

COURT FILE NUMBERS Q.B. No. 1884 of 2019

COURT COURT OF QUEEN'S BENCH FOR SASAKATCHEWAN

JUDICIAL CENTRE SASKATOON

PROCEEDINGS IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, RSC 1985, c.C-36, AS AMENDED (the "CCA")

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.

DOCUMENT **THIRD REPORT OF THE MONITOR**

MARCH 3, 2020

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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INTRODUCTION

1. On January 8, 2020, upon the application of counsel for 101098672 Saskatchewan Ltd. (“**672**”), Morris Industries Ltd. (“**MIL**”), Morris Sales and Service Ltd. (“**MSS**”), Contour Realty Inc. (“**CRI**”) and Morris Industries (USA) Inc. (“**MUSA**”) (collectively, the “**Morris Group**”, the “**Applicants**” or the “**Companies**”), the Court of Queen’s Bench for Saskatchewan (the “**Court**”) made an order (the “**Initial Order**”) granting a stay of proceedings in respect of the Companies until January 16, 2020 pursuant to the provisions of the *Companies’ Creditors Arrangement Act*, RSC 1985, c. C-36, as amended (the “**CCAA**”). The proceedings commenced under the CCAA by the Applicants are referred to herein as the “**CCAA Proceedings**”.
2. On January 8, 2020 (the “**Filing Date**”), a CCAA Initial Order (the “**Initial Order**”) was granted by the Court providing limited relief to the Applicants including, but not limited to, the imposition of an initial stay of proceedings (the “**Stay**”) in favour of the Applicants and their assets through to January 16, 2020, and administrative charge (the “**Administrative Charge**”) and a directors charge (“**Directors Charge**”).
3. The Court appointed Alvarez & Marsal Canada Inc. as monitor (the “**Monitor**” or “**A&M**”) in the CCAA Proceedings.
4. On January 16, 2020, the Court granted an Amended and Restated Initial Order providing a further extension to the Stay to March 16, 2020, a claim procedure order (the “**Claims Procedure Order**”) and a sales and investment solicitation process order (the “**SISP Order**”) and interim lenders charge (“**DIP Charge**”).
5. Subsequently, on February 16, 2020, the Court granted an order expanding the Monitor’s powers (the “**EMP Order**”), to among other things, authorize and empower the Monitor to preform various activities on behalf of the Company, including entering into any contracts, collecting receipts and approving all disbursements on behalf of the Company.

6. Further information regarding the CCAA Proceedings, including copies of the Initial Order, Amended and Restated Initial Order, other orders, application materials and reports of the Monitor are available on the Monitor's website at: www.alvarezandmarsal.com/morris (the "**Case Website**").

PURPOSE

7. The purpose of this report (the "**Third Report**" or "**this Report**") is to provide this Court information respecting the following:
 - a) the negotiation and anticipated execution of an Auction Agreement (the "**Auction Agreement**") between the Company and Ritchie Bros. Auctioneers (Canada) Ltd. ("**Ritchie Bros.**") and the approval of the Morris Group's application for an Auction Approval and Vesting Order with respect to the Auction Agreement (the "**Approval and Vesting Order**");
 - b) for the circumstances compelling the Monitor to seek the sealing of the Appendices 1 and 2 attached to this Report (the "**Sealing Order**");
 - c) the Company's actual receipts and disbursements from the Receivership Date to February 28, 2020 compared to its forecast;
 - d) the Monitor's actions and activities as described in this Report; and
 - e) the Monitor's recommendations.
8. Capitalized words or terms not defined in this Report are as defined in the Initial Order, the Amended and Restated Initial Order or prior reports (the "**Prior Reports**") as the case may be.
9. All references to dollars are in Canadian currency.

TERMS OF REFERENCE AND DISCLAIMER

10. In preparing this Report, A&M, prior to or in its capacity as Monitor, has been provided with and necessarily relied upon unaudited financial and other information supplied (the “**Information**”), and representations made to it, by certain senior management of the Morris Group (“**Management**”) and the petitioners. The Monitor has not performed an audit or other verification of such information.

