would allow the Company, the Customers and Comerica the opportunity to finalize the negotiation of the amendments to the Agreements, which are required to allow the operations of the Company to continue through a further extension; and
- It would allow the Company the opportunity to consider a sale transaction for all or a part of its business and assets, if relevant.

7. CONCLUSION AND RECOMMENDATION

Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1(b) of this Report.

* * *

All of which is respectfully submitted,

A handwritten signature in black ink, appearing to read "RSM Richter Inc.", written in a cursive style.

**RSM RICHTER INC.
IN ITS CAPACITY AS CCAA MONITOR OF
NMC CANADA, INC., 2515080 NOVA SCOTIA COMPANY
AND SKD COMPANY
AND NOT IN ITS PERSONAL CAPACITY**

RSM Richter

**Second Report of RSM Richter Inc.
as CCAA Monitor of
NMC Canada, Inc., 2515080 Nova Scotia
Company and SKD Company**

RSM Richter Inc.
Toronto, February 13, 2009

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**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
NMC CANADA, INC. AND 2515080 NOVA SCOTIA COMPANY**

**SECOND REPORT OF RSM RICHTER INC.
AS CCAA MONITOR OF
NMC CANADA INC., 2515080 NOVA SCOTIA COMPANY
AND SKD COMPANY**

February 13, 2009

1. INTRODUCTION

Pursuant to an order (the "Initial Order") of the Ontario Superior Court of Justice (the "Court") made on January 21, 2009, NMC Canada Inc. ("NMC"), 2515080 Nova Scotia Company ("2515") and SKD Company ("SKD") (collectively, the "Company") commenced proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") and RSM Richter Inc. ("Richter") was appointed the monitor (the "Monitor"). A copy of the Initial Order can be found at Tab "1" of the Company's compendium of orders, filed with the Court in these proceedings.

The Company's stay of proceedings currently expires on February 19, 2009.

1.1 Purposes of this Report

The purposes of this report (“Report”) are to:

- a) Provide background information about the Company and these CCAA proceedings;
- b) Provide an update on the status of the sale process (“Sale Process”) being conducted by the Monitor pursuant to the terms of the Initial Order;
- c) Recommend that this Honourable Court make an order:
 - Granting the Company’s request for an extension of its stay of proceedings from February 19, 2009, the date that the current stay expires, to February 27, 2009; and
 - Approving the Monitor’s actions and activities, as described in this Report and the prior reports of the Monitor filed with this Honourable Court.

1.2 Currency

Unless otherwise noted, all currency references in this Report are to Canadian dollars.

1.3 Terms of Reference

In preparing this Report, the Monitor has relied upon unaudited financial information prepared by the Company’s management, the Company’s advisors, the Company’s books and records and discussions with its management. The Monitor has not performed an audit or other verification of such information. An examination of the Company’s financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on management’s assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Monitor in preparing this Report.

2. BACKGROUND

NMC and 2515 are the general partners of SKD. The only assets and liabilities of NMC and 2515 relate to SKD. NMC and 2515 own 1% and 99% of SKD, respectively. In addition to SKD's Canadian manufacturing operations, automotive parts manufacturing is carried on by SKD L.P. in the US ("SKD US") and SKD de Mexico, S. de R.L. de C.V. in Mexico ("SKD Mexico") (collectively, SKD US, SKD Mexico, SKD and related entities are referred to as the "SKD Group").

The SKD Group is primarily a tier one supplier of stampings and welded assemblies to the North American automotive industry.

At the commencement of the CCAA proceedings, the Company had approximately 661 employees (approximately 192 salaried employees and approximately 469 hourly employees). The hourly employees are represented by three unions, the National Automobile, Aerospace, Transportation and General Workers of Canada and its Local 1285 (the "CAW"), the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers Union (the "USW") and Teamsters Local Union No. 419 (the "Teamsters") (collectively these unions being the "Unions").

Prior to the commencement of the CCAA proceedings, the Company, Comerica Bank ("Comerica") and the Customers (as defined in Section 3 below) negotiated an accommodation agreement (the "Accommodation Agreement"), which, *inter alia*, sets out the terms pursuant to which the Company will continue to supply to the Customers, the Customers' terms of payment and the mechanism pursuant to which the Customers will fund the Company' operations. The Accommodation Agreement (including the Access and

Security Agreement) was approved by this Honourable Court. A copy of the Accommodation Agreement is attached as Appendix "A".

