

COURT FILE NUMBER QB No. 1884 of 2019

COURT OF QUEEN'S BENCH FOR SASKATCHEWAN

JUDICIAL CENTRE SASKATOON

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, RSC 1985, c. C-36, AS
AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 101098672
SASKATCHEWAN LTD., MORRIS INDUSTRIES LTD., MORRIS SALES and SERVICE LTD.,
CONTOUR REALTY INC., and MORRIS INDUSTRIES (USA) INC.

AFFIDAVIT OF KEVIN ADAIR

I, Kevin Adair, of the City of Saskatoon, in the Province of Saskatchewan, MAKE OATH AND SAY:

1. I am the Chief Operating Officer and President of the applicants, 101098672 Saskatchewan Ltd. ("672"), Morris Industries Ltd. ("**Morris Industries**"), Morris Sales and Service Ltd. ("**MSS**"), Contour Realty Inc. ("**CRI**"), and Morris Industries (USA) Inc. ("**Morris USA**") (collectively, the "**Morris Group**"), and in that capacity, I have access to the books and records of the Morris Group and personal knowledge of the matters and facts herein deposed, except where otherwise stated, and where so stated, I verily believe the same to be true.

I. INTRODUCTION AND OVERVIEW

2. Morris Industries is the Morris Group's primary operating company, carrying on business as a farm equipment manufacturer. Morris Industries' diverse equipment line includes implements such as air carts, drills, seeders, packer harrow bars, and bale carriers, which it distributes through a network of dealers in Canada, the United States, Australia, and Eastern Europe.

3. Morris Industries is, and always has been, a Saskatchewan-based organization. The business carried on by the individual corporations comprising the Morris Group was founded in the 1920s by its namesake, George Morris, who at that time was carrying on business as Morris Rod-Weeder Co. Ltd. in the Rural Municipality of Fertile Belt No. 183 near the Village of Bangor, Saskatchewan.

4. Since Mr. Morris' development of the world's first automatic trip release, a device which still features in Morris Industries' product line today, the Morris brand has been on the forefront of farm equipment innovation, allowing it to steadily expand its business and footprint:

- (a) the primary business operations were relocated from Bangor to Yorkton, Saskatchewan, where a new manufacturing plant was opened;

- (b) the Yorkton relocation was followed by the opening of a second manufacturing facility in Minnedosa, Manitoba, and a welding facility in Minot, North Dakota;
- (c) with increased production capacity, the Morris product continued to grow and diversify with the introduction of new Morris implements and strategic acquisitions (e.g., patent rights and product lines); and
- (d) the growing Morris product line was steadily introduced beyond North America into the international markets – particularly Australia, which remains one of Morris Industries' largest customer bases to this day.

5. Morris Industries remained a family-owned business until June 1, 2007, when it was sold by the Morris family to its then President and Chief Executive Officer, Thomas (Casey) Davis, and a group of minority shareholders. 10 years later, the ownership would change hands again on September 1, 2017 with a new investor group led by Morris Industries' former President, Ben Voss, purchasing a controlling interest in the business. This final transaction created the Morris Group's present corporate structure outlined below.

6. Following the acquisition, the Morris Group's new management undertook a number of strategic initiatives that aimed to be faithful to Morris Industries' history and the expectations of its customer base (i.e., providing innovative products based on the farming community's actual needs) while also aggressively growing its overall business in anticipation of an upward trend in the agricultural economy.

7. As will be discussed in more detail below, the completion of these initiatives required the Morris Group to incur increased overhead and production costs, the timing of which proved to be unfortunate due to external factors beyond the Morris Group's control.

8. Against this backdrop, the following sections of this affidavit will:

- (a) outline the Morris Group's corporate structure, assets, and liabilities;
- (b) provide further particulars with respect to:
 - (i) the present liquidity crisis;
 - (ii) the Morris Group's initial restructuring strategy; and
 - (iii) the reasons for seeking the relief set out in the draft Order.

9. Given the benefit of time and access to working capital, the Morris Group's cash flows demonstrate an ability to repay the amounts it will require to be advanced pursuant to any credit facility that may be forthcoming from an interim lender.