EQUIPMENT AND INVENTORY SALES PROCESS

Solicitation of Offers

11. Pursuant to section 11(a) of the Amended and Restated Initial Order, the Morris Group has the right to permanently or temporarily cease, downsize or shut down any of its Business or operations and to dispose of redundant or non-material assets not exceeding \$350,000 in any one transaction or \$750,000, in the aggregate, provided that any sale that is either (i) in excess of the above thresholds, or (ii) in favor of a person related to the Morris Group (within the meaning of section 36(5) of the CCAA), shall require authorization by this Court in accordance with section 36 of the CCAA.
12. As described in the Second Report of the Monitor and not repeated herein, the Morris Group, in consultation with the Monitor, determined that it was appropriate in the circumstances, and in the best interests of the Morris Group and its stakeholders, to wind down the dealership entity of the Company, MSS. Accordingly, the Company sought proposals (“**Proposal Offers**”) from interested auction companies for the marketing and auctioning of various excess and redundant equipment owned by MSS in an attempt to provide additional liquidity to allow the Morris Group to restructure its affairs, while maximizing realization for all creditors and stakeholders in the estate.
13. The Morris Group and the Monitor contacted three auction companies which specialize in selling the type of equipment and inventory owned by MSS. The

Company invited these three auction companies to provide their proposals with respect to the sale of certain classes of redundant assets. One of these groups of assets relate to MSS' "used equipment" ("**MSS Used Equipment**"). A copy of the MSS Used Equipment listing is attached as **Appendix "A"**. The Company informed the auction companies that strong consideration will be given those proposals that offer a net minimum guarantee ("**NMG**").

Summary of Offers and Intention To Accept Offer Subject to Court Approval

14. By February 21, 2020, the Morris Group and the Monitor received Proposal Offers from two of the three auction companies: Ritchie Bros. and McDougall Auctioneers Ltd. ("**McDougall**"), to sell by auction all three categories of redundant and excess assets of MSS. Upon review, analysis and clarification the Company requested that the auctioneers submit new proposals for the MSS Used Equipment only. At the time of this report, the Monitor received one new proposal offer from Ritchie Bros. for the MSS Used Equipment.
15. Based on its review of the Ritchie Bros. of the new proposal offer, and given the urgency of the matter, the Monitor believes the Ritchie Bros. proposal is an acceptable offer, subject to a Court approval, for reasons discussed in the Confidential Appendix 1 (the "**Ritchie Bros. Offer**").
16. The fundamental "business terms" of the Auction Agreement have been agreed to and should not be subject to further amendment, but further negotiations are required in regard to certain other terms before the Auction Agreement is ready for execution. The Monitor is hopeful that an executed Auction Agreement can be obtained and placed before the Court at or prior to the hearing on Friday, March 6.
17. A summary and analysis of the Proposal Offers received to date on the MSS Used Equipment, marked as **Confidential Appendix "1"**, will be provided to the Court on a confidential basis due to the commercially sensitive nature of the information contained therein.

18. The Monitor will provide notice of the application to approve the Auction Agreement to all parties of the service list that may have an interest in MSS Used Equipment. The Monitor, with the assistance of its legal counsel, performed a personal property search over those assets that have serial numbers to confirm if any registrations were identified on any of the MSS Used Equipment in both Manitoba and Saskatchewan. The Monitor's legal counsel confirmed that no registrations existed on any of the serial numbered equipment.

Confidential Appendix and Temporary Sealing Order

19. Confidential Appendix 1 contains confidential information of a commercial nature which, if disclosed to third parties prior to the closing of the sale could materially jeopardize the sale or if the sale does not close could materially jeopardize the value that could subsequently be obtained. Accordingly, the Monitor is respectfully of the view that it is appropriate that this Honourable Court grant a Sealing Order in relation to the Confidential Appendices 1.

Monitor's Recommendations

20. The Monitor is of the view that the Auction Agreement should be approved by this Honourable Court given:
- a) the purchase price set out in the Auction was the highest and best offer received by the Monitor;
 - b) the purchase price is a net minimum guarantee of which a portion will be advanced to the Company following court approval and prior to the auction date, which would alleviate some of the Company's cash constraints;
 - c) the acceptance of the Auction Agreement is commercially reasonable and provided the highest net realization to the Company;
 - d) Ritchie Bros. is a reputable auctioning firm in Canada, understands the MSS Used Equipment very well, and is in the best position to

maximize the realization of the MSS Used Equipment in the circumstances;

- e) the Auction Agreement provides further significant “upside” to Morris in realizations should the auction attract offers that exceed a certain threshold as outlined in Confidential Appendix 1; and
- f) Bank of Montreal, as the senior secured creditor, is supportive of the transaction contemplated by the Auction Agreement.

21. Accordingly, the Monitor is applying to this Honourable Court to approve the Auction Agreement and for a sale approval and vesting order respecting the MSS Used Equipment.

