

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re

Northstar Aerospace (USA) Inc., *et al.*,¹

Debtors.

Chapter 11

Case No. 12-11817 (PJW)

Joint Administration Requested

**DECLARATION OF CRAIG A. YUEN IN SUPPORT OF
CHAPTER 11 PETITION AND REQUESTS FOR FIRST DAY RELIEF**

Pursuant to 28 U.S.C. § 1746, Craig A. Yuen declares as follows:

1. I am at least 21 years of age and am competent to give this declaration. I have knowledge of the matters to which I hereinafter depose, except where otherwise stated. I have also reviewed the records, press releases and public filings of the above-captioned debtors and debtors-in-possession (the “Debtors”) and/or the CCAA Entities (as hereinafter defined) and have spoken with certain directors, officers and/or employees of the CCAA Entities, as necessary, and where I have relied upon such information do verily believe such information to be true.

2. I am the Senior Vice-President, Finance and Chief Financial Officer of debtor Northstar Aerospace (USA) Inc. (“Northstar USA”), a corporation organized under the laws of the state of Delaware, and each of the Debtors. I am also a director of each of the Debtors. I am authorized to submit this declaration (the “First Day Declaration”) of behalf of the Debtors.

¹ The Debtors and the last four digits of their respective tax identification numbers are: Northstar Aerospace (USA) Inc. (XX-XXX4389), Northstar Aerospace (Chicago) Inc. (XX-XXX1441), D-Velco Manufacturing of Arizona, Inc. (XX-XXX5660) and Derlan USA Inc. (XX-XXX6924). The address of Northstar Aerospace (USA) Inc. and Northstar Aerospace (Chicago) Inc. is 6006 West 73rd Street, Bedford Park, Illinois 60638. The address of D-Velco Manufacturing of Arizona, Inc. and Derlan USA Inc. is 401 South 36th Street, Phoenix, Arizona 85034.

3. On the date of this Declaration (the “Petition Date”), the Debtors filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware (the “Court”). The Debtors will continue to operate their businesses and manage their properties as debtors-in-possession.

4. In addition to the Debtors seeking protection under the Bankruptcy Code, the Debtors’ ultimate parent company, Northstar Aerospace, Inc. (“Northstar Parent”), as well as certain Canadian affiliates are seeking protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C.1985, c. C-36, as amended (the “CCAA”), namely, Northstar Aerospace (Canada) Inc. (“Northstar Canada”), 2007775 Ontario Inc. (“2007775”), and 3024308 Nova Scotia Company (“3024308” and collectively with Northstar Parent, Northstar Canada and 2007775, the “CCAA Entities”). The Canadian proceedings for the CCAA Entities are referred to as the “Canadian Proceedings.” The Debtors and the CCAA Entities are sometimes collectively referred to herein as “Northstar”.

5. I submit this First Day Declaration on behalf of the Debtors in support of (i) the Debtors’ voluntary petitions under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as amended (the “Bankruptcy Code”) and (ii) the Debtors’ “first-day” motions (collectively, the “First Day Motions”). The Debtors seek the relief set forth in the First Day Motions with the goal of minimizing the adverse effects of the commencement of these chapter 11 cases on their business. I have reviewed the Debtors’ petitions and the First Day Motions, or have otherwise had their contents explained to me, and it is my belief that the relief sought therein is essential to ensure the success of the Debtors’ chapter 11 cases (the “Chapter 11 Cases”).

I. INTRODUCTION

6. Northstar is in the business of (i) supplying components and assemblies for the commercial and military aerospace markets, including gears, shafts, gearboxes and other related components for helicopter transmissions, helicopter rotor heads, accessory gearboxes for aircraft engines and components for auxiliary power units, (ii) machining and fabrication services for a variety of aerospace applications, and (iii) maintenance, repair and overhaul services.

7. As described in greater detail below, Northstar is facing severe liquidity issues as a result of, among other things: (i) low to negative profit margins on significant customer contracts, (ii) decreases in defense spending and a resulting stretch out of deliveries of backlog orders and a decline in new business orders placed, and (iii) the inability to secure additional funding. As a result, Northstar is unable to meet various financial and other covenants with its secured lenders and does not have the liquidity needed to meet its ongoing payment obligations.

8. Northstar is in the process of completing an extensive marketing process for the sale of its business or assets. As described in greater detail below and in the declaration of Jon Nemo of Harris Williams & Co. ("Harris Williams") which will be filed in support of the bidding procedures and sale motion, Northstar's investment banker, Northstar has entered into a stalking horse agreement with a potential purchaser, and will seek approval of certain bid protections and the bidding procedures on a subsequent motion in order to complete the final stages of this marketing process.

9. These Chapter 11 Cases and the Canadian Proceedings will allow Northstar to maintain operations while giving them the necessary time and process to

complete the current sales process for the benefit of Northstar’s stakeholders. Absent the protections of the Bankruptcy Code, a shutdown of the Debtors’ operations is inevitable, to the detriment of the Northstar’s employees, customers, suppliers and creditors.

10. In order to finance the continued operations of the Debtors during the completion of the marketing process, Northstar’s existing lenders have agreed to provide the Debtors with funding pursuant to the Senior DIP Facility (defined below). Further, Boeing Capital Loan Corporation, an affiliate of Northstar’s largest customer, The Boeing Company (“Boeing”), has also agreed to provide the Debtors with funding pursuant to the Junior DIP Facility (defined below). Northstar’s existing lenders are also providing a loan facility for the CCAA Entities. If the DIP Facilities are approved by the Court, the Debtors will be able to draw a limited amount of funding immediately upon issuance of the Interim DIP Order. The Debtors will seek approval at the final hearing on the DIP Facilities to seek additional relief, including a lien on avoidance actions and a release and waiver of certain rights in favor of the lenders and Boeing that are conditions precedent to further draws on the DIP Facilities.

11. Accordingly, the board of directors of each of the Debtors have authorized the filing of these Chapter 11 Cases.

II. NORTHSTAR BACKGROUND

A. Overview

12. Northstar operates six production facilities in the United States and Canada.

13. Debtor Northstar Aerospace (Chicago) Inc. (“Northstar Chicago”) leases and operates Northstar’s largest production facility in Bedford Park, Illinois (the “Chicago Facility”).

14. The Chicago Facility also houses the Debtors' corporate headquarters and executive management.

15. Debtor D-Velco Manufacturing of Arizona, Inc. ("Northstar Phoenix") operates three facilities in Phoenix, Arizona (the "Phoenix Facilities"). The real estate and plant for one of those facilities is owned. The other two facilities are leased from unrelated landlords.

16. Northstar Canada owns and operates a production facility in Windsor, Ontario (the "Windsor Facility"). Northstar Canada also leases and operates a production facility in Milton, Ontario (the "Milton Facility"). Northstar Canada works closely with the Debtors in carrying out their businesses.

B. Northstar Group Corporate Structure

17. The chart attached hereto as Exhibit A reflects the corporate group structure of Northstar. It includes some inactive entities which are not participants in the Chapter 11 Cases or the Canadian Proceedings.

18. Northstar Parent is a public company incorporated under the Ontario *Business Corporations Act* (the "OBCA"). Northstar Parent's registered office is located at 333 Bay Street, Suite 400, Toronto, Ontario and its principal executive office is at 6006 West 73rd Street, Bedford Park, Illinois. Northstar Parent's common shares previously traded on the Toronto Stock Exchange (the "TSX") under the symbol "NAS". On April 4, 2012, the Ontario Securities Commission issued a general cease trade order as a result of Northstar Parent not filing on March 31, 2012 its audited financial statements for the year ended December 31, 2011. The TSX delisted Northstar Parent's common shares effective May 28, 2012.

U.S. Corporate Structure

19. Debtor Northstar USA is incorporated in Delaware and is wholly-owned by Northstar Canada (which, as discussed below, is wholly-owned by Northstar Parent). Northstar USA is the holding company for Northstar's operations in the United States.

