

COURT FILE NUMBER                   **1901-05010**

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE                   **CALGARY**

PLAINTIFF                           **1056420 ALBERTA LTD.**

DEFENDANT                       **HEAVY NORTH CONSTRUCTION LTD.**

APPLICANT                       **KPMG INC., IN ITS CAPACITY AS COURT-APPOINTED  
RECEIVER AND MANAGER OF HEAVY NORTH  
CONSTRUCTION LTD.**

DOCUMENT                       **FIRST SUPPLEMENTAL CONFIDENTIAL REPORT TO  
THE COURT SUBMITTED BY KPMG INC., IN ITS  
CAPACITY AS COURT-APPOINTED RECEIVER AND  
MANAGER OF HEAVY NORTH CONSTRUCTION LTD.  
DATED JULY 15, 2019**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
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# ***Listing of Appendices***

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Appendix "B" - Hilco Valuation Services, LLC Appraisal Reported dated May 22, 2019

# ***1. INTRODUCTION AND PURPOSE OF REPORT***

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## **Introduction**

1. Heavy North Construction Ltd. (“**Heavy North**” or the “**Company**”) is a construction services company that specializes in general civil construction projects in the mining, oil and gas, power and transportation industries. The Company’s principal assets include construction machinery such as graders, compactors, excavators and other equipment as well as vehicles, survey equipment and generators (the “**Equipment**”). All assets are located in Alberta.
2. The Company has two primary secured lenders, Alberta Treasury Branches (“**ATB**”) and 1056420 Alberta Ltd. (“**105**”). ATB has advanced funds of approximately \$3.4 million (plus interest and fees) to Heavy North. These amounts were borrowed by Heavy North pursuant to the facility agreements between ATB and Heavy North dated November 10, 2017 and November 15, 2017. 105 has advanced funds of approximately \$2.4 million (plus interest and fees) pursuant to a General Security Agreement dated June 1, 2017 (the “**GSA**”).
3. As a result of the downturn in the oil and gas sector, growing competition and cost overruns experienced on certain projects, the Company experienced significant cash flow difficulties and ceased or demonstrated an intention to cease carrying on business. Furthermore, all employees were terminated in early February 2019 and the Company had exited all of its previously leased premises. Accordingly, the Company was in default of the GSA.
4. On March 26, 2019, 105 issued a demand for payment and notice of intention to enforce security (the “**Demand Notice**”) pursuant to section 244 of the *Bankruptcy and Insolvency Act* (“**BIA**”).
5. Shortly after the Demand Notice, 105 commenced an application to appoint KPMG Inc. (“**KPMG**”) as receiver and manager of Heavy North (the “**Receiver**”) pursuant to section 243 of the BIA and section 13(2) of the *Judicature Act*, RSA 2000, c J-2 to, *inter alia*, take possession of and exercise control over the assets of the Company and any and all proceeds, receipts and disbursements arising out of or from the assets (the “**Property**”).
6. On April 16, 2019, the Court of Queen’s Bench of Alberta (“**Court**”) issued an order appointing KPMG as the Receiver over all of the Property and undertakings of Heavy North (the “**Order**”).
7. Further background to the receivership, including a summary of assets and primary liabilities, is provided in the Receiver’s first report to the Court dated July 15, 2019 (the “**First Report**”).

8. For further background information on Heavy North and these receivership proceedings please refer to the Receiver's website [www.home.kpmg/ca/heavynorth](http://www.home.kpmg/ca/heavynorth).
9. In preparing this report, the Receiver has been provided with, and has relied upon, unaudited and other financial information, books and records (collectively, the "**Information**") prepared by the Company and/or their representatives, and discussions with the Company's management and/or representatives. The Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided and in consideration of the nature of evidence provided to this Honourable Court. However, the Receiver has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance contemplated under the CAS in respect of the Information.
10. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Receiver.
11. All references to monetary amounts in this report are in Canadian dollars unless otherwise specified.
12. Defined terms not defined herein have the same meaning as defined in the First Report.