ACTUAL CASH FLOW RESULTS COMPARED TO FIRST CASH FLOW FORECAST

22. The Company’s actual cash receipts and disbursements as compared to the First Cash Flow Forecast during the period January 8, 2020 to February 28, 2020 (the “**Reporting Period**”) appended to the First Report of the Monitor is summarized below:

MORRIS GROUP			
Cash Flow Variance Analysis - Prepared by Management			
For the Period January 8, 2020 to February 28, 2020			
(In CAD \$000s)			
	Actual	Forecast	Var (\$)
Receipts			
Accounts receivable and confirmed orders	\$ 584	\$ 775	\$ (191)
Collection of forecast sales	-	174	(174)
Collection of Foreign EDC insured receivable	-	-	-
Net proceeds from sale of excess inventory	-	-	-
Other collections	72	100	(28)
Total receipts	656	1,049	(393)
Disbursements			
Production costs	413	774	361
Operating expenses	372	310	(62)
Critical Suppliers	87	-	(87)
Insurance costs	80	177	96
Payroll and related	1,340	1,348	8
Pension	129	187	57
Marketing costs	50	130	80
Rent	54	107	54
Other operating costs	73	221	147
DIP Facility commitment fee / other	171	196	25
DIP Facility interest costs	7	19	11
Professional fees	668	1,315	647
Other Expenses	214	-	(214)
Total disbursements	3,660	4,783	1,124
Net cash flow	\$ (3,004)	\$ (3,734)	\$ 731
Interim Financing (DIP Facility)			
Maximum Available DIP	\$ 5,700	\$ 5,700	
Opening Balance	1,243	1,243	-
Draws (Repayments)	2,907	3,734	827
Ending DIP Balance (Cash)	4,150	4,977	827
DIP Availability during the Period	1,550	723	827

23. Over the Reporting Period, the Company experienced a net favorable cash flow of \$731,000 as a result of various permanent and temporary differences, which are described below:

- a) Accounts receivables and confirmed orders are \$191,000 lower than forecast as a result of delayed shipments of committed orders and the suspension of services by assembly depots and a US warehouse. As described and approved in the Second Report of the Monitor, arrangements have been made to make critical payments towards assembly depots and the US warehouse; however, the impact on collections may be delayed in over the next several weeks. Although

these delays are considered timing variances, they have an immediate impact to cash flows collected at present;

- b) Collection of forecast sales are \$171,000 lower than forecast and in the short term are considered temporary; however, similar to the above, may become permanent differences;
- c) Other collections are \$28,000 lower than forecast due to temporary differences resulting from delayed receipt of GST refunds;
- d) Production costs are \$361,000 lower than forecast due to purchasing delays as payment terms are clarified and/or renegotiated with suppliers and the Assembly Depot issues noted in Prior Reports. As mentioned in paragraph 23(**Error! Reference source not found.**, matters relating to Assembly Depots are being resolved and the positive temporary variance is expected to reverse in the near term;
- e) Operating expenses are \$62,000 higher than forecast due to timing differences which are expected to reverse in the near term;
- f) Critical supplier payments are \$87,000 higher than forecast as they were not contemplated in the First Cash Flow Forecast;
- g) Insurance costs are \$96,000 lower than forecast due to temporary timing differences as a result of delayed payment, and will be reversed in the coming months;
- h) Payroll and related and pension costs are collectively lower than forecast by \$65,000 as a result of temporary and permanent differences. Specifically, payroll and related amounts are \$8,000 lower than forecast and pension costs are \$57,000 lower than forecast;
- i) Marketing costs are \$80,000 lower than forecast as a result of temporary and permanent differences due to non-payment of pre-filing

floor plan interest costs to De Lage Laden Financial Services Canada Inc. and a timing difference in respect of current post-filing payments;

- j) Rent costs are \$54,000 lower than forecast due to temporary timing differences that will be reversed in the following month;
- k) Other operating costs include utilities, communications, tax remittances, travel and fuel, among other things, and are \$147,000 lower than forecast as a result of temporary delays primarily related to utilities, which are expected to reverse in coming weeks;
- l) DIP facility commitment fees and interest costs of approximately \$171,000 and \$7,000, respectively, are lower than forecast due to timing differences;
- m) Professional fees are \$647,000 lower than forecast as a result of temporary differences and the positive variance is expected to reverse in future weeks; and
- n) Other expenses are \$214,000 higher than forecast and include withdrawals due to a demand on a letter of credit of \$200,000, as well as other pre-authorized payments that occurred from banking administration delays that have since been resolved.

MONITOR'S RECOMMENDATION

24. The Monitor respectfully recommends that this Honourable Court:

- a) approve the Ritchie Bros. Offer, Auction Agreement and grant the Auction Approval and Vesting Order;
- b) approve and grant the Sealing Order of the Confidential Appendix 1;
and

- c) approve the Monitor's actions and activities as reported in this Third Report.