20. Debtor Derlan USA Inc. ("Derlan USA"), also a Delaware company, is wholly-owned by Northstar USA and is a holding company for Derlan Inc. (an inactive entity) and Northstar Phoenix.

21. Debtor Northstar Chicago is incorporated in Delaware and is wholly-owned by Northstar USA. Northstar Chicago operates the Chicago Facility.

22. Debtor Northstar Phoenix is an Arizona corporation wholly-owned by Derlan USA. Northstar Phoenix operates the Phoenix Facilities.

23. Together, Northstar USA, Derlan USA, Northstar Chicago and Northstar Phoenix are the Debtors in these chapter 11 cases.

Canadian Corporate Structure

24. Northstar Canada is a wholly-owned subsidiary of Northstar Parent and is also incorporated under the OBCA. Northstar Canada operates the Windsor Facility and Milton Facility. Northstar Canada also owns a facility in Cambridge, Ontario, which is no longer operating (the "Cambridge Facility").

25. 2007775 is a direct wholly-owned subsidiary of Northstar Parent and is also incorporated under the OBCA. 2007775 has no active operations or material assets other than a 1% interest in Derlan L.P., a Delaware limited partnership and inactive entity. The other 99% of Derlan L.P. is held by Northstar Canada. Derlan L.P. has not filed a chapter 11 petition.

26. 3024308 is a wholly-owned subsidiary of Derlan L.P. and is incorporated under the *Companies Act* (Nova Scotia). 3024308 has no active operations or material assets other than intercompany investments.

C. Northstar's Business

27. Northstar serves both the military defense and commercial markets. The CCAA Entities and the Debtors work together and leverage their combined expertise and capacity to meet the needs of their shared customers and Northstar Canada works closely with its U.S. subsidiaries.

Military Defense Division

28. Northstar's products are used in the Boeing CH-47 Chinook helicopters, Boeing AH-64 Apache helicopters, Sikorsky UH-40 Blackhawk helicopters, AgustaWestland Lynx/Wildcat helicopters, the Boeing F-22 Raptor fighter aircraft, and various other helicopter and aircraft.

29. Approximately 75-80% of Northstar's revenues are derived from military defense contracts. Northstar has two main customers in the defense segment: Boeing and the U.S. Government. These customers constituted approximately 85% and 8%, respectively, of Northstar's military defense revenues in 2011, and are estimated to constitute approximately 80% and 2%, respectively, of Northstar's military defense revenues in 2012. Other military defense market customers include Sikorsky Aircraft Corporation ("Sikorsky") and AgustaWestland Ltd. ("AgustaWestland").

Boeing Customer Relationship

30. Northstar has multiple contracts with Boeing, which make up the large majority of Northstar's revenues. The key contracts that Northstar has with Boeing are set out below.

CH-47 Chinook Agreement

31. Northstar Chicago is the principal supplier of transmission parts for Boeing's CH-47 Chinook transport helicopter, which is used by, among others, the United States Army. Northstar Chicago (then called Derlan Precision Gear Inc.) entered into a Memorandum of Agreement with Boeing in 2000 (the "Chinook MOA") regarding the procurement of transmission gears, shafts and bearings to support Boeing's CH-47 Chinook Program. The term of the Chinook MOA was through December 31, 2010, with agreed fixed pricing through 2004. The Chinook MOA provided that parts pricing would steadily decline from 2000 to 2004, but that pricing would increase after 2004 by agreement of the parties.

32. Boeing and Northstar Chicago entered into a further Memorandum of Agreement regarding the CH-47 Chinook Program dated January 7, 2007 (the "Amended Chinook MOA"), which provided amended pricing for 2007 to 2010 and required Northstar Chicago to increase production capacity. While the pricing increased on average approximately 7% in the Amended Chinook MOA, overall pricing is still below the price Northstar Chicago received in 2000 under the Chinook MOA.

33. Pricing under the Chinook MOA is based upon the year that an order is made, not the year that the parts and assemblies are delivered. Boeing placed a large number of orders under the Amended Chinook MOA at 2007 and 2008 pricing, and has since unilaterally delayed and extended the delivery date of these orders. As a result, the Amended Chinook MOA currently has a parts backlog of approximately \$140 million, which will entail continued production at 2007 and 2008 prices into 2015 even though the Amended Chinook MOA expired by its terms on December 31, 2010. Northstar faces a

loss on this continued production into 2015. Northstar's attempts to renegotiate this pricing with Boeing have been unsuccessful.

34. On January 30, 2012, Northstar Chicago received notification from Boeing alleging a breach of its obligations under certain purchase contracts issued pursuant to the Amended Chinook MOA, including allegations that certain parts had not been delivered on time. The notification demanded that Northstar Chicago cure such breach or otherwise resolve the claims within ten (10) days, the failure of which would entitle Boeing to terminate the Amended Chinook MOA. Boeing has agreed to forbear on the exercise of its rights under this notification, as discussed in greater detail below. Northstar Chicago disputes the alleged breaches.

Apache AH-64 Block III and Face Gear Agreement

35. In 1999, Northstar Canada (then called Derlan Aerospace Canada Inc.), entered into an agreement with a predecessor of Boeing, McDonnell Douglas Helicopter Company, to develop a next generation transmission using "Face Gear" technology (the "Master Face Gear Agreement"). Transmissions using Face Gear are significantly more reliable and provide a better power-to-weight ratio than traditional transmissions. Northstar Canada owns the manufacturing process and equipment needed to produce Face Gears which makes it a critical partner in the Face Gear program.

36. Northstar Canada and Boeing have entered into a series of agreements with respect to the development and production of transmission components using Face Gear technology for the Apache AH-64 Program, which are manufactured at the Milton Facility with some work performed at the Chicago Facility and Phoenix Facilities. Most recently, in May 2010, Northstar Canada received a purchase contract for the production

of transmission components for the Apache AH-64 Block III helicopter valued at \$53 million. Deliveries under this purchase contract began in late 2010 and are scheduled to continue into 2013. Northstar Canada has been in discussions with Boeing regarding a follow-on production contract, but at present the quantities of transmission components that Boeing is expected to require are lower than was previously anticipated.

37. On January 27, 2012, Northstar Canada received notification from Boeing alleging a breach of its obligations under purchase contracts issued pursuant to the Master Face Gear Agreement with respect to the timing and quality of deliveries. The notification demanded that Northstar Canada cure such breach or otherwise resolve the claims within ten (10) days, the failure of which would entitle Boeing to terminate the Master Face Gear Agreement. Boeing has agreed to forbear on this notification, as discussed in greater detail below. Northstar Canada disputes the alleged breaches.

F-22 Raptor

38. Since the acquisition of the Chicago Facility on April 1, 2000, Northstar Chicago and its predecessors have entered into various purchase contracts with Boeing related to the F-22 Raptor program. Under previous agreements, Northstar Chicago provided fully assembled and tested gear boxes to Boeing. Northstar Chicago continues to deliver spare parts to Boeing and provide overhaul services for 2012 and has submitted a proposal for providing overhaul services past 2012 for the F-22 Raptor program.

U.S. Government Customer Relationship

Apache AH-64 Block II Agreement

39. Northstar Chicago, with support from Northstar Phoenix and Northstar Canada, produces transmission and other gear box components for the Apache Block II

helicopter pursuant to various agreements between 2000 and 2008. Northstar has also assembled, tested and provided repair and overhaul services for the main transmissions of the Apache AH-64 helicopter.

CH-47 Chinook Agreements

40. Northstar Chicago has provided repair and overhaul services for transmissions and various spare parts directly to the U.S. Government regarding the CH-47 Chinook helicopter, in addition to the product sales to Boeing on this platform. Northstar Chicago has had various contracts to complete these services and products since 2000. Substantially all commitments under these contracts have been completed in 2012.