II. CORPORATE STRUCTURE AND BUSINESS OVERVIEW

A. The Morris Group

10. The Morris Group consists of the following companies:

- (a) 672, a Saskatchewan corporation resulting from the amalgamation of 101098672 Saskatchewan Ltd. and 101294534 Saskatchewan Ltd. on August 31, 2017. 672 is the parent company of the Morris Group, and holds 100% of the issued Class A common shares of Morris Industries and all of the issued shares of MSS, and CRI. A corporate profile report for 672 is attached as **Exhibit "A"**;
- (b) Morris Industries, a Saskatchewan corporation resulting from the amalgamation of Morris Industries Ltd. and 101097866 Saskatchewan Ltd. on September 1, 2008. Morris Industries is the primary operating company, carrying on the Morris Group's manufacturing business, and holds all of the issued shares of Morris USA. A corporate profile report for Morris Industries is attached as **Exhibit "B"**;
- (c) MSS, a Saskatchewan corporation resulting from the amalgamation of Morris Sales & Service Ltd. and 101097867 Saskatchewan Ltd. on December 1, 2015. MSS operates a farm equipment dealership in Virden, Manitoba, which offers Morris and other third party equipment. A corporate profile report for Morris Industries is attached as **Exhibit "C"**;
- (d) CRI, a Saskatchewan corporation incorporated on November 30, 2012 as a real estate holding company. A corporate profile report for CIS is attached as **Exhibit "D"** and
- (e) Morris USA, an American corporation incorporated on September 2002 to carry on business as a retailer of Morris Industries' product line in the United States.

B. Directors and Officers

11. The Board of Directors and management for each of the Morris Group corporations have undergone a number of changes leading up to the present liquidity crisis and application for relief. At present, the Board of Directors for each of the corporations is comprised of Casey Davis and Timothy Lee (collectively, the "**Directors**"), as set out in the corporate profile reports referenced above.

12. The corporate profile reports do not reflect the present management of the Morris Group. As indicated above, I am the Chief Operating Officer and President of each of the Morris Group corporations. Mel Karakochuk has resigned as Chief Financial Officer, and has been replaced by Cameron Johnson. Mr. Johnson had previously been providing advice to the Morris Group in a Chief Restructuring Officer role through his corporation, Johnson Advisory Services Inc., which provides corporate advisory services in relation to debt, financings, and restructurings.

13. There are no other corporate officers for any of the corporations at this time and it is anticipated that the Directors, Mr. Johnson, and I will continue to act in our present capacities moving forward.

IV. FINANCIAL POSITION

A. Assets

(i) Financial Statements

14. The Morris Group's:

- (a) 2017 Consolidated Financial Statements are attached as **Exhibit "E"** (the "**2017 FS**");
- (b) 2018 Consolidated Financial Statements are attached as **Exhibit "F"** (the "**2018 FS**"); and
- (c) 2019 Preliminary Consolidated Financial Statements are attached as **Exhibit "G"** (the "**2019 Preliminary FS**").

15. The values stated in certain categories, such as the accounts receivable, are no longer accurate due to the passage of time. There are, however, significant "hard assets" that factor into the Morris Group's restructuring strategy, which are discussed in the following sections.

(ii) Property, Plant, and Equipment

16. The "Property, Plant, and Equipment" category includes:

- (a) Morris Industries' manufacturing plant (and the adjacent parking lots) in Yorkton, Saskatchewan (collectively, the "**Main Yorkton Plant**"), title to which is held by CRI. The legal descriptions of the three lots comprising the Main Yorkton Plant are as follows:
 - (i) Surface Parcel #143106757
Reference Land Description: Blk/Par Z Plan No 67Y09629 Extension 0
As described on Certificate of Title 67Y09630.
 - (ii) Surface Parcel #143109176
Reference Land Description: Lot 15 Blk/Par 9 Plan No 00Y00664 Extension 0
As described on Certificate of Title 00Y00664F
 - (iii) Surface Parcel #143100357
Reference Land Description: Blk/Par Z Plan No 67Y09629 Extension 0
As described on Certificate of Title 67Y09630

Land Registry titles for the Yorkton Plant are attached collectively as **Exhibit "H"**;