### **Purpose of the Receiver's First Supplemental Confidential Report**

13. This is the Receiver's first supplemental confidential report (the "**First Supplemental Confidential Report**") and should be read in conjunction with the First Report.
14. The First Supplemental Confidential Report is filed to provide this Honourable Court with the following:
  - a) Details of the sales and marketing process undertaken by the Receiver to solicit proposals from parties interested in acquiring the Equipment, including the final purchase price for the Equipment in the asset purchase agreement ("**APA**"); and
  - b) The Receiver's recommendations in connection thereto.
15. The First Supplemental Confidential Report has been prepared on a confidential basis and the Receiver is requesting that it be sealed by the order of this Honourable Court for the reasons set out in the First Report.

16. The Receiver will seek a sealing order in connection with the First Supplemental Confidential Report, as the First Supplemental Confidential Report includes certain commercially sensitive information (including appraisal values for the Equipment and a proposed purchase price) and disclosure of the information contained in the First Supplemental Confidential Report would cause irreparable prejudice to creditors and other stakeholders in the event the transaction contemplated by the APA does not close. If this were to occur, the Equipment would be subject to further marketing and the Receiver's ability to obtain the highest and best price would be severely compromised by this information being in the public domain. As such, the Receiver seeks a limited sealing order (until the closing of the proposed sale of the Equipment and the filing of the corresponding closing certificate) for the First Supplemental Confidential Report.

## ***2. SALES AND MARKETING PROCESS***

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### **Realization Approach – Equipment**

17. Given the nature of the Equipment the Receiver determined that soliciting proposals from auctioneers and liquidators on an auction, net minimum guarantee (“**NMG**”), or an outright purchase basis would be the most appropriate mechanism to maximize realizations (the “**Sales Process**”). The Receiver also contacted several strategic buyers who had expressed an interest in the Equipment.
18. The Sales Process included:
  - a) Preparing a Request for Proposal (“**RFP**”) to be sent to identified potential interested parties;
  - b) Identifying prospective auctioneers, liquidators and certain operating entities likely to have some interest in the Equipment. The list that was developed was based on information provided by former management, 105 and the Receiver’s own experience. Fifteen prospective parties and nine operating entities (together, the “**RFP Parties**”) were identified from across Canada and the United States;
  - c) Issuing the RFP packages via email on June 3, 2019 to each of the RFP Parties;
  - d) Coordinating site visits; and
  - e) Providing follow up information to all RFP Parties upon request.
19. The deadline for proposals to be received was June 25, 2019 at 4:00 pm Mountain Time (the “**Submission Deadline**”).

### **Sales Process Results**

20. By the Submission Deadline, the Receiver received 12 proposals from nine interested parties as summarized below:
  - a) Okuip International – outright purchase of certain of the Equipment for \$2,076,000;
  - b) Corporate Assets Inc. – (i) NMG for \$2,650,000 with gross auction revenue exceeding \$2,750,000 to be split 97.5% to KPMG and 2.5% to Corporate Assets Inc.; or (ii) straight commission of 0% plus \$65,000 on expenses;

- c) Century Services Corp. – straight commission of 0% plus \$65,000 on expenses;
- d) Maynard Industries Canada Ltd. (“**Maynard**”) – NMG for \$3,835,000 with gross auction revenue exceeding \$3,985,000 to be split 90.0% to KPMG and 10.0% to Maynard Industries Canada Ltd.;
- e) Hilco Industrial and M&E Partners (“**Hilco ME**”) – NMG for \$4,300,000 with gross auction revenue exceeding \$4,450,000 to be split 95.0% to KPMG and 5.0% to Hilco ME;
- f) Dreamwork Development & Solutions – outright purchase of certain equipment for \$8,000;
- g) Battle Team Holdings Ltd. (“**Battle Team**”) – outright purchase for \$3,673,112;
- h) Ritchie Bros Auctioneers (“**RBA**”) – (i) outright purchase for \$4,275,000; or (ii) straight commission of 8% plus expenses; and
- i) McDougall Auctioneers Ltd. – (i) outright purchase for \$3,162,417 or (ii) NMG for \$3,275,503 with gross auction revenue exceeding \$3,660,503 100% to KPMG plus expenses.