Other Customers

UH-60 Blackhawk Helicopter

41. Northstar Canada supplies Sikorsky with gears for its Blackhawk helicopter under an agreement that ended in 2010 but has continuing deliveries through 2012. In February 2012, Northstar Canada and Sikorsky reached an agreement to supply additional Blackhawk gears starting in 2013 through 2017.

Lynx Helicopter

42. Northstar Canada, at the Milton Facility, supplies rotorheads to AgustaWestland for use on the Lynx helicopter, a multi-purpose military helicopter used primarily by the British Army, pursuant to an agreement reached in 2010. Other than some spares and final deliveries there is no future business with AgustaWestland in Northstar Canada's current backlog.

Commercial Division

43. The commercial market makes up 20-25% of Northstar's revenues. Northstar manufactures gears, housings and shafts for various gear box and drive system applications and provides fabricated metal products and repair and overhaul services for customers such as Rolls-Royce Holdings plc ("Rolls-Royce"), Honeywell Inc. ("Honeywell") and General Electric Company ("GE").

Rolls-Royce

44. Northstar Canada, supported by Northstar Chicago, has provided components for the Trent 1000 engine, one of two Rolls-Royce engines powering the Boeing 787 Dreamliner commercial jet, which came into service in October 2011 (after significant project delays). Northstar Canada's agreement with Rolls-Royce continues to the end of 2012 and an agreement for 2013 to 2018 is currently being negotiated.

45. Northstar Chicago previously operated a leased facility in Anderson, Indiana (the "Anderson Facility"). This facility provided support for the Chicago Facility on each of its programs. In addition, this facility provided certain contract manufacturing services to Rolls-Royce's Indianapolis location. This work was completed in July 2011 and there is no further work for Rolls-Royce under these arrangements. The Anderson Facility was closed in August 2011 with the maturity of the lease.

D. Supply Chain and Service Providers

46. The principal raw materials purchased by Northstar are metals and component parts incorporated into their products. Northstar purchases substantially all of its raw materials from third party suppliers and manufacturers. The materials and parts purchased by Northstar must meet the exacting quality standards and specifications of Northstar's customers and its suppliers must maintain approvals as qualified sources.

Many materials are sourced from the only qualified supplier. As the qualification process can be lengthy and expensive, an interruption in supply from Northstar's key suppliers could have a severely detrimental impact on Northstar's production and on the production lines of Northstar's customers.

47. Northstar works with outside processors that perform intermediate work on parts. These outside processors also must meet the qualifications of Northstar's customers, and will be in possession of some of Northstar's work-in-progress at any given time. Many outside processors are the only qualified source. If Northstar faces any payment issues with its outside processors, as with its suppliers, it could have a severely detrimental impact on Northstar's production and on the production lines of Northstar's customers.

48. As a result of recent announcements about Northstar's financial difficulties, including the forbearance agreements entered into between Northstar and its lenders, discussed in greater detail below, substantially all of Northstar's suppliers and outside processors have put Northstar on a cash on delivery, cash in advance of delivery or cash upon order basis.

E. Employees

49. In total, Northstar employs over 700 people across its operations. As of May 31, 2012, the Debtors employed 509 people, of which approximately 375 are subject to collective bargaining agreements. As of May 31, 2012, the CCAA Entities employed 227 people, of which approximately 161 are production personnel.

50. As of May 31, 2012, Northstar Chicago employed approximately 325 employees of which 210 are unionized. The collective bargaining agreement with Local 14430, affiliates with the International Union of Electric, Electrical, Salaried, Machine

and Furniture Workers - Communications Workers of America (IUE/CWA) (AFL-CIO) was entered into on April 22, 2006 and extended on March 14, 2009 and expires April 21, 2014.

51. As of May 31, 2012, Northstar Phoenix employed approximately 183 employees. There is no collective bargaining agreement covering the Phoenix Facilities' employees.

52. As of May 31, 2012, Northstar Canada employed approximately 158 employees at the Milton Facility, of which 112 are unionized. A new collective agreement was ratified with the Canadian Auto Workers' union ("CAW"), CAW Local 112, on November 11, 2011, which expires September 30, 2014.

53. As of May 31, 2012, Northstar Canada employed approximately 66 employees at the Windsor Facility, of which 49 are members of CAW Local 444. The collective bargaining agreement for the workers covered by the bargaining unit became effective as of May 26, 2011 and expires May 31, 2013.

54. As of May 31, 2012, Northstar Canada employed three employees at the Cambridge Facility who have been managing that facility's shutdown.

F. Pensions and Benefits

U.S. Pension and Benefit Plans

55. The Debtors sponsor a variety of pension plans and other benefit programs in respect of their employees as discussed with the Employee Motion being filed simultaneously herewith. There is a pension plan in place which based on certain actuarial calculations is approximately \$8 million underfunded.

Canadian Pension and Benefit Plans

56. The Northstar CCAA Entities sponsor a variety of pension plans and other benefit programs in respect of their employees that are set forth in more detail in pleadings filed in the Canadian Proceedings. As of the date of this declaration, the CCAA Entities do not owe any amounts in respect of unpaid pension contributions. There are accrued not paid amounts in regards to the Registered Pension Plan (paid annually), and Registered Savings Plan (paid monthly).

G. Properties and Facilities

57. The chart below illustrates the particulars of Northstar's operating facilities:

Facility Location	Subsidiary Operating Facility	Owned/Leased	Production Assignments
Milton, Ontario	Northstar Canada	Leased	Chinook, Face Gear, Apache (primary facility) Blackhawk, Lynx
Windsor, Ontario	Northstar Canada	Owned	Chinook, Apache, Blackhawk, Rolls Royce
Illinois	Northstar Chicago	Leased	Chinook (primary facility), Apache
Arizona	Northstar Phoenix	Owned	Apache, Honeywell, Sundstand, Orbital Sciences
Arizona	Northstar Phoenix	Leased	Apache, Honeywell, Sundstand, Orbital Sciences
Arizona	Northstar Phoenix	Leased	Apache, Honeywell, Sundstand, Orbital Sciences

58. Northstar Canada also owns the Cambridge Facility, which was closed in April, 2010 to allow Northstar Canada to focus on its core business of manufacturing aerospace gears and transmissions. As discussed below, there are environmental issues associated with the Cambridge Facility.

59. There are also certain environmental issues related to a non-debtor's former site in Torrance, California.

H. Cash Management System

60. Northstar maintains a cash management and disbursement system in the ordinary course of its operations (the "Cash Management System"). In order to lessen the disruption caused by the bankruptcy filings and maximize the value of their estates in these chapter 11 proceedings, it is vital for the Debtors that they maintain their system of managing cash.

61. Northstar maintains loans, checking accounts and other cash-related holdings with Fifth Third Bank ("Fifth Third"). Fifth Third maintains Northstar's U.S. dollar activity and uses Royal Bank of Canada to administer the Canadian dollar activity for the CCAA Entities.

62. The US Debtors maintain eight (8) separate bank accounts with Fifth Third (each, an "Account" and collectively, the "Accounts") as of the Petition Date. The Debtors' Accounts consist of the following: (i) four (4) Accounts held by Northstar USA; (ii) two (2) Accounts maintained by Northstar Chicago; and (iii) two (2) Accounts maintained by Northstar Phoenix. The CCAA Entities have their own bank accounts with Royal Bank of Canada and Fifth Third.

63. Northstar USA maintains two "concentrator" Accounts with Fifth Third, one in which, each day, credits are transferred from zero balance Accounts and then transferred on the following day to the swingline and revolver prime facilities for which Fifth Third acts as agent and one in which funds are transferred from the swingline and revolver prime to fund daily disbursements for the zero-balance Accounts. The Debtors also maintain an additional \$50,000 day-end balance in the latter Account as a "safety"

balance. Northstar USA also maintains two zero-balance Accounts, one for collections, the other for disbursements. These zero-balance Accounts typically see little activity.

