



COURT FILE NUMBER 2001-05482

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANT IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF
ARRANGEMENT OF JMB CRUSHING SYSTEMS INC.
AND 2161889 ALBERTA LTD.

DOCUMENT SECOND REPORT OF FTI CONSULTING CANADA
INC., IN ITS CAPACITY AS MONITOR OF JMB
CRUSHING SYSTEMS INC. AND 2161889 ALBERTA
LTD.

July 6, 2020

ADDRESS FOR SERVICE AND
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SECOND REPORT OF THE MONITOR

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INTRODUCTION

1. On May 1, 2020, JMB Crushing Systems Inc. and 2161889 Alberta Ltd. (“**JMB**” or the “**Applicants**”) commenced proceedings (the “**CCAA Proceedings**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an order granted by this Honourable Court which was subsequently amended and restated on May 11, 2020 (the “**ARIO**”).
2. The ARIO provides for, among other things:
 - a. a stay of proceedings (the “**Stay of Proceedings**”) in favour of the Applicants until July 31, 2020;
 - b. the appointment of FTI Consulting Canada Inc. as Monitor in the CCAA Proceedings (the “**Monitor**”); and
 - c. the approval of a sale or investment solicitation process (“**SISP**”).
3. On May 20, 2020, this Honourable Court granted an order which provides for, among other things, a process (the “**Builders’ Lien Protocol**”) to address the orderly payment to certain subcontractors that JMB has engaged in respect of a project (the “**Bonnyville Project**”) owned by the Municipal District of Bonnyville while collecting on certain outstanding receivables in a timely fashion (the “**Bonnyville Lien Order**”).
4. On May 29, 2020, following the Builders’ Lien Protocol established in the Bonnyville Lien Order, this Honourable Court granted an order (the “**EllisDon Lien Order**”) which provides similar directions with respect to a project involving 1598313 Alberta Ltd. and Kuwait Petrochemical Limited Partnership as owner and EllisDon Industrial Inc. as contractor (the “**EllisDon Project**”).

PURPOSE

5. The purpose of this report is to provide this Honourable Court and the Applicants' stakeholders with information with respect to:
 - a. an update on the SISP;
 - b. an update on the Applicants' actual cash receipts and disbursements for the seven-week period ended June 19, 2020 as compared to the Cash Flow Statement filed in connection with the initial CCAA application;
 - c. an update on the management team of JMB, including the addition of a Chief Restructuring Advisor ("**CRA**");
 - d. a potential restatement of the Applicants' reported gravel inventory balance that is being proposed by the CRA (the "**Inventory Restatement**"); and
 - e. a material adverse change resulting from the Inventory Restatement.

TERMS OF REFERENCE

6. In preparing this report, the Monitor has relied upon certain information (the "**Information**") including JMB's unaudited financial information, books and records and discussions with senior management and the CRA (collectively, "**Management**").
7. Except as described in this report, the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.
8. The Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.

9. Future oriented financial information reported to be relied on in preparing this report is based on Management's assumptions regarding future events. Actual results may vary from forecast and such variations may be material.
10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

UPDATE ON THE SISP

11. Pursuant to the SISP, Sequeira Partners, in its capacity as sales agent (the "**Sales Agent**") has been marketing the business and assets with Phase I of the SISP concluding on June 19, 2020. In accordance with the SISP, the Sales Agent, in consultation with the Monitor, has undertaken the following activities:
 - a. researching and identifying potentially interested parties including strategic and financial investors;
 - b. preparing a process summary letter (the "**Teaser Letter**") and confidential information memorandum (the "**CIM**") with input from the Monitor, its legal counsel and JMB;
 - c. contacting 196 interested parties by email and/or telephone to determine their interest in the SISP including 90 strategic, 70 financial and 36 other potential investors and providing them with a copy of the Teaser Letter;
 - d. arranging for a notice of the SISP to be published in the Calgary Herald, Edmonton Journal, Bonnyville Nouvelle and the Insolvency Insider;
 - e. arranging for a notice of the SISP to be sent to the members of the Saskatchewan Heavy Construction Association and the British Columbia Stone Sand & Gravel Association;
 - f. posting a notice of the SISP on Sequeira Partner's website and LinkedIn page;