21. Upon review, the Receiver identified the Hilco ME, RBA, and Maynard (collectively the, “**Auctioneers**”) proposals as the most attractive bids due to the value of the NMGs/outright purchase offers; however, the Auctioneers’ bids had certain conditions and issues, namely:

- a) Both Hilco ME and Maynard required the use of Myshak Group’s (“**Myshak**”) sites to facilitate an auction for a further 60 – 90 days after this Honourable Court’s approval of the sale; and
- b) RBA had certain conditions in respect of the equipment located at Finning Canada’s repair facility as well as requiring verification of certain other equipment.

22. The Battle Team offer was also considered by the Receiver as Battle Team and Myshak share a common owner and the majority of the Equipment was located on Myshak properties and so would not have to be moved if a sale to Battle Team was concluded. It was also evident to the Receiver through several conversations with Battle Team that they had an intimate knowledge of the Equipment given the recent history between Myshak and Heavy North as described in the First Report. Therefore, a transaction with Battle Team was more likely to be without conditions, straightforward and quick to close and could limit the costs and risks in an auction situation.



23. Accordingly, the Receiver contacted Battle Team to investigate if it would be prepared to increase its offer to compete with the bids of the Auctioneers.
24. On June 27, 2019, the Receiver received a revised offer from Battle Team for outright purchase of the Equipment for \$4,334,272 (the “**Final Battle Team Offer**”).
25. Accordingly, the Final Battle Team Offer was accepted. A copy of the APAs between the Receiver and Battle Team is attached as **Appendix “A”**.

### **Appraisal**

26. After its appointment, the Receiver engaged Hilco Valuation Services, LLC (“**Hilco**”) to conduct an appraisal of the Equipment (the “**Appraisal**”). A copy of the Appraisal, dated May 22, 2019, is attached hereto as **Appendix “B”**.
27. The Appraisal provided an aggregate forced liquidation value of the Equipment of \$6.5 million. It should be noted however that this value included the leased equipment, all of which was subsequently returned to the lessors (the “**Leased Assets**”) for the reasons set out in the First Report. The Appraisal also included certain equipment that was sold prior to the conclusion of the Sales Process (“**Sold Equipment**”). The estimated value of the Leased Assets and the Sold Equipment was approximately \$2.1 million and \$120,000 respectively.
28. Accordingly, the adjusted forced liquidation value in the Appraisal, with the Leased Assets and Sold Equipment excluded, is approximately \$4.3 million (the “**Adjusted Appraised Value**”).
29. Details of the Leased Assets and the Sold Equipment transactions are set out in the First Report.

### **The Receiver’s Observations and Recommendations to the Sale of the Equipment**

30. The Receiver is seeking approval from the Court to approve the sale of the Equipment to Battle Team for the following reasons:
  - a) The Final Battle Team Offer represents the highest guaranteed offer for the Equipment at \$4,334,272;
  - b) The Final Battle Team Offer is consistent with the Adjusted Appraised Value;
  - c) Although additional realizations in excess of the Final Battle Team Offer might possibly be generated if an auction were held in conjunction with the NMG offer from

RBA, the Receiver believes there are considerable risks and disadvantages to this approach, namely:

- i. To exceed the Final Battle Team Offer, an auction would need to exceed proceeds of \$4.5 million, which is in excess of the Adjusted Appraised Value and in excess of any of the offers received;
  - ii. An auction would create additional expenses and risk to the estate including potential repair, security, storage, relocation and insurance costs;
  - iii. There could be complications and associated costs with requiring the use of Myshak's various sites for a significantly extended period of time; and
  - iv. There would be additional professional fees incurred due to the extended period prior to an auction.
- d) The Equipment is located on sites belonging to Myshak. Given the common ownership between Myshak and Battle Team, transitioning the Equipment to Battle Team is expected to be straightforward, relatively quick and therefore less expensive in terms of professional fees and costs.
- e) The Sales Process set out an initial three-week process for marketing of the Equipment to prospective buyers or liquidators and in the Receiver's view, this timeline was sufficient to allow interested parties to perform due diligence and to submit offers; and
- f) ATB and 105 are supportive of the transaction.