64. Northstar Chicago maintains two (2) zero-balance Accounts with Fifth Third, one for collections and the other for disbursements. These zero-balance Accounts typically see little activity.

65. Northstar Phoenix maintains two (2) Account with Fifth Third, one for collections and the other for disbursements.

66. The Cash Management System maintained by the Debtors has been designed to (i) to provide an efficient method of collecting, transferring and disbursing funds, (ii) to establish procedures and controls necessary to account for funds in an accurate manner, and (iii) to facilitate the Debtors' satisfaction of their financial obligations.

67. The Debtors maintain current and accurate accounting records of daily cash transactions, and submit that preservation of their Cash Management System will prevent undue disruption to the Debtors' business operations, while protecting the Debtors' cash for the benefit of the estate. All funds received or disbursed for each company are properly reflected on that Debtors' books and records.

68. The Debtors have established a gap in their check numbers to distinguish between checks issued prepetition versus checks issued postpetition and have sought to minimize the number of outstanding uncashed checks as of the Petition Date. The Debtors have coordinated with Fifth Third and instructed that prepetition checks should be dishonored absent specific order of this Court authorizing honoring of certain prepetition checks.

I. Assets and Liabilities

69. Northstar prepares financial statements on a consolidated basis for the US and Canada. As at the quarter ended March 31, 2012 (“Q12012”), Northstar’s major assets were valued on an aggregate book basis at approximately \$165 million, apportioned as follows:

Assets

Trade and Other Receivables	\$ 18,062,000	
Inventories	\$83,489,000	
Other Current Assets	<u>\$ 4,232,000</u>	
Total Current Assets		\$ 105,783,000
Property, Plant and Equipment (net)	\$41,302,000	
Goodwill and Intangible Assets	\$15,169,000	
Deferred Income Taxes	\$2,519,000	
Other Long-Term Assets	<u>\$ 323,000</u>	
Total Assets		\$ 165,096,000

70. As at Q12012, Northstar had liabilities on a consolidated basis totaling approximately \$147,053,000.

71. Approximately 60% of the assets and business are with the US Debtors and the remaining 40% are with the CCAA Entities.

Fifth Third Credit Facility

72. In March 2010, Northstar Parent, Northstar Canada, Northstar Chicago, Northstar Phoenix and other Northstar entities entered into a three year, \$66 million secured credit agreement (as amended from time to time, the “Credit Facility”) with Fifth

Third and other lenders (collectively, the “Lenders”) consisting of a revolving loan (the “Revolver”) and a term loan (the “Term Loan”). Northstar Chicago and Northstar Phoenix are borrowers, loan parties and guarantors under the Credit Facility. Northstar Canada is a loan party and a guarantor but not a borrower. The remainder of the U.S. Debtors, CCAA Entities and the non-filing entities reflected on the Northstar corporate group structure chart attached hereto as Exhibit A are guarantors under the Credit Facility. All guarantors under the Credit Facility have pledged substantially all of their assets under the loan as security for borrowings. Due to its size, the Credit Facility is not attached as an exhibit to this affidavit, but will be made available on request.

73. Prior to the Bank Forbearance Agreements, defined and discussed below, the advance rates under the Revolver were determined by the value of certain current assets on hand at the end of the prior month (the “Borrowing Base”), to a maximum of \$40 million. As of June 11, 2012, \$39,500,000 has been advanced under the Revolver.

74. The second component of the Credit Facility is the Term Loan. The Lenders advanced \$26 million under the Term Loan, which is required to be repaid, subject to the Bank Forbearance Agreements, at a rate of \$1 million per quarter starting September 30, 2010, with the balance of \$15 million being due April 15, 2013. As of June 11, 2012, the balance outstanding is \$18,892,000.

75. Under the Credit Facility, Northstar was required to maintain a minimum ratio of fixed charges to EBITDA, a minimum tangible net worth, maximum limit on capital expenditures and a minimum EBITDA requirement, among other covenants. On the occurrence of an event of default, the amounts owing under the Credit Facility become due and payable immediately at the Lenders’ option.

76. The Revolver currently bears interest at a rate of 8%, which includes a default premium of 2% above the base rate of Fifth Third's prime rate plus 2.75%. The Term Loan currently bears interest at a rate of 8.75%, which includes a default premium of 2% above the base rate of Fifth Third's prime rate plus 3.5%.

77. As a result of a decline in accounts receivable in December 2011, the Borrowing Base declined substantially as of February 1, 2012, causing Northstar to be overdrawn on the Revolver and out of compliance with its covenants. Effective February 1, 2012, Northstar and its banks negotiated a forbearance agreement (the "Bank Forbearance Agreements") to provide continued funding of Northstar's short-term liquidity needs. The Bank Forbearance Agreements are discussed in greater detail below.

Capital Equipment Loan

78. Pursuant to an amendment to the Credit Facility dated May 5, 2012, the Lenders also provided Northstar with a capital equipment loan (the "Capital Equipment Loan"). As of June 11, 2012, there was \$1,600,000 outstanding under the Capital Equipment Loan. The Capital Equipment Loan bears interest at a rate of 8.75%, which includes a default premium of 2% above the base rate of Fifth Third's prime rate plus 3.5%.

The Phoenix Facilities Factoring Arrangements

79. The Debtors' Phoenix Facilities factor certain of their accounts receivables. The Debtors factor their receivables from United Technologies Corporation (Sundstrand) with Citibank N.A. pursuant to a factoring agreement dated March 2, 2010 as amended and their receivables from Honeywell with General Electric Capital Corporation pursuant to a factoring agreement dated July 6, 1998. These factoring

agreements rapidly transform what would otherwise be longer-term receivables into immediately liquidity and are more favorable than non-factoring alternatives for those receivables.

Canadian FEDA Loan

80. On March 15, 2011, Northstar Canada obtained an interest-free unsecured loan from the Federal Economic Development Agency for Southern Ontario (“FEDA”), an agency of the Canadian government, repayable in 60 monthly installments starting October 1, 2011. The FEDA loan financed 50% of capital costs and 75% of non-capital costs for approved Northstar Canada capital projects, up to Cdn \$2.2 million.

81. Northstar Canada did not make payments on the FEDA loan of \$25,544.17 due on each of May 1, 2012 and June 1, 2012. By letter dated June 1, 2012, FEDA provided a Notice of Default for failure to make the payment on May 1, 2012 and failure to provide required financial statements. FEDA provided a cure period to Northstar Canada up to June 19, 2012. As of May 26, 2012, Cdn \$1,430,474.32 was outstanding under the FEDA loan.

82. None of the U.S. Debtors are obligors on the FEDA loan.

Technology Partnerships Canada Loan

83. The Canadian Minister of Industry, Derlan Manufacturing Inc. (corporate predecessor to Northstar Canada) and Derlan Industries Limited (corporate predecessor to Northstar Parent) entered into an agreement dated November 17, 1999 (the “TPC Agreement”) through the Technology Partnership Canada program whereby the Canadian Minister of Industry agreed to make an unsecured loan not exceeding Cdn \$9.5 million to

Northstar Canada in exchange for royalties based on a percentage of gross revenues relating to the drive train systems for the AH-64 Apache helicopter.

84. By Amending Agreement No. 4 dated October 20, 2008, the timeline for the project, contributions and projected revenues changed substantially. TPC's contribution was limited to a maximum of Cdn \$1,432,832 and the projected royalties were Cdn \$2,053,976 payable over 11 years on the basis of 3.6% of gross revenues, projected to start in 2012.

85. Northstar Canada's annual royalties under the TPC Agreement were due April 30, 2012. Northstar has not provided Industry Canada with the requisite financial statements and the annual royalty in the amount of \$239,764.30. By letter dated May 31, 2012, Industry Canada provided a "Last Notice to Comply" requesting financial statements and information from Northstar Canada as well as a check for the annual royalty payment. By further letter dated June 12, 2012, Industry Canada set a deadline of July 12, 2012 for Northstar Canada to comply. As of April 30, 2012, \$1,719,641 was outstanding under the TPC Agreement.