- g. preparing and populating an electronic data site containing information on the Applicants' assets and operations (the "**Data Room**") for prospective purchasers;
- h. obtaining signed non-disclosure agreements (each an "**NDA**") from interested parties and providing those parties with a copy of the CIM and access to the Data Room;
- i. responding to due diligence requests from potential investors and their advisors;
- j. hosting weekly update conference calls to provide the Monitor and CRA with status updates as to the Sales Agent's marketing activities, its assessment as to the level of interest from active parties and other SISP matters; and
- k. evaluating bids at the Phase I non-binding letters of intent (each a "**LOI**") deadline and inviting eight parties to participate in Phase II of the SISP (each a "**Qualified Phase I Bidder**").

12. Prior to the commencement of the SISP, Canadian Aggregate Resources Corp. ("**CARC**"), the existing primary equity holder of JMB, declared that it may submit a bid in the process. CARC subsequently submitted a non-binding LOI and has been invited to Phase II as a Qualified Phase I Bidder.

13. In order to manage the potential conflict of interest, the Applicants, in consultation with the Monitor and Sales Agent, have taken the following steps:

- a. CARC has signed an NDA as a condition of participating in the SISP;
- b. no information with respect to potential purchasers and non-binding LOIs has been shared with CARC, the board of directors or Management, with the exception of the CRA who has agreed to keep all such information confidential;

- c. JMB's legal counsel has also been retained to act as legal counsel to CARC and as such, has not been provided with any confidential information with respect to potential bidders or non-binding LOIs received;
 - d. all Qualified Phase I Bidders have been made aware of CARC's participation in the SISP; and
 - e. appropriate employees of JMB have been made aware of CARC's interests and have been advised not to speak with them about any aspect of the SISP including the identity of any potential bidders or the nature of their due diligence.
14. In Phase II, Qualified Phase I Bidders will be able to perform further due diligence on the assets and operations of JMB. Pursuant to the SISP, the deadline for submission of final binding offers in Phase II is July 20, 2020, or such later date that is determined by the Monitor, in consultation with the Sales Agent and secured creditors.

UPDATE ON MANAGEMENT TEAM

15. The Board of Directors of JMB decided to retain an interim finance executive as a result of, among other things, determining that JMB's management team lacked the resources to meet its many competing demands and the depth of skills required to direct a successful restructuring.
16. After reviewing several candidates, on May 4, 2020, JMB retained Mr. Blake Elyea, CPA•CGA, CIRP, LIT as CRA. The CRA's role is to assist Management and the Board of Directors with managing JMB's business affairs, leading the Company's finance function and conducting the SISP in conjunction with the Sales Agent.
17. On June 23, 2020, Mr. Jeff Buck resigned as Chief Executive Officer and the Board of Directors accepted his resignation. It is the Monitor's view that the CRA and Chief Financial Officer provide sufficient executive management to run the company's limited

ongoing operations and conduct the SISIP to completion and that the overall impact of Mr. Buck's departure is manageable in the circumstances.

CASH FLOW VARIANCE ANALYSIS

18. The Monitor has undertaken weekly reviews of JMB's actual cash flows in comparison to those contained in the Cash Flow Statement. JMB's actual cash receipts and disbursements as compared to the Cash Flow Statement for the period of May 1, 2020 to June 19, 2020 are summarized below:

(\$000's)	Weeks 1 - 7		
	Actual	Forecast	Variance
Operating Receipts			
Collection of Pre-Filing AR - Ellis Don	\$ 1,020	\$ 4,861	\$ (3,841)
Collection of Pre-Filing AR - MD of Bonnyville	1,478	3,564	(2,086)
Collection of Post Filing AR - MD of Bonnyville	-	488	(488)
Other Receipts	405	180	225
Total Operating Receipts	2,902	9,093	(6,191)
Operating Disbursements			
Payroll And Source Deductions	(808)	(1,119)	311
Pre-filing Liable Payables	-	(3,701)	3,701
Royalties	(272)	(400)	128
Fuel	(165)	(236)	71
Repair & Maintenance	(48)	(70)	22
Office Administration	(7)	(21)	14
Insurance & Benefits	(52)	(29)	(23)
Jobsite Lodging	(12)	(45)	32
Equipment Loan & Lease Payments	(85)	(81)	(4)
Occupancy	(63)	(74)	11
Other	(8)	(75)	67
Total Operating Disbursements	(1,520)	(5,850)	4,330
Non-Operating Receipts & Disbursements			
Interim Financing (Repayment)	(211)	(188)	(23)
CARC Repayment	-	(200)	200
Professional Fees	(452)	(595)	143
Total Disbursements	(2,183)	(6,833)	4,650
Net Cash Flow	720	2,260	(1,541)
Opening Cash Balance	-	-	-
Ending Cash	\$ 720	\$ 2,260	\$ (1,541)