- (b) Morris Industries' manufacturing plant (and a nearby vacant site used for storage) in Minnedosa, Manitoba (the "**Minnedosa Plant**"), title to which is held by Morris Industries as trustee for CRI pursuant to a Bare Trust Declaration and Agreement dated August 1, 2013. The legal description of the four lots comprising the Minnedosa Plant are as follows:

- (i) all that portion of NW ¼ 2-15-18 WPM lying NELY of a line drawn parallel to and perp distant 120 feet NELY from the centre line of Railway Plan 301 NLTO exc: Railway Plan 302 NLTO
- (ii) Parcel A Plan 5293 NLTO Exc Road Plan 5301 NLTO subject so special reservations as to mines minerals and other matters as particularly defined in the original grant from the Crown in SW ¼ 11-15-18 WPM
- (iii) Lots 3 to 5 Block 23 Plan G NLTO Exc: Railway Plan 302 NLTO excepting thereout all mines and minerals vested in the Crown (Manitoba) by the Real Property Act in NW ¼ 2-15-18 WPM
- (iv) Parcel 1: Lots 1 to 8 Block 24 Plan G NLTO exc: Out of Lot 6, Railway Plan 302 NLTO in NE ¼ 2-15-18WPM and Parcel 3: Lots 2 to 4 Block 25 Plan G NLTO exc: Railway Plan 302 NLTO in NE ¼ 2-15-18 WPM

Land Registry titles for the Minnedosa Plant are attached collectively as **Exhibit “I”**;

- (c) the machinery and other equipment located at the Main Yorkton Plant, the Minnedosa Plant, and the additional leased premises Morris Industries maintains in Yorkton, Saskatchewan, namely:
 - (i) a second manufacturing facility at 605 York Road West (the “**West Yorkton Plant**”); and
 - (ii) a research and development facility at 671 York Road West (the “**R&D Facility**”).

17. The West Yorkton Plant and the R&D Facility are currently owned by 102058665 Saskatchewan Ltd. and 101098670 Saskatchewan Ltd., which are controlled by the Directors. The Morris Group formerly owned the West Yorkton Plant and the R&D Facility, but sold the same to the aforementioned companies at the end of 2018 in an effort to reduce the long term debt to Bank of Montreal (“**BMO**”) and Farm Credit Canada (“**FCC**”).

18. In addition to the West Yorkton Plant and R&D Facility, the Morris Group maintains leased premises at 2131 Airport Drive in Saskatoon, Saskatchewan, for its corporate head offices (the “**Head Office**”), and Highway #1 West, Box 1480, Virden, Manitoba, for the dealership operated by MSS.

(iii) **Inventory**

19. The “Inventory” category is comprised of:

- (a) finished goods presently valued at approximately \$25,079,352;
- (b) unfinished inventory (i.e., work in progress) presently valued at approximately \$2,366,611; and

- (c) raw materials presently valued at approximately \$2,869,101.

20. As of August 31, 2019 the Morris Group had \$34,552,663 in inventory. The reasons for this inventory level are described in more detail below. While a complete summary of the Morris Group's historical inventory values is beyond the scope of this affidavit, from 2012 to 2018, the value of the Morris Group's inventory ranged from \$21.5 million to \$29.5 million. The 2019 amount was therefore a significant increase from past years: one that the Morris Group's existing credit facilities were not designed to accommodate.

V. LIABILITIES

A. BMO and FCC (the "Senior Lenders")

(i) Morris Industries and MSS

21. Pursuant to an Amended and Restated Loan Agreement, dated June 28, 2019 (the "**BMO Loan Agreement**"), a copy of which is attached as **Exhibit "J,"** the Senior Lenders provided the following credit facilities to Morris Industries and MSS (although MSS is only a borrower in respect of Facility A):

- (a) Facility A: a \$20,000,000.00 revolving operating line of credit, a maximum of \$2 million of which is available to MSS (the "**Operating Line**");
- (b) Facility B: a demand, non-revolving facility capped at \$158,870.81;
- (c) Facility C: a demand, revolving facility capped at \$148,398.36;
- (d) Facility D: a \$1 million treasury risk management credit facility;
- (e) Facility E: a Master Equipment Lease demand credit facility, which is not to exceed the lesser of either:
 - (i) limits imposed by certain other agreements, including the Master Equipment Lease Facility Agreement; or
 - (ii) \$4.5 million;
- (f) Facility F: a revolving demand facility not to exceed the lesser of either:
 - (i) the margin amount less the amount outstanding under Facility A; or
 - (ii) \$5 million.