86. None of the U.S. Debtors are obligors on the TPC Agreement.

Trade Debt

87. As of March 31, 2012, Northstar had \$21,666,000 in the aggregate of accounts payable and accrued liabilities owed to trade and other creditors plus certain contingent claims. Some trade creditors have begun making demands for payment or commencing proceedings in respect of overdue amounts.

J. U.S. Environmental Liabilities

88. Two claims have been made with respect to potential releases of hazardous substances at the plant site owned by Northstar Phoenix located at 401 S. 36th

Street, Phoenix, Arizona. Both of these claims arise from the same alleged circumstance: that during the course of manufacturing activities over many years, certain hazardous substances known as chlorinated solvents were released from the plant and found their way into the soil and groundwater beneath the plant and then emanated from the plant. Northstar Phoenix settled the first claim made with respect to potential groundwater contamination in a consent decree entered December 15, 2010 entitled *State of Arizona v. Honeywell International, Inc., et. al.*, CV. No. 07-01989-PHX-SRB. A second claim has been filed by the Roosevelt Irrigation District against some 60 parties, including Northstar Phoenix, asserting that groundwater it uses has been contaminated, the matter is entitled *Roosevelt Irrigation District v. Salt River Agriculture Improvement and Power District, et al.*, CV. No. 10-00290-DAE-MHB pending in federal district court of Arizona. The matter is in abeyance until the Court rules on certain preliminary matters, including whether the counsel for the Plaintiff are disqualified from bringing the case. The Company believes it does not have liability for the alleged contamination.

89. Additionally, the Arizona Department of Environmental Quality (“ADEQ”) has asked Northstar Phoenix to investigate and verify that it is not contributing to the groundwater contamination found in the area. Northstar Phoenix is currently negotiating with ADEQ to define the parameters of the investigation and, if necessary, remediating, potential soil contamination beneath the plant.

90. Derlan Inc., a non-debtor U.S. entity, was sued through cross-claim by a defendant in an action brought by the Water District, Orange County, California, for alleged contamination of the aquifer that lies beneath the South Basin of the Water

District. Details about the condition of the California site are not available and the extent of Northstar's liability, if any, cannot yet be ascertained.

91. Thiem Industries, Inc., a predecessor entity to Derlan USA, Inc., is under an Order by a government agency relating to a potential environmental concern at a site in Torrance, California which was formerly owned by a Northstar subsidiary.

92. An adjacent property owner, ALS Industries, commenced an action against an inactive subsidiary in 2010 alleging property contamination in Santa Ana, California. Details about the condition of the California site are not available and the extent of the Northstar Group's liability, if any, cannot yet be ascertained.

K. Canadian Environmental Liabilities

93. There are also certain environmental issues in Canada, including sizeable obligations related to a former facility in Cambridge, Ontario as discussed below. The U.S. Debtors are not named in any of the Canadian environmental actions discussed below.

Cambridge Facility

94. Northstar Canada formerly had manufacturing operations at the Cambridge Facility which involved, among other things, the use of industrial solvents.

95. In 2004, Northstar Canada notified the Ontario Ministry of the Environment (the "Ontario MOE") of potential environmental contamination at the Cambridge Facility. Additional investigations determined that the contamination had migrated from beneath the Cambridge Facility to beneath the adjacent down-gradient neighborhood. In response to these environmental concerns, Northstar Canada created an accounting reserve of Cdn \$22.8 million for environmental testing and remediation at and

near the Cambridge Facility. To date, Northstar Canada has paid approximately Cdn \$20.4 million in cash attributable to that accounting reserve.

96. Northstar Canada is also subject to two orders issued by the Ontario MOE Director (the “Director”) with respect to the contamination at and near the Cambridge Facility. Pursuant to the orders, Northstar Canada was ordered to investigate and monitor the contamination and periodically report to the Director and to provide financial assurance in the amount of \$10,352,906 by June 6, 2012 to fund environmental remediation. Northstar Canada has insufficient funds to provide this financial assurance. Northstar Parent’s directors made a request to the Lenders to fund such financial assurance and requested an extension of time from the Director in order to deal with the Lenders. On June 6, 2012, the Director extended the date by which financial assurance is required to be paid to June 20, 2012.

97. A separate contamination source, which is not attributable to Northstar Canada or its operations, has been identified near the Cambridge Facility. Northstar’s financial reserve has not been adjusted in respect of such other source of contamination.

98. Northstar Parent and Northstar Canada were defendants in a class action proceeding in the Ontario Superior Court of Justice relating to alleged damages arising from contamination migrating from the Cambridge Facility. Pursuant to a settlement agreement, Northstar Parent and Northstar Canada agreed to pay Cdn \$5.05 million over time to the plaintiffs. Northstar Parent and Northstar Canada’s remaining obligation with respect to the settlement is an unsecured Cdn \$3 million promissory note bearing interest at 3.3% per year payable no later than October 2012 (or through the issuance of common shares of Northstar Parent).

99. In October 2006, the Regional Municipality of Waterloo brought a Cdn \$1.2 million claim against Northstar Parent and Northstar Canada in the Ontario Superior Court of Justice claiming damages and contribution and indemnity for any claims that may be brought against the Regional Municipality of Waterloo. An agreement tolling the statute of limitations is in place regarding that litigation.

100. Northstar Parent and Northstar Canada are also defendants in an action brought by certain individual plaintiffs claiming damages allegedly arising from exposure to TCE (trichloroethylene) at the plaintiffs' former home in Cambridge, Ontario. The litigation is currently in the discovery stage.

Milton Facility

101. Northstar Canada has spent in excess of \$1 million addressing the clean-up of TCE and coolant spill at the Milton Facility.

III. EVENTS LEADING TO THE DEBTORS' CHAPTER 11 FILING

A. Financial Difficulties

102. There are multiple reasons for Northstar's financial difficulties.

103. A very small number of customers account for the vast majority of the Northstar's revenue. The expiry of multiple contracts between 2010 and 2012 without sufficient renewals, extensions or new contracts being entered into has severely impacted Northstar's financial performance. Northstar's revenues declined sharply in the latter part of 2011.

104. While overall revenues have declined, Northstar remains burdened with unfavorable contracts. The most significant cause of Northstar's financial difficulty is the low to negative margins earned by Northstar Chicago on its work for Boeing on the Chinook CH-47 helicopter pursuant to the Amended Chinook MOA. As a result of low

pricing and unilateral changes to product volume and timing of delivery, Northstar Chicago is bound, at a continuing loss, to make deliveries to Boeing into 2015 under purchase contracts issued pursuant to the Amended Chinook MOA at 2007 and 2008 pricing, even though the MOA expired on its terms in 2010. Northstar Chicago has attempted to renegotiate the purchase contracts issued pursuant to the Amended Chinook MOA and other unfavorable contracts but has been unable to do so.

105. Northstar is also realizing losses on the start-up of the low-rate initial production of transmission components for the Block III upgrade of the Apache AH-64 helicopter. Northstar has experienced challenges with the start-up of this production as certain parts are still undergoing design changes from the customer. Northstar worked with the customer on the development of these parts and realized a loss of greater than \$5 million on the completion of that development contract.

106. Other Northstar contracts have also contributed to the financial difficulties of the company due to losses realized on those contracts. These include various programs with the U.S. Government on the Apache helicopter, a landing gear solution with AgustaWestland, a rotorhead program with Bell Helicopter and various legacy gear parts with Rolls-Royce.