19. Overall, the Applicants realized an unfavourable net cash flow variance of approximately \$1.5 million. The key components of the variance are as follows:

- a. the collection of pre-filing AR – EllisDon is net of \$2.4 million of lien payments made directly by EllisDon Industrial Inc. as well as \$415,000 of lien and GST hold backs pursuant to the EllisDon Lien Order. The second of two tranches totalling approximately \$1.0 million had yet to be received by the week ended June 19, 2020. This variance is expected to reverse in the coming weeks as the second tranche is received and the lien evaluation process is completed pursuant to the EllisDon Order;
- b. the collection of pre-filing AR – MD of Bonnyville is net of certain lien and CRA hold backs pursuant to the Bonnyville Lien Order of approximately \$2.1 million. Some or all of this variance may reverse depending on the results of the lien evaluation process pursuant to the Bonnyville Lien Order;
- c. the collection of the \$488,000 post-filing AR – MD of Bonnyville is a timing difference as payment is expected to be collected in subsequent weeks;
- d. JMB qualified for additional subsidies from the Government of Canada with respect to the Canadian Emergency Wage Subsidy resulting in a positive permanent variance in Other Receipts;
- e. the Cash Flow Statement included an arrears payment with respect to outstanding source deductions for approximately \$236,000 which was paid from proceeds received in trust pursuant to the Bonnyville Lien Order. The remaining variance is as a result of breaks in service on the Bonnyville Project which reduced overall payroll. JMB has also significantly reduced its headcount upon completion of the Bonnyville Project;

- f. pre-filing lienable payables are lower than forecast due to the amounts referenced in paragraph 19(a) being collected net of the payments made directly by EllisDon and the funds currently held in trust subject to the Bonnyville Lien Order;
 - g. post-filing royalties were paid weekly as opposed to a lump sum payment as contemplated by the Cash Flow Statement;
 - h. the breaks in service of the Bonnyville Project created positive timing variances in fuel, repair and maintenance and jobsite lodging. These are variances are likely to be permanent as JMB has parked its fleet given the limited operations of the company; and
 - i. the repayment of the CARC advance and professional fees are timing variances that are expected to reverse in subsequent weeks.
20. The Applicants have not been successful in sourcing new contracts during the CCAA period and substantially all revenue generating operations have concluded. Accordingly, JMB is focussed on reducing overhead costs to a minimum level required to complete the SISP.

INVENTORY RESTATEMENT

21. At the commencement of the CCAA Proceedings, the Applicants reported book value of sand and gravel inventory of approximately \$23.3 million and in their most recent borrowing base submission to ATB Financial dated April 30, 2020, reported 5.7 million tonnes of sand and gravel inventory with a book value of \$23.3 million which matches the figures provided in the CIM and Data Room prior to the Phase I bid deadline.
22. During the course of the SISP and from discussion with potential bidders and a general review of JMB's books and records, the CRA became aware of concerns regarding the existence of certain gravel inventory reported in the Applicants' inventory subledger. As a result, during the week ending June 19, 2020, the CRA instructed pit operations

personnel to visit a sample of sites to substantiate the inventory stockpiles reported on the inventory listing.

23. During this review, the operational personnel were unable to substantiate a number of the reported inventory stockpiles at the reported locations. Based on the site visits and discussions with other site and operating personnel, the CRA has formed a preliminary view that the inventory in JMB's records is significantly overstated.