Additional information concerning the Company, its creditors and its financial position, can be found in the report filed on January 21, 2009 with this Honourable Court by Richter as proposed Monitor of the Company (the "Proposed Monitor's Report"), the affidavit of John Chen, the President of NMC, sworn January 21, 2009 (the "First Chen Affidavit"), and the affidavit of Mr. Chen sworn February 13, 2009 (the "Second Chen Affidavit"). The Proposed Monitor's Report (without appendices) and the First Chen Affidavit (without exhibits) are provided in Appendices "B" and "C", respectively. The Second Chen Affidavit was filed with the Company's motion materials in connection with this motion.

3. THE COMPANY'S ACTIVITIES

Following the issuance of the Initial Order, the Company, with the assistance of the Monitor (where necessary), communicated with each of the Company's major stakeholder groups, including suppliers and employees. The Company has secured the cooperation of the majority of its stakeholders and the business is now operating without disruption, as it has (for the most part) since the date of the Initial Order.

Since the date of the Initial Order, the Company's activities have included the following:

- Convening meetings with its employees;
- Negotiating with suppliers and service providers regarding the terms on which goods and services are to be provided to the Company and paid for by the Company during these proceedings;
- Corresponding with and reporting to Comerica and the Company's major customers, being Ford Motor Company ("Ford"), Chrysler Canada Inc. and Chrysler LLC (jointly, "Chrysler") and Honda of America Mfg. Inc., Honda Manufacturing of Indiana, LLC and Honda Manufacturing of Alabama, LLC (collectively, "Honda"), (Ford, Chrysler and Honda are referred to as the "Customers");

- Corresponding with the Unions to provide information related to these proceedings;
- Terminating six salaried employees;
- Working with the Customers to establish inventory bank requirements and commencing the building of the inventory banks;
- Working with the Company's advisors to prepare variance analyses and cash flow forecasts as required pursuant to the terms of the Accommodation Agreement;
- Addressing various issues and inquiries made by creditors and suppliers of the Company; and
- Assisting the Monitor with the Sale Process, as detailed in Section 4 below.

4. SALE PROCESS

The Monitor is conducting the Sale Process as required pursuant to the terms of the Initial Order. The deadline for submission of offers is February 18, 2009.

The following is a summary of the Monitor's activities in connection with the Sale Process:

- Prior to and immediately following the commencement of these proceedings, the Monitor researched and prepared a list of 139 prospective purchasers (approximately 95 strategic parties and 44 financial investors). Certain of these parties were brought to the attention of the Monitor by the Company and its advisors;
- The Monitor prepared an interest solicitation letter that it circulated to the prospective purchasers. Attached to this letter was a confidentiality agreement ("CA");
- The Monitor prepared a confidential information memorandum ("CIM") that provides an overview of the Company's business, assets and Sale Process for prospective purchasers to review upon execution of a CA. Eight (8) parties executed a CA and received the CIM;
- The Company and the Monitor worked together to have information assembled in an electronic data room. The Monitor facilitated due diligence requests received from prospective purchasers. Approximately seven (7) prospective purchasers performed diligence in the data room. As of the date of this Report, one prospective purchaser attended at the Company's premises to tour the facilities and to meet with the plant managers and the Monitor. Two other plant visits are scheduled with prospective purchasers; and

- The Monitor also made available in the data room a soft copy of the form of offer. The form of offer was drafted as an asset purchase agreement. To the extent relevant, the Monitor recommended that prospective purchasers submit their offers to the Monitor in this form, or substantially in this form.

As summarized in the Proposed Monitor's Report, prior to the commencement of these proceedings, Management was in negotiations to sell SKD US and SKD Mexico to a party interested in those entities. During those negotiations, it became apparent that certain customers may favour a different purchaser ("Prospective Purchaser"), as it was believed that the Prospective Purchaser could provide a global solution; that is, one buyer for the business and assets of SKD US, SKD Mexico and the Company. Discussions among the Company, certain of the Customers and the Prospective Purchaser have continued throughout these proceedings, in parallel with the Sale Process.

A meeting among the Customers, the Company, Comerica, the Prospective Purchaser and the Monitor was convened in Detroit, Michigan on February 10, 2009. During the meeting, varying degrees of support were expressed for a transaction with the Prospective Purchaser. As at the date of this Report, it is unclear if the terms of an agreement will be reached with the Prospective Purchaser to acquire the business and assets of any or all of SKD US, SKD Mexico and SKD Canada. Provided a consensus could be reached for the sale of the Company's business and assets, and the value and structure of the transaction was acceptable, the Monitor has advised that it would consider an offer from the Prospective Purchaser, which would be subject to the approval of this Honourable Court. The Monitor is cognizant that an offer which is supported by all Customers would make it virtually impossible for any other party to submit an acceptable offer. The Monitor is not in a position at this time to make such a recommendation, as unanimous Customer support has not been obtained.