107. Northstar is reliant on timely payments from its customers, especially Boeing, to meet working capital requirements and Boeing recently has expedited payments to Northstar on a “net 10” or “net zero” basis. Delays in the supply chain or production schedule and administrative delays resulted in a decreased cash position and caused Northstar to draw further on the Credit Facility. In addition, supplier demands for earlier payment caused additional draws on the Credit Facility. During 2011 and to date

in 2012, Northstar on a consolidated basis had higher cash outflows than inflows due to such delays and losses realized on the Amended Chinook MOA.

108. Northstar made significant investments in its production facilities, including the launch of a new facility in 2006 in Anderson, Indiana (now closed) to accommodate various Boeing contracts and expected future work on the Chinook CH-47 helicopter and the Apache AH-64 helicopter. The demand projected by Boeing, particularly in regard to the CH-47 program, has not reached the level that was expected based on the level of orders placed in 2007 and 2008 and Northstar has been unable to recoup its investment.

109. The profitability of Northstar is also subject to currency fluctuations. Labor and overhead expenses at Northstar Canada are denominated in Canadian dollars, while revenue is denominated in Canadian dollars, U.S. dollars and Pounds Sterling. Significant currency fluctuations in the Canadian, U.S. and British economies, particularly the increase in the value of the Canadian dollar as against the U.S. dollar, have negatively impacted Northstar's earnings on many of its contracts.

B. Financial Results

110. As a result of their financial difficulties, Northstar has experienced poor financial results.

111. Northstar has not reported its consolidated financial results for the fiscal year ended December 31, 2011 ("FY 2011") or Q1 2012, but they have been prepared on an unaudited basis. The financial performance of Northstar on a consolidated basis began to decline markedly in the last quarter of 2011 through to the present for the reasons set out above.

112. In FY 2011, Northstar had \$189,610,000 in consolidated net revenue and a net loss of \$3,204,000, representing a revenue decline of approximately 7.1% over the fiscal year ended December 31, 2010, when Northstar had a consolidated net income of \$1,772,000. Northstar's losses accelerated in Q1 2012, with net revenues of \$35,620,000 (a drop of approximately 30.2% from the first quarter of 2011) and a net loss of \$4,945,000.

C. Responses to Financial Difficulties and Marketing Process

113. In early 2012, Northstar Parent on behalf of itself and its subsidiaries engaged Harris Williams, investment banker, to canvass the market for potential interest in a transaction for the purchase of all or some of the assets of Northstar or a financial restructuring. Harris Williams was previously retained in 2010/2011 to explore strategic alternatives for Northstar focused primarily on a stock rather than asset based transaction with strategic acquirers. The initial process did not result in any proposals deemed adequate.

114. In late January, 2012, Harris Williams contacted some thirty-five (35) potential purchasers (identified by Harris Williams, in conjunction with Northstar Parent and its financial advisor, FTI Consulting Canada Inc. ("FTI Consulting")), including those parties involved in the 2010/2011 process. Of those, twenty-nine (29) executed confidentiality agreements and received a confidential offering memorandum. This included a broad range of potential financial and strategic bidders. Submission of bids for assets rather than stock and for specific facilities rather than only Northstar as a whole were permitted as part of the renewed sale process.

115. Harris Williams received seventeen (17) indications of interest from the parties that executed confidentiality agreements in mid-February 2012. These indications

ranged from proposals to recapitalize Northstar to the purchase of all or substantially all of Northstar's assets and proposals to purchase individual facilities.

116. Northstar and Harris Williams then worked intensively with a number of these parties on due diligence and further refining their expressions of interest. A subset of the parties submitted more detailed proposals in mid-March, 2012. A number of the expressions of interest were subject to achieving an agreement with Boeing regarding revised going forward relationships, especially on the CH-47 program.

117. Following the completion of due diligence by the interested parties and the negotiation of terms, Northstar Parent and Northstar Canada (together, the "Canadian Vendors") and the U.S. Debtors (the "U.S. Vendors" and, together with the Canadian Vendors, the "Vendors") entered into an Agreement of Purchase and Sale dated June 14, 2012 (the "Stalking Horse Agreement") with Heligear Canada Acquisition Corporation (the "Canadian Purchaser") and Heligear Acquisition Co. (the "U.S. Purchaser" and, together with the Canadian Purchaser, the "Stalking Horse Bidder"), which are both affiliates of Wynnchurch Capital. The Stalking Horse Agreement is conditional on the approval of both the Canadian Court and the U.S. Court.

118. The Stalking Horse Agreement contemplates the purchase of substantially all of the U.S. and Canadian assets of Northstar for a combined purchase price of \$70 million (the "Cash Purchase Price") (subject to working capital adjustments and an adjustment for certain Apache Block II inventory) plus the value of assumed obligations. The Stalking Horse Agreement sets out joint U.S. and Canadian bidding procedures (the "Bidding Procedures") pursuant to which Northstar will solicit superior offers for some or all of the Stalking Horse Assets. In general terms, the Bidding Procedures provide an

opportunity for other interested purchasers to submit Qualified Bids (as defined). Northstar will conduct an auction if other Qualified Bids are ultimately received.

119. The Stalking Horse Bidder has paid a deposit in the amount of 10% of the Cash Purchase Price, which is being held in trust by the proposed Monitor for both the U.S. and the Canadian portions of the deposit.

120. In consideration for the Stalking Horse Bidder's expenditure of time and money and agreement to act as the initial bidder and the preparation of the Stalking Horse Agreement, the Stalking Horse Agreement contemplates a break-up fee and expense reimbursement for costs incurred in connection with the Stalking Horse Agreement in an amount of 3.5% of the Cash Purchase Price, payable by the Vendors to the Stalking Horse Bidder only in the event that the Stalking Horse Bidder is not the successful bidder.

121. The Debtors intend to seek approval of the breakup fee and expense reimbursement and the Bidding Procedures at a hearing in the last week of June, 2012. The CCAA Entities will seek similar approval in the Canadian Proceedings on a similar schedule.

D. Forbearance Agreements

Lender Forbearance Agreements

122. In the latter half of 2011 and the beginning of 2012, it became apparent to Northstar that there was significant risk of default under the Credit Facility and Northstar entered into forbearance discussions with the Lenders.

123. As of January 31, 2012, Northstar was in violation of its financial covenants and defaulted under the Credit Facility. Northstar and the Lenders executed the Forbearance Agreement and Amendment No. 4 to Loan and Security Agreement

dated February 1, 2012 (which, as extended, is defined above as the Bank Forbearance Agreements).

124. The February 1, 2012 Bank Forbearance Agreement initially provided, among other things, that the Lenders would not enforce their rights under the Credit Facility until February 17, 2012 or until a written notice of an additional Default or Event of Default (as defined in the February 1, 2012 Bank Forbearance Agreement) is delivered to the Lenders. Among other things, the February 1, 2012 Bank Forbearance Agreement contains additional reporting requirements and the requirement for the appointment of a Chief Restructuring Officer (the “CRO”).

125. On February 8, 2012, Northstar entered into an agreement whereby FTI Consulting would provide the services of Nigel Meakin to act as CRO of the CCAA Entities and Mr. Sandeep Gupta to act as CRO of Northstar’s U.S. entities, in accordance with the Bank Forbearance Agreements. FTI Consulting had previously been engaged as a financial advisor to Northstar, pursuant to an agreement dated October 27, 2011. On May 11, 2012, the FTI Consulting agreement was amended to remove the requirement of a CRO in respect of Northstar’s U.S. entities (including the Debtors).