22. The amounts advanced by the Senior Lenders pursuant to the BMO Loan Agreement are secured by, among other things, the following:

- (a) General Security Agreements from Morris Industries and MSS;
- (b) a Collateral Mortgage in respect of the Minnedosa Plant; and
- (c) corporate guarantees from MSS, 672, CRI, and Morris USA.

23. Personal Property Registry (“PPR”) search results for Morris Industries and MSS are attached as **Exhibits “K”** and **“L,”** respectively.

24. As of the swearing of this affidavit, Morris Industries and MSS’ indebtedness pursuant to the BMO Loan Agreement is approximately \$21,735,606.

(ii) **CRI**

25. Pursuant to a Loan Agreement dated August 24, 2017 (the “**CRI Loan Agreement**”), a copy of which is attached as **Exhibit “M,”** the Senior Lenders provided the following credit facilities to CIR:

- (a) Facility A: a non-revolving reducing term facility capped at \$2,942,963, equal parts of which were advanced by the Senior Lenders pursuant to an arrangement between those parties; and
- (b) Facility B: a \$1 million treasury risk management credit facility.

26. The amounts advanced by the Senior Lenders pursuant to the CRI Loan Agreement are secured by, among other things, the following:

- (a) a General Security Agreement from CRI;
- (b) a Collateral Mortgage in respect of the Main Yorkton Plant; and
- (c) corporate guarantees from Morris Industries, MSS, 672, and Morris USA.

27. PPR Search results for CRI are attached as **Exhibit “N.”**

28. As of the swearing of this affidavit, CRI’s indebtedness pursuant to the CRI Loan Agreement is approximately \$4,942,335.

B. Avrio Subordinated Debt Limited Partnership II and 2040842 Alberta Ltd.

29. Pursuant to a Loan Agreement dated August 31, 2017 (the “**Avrio Loan Agreement**”), a copy of which is attached as **Exhibit “O,”** Avrio Subordinated Debt Limited Partnership II (“**Avrio**”) and 2040842

Alberta Ltd. (“**842**”) provided a \$4 million loan to 672 to fund the change in ownership control that occurred on September 1, 2017.

30. Pursuant to a subsequent Amending Agreement dated July 31, 2018 (the “**Avrio Amending Agreement**”), a copy of which is attached as **Exhibit “P,”** Avrio alone agreed to advance an additional \$5 million to 672 to be utilized as working capital for the Morris Group.

31. The amounts advanced by Avrio and 842 pursuant to the Avrio Loan Agreement and by Avrio pursuant to the Avrio Amending Agreement (collectively, the “**Avrio Loan Agreements**”) are secured by, among other things, the following:

- (a) General Security Agreements from 672, Morris Industries, MSS, and CRI;
- (b) corporate guarantees from Morris Industries, MSS, CRI, and Morris USA;
- (c) a Promissory Note granted by 672 to Avrio in the amount of \$3.25 million;
- (d) a Promissory Note granted by 672 to 842 in the amount of \$750,000; and
- (e) a Promissory Note granted by 672 to Avrio in the amount of \$5 million.

(the three Promissory Notes granted by 672 to Avrio and 842 are referred to collectively hereafter as the “**Promissory Notes**”)

(the General Security Agreements, corporate guarantees, and the Promissory Notes are referred to collectively hereafter as the “**Avrio Security**”)

32. PPR search results for 672 are attached as **Exhibit “Q.”**

33. The Senior Lenders, Avrio and 842, and the Morris Group entered into a Postponement, Subordination and Standstill Agreement dated August 31, 2017 (the “**Subordination Agreement**”), whereby Avrio agreed, among other things, that:

- (a) all present and future amounts owing by the Morris Group to Avrio (and the security provided for the same) were subordinate to the Senior Lenders’ debt (and the security provided for the same); and
- (b) there would be a 120 day standstill period following Avrio’s provision of written notice to BMO that Avrio was seeking to enforce its remedies against the Morris Group pursuant to the terms of the Avrio Loan Agreements and the Avrio Security.