The Initial Order requires that the Company return to Court on or before February 25, 2009, to seek this Honourable Court's approval of a sale transaction (if such transaction has been completed). The Monitor understands that the Company will bring another motion prior to the end of February in order to, *inter alia*, provide the Court with a Sale Process update and to consider the next steps in these proceedings.

5. CASH FLOW

As at February 11, 2009, Comerica is owed a principal amount of approximately US\$12.1 million, excluding interest, costs and expenses, and excluding Customer funding, which is by way of subordination participations in the Comerica facility. Customer participations are purchased pursuant to an amended and restated subordinated participations agreement entered into among Comerica, the Customers and General Motors Corporation on January 21, 2009 (the "Subordinated Participations Agreement"). A copy of the Subordinated Participations Agreement is attached as Appendix "D". Total Customer funding since the commencement of these proceedings is approximately US\$4.7 million. Accordingly, the total secured indebtedness under the Comerica facility (including the Customer funding) was approximately US\$16.8 million as at February 11, 2009.

Pursuant to the forbearance agreement ("Forbearance Agreement"), the maximum borrowing limit under the Comerica facilities is US\$18 million, plus the amount of subordinated participations. The maximum Customer funding available to the Company pursuant to the budget appended to the Accommodation Agreement is US\$8.8 million.

The Company's cash flow projection for the period ending February 27, 2009 was appended to the First Chen Affidavit. The projected cash flow reflects the Customers' operations through to February 27, 2009. The cash flow reflects that the Company has sufficient funding for the extension period. The Monitor believes that the cash flow projection is reasonable.

The Company, its advisors and the Monitor are working with the Customers to finalize the terms of a cash flow for at least 30 days beyond the end of February, 2009. Should there be agreement among all the parties on funding and other matters, as well as other terms of an extension, the Monitor understands that the Company would seek an application in late February, 2009 to extend the stay of proceedings.

6. COMPANY'S REQUEST FOR AN EXTENSION

The Company is seeking an extension of the stay of proceedings to February 27, 2009.

The Monitor supports the Company's request for an extension of the stay of proceedings for the following reasons:

- The Company is acting in good faith and with due diligence;
- It should not prejudice any employee or creditor, as arrangements are in place to pay post-filing services and supplies;
- Comerica and the Customers, the principal economic stakeholders in these proceedings, support the extension;
- It would allow the Company the opportunity to comply with its obligations under the Accommodation Agreements; and
- It would allow the Monitor the opportunity to complete the Sale Process.

7. OVERVIEW OF THE MONITOR'S ACTIVITIES

The Monitor's activities to date have included:

- Attending at the Company's premises on a near daily basis in order to carry out its mandate in accordance with the Initial Order;
- Assisting the Company to deal with numerous post-filing issues, including supplier issues;
- Assisting the Company to prepare weekly variance analyses for distribution to Comerica and the Customers in accordance with the terms of the Forbearance Agreement, the Accommodation Agreement and the Initial Order;
- Reviewing weekly variance analyses and weekly cash flow projections with the Company and its advisors;
- Monitoring receipts and disbursements in accordance with the provisions of the Initial Order;
- Responding to creditor inquiries regarding these proceedings;
- Causing to be mailed on January 27, 2009, the CCAA notice to the Company's known creditors;
- Drafting and finalizing the Monitor's first report to Court in respect of the Company's motion brought on January 29, 2009 to compel a vendor to comply with the terms of the Initial Order;
- Working with the Company, Goodmans and the Customers' financial advisors, to deal with various supplier issues;
- Attending at the "all hands" meeting on February 10th meeting in Detroit, Michigan;
- Carrying out the Sale Process as detailed herein;
- Placing on its website copies of materials filed in these proceedings;
- Drafting this Report; and
- Other matters pertaining to the administration of this mandate.

8. CONCLUSION AND RECOMMENDATION

Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1 of this Report.

* * *

All of which is respectfully submitted,

A handwritten signature in black ink that reads "RSM Richter Inc." with a period at the end. The signature is written in a cursive, slightly slanted style.

**RSM RICHTER INC.
IN ITS CAPACITY AS CCAA MONITOR OF
NMC CANADA, INC., 2515080 NOVA SCOTIA COMPANY
AND SKD COMPANY
AND NOT IN ITS PERSONAL CAPACITY**