126. There have been further Bank Forbearance Agreements extending the forbearance period and additional provisions of funding by the Lenders, all of which have been on the same or substantially similar terms. The current forbearance agreement expires on June 13, 2012. The Bank Forbearance Agreements are as follows :

- (a) Bank Forbearance Agreement dated February 17, 2012 extending the forbearance period to February 24, 2012;
- (b) Bank Forbearance Agreement dated February 24, 2012 extending the forbearance period to March 23, 2012;

- (c) Bank Forbearance Agreement dated March 23, 2012 extending the forbearance period to April 6, 2012;
- (d) Bank Forbearance Agreement dated April 6, 2012 extending the forbearance period to April 20, 2012;
- (e) Bank Forbearance Agreement dated April 20, 2012 extending the forbearance period to April 30, 2012;
- (f) Bank Forbearance Agreement dated April 30, 2012 extending the forbearance period to May 7, 2012;
- (g) Bank Forbearance Agreement dated May 14, 2012 extending the forbearance period to June 4, 2012;
- (h) Bank Forbearance Agreement dated June 4, 2012 extending the forbearance period to June 11, 2012; and
- (i) Bank Forbearance Agreement dated June 4, 2012 extending the forbearance period to June 13, 2012.

Boeing Forbearance Agreement

127. As described above, on January 27, 2012 and January 30, 2012, Northstar Chicago and Northstar Canada, respectively, received notifications from Boeing alleging breaches of contract. Northstar entered into negotiations with Boeing regarding the alleged breach and by letter dated February 2, 2012, Boeing agreed to forbear from exercising its rights and remedies under the contracts until February 17, 2012 and to thereafter provide three business days' notice of any intent to exercise such rights (the "Boeing Forbearance Agreement"). The Boeing Forbearance Agreement has remained in effect and Boeing has not provided any notice of an intent to exercise the rights it claims under the cure notices.

128. In addition, Boeing has recently made accelerated payment of certain accounts receivable to "net 10" or "net zero" terms in order to provide liquidity that

Northstar required to maintain operations as it conducted the marketing process for its business and/or assets.

129. As a result of the foregoing developments, the Debtors have on this date commence the Chapter 11 Proceedings and filed various administrative and operation First Day Motions, as further described herein.

IV. DEBTORS' FIRST DAY MOTIONS

130. I have formed opinions as to (a) the necessity of obtaining the relief sought by the Debtors in the First Day Motions, (b) the need for the Debtors to continue to effectively operate, and (c) the negative effects if the Debtors do not obtain the requested relief. My opinions are based upon my first-hand experience, my review of public and non-public documents, my discussions with other members of the Debtors' management team and the Debtors' retained advisors.

131. I reviewed each of the First Day Motions and participated in the preparation thereof. I believe, to the best of my knowledge, that the facts set forth in the voluntary petitions and the First Day Motions are true and correct. This representation is based upon information and belief and thorough my review of various material and information, as well as my experience and knowledge of the Debtors' operations and financial condition. Based upon the foregoing, if called to testify, I could and would testify competently to the facts set forth in each of the First Day Motions.

132. The relief sought in the First Day Motions will minimize the adverse impact of these cases on the Debtors' customer, employees and suppliers, while allowing the Debtors to maximize value for their creditors. I believe that the relief sought in the

First Day Motions is necessary to enable the Debtors to operate effectively as debtors-in-possession.

133. Some of the First Day motions request authority to pay or otherwise honor certain prepetition claims. Rule 6003 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) provides that “except to the extent relief is necessary to avoid immediate and irreparable harm,” the court shall not consider motions to pay prepetition claims during the first 20 days after the filing of a petition. As set forth in more detail below, the Debtors have narrowly tailored their requests for authority to pay prepetition claims to those circumstances where the failure to pay such claims would bring immediate and irreparable harm, or which would otherwise be entitled to administrative priority under the Bankruptcy Code.

A. Administrative Motions

Joint Administration Motion

134. The Debtors believe that many of the motions, applications, hearings and orders that will arise in these Chapter 11 Cases will jointly affect all of the Debtors. For this reason, the Debtors believe that the interests of the Debtors, their creditors and other parties in interest would be best served by the joint administration of these chapter 11 cases. The Debtors further believe that in order to optimally and economically administer the Debtors’ pending Chapter 11 Cases, such cases should be jointly administered, for procedural purposes only, under the case number assigned to Northstar USA. The Debtors believe that joint administration will also significantly reduce the volume of paper that otherwise would be filed with the Clerk of this Court, render the completion of various administrative tasks less costly and minimize the number of unnecessary delays. Moreover, the Debtors believe that the relief requested by this motion will also simplify

supervision of the administrative aspects of these cases by the Office of the United States Trustee. For these reasons, I believe, and the Debtors submit, that the relief requested in this motion is in the best interests of the Debtors, their estates and their creditors and should therefore be approved.

Motion for Cross-Border Protocol

135. There is significant cross-border interaction between the Debtors operations and vendors, and those of the CCAA Entities. Further, the Stalking Horse Bidder and the other remaining potential bidders are generally looking to purchase Northstar’s U.S. and Canadian operations.

136. Accordingly, the Debtors seek the approval of a cross-border protocol (the “Cross-Border Protocol”). The Cross-Border Protocol establishes procedures for communication and cooperation between this Court, and the Canadian court with jurisdiction over the CCAA Entities, including protocols for filing materials, joint hearings and the retention and compensation of professionals in each jurisdiction.

Cash Management/Bank Accounts Motion

137. Through this motion, the Debtors seek entry of an order authorizing the continued use of their existing Cash Management System and their existing bank accounts and business forms. In connection with this relief, the Debtors request that postpetition inter-Debtor claims that arise as a result of ordinary course transactions between Debtors through the Debtors’ Cash Management System be accorded administrative expense status. The Debtors also request a waiver of certain of the operating guidelines established by the Office of the United States Trustee for the District of Delaware that require the Debtors to close all prepetition bank accounts, open new

accounts designated as debtor-in-possession accounts, and provide new business forms and stationery. The Debtors further request the entry of an Order authorizing continued use of their prepetition deposit practices.

138. As discussed above, the Debtors maintain a Cash Management System in the ordinary course of their operations. In order to lessen the disruption caused by the bankruptcy filings and maximize the value of their estates in these chapter 11 proceedings, it is vital to the Debtors that they maintain their system of managing cash.

139. The Debtors also seek a waiver of the U.S. Trustee's requirement that their existing Accounts be closed and that new postpetition bank accounts be opened. If enforced in these cases, such requirements would cause enormous disruption in the Debtors' businesses and would impair the Debtors' chapter 11 efforts.

140. The Debtors also request that they be authorized to continue to use all correspondence, business forms (including, but not limited to, letterhead, purchase orders, and invoices) and checks existing immediately before the Petition Date without reference to the Debtors' status as debtors-in-possession. If the Debtors were required to change their correspondence, business forms and checks, they would be forced to choose standard forms rather than the current forms with which those that do business with the Debtors are familiar. Such a change in operations would create a sense of disruption and potential confusion within the Debtors' organization, as well as with customers and suppliers.

141. The Debtors also request that postpetition inter-Debtor claims that arise as a result of ordinary course transactions between Debtors through the Debtors' Cash Management System be accorded administrative expense status. By virtue of the

Debtors' Cash Management System, the Debtors are able to ascertain, trace and account for all transactions (including those transactions between various entities within the Northstar Group) and will continue to do so postpetition. To ensure that each individual Debtor will not fund, at the expense of its creditors, the operations of another entity, the Debtors respectfully request that postpetition inter-Debtor claims (if any) against one Debtor by another Debtor or with the CCAA Entities, as a result of ordinary course transactions through the Cash Management System, be accorded administrative expense status priority.

B. Operational Motions

DIP/Cash Collateral Motion

142. As described more fully in the Motion, the Debtors have obtained a \$22 million DIP lending facility from their existing bank group and a \$7 million junior DIP lending facility from Boeing Capital Loan Corporation. Further, the Debtors have obtained agreed terms for use of cash collateral with the Agent for their existing bank group.

143. The terms are the best terms available to the Debtors and the financing is necessary to continue operations post-petition and consummate the going concern sale to the Stalking Horse Bidder or such higher and better bid as may be submitted. The Debtors are also going to continue to factor certain receivables for customers of their Phoenix Facilities as described in the Motion.