34. A copy of the Subordination Agreement is attached as **Exhibit “R.”**

35. As of the swearing of this affidavit, 672’s indebtedness pursuant to the Avrio Loan Agreements is approximately \$9.1 million.

C. Trumpf Finance

36. Pursuant to a Master Loan and Security Agreement dated May 13, 2013, and a subsequent Term Note dated June 26, 2017 (collectively, the “**Trumpf Loan and Security Agreement**”), copies of which are attached collectively as **Exhibit “S,”** Trumpf Finance, A Unit of SG Equipment Finance USA Corp. (“**Trumpf**”) provided \$1 million USD in financing. The specific collateral that is subject to the Trumpf Loan and Security Agreement is a 5230S Press Brake and a Trumpf TruLaser Robot 5020.

37. As of the swearing of this affidavit, Morris Industries’ indebtedness to Trumpf pursuant to the Trumpf Loan and Security Agreement is approximately \$600,000 USD.

D. Other Significant Secured Creditors

38. In addition to the foregoing, the Morris Group owes approximately \$4.4 million under various other agreements, which include:

- (a) the approximately \$2.1 million owing to De Lage Landen in respect of the floor plan financing facility it provides to MSS;
- (b) the approximately \$1.9 million to Kubota Canada for inventory financing in respect of MSS’ inventory of Kubota Canada equipment; and
- (c) approximately \$400,000 to Wells Fargo for inventory financing in respect of MSS’ inventory of MacDon, Meridian, and other manufacturers’ equipment.

39. These amounts are secured by security interests in certain equipment owned by MSS.

E. Unsecured Creditors

40. The majority of the Morris Group’s unsecured debt obligations are on account of trade payables owing to its vendors which, as of the swearing of this affidavit, total approximately \$12,707,000.

41. In addition, the Morris Industries has entered into two agreements with Her Majesty the Queen in Right of Canada as represented by the Minister responsible for Western Economic Diversification Canada (the “**WEDC**”) for conditional financial payments from the Minister to fund certain project costs (the “**WEDC Agreements**”). The WEDC has advanced approximately \$3,750,000 pursuant to the WEDC Agreements to date. The debt is unsecured and the Morris Industries is not obligated to begin repaying the same until November 1, 2020.

F. Taxes and Source Deductions

42. As of the swearing of this affidavit, the Morris Group is current with its:

- (a) payroll source deductions and goods and services tax remittances to the Canada Revenue Agency;
- (b) provincial sales tax remittances to the Provinces of Saskatchewan and Manitoba; and
- (c) pension plan remittances.

VI. BACKGROUND TO THE MORRIS GROUP'S INSOLVENCY

A. Introduction

43. The new ownership's acquisition of a controlling interest in the Morris Group occurred on September 1, 2017, at which time the Morris Group was already facing a challenging agricultural economy; however, the Morris Group's sales had remained relatively strong during this time, which the Morris Group in large part attributes to its diverse, international customer base.

44. In anticipation of the next upward trend in the agricultural economy, the Morris Group conceptualized a five year growth strategy that required:

- (a) additional leadership capacity and corporate governance to accommodate its projected growth;
- (b) increased technological investments and engineering expertise to accelerate the introduction of innovative new product lines;
- (c) revised marketing strategies to reach a broader customer base and better compete in the global market; and
- (d) larger raw material purchases to increase Morris Industries' inventory and meet the anticipated demand as the market recovered.

45. The hiring of additional executives, professionals, and consultants, as well as the increased raw material purchases required to ramp up Morris Industries' equipment production, substantially increased the Morris Group's overhead and production costs. However, these initiatives also allowed the Morris Group to introduce its proprietary ShieldCore welding technology and in 2018 the Quantum Air Drill (the "**Quantum Drill**") in less than a year's time. The ShieldCore technology and Quantum Drill each won industry awards, with the latter being heralded as an innovative, welcome addition to the Morris product line.