### **3. RECOMMENDATIONS**

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31. We submit this First Supplemental Confidential Report in support of our application respectfully requesting this Honourable Court to approve the sale of the Equipment.

All of which is respectfully submitted this 15th day of July, 2019.

**KPMG INC.,  
COURT-APPOINTED RECEIVER  
AND MANAGER OF  
HEAVY NORTH CONSTRUCTION LTD.  
and not in its personal or corporate capacity**



Per: Neil A. Honess  
*Senior Vice President*

Appendix A  
Asset Purchase Agreement  
dated July 15, 2019

Appendix B

Hilco Valuation Services, LLC

Appraisal Reported dated May 22, 2019



A Hilco Global Company  
Vested in Your Success



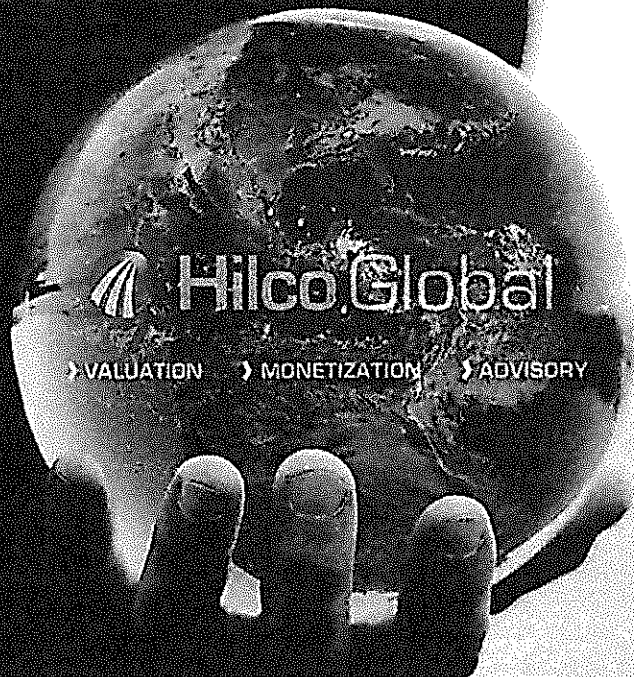
M&E APPRAISAL

Appraisal of:

Heavy North Construction Ltd.

Report Date: May 22, 2019

Effective Date: May 22, 2019



Business Purposes

LENDING • FINANCIAL REPORTING • STRATEGIC PLANNING • INSURANCE/RISK MANAGEMENT  
ESTATE/TAX MANAGEMENT • PORTFOLIO VALUATION • DISPUTE RESOLUTION • FINANCIAL OPINIONS

Global Headquarters / 5 Revere Drive, Suite 206 / Northbrook, IL 60062

**Company Overview**

Company Name	Heavy North Construction Ltd.
Industry	Construction
NAICS Code	236220
Headquarters	Edmonton, AB
# Locations	1
Website	N/A

**Primary Contact Information**

Client	Mr. Neil Honess KPMG, Inc. Calgary, Alberta T2P 4B9
Company	N/A

**Appraisal Scope**

Appraisal Approach	Forced Liquidation Value (FLV), Orderly Liquidation Value (OLV), Fair Market Value (FMV)
Liquidation Time Frame	NFLV – 3 Months, NOLV – 6 Months
Date of Engagement	May 16, 2019
Effective Date of Report	May 22, 2019

**Valuation Approach**

The primary approach to value utilized in this report was the market approach. The cost and income approach were not utilized in the valuation of assets in this appraisal.

**Asset Reconciliation**

Assets were appraised on a desktop basis.