Motion to Pay Employee Wages, Benefits and Withholdings

144. Through this Motion, the Debtors seek: (a) authority to, in their sole discretion, pay the prepetition wages, salaries, and benefits of their employees, (b) authority to, in their sole discretion, continue employee benefit programs in the

ordinary course of business, and (c) an order authorizing and directing all banks and payroll services to honor prepetition checks for payment of prepetition wage, salary and benefit obligations as described more fully in the Motion.

145. As described more fully in the Motion, the Debtors have costs and obligations in respect of their employees (the “Employees”) relating to the period prior to the Petition Date. Certain of these costs and obligations are outstanding and due and payable, while others will become due and payable in the ordinary course of business after the Petition Date.

146. The Debtors request authority to pay any wages and salaries accrued, but unpaid prepetition, on a postpetition basis. Further, the Debtors seek authority to continue their employee benefit programs, and generally make payments related thereto, in the ordinary course of business.

147. The Debtors are required by law to withhold certain amounts from their Employees’ wages and to remit the same to the appropriate taxing authorities. These withholding amounts relate to, for the Debtors’ Employees, federal, state, and local income taxes, as well as social security and Medicare taxes. Debtors may also be required to withhold amounts from the Employees’ wages for such items as court ordered child support payments, other attachments to wages, union dues and government mandated savings plans. In addition, the Debtors are required to make contributions of their own funds to the taxing authorities in the form of matching payments for their Employees on account of social security and Medicare taxes and to pay, based on a percentage of gross payroll and subject to state-imposed limits, additional amounts for, among other things, state and federal unemployment insurance. Therefore, such funds do

not constitute property of the Debtors' estate and could not otherwise be used by the Debtors. The Debtors believe that their practice of directing such funds to the appropriate parties is in the ordinary course of business and is appropriate, and seek authority to continue such practice.

148. The Debtors also seek authorization directing all banks and payroll services to receive, process, honor and pay any and all checks related to payroll to the Employees' wages and benefits, whether presented before or after the Petition Date, provided that sufficient funds are on deposit in the applicable accounts to cover such payments.

Utilities Motion

149. In connection with the operation of their businesses and management of their properties, the Debtors obtain electricity, gas, water, telephone services and/or other similar services (collectively, the "Utility Services") from a number of utility companies (collectively, the "Utility Companies"). Through this motion, the Debtors request, among other things, pursuant to sections 105(a) and 366 of the Bankruptcy Code, entry of the interim order and the final order (i) determining that the Utility Companies have been provided with adequate assurance of future payment within the meaning of section 366 of the Bankruptcy Code, (ii) approving the Debtors' proposed offer of adequate assurance and procedures governing Utility Companies' requests for additional or different adequate assurance, (iii) prohibiting the Utility Companies from altering, refusing or discontinuing services on account of prepetition amounts outstanding or on account of any perceived inadequacy of the Debtors' proposed adequate assurance, (iv) establishing procedures for the Utility Providers to seek to opt out of the Debtors' proposed adequate assurance

procedures, and (v) determining that the Debtors are not required to provide any additional adequate assurance beyond what is proposed by this motion.

150. During the course of these proceedings, the Debtors intend to pay all postpetition obligations owed to the Utility Companies in a timely manner. The Debtors have budgeted availability that is more than sufficient to pay all postpetition obligations for Utility Services. As adequate assurance of payment for postpetition services, the Debtors propose to provide a deposit equal to two (2) weeks of expected Utility Service usage (calculated as the average weekly usage in the 12 months prior to the Petition Date) to each Utility Company (the “Adequate Assurance Deposits”).

151. Uninterrupted Utility Services are essential to the preservation of the Debtors’ estates and assets, and therefore, to the success of the Debtors’ Chapter 11 Cases. The Debtors own and/or maintain significant amounts of machinery, equipment, and other assets at a number of their owned and leased facilities. Should any Utility Company refuse or discontinue service, even for a brief period, the Debtors’ ability to preserve and maximize the value of their respective estates could be severely and irreparably harmed. It is therefore critical that Utility Services continue uninterrupted.

Customer Programs Motion

152. Prior to the Petition Date, in the ordinary course of their businesses and as is customary with manufacturers of components and systems for use in transportation and aerospace industry the Debtors engaged in certain practices to foster and maintain positive relations with their current and potential customers (collectively, the “Customer Programs”). The Customer Programs are vital to maintaining and enhancing the Debtors’ revenue and value.

153. By this Motion, the Debtors request authorization to (a) perform certain of their prepetition obligations related to the Customer Programs as they determine advisable and (b) continue, renew, replace, implement new, and/or terminate those Customer Programs as they see fit, in the ordinary course of their businesses and without further application to this Court.

154. The Debtors wish to continue the Customer Programs because they have been successful in the past and are directly responsible for generating valuable goodwill and increased revenue and profitability for the Debtors. The Debtors believe that maintaining these benefits throughout these chapter 11 cases is essential to the continued viability of their businesses and, ultimately, to their prospects for a successful reorganization and/or a sale of substantially all of the Debtors' assets. Absent the relief requested, the Debtors believe that the pall cast by the chapter 11 filings could negatively influence customers' attitudes and behavior towards the Debtors' products. In particular, the Debtors' goodwill and ongoing business relationships may suffer if their customers perceive that the Debtors are unable or unwilling to fulfill the prepetition promises -- particularly those relating to returns, and warranties -- that they have made through the Customer Programs. The same would be true if customers believe that the Debtors will no longer be offering the full package of benefits or quality of products that they demand. Those programs are described further in the motion.

Shippers/Lienholders Motion

155. As set forth more fully in the Motion, the Debtors seek authority to pay for goods in transit which were ordered prepetition but delivered postpetition as a Chapter 11 administrative expense, which Debtors estimate to be approximately \$350,000.

156. The Debtors also seek as more thoroughly described in the Motion to pay prepetition claims of shippers, warehousemen, consignees and materialmen which otherwise could assert possessory liens or otherwise materially interfere with deliveries and production schedules. The Debtors estimated the amount of such payments to be approximately \$300,000.

C. Retention Applications

Claims and Noticing Agent

157. This application seeks an order appointing Logan & Company (“Logan”) as the Debtors’ the claims and noticing agent to act as the claims and noticing agent to assume full responsibility for the distribution of notices and the maintenance, processing and docketing of proofs of claim filed in the Debtors’ cases.

158. The Debtors submit their selection of Logan satisfies the Court’s *Protocol for the Employment of Claims and Noticing Agents under 28 U.S.C. § 156(c)*, in that the Debtors have obtained and reviewed engagement proposals from at least two (2) other court-approved claims and noticing agents to ensure selection through a competitive process. Moreover, the Debtors submit, based on all engagement proposals obtained and reviewed, that Logan’s rates are competitive and reasonable given the quality of services and expertise. The terms of retention are set forth in the Engagement Agreement attached to the retention application (the “Engagement Agreement”).

159. The Debtors’ seek retention of Logan solely in accordance with the terms and provisions as set forth in the retention application and the proposed order attached thereto. The retention application for Logan follows the standard form as set forth in the Court’s *Protocol for the Employment of Claims and Noticing Agents under 28 U.S.C. § 156(c)*. In the event the Debtors wish to retain Logan to perform additional services

beyond those duties that would be performed by a Clerk of the Court, the Debtors will file an additional application with the Court.

160. Although the Debtors have not yet filed their Schedules and SOFAs, they anticipate that there will be in excess of 2,500 entities to be noticed. In view of the number of anticipated claimants and the complexity of the Debtors' businesses, the Debtors submit that the appointment of a claims and noticing agent is both necessary and in the best interests of both the Debtors' estates and their creditors.

161. By appointing Logan as the claims and noticing agent in these cases, the distribution of notices and the processing of claims will be expedited, and the clerk's office will be relieved of the administrative burden of processing what may be an overwhelming number of claims.

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I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Date: June 13, 2012

By: 
CRAIG A. YUEN