B. Factors Contributing to the Liquidity Crisis

(i) Unforeseen Warranty Issues

46. Like any manufacturer, the Morris Group allocates a portion of its budget to the anticipated costs of repairing or replacing products sold while the same are under warranty. The Morris Group has significant historical data to draw upon when making its projections in that regard.

47. The introduction of the Quantum Drill in 2018 was a success from both a critical and sales standpoint in both domestic and international markets – particularly Australia, which accounts for roughly thirty percent of the Morris Group's overall sales in a given year; however, the warranty costs that were ultimately incurred in respect of the same significantly exceeded the budgeted amounts.

48. The specific issue encountered was with respect to the opener on the drill itself. In North America, the Morris Group ran a successful upgrade program to deal with the problem; however, Australia's weather conditions are harsher in terms of heat, dryness and soil conditions. These conditions put additional wear and tear on farm machinery in the course of the Australian growing season, which is longer than Western Canada's. The different conditions necessitated changes to design and complete replacement of the drill openers to adequately address the issues.

49. For context, the drill openers account for approximately forty percent of the overall cost of an individual unit. The combined costs of the North American upgrade and Australian replacement programs facing the Morris Group were significant, and well outside the estimates contained in the budget.

(ii) International Trade Disputes

50. China's ban on Canadian canola seed imports was an additional unforeseen factor that negatively affected Canada's already struggling agricultural economy. From the Morris Group's perspective, the same was a contributing factor to its overall decrease in sales.

51. The Morris Group was also significantly affected by the 2018 trade wars between the United States and Canada. As alluded to above, the Morris Group's increased production required it to purchase additional raw materials for its products. The Morris Group sources steel from the United States, and its already increased production costs were therefore further increased beyond the budgeted amounts as a result of the timing of the steel tariffs introduced by the United States in 2018 and the subsequent counter-tariff introduced by the Government of Canada.

(iii) **Inclement Weather in Successive Crop Years**

52. The Morris Group's customer base in Western Canada has been dealing with inclement weather conditions in successive crop years, leading to poor crops, decreased yields, and less farming income, all of which has contributed to declining sales in this area.

(iv) **Loss of Access to Factoring Facility**

53. Prior to its present financial difficulties, the Morris Group had a factoring arrangement with National Bank of Canada (the "**National Bank**") in relation to Morris Industries' Australian accounts receivable (the "**Factoring Facility**"), which are subject to an insurance policy with Export Development Canada ("**EDC**"). In a given year, the Factoring Facility provided early access to approximately ninety percent of Morris Industries' insured Australian receivables to meet its ongoing cash flow needs.

54. With the Morris Group's declining revenues and increased debt, the National Bank declined to provide access to that facility in 2019. The loss of access to the credit facility in 2019 was a significant contributing factor to the present liquidity crisis, as the Morris Group was unable to factor approximately \$10.8 million in insured Australian receivables. In the absence of a new factoring facility, these amounts are not due until on or about April 30, 2020.

(v) **Resulting Bulge in Inventory**

55. With the further deterioration of the agricultural economy, the demand for new farm machinery has decreased significantly, leaving the Morris Group with a significant inventory of raw materials, work in progress, and completed equipment.

56. In addition, the Morris Group had previously increased the onsite inventory carried by its distributors from approximately \$8 million in 2018 to approximately \$20 million in 2019. This inventory is subject to "floor planning" arrangements with the dealerships, whereby the Morris Group is responsible for a portion of unsold inventory costs onsite in order to mitigate the dealers' costs of carrying the same.

57. There is significant value in the Morris Group's inventory, and given time and improved market conditions, the Morris Group's management is confident that it will be able to decrease the same. As matters presently stand, the Operating Line with the Senior Lenders is overburdened and the Morris Group presently does not have sufficient cash flow to meet its obligations as they become due. Combined with the increased overhead and administrative costs noted above, the timing of these factors put additional strain on the Morris Group's operating facility with the Senior Lenders, thereby creating the present liquidity crisis.

(vi) *The BMO Loan Agreement*

58. With the Morris Group's financial circumstances continuing to deteriorate in 2019, Morris Industries and MSS were in default of their financial covenants with the Senior Lenders under the existing credit facility, which led to the negotiation and execution of the BMO Loan Agreement on June 28, 2019.