All of which is respectfully submitted to this Honourable Court this 3rd day of March 2020.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as Monitor of 101098672 Saskatchewan Ltd.,
Morris Industries Ltd., Morris Sales and Service Ltd.,
Contour Realty Inc. and Morris Industries (USA) Inc.
and not in its personal or corporate capacity**



Per: _____
Orest Konowalchuk, CPA, CA, CIRP, LIT
Senior Vice President

APPENDIX A
MSS USED EQUIPMENT LIST

Year	Description	SN
2014	2014 KUHN 8310 34 FT TANDEM DISC	8310-34-1018
2013	2013 MORRIS C2 CONTOUR 61 FT AIR DRILL	C261132062
2012	2012 JOHN DEERE 1910 430 +/- BUSHEL TOW-BEHIND AIR TANK	1A81910HVCG745794
2015	2015 KUBOTA L6060 MFWD UTILITY TRACTOR	40946
2017	2017 KUBOTA M7-151S MFWD TRACTOR	10111
2015	2015 KUBOTA ZD331 72 IN. ZERO TURN MOWER	42910
2002	2002 JOHN DEERE 1900 340 +/- BUSHEL TOW-BEHIND AIR TANK	A01900H695243
2008	2008 MORRIS CONTOUR 61 FT AIR DRILL	CD60080009
	KUBOTA F2880 W/MOWER	
2011	2011 KUBOTA T1880 41 IN. RIDING LAWN MOWER	20894
	ELMERS HEADER TRACTOR - Is this a header transport?	
2010	2010 KUBOTA T1880 42 IN. RIDING LAWN MOWER	12338
2008	2008 MACDON R80 13 FT DISC MOWER CONDITIONER	181723
2008	2008 CASE IH WD1203 30 FT SWATHER	Y8G660882
2003	2003 CASE IH WDX1101 30 FT SWATHER	HAI0014102
1996	1996 KUBOTA T1400 40 IN. RIDING LAWN MOWER	51247
	WHEATHEART SUPER SWEEP	
2016	2016 KUBOTA Z125EBR 54 IN. ZERO TURN RIDING LAWN MOWER	14409
1985	1985 WALINGA 614F GRAIN VAC	MT614F4685022334
2009	2009 SEEDMASTER M FOLD 80 FT AIR DRILL	9392
2009	2009 NEW HOLLAND P1060 430 +/- BUSHEL TOW-BEHIND AIR TANK	Y9S015342
1994	1994 BOURGAULT 8800 32 FT AIR SEEDER	822027
2007	2007 KUBOTA F2880 60 IN. FRONT MOUNT RIDING LAWN MOWER	10743
2015	2015 BATCO 1545FL 15 IN. X 45 FT GRAIN CONVEYOR	160714
	CATERPILLAR 277C 2 SPD MULTI TERRAIN LOADER	CD233744
2014	2014 JOHN DEERE 635FD 35 FT FLEX DRAPER HEADER	1H0635FDPE0765558
2008	2008 JOHN DEERE 936D 36 FT DRAPER HEADER	H00936D725343
2014	2014 KUHN EXCELERATOR 8000 30 FT VERTICAL DISC	8000-30-3332
2011	2011 SCHULTE FLX-1510 FLEX ARM	A10510048106
1993	1993 AGCO ALLIS 5670A MFWD TRACTOR	001089
2016	2016 MORRIS FIELD PRO 70 FT HEAVY HARROWS	FP70167787
2013	2013 SNOWBLAST 8600A 8 FT 3 POINT HITCH SNOW BLOWER	001344
	SAKUNDIAH 10X46 AUGER	4572
	MORRIS 7300 TOW-BEHIND AIR TANK	CANNOT_VERIFY
2016	2016 SCHULTE FLX-1510 FLEX ARM	A10510394605
2016	2016 SCHULTE XH1000 SERIES 4 10 FT 6 IN. ROTARY MOWER	C30910028604
2011	2011 MACDON R85 13 FT DISC MOWER CONDITIONER	213391
2008	2008 BOURGAULT 3310PHD 54 FT AIR DRILL	39377PH-11
2006	2006 SEEDMASTER 60 FT AIR DRILL	SM6134
2010	2010 BOURGAULT 6280 TOW-BEHIND AIR TANK	39946AS-02
1989	1989 KUBOTA B6200HST UTILITY TRACTOR	20003
2010	2010 MACDON FD70 40 FT FLEX DRAPER HEADER	199618
	JOHN DEERE Z970R 60 IN. ZERO TURN RIDING LAWN MOWER	
	FARM KING 16104 16 IN. X 104 FT MECHANICAL SWING GRAIN AUGER	
2009	2009 BUHLER FARM KING 1370 13 IN. X 70 FT MECHANICAL SWING GRAIN AUGER	21904489
2012	2012 KUBOTA RTV900XT 4X4 SIDE BY SIDE UTILITY VEHICLE	C8631
2016	2016 SCHULTE XH1000 SERIES 4 10 FT 6 IN. ROTARY MOWER	C30910029604
2003	2003 SCHULTE 2500 GIANT ROCK PICKER	R10000349303

CONFIDENTIAL APPENDIX 1
SUMMARY AND ANALYSIS OF PROPOSAL OFFERS