24. During the week of June 24, 2020, legal counsel for the Applicants and the CRA advised the Monitor of their concerns with respect to reported inventory and provided a preliminary draft adjustment to eliminate the unsubstantiated inventory. A summary of the draft adjustment is as follows:

<i>(\$CAD millions)</i> Category	Reported Tonnes	Revised Tonnes	Reported Cost	Proposed Adjustment	Revised Cost	% Change
Sand	3,123,415	3,111,716	\$ 11.4	\$ (0.1)	\$ 11.3	-0.9%
Granular Base Course	504,314	54,406	1.8	(1.3)	0.5	-72.2%
Traffic	269,282	36,811	1.6	(1.4)	0.2	-87.5%
Rock/other	366,339	238,817	1.7	(0.6)	1.1	-35.3%
Granular fill	1,425,763	30,082	6.8	(6.5)	0.3	-95.6%
Total	5,689,112	3,471,831	\$ 23.3	\$ (9.9)	\$ 13.4	-42.5%

25. Overall, the applicants are proposing an adjustment of approximately \$9.8 million, or approximately 82.4% of the gravel inventory. The CRA has not attempted to substantiate the Applicants' reported sand inventory other than for specifically identifiable product but is generally not concerned about the existence of sand.

26. On June 26, 2020, the Monitor, with consent of JMB, reported the potential adjustment to ATB Financial in its capacity as senior secured lender to the Applicants with respect to inventory. The Applicants advised the Monitor that legal counsel for the Applicants had disclosed the issue to legal counsel for ATB Financial and Fiera Private Debt in their capacity as senior secured lenders to the Applicants.

27. On June 29, 2020, the Sales Agent advised potential purchasers under the SISP of the issue and potential adjustment, the notice of which is attached as Appendix A to this report. It is uncertain at this stage what the implications of the adjustment will be with respect to the outcome of the SISP as it relates to inventory, however, the Monitor advises that all interested parties will have the latest inventory information to be used in preparing their final bids for Phase II. The Inventory Restatement is not expected to have an impact on the Applicants' cash flows or current operations.

28. Based on the CRA's review of historic reported inventory balances, it appears that the majority of the discrepancy relates to inventory balances that have been recorded on the Applicants' books since prior to its acquisition by CARC in November 2018.

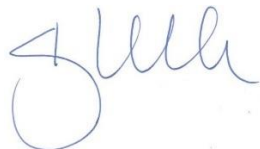
MATERIAL ADVERSE CHANGE

29. It is the Monitor's view that the inability to substantiate the majority of JMB's gravel inventory and the magnitude of the resulting Inventory Restatement being proposed by Management represents a material adverse change.

30. The Monitor is satisfied that Management is undertaking reasonable efforts to establish the appropriate volume of JMB's gravel inventory and disclose the potential restatement to secured creditors, participants in the SISP and other stakeholders. Accordingly, the Monitor is of the view that continuing to conduct the SISP to its conclusion remains in the best interests of JMB and its stakeholders.

All of which is respectfully submitted this 6th day of July, 2020.

FTI Consulting Canada Inc.
In its capacity as Monitor of the Applicants

A handwritten signature in blue ink, appearing to read 'D Helkaa', with a large circular flourish at the end.

Deryck Helkaa
Senior Managing Director

A handwritten signature in black ink, appearing to read 'Tom Powell', with a large, stylized initial flourish.

Tom Powell
Senior Managing Director

Appendix A

Email to Prospective Bidders

As Phase 2 of the JMB SISP is now underway, we wanted to provide qualified participants with an update regarding the process, most notably:

- Members of management visited the pits last week for the purpose of updating the estimated inventory figures. Based on the site visits, the estimated inventory report was updated and that report was uploaded to the data room on Friday, June 26th. A link to the data room report can be found here: <https://sequeirapartners.firmex.com/projects/151/documents?documentid=514>
- Jeff Buck, former President of JMB, officially resigned from the Company during last week.
- The incumbent majority shareholder of the business, Canadian Aggregate Resource Corporation, has tendered a bid as part of the SISP and will be a participant in Phase 2 of the process.

In anticipation of the deadline for formal binding offers, we would like to better understand your due diligence requirements and timelines. The Company is prepared to make staff available for site visits and inspections as early as this week. Please provide us with your due diligence steps, questions and items you'll need as part of this phase of the process.

All the best,