59. Unlike its predecessors, the BMO Loan Agreement contained a number of additional conditions requiring, among other things:

- (a) increased oversight through BMO's engagement of Alveraz & Marsal Canada ULC ("A&M") to review the Morris Group's financial standing and report to BMO on a weekly basis; and
- (b) a \$10 million equity raise to meet the debt to EBITDA and debt to capitalization ratios set out in the BMO Loan Agreement.

60. At the time of the BMO Loan Agreement, the Morris Group was already actively seeking outside investment, and its continued efforts in the wake of the execution of the BMO Loan Agreement were unsuccessful.

61. In an effort to improve the Morris Group's financial position in the short-term, the Morris Group introduced a number of cost reduction strategies in beginning in September of 2019, which included a partial shutdown of the production at the Main Yorkton Plant and the Minnedosa Plant, and the implementation of salary reduction and government approved work-share programs.

62. It was in or about this time that Mr. Johnson was hired as the Morris Group's Chief Restructuring Officer to work with management and BMO towards the conceptualization and implementation of a longer term strategy to address the Morris Group's inventory bulge, high interest sub-debt with Avrio and 824, and increased dealer floor plan obligations, the combination of which was eroding the working capital available to address the Morris Group's ever increasing arrears of trade payables.

(vii) *Demand by Avrio and 842l*

63. On November 12, 2019, Avrio and 824 issued a written demand on the Promissory Notes. The Morris Group believes that written notice was provided to BMO as contemplated by the Subordination Agreement, such that the Morris Group also believes that the 120 day standstill period was engaged in or about that time as well.

VII. NEED FOR CCAA PROTECTION

A. The December Liquidity Crisis and Short-term Agreement with BMO

64. By the beginning of May, 2019, the Morris Group was already in significant arrears with its vendors, having ceased paying the same in the ordinary course of business to create the necessary additional cash flow to maintain the Morris Group's day-to-day business.

65. With estimated payroll and statutory obligations for the December 23 to December 30, 2019 period totalling \$477,930, the Morris Group's cash flow projections demonstrated that it did not have sufficient funds to pay the same without exceeding its credit limit for the Operating Line by almost 500,000. With limited anticipated receipts for the remainder of December, the Morris Group would be unable to meet its subsequent payroll and statutory obligations for the following pay periods.

66. In order to obtain the necessary breathing room to begin to address the Morris Group's financially distressed state, the Directors resolved to, among other things, file Notices of Intention to Make a Proposal pursuant to section 50.4 of the *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3 on behalf of the individual corporations comprising the Morris Group (collectively, the "NOIs"), and seek interim financing to meet its immediate cash needs and pursue a restructuring in the New Year.

67. In the course of the subsequent discussions with BMO, however, the parties negotiated and executed an Amending Agreement dated December 24, 2019 (the "**Amending Agreement**"). A fully executed copy of the Amending Agreement was not available at the time of swearing this Affidavit; however, a draft version of the same which includes the terms ultimately agreed upon by the parties is attached as **Exhibit "T."** The Amending Agreement provided the Morris Group with a temporary \$3 million bulge to the Operating Line (the "**Temporary Bulge**") which allowed it to meet, among other things, its upcoming payroll and other statutory obligations.

68. With access to the Temporary Bulge, the Morris Group was able to forego the planned filing of the NOIs and work with its professional advisors to conceptualize a preliminary restructuring strategy for presentation to the Senior Lenders, Avrio, and 824 and, ultimately, this Honourable Court on this application. The Morris Group's access to the Temporary Bulge will, however, terminate as of January 8, 2019, such that interim financing is required to fund the Morris Group's day-to-day business operations and restructuring efforts, should this Honourable Court see fit to grant the Morris Group's application.

B. Cash Flow Projections and Proposed Interim Financing

69. The Morris Group's 18 week cash flow forecast (the "**Cash Flows**") for the week of January 6, 2020 to the week of April 6, 2020 and the Morris Group's representations in respect of the same pursuant to subsection 10(2)(b) of the CCAA are attached collectively as **Exhibit "U."**

70. As detailed therein, the Morris Group is seeking a commitment to provide \$3 million in interim financing. If that amount is obtained, the Morris Group will be able to operate in the ordinary course within the projected period and, given time, has the potential to repay the interim financing in its entirety.

C. Preliminary Restructuring Strategy

71. While this matter is still in its early stages, the broad strokes of the Morris Group's initial restructuring strategy may include some or all of the following:

- (a) expediting the collection of a portion of its approximately \$10.8 million in EDC insured Australian receivables through an alternative factoring facility;
- (b) marketing and selling the Morris Industries ProAg biomass and silage bale carrier equipment line;
- (c) winding down the MSS dealership in Virden, Manitoba, which does not generate significant profits and requires the investment of operating capital that would otherwise be available on an ongoing basis;
- (d) reducing its overhead costs by relocating to a smaller head office;
- (e) continuing to reduce its selling, general, and administrative costs by eliminating head office positions and support that are no longer required as a result of the Morris Group not achieving its projected growth;
- (f) reducing inventory by auctioning off older generation products and relocating inventory between different dealerships to reduce its floor planning costs;
- (g) consolidating its manufacturing operation into a single plant and exploring sale opportunities in respect of redundant production plant and equipment items, and certain Morris Industries product lines; and
- (h) working in consultation with the proposed monitor and the secured creditors to develop a sale and investor solicitation process that takes into account the need to immediately implement sale initiatives of the nature set out in the balance of this paragraph, for the Court's consideration on a future application.

72. As of the swearing of this Affidavit, the Morris Group has 134 employees. Due to the present production shutdown (and in order to accomplish the restructuring initiatives outlined above), it will be necessary to make further reductions to the Morris Group's workforce; however, with the benefit of time

and interim financing, the Morris Group believes that it can weather the present difficulties due to its brand loyalty, stable equipment line, and growth opportunities arising from the introduction new products, such as the Quantum Drill, and successfully restructure its business and financial affairs to emerge from these proceedings as a viable company or group of companies. When production resumes, the Morris Group will need to rehire a number of employees to meet these needs.

VIII. RELIEF SOUGHT

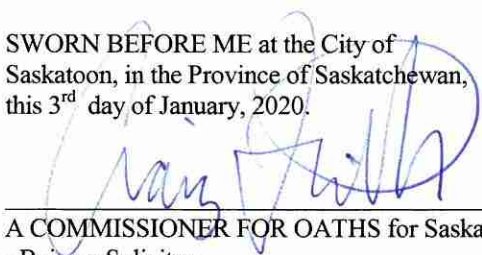
73. As set out in the draft form of Initial Order filed, the Morris Group is seeking, among others, the following items of relief:

- (a) a stay of proceedings to preserve the business as a going concern and value of the property, while also giving the Morris Group the opportunity to pursue a restructuring of its affairs for the benefit of the stakeholders;
- (b) an administrative charge on the Morris Group's property in favour of the proposed monitor, its counsel, and the Morris Group's counsel, which is necessary to secure the reasonable fees and disbursements of these professionals in providing services to the Morris Group both before and after the commencement of the CCAA proceedings; and
- (c) authorization to enter into negotiations to obtain and borrow interim financing from a proposed interim lender.

74. The Senior Lenders, Avrio, and 842 have been provided with advance notice of the Draft Initial Order.

75. I swear this affidavit on behalf of the Morris Group in support of the application that is presently before the Court.

SWORN BEFORE ME at the City of
Saskatoon, in the Province of Saskatchewan,
this 3rd day of January, 2020.


A COMMISSIONER FOR OATHS for Saskatchewan
- Being a Solicitor.


KEVIN ADAIR

CONTACT INFORMATION AND ADDRESS FOR SERVICE:

Name of firm:	McDougall Gauley LLP
Name of lawyer in charge of file:	Ian A. Sutherland / Craig Frith
Address of legal firm:	500-616 Main Street Saskatoon, SK S7H 0J6
Telephone / Fax number:	(306) 665-5417 / (306) 652-1323
Email address:	isutherland@mcdougallgauley.com cfrith@mcdougallgauley.com