**Appraisal Team****Project Manager**

Adam Stump, ASA, CEA  
Managing Director  
astump@hilcoglobal.com  
(847) 849-2953

**Appraisers and Analysts**

Bryan Courcier

**Summary Total Values**

VALUE	FLV	OLV	FMV	REF
Total Value	CAD\$ 6,523,465	CAD\$ 7,284,015	CAD\$ 8,386,382	Pg. 5



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5.1 Asset List	See Electronic Attachment

# 1.0 Engagement Overview

## 1.0 Engagement Overview

### 1.1 Engagement Summary

Pursuant to our engagement letter dated May 16, 2019 we hereby submit our Desk Top Appraisal of certain Machinery and Equipment of Heavy North Construction Ltd. at the location listed in Section 1.2 in the Facilities Summary Table.

Files utilized as the basis for this appraisal include:

- 2019-05-13 Consolidated HN Equipment List - For Appraisal.xlsx

The purpose of this “Desk Top” appraisal report is to provide a disinterested statement of the value of the subject Machinery and Equipment based on current market conditions and founded on the basis of Forced Liquidation Value, Orderly Liquidation Value and Fair Market Value as defined on the Definitions page of this appraisal report.

The basis of value for the Machinery and Equipment:

- Considers what an alternative purchaser would pay for the Machinery and Equipment for removal
- Assumes that it is the buyers’ responsibility to pay the costs associated with disassembling, transporting, and reinstalling the assets at another location
- Assumes that the assets are being sold “as is, where is”, without any representations as to the operational condition of the equipment and without any warranty to the seller.

In addition, the Fair Market Value concept assumes that the assets are to be liquidated by a willing seller to a willing buyer, with equity to both, neither being under compulsion to buy or sell, and that both parties are fully aware of all relevant facts. Further, this definition assumes that there is no limiting time frame for this transaction.

The information included in this report is for use only by KPMG, Inc. and is intended only for use in business decisions. The appraisal may be invalid if used for any other purpose.

Only the sales comparison approach was utilized for the value conclusions found herein. The cost and income approaches were considered but given no weight as they were deemed unnecessary to arrive at credible results.

Hilco Valuation Services, LLC has not inspected the equipment described herein, and assumes the assets to be in working condition and maintained within industry standards.

The intended use of this report has no effect on the values reflected herein.

All of the assets were represented to the appraiser as the property of Heavy North Construction Ltd., unless otherwise noted.

Use of this report by others is not intended unless express written consent is further granted.

This appraisal was prepared in accordance with the guidelines established by the Uniform Standards of Professional Appraisal Practice 2018-2019 Standards 7 & 8 and in conformance with the Standards and Procedures of Professional Appraisal Ethics and Practice of the Association of Machinery and Equipment Appraisers and/or the American Society of Appraisers.

The information included in this report is subject to the Statement of Conditions expressed within this document.

## 1.2 Facilities Summary

Hilco Valuation Services appraised certain Machinery and Equipment of Heavy North Construction Ltd. at the location listed below. The assets were valued on a Desktop basis per equipment lists provided by KPMG, Inc..

LOCATION	APPRAISER
Heavy North Construction Ltd. 625 Parsons Rd SW #115 Edmonton, AB	Bryan Courcier

# 2.0

# Value Conclusions

## 2.0 Value Conclusions

### 2.1 Location Summary

ASSETS LOCATED AT:	FLV	OLV	FMV
Heavy North Construction Ltd. 625 Parsons Rd SW #115 Edmonton, AB			
<b>TOTAL VALUE</b>	<b>CAD\$ 6,523,465</b>	<b>CAD\$ 7,284,015</b>	<b>CAD\$ 8,386,382</b>

# 3.0 Overviews

## 3.0 Overviews

### 3.1 Equipment Disposition Overview

#### EQUIPMENT OVERVIEW

The Machinery and Equipment at the Heavy North Construction Ltd. location consists of various types of construction equipment and vehicles. There is no proprietary technology associated with the Machinery and Equipment.

The Machinery and Equipment was not inspected by the appraiser. The appraisal was performed on a “Desktop” basis wherein asset lists and other information were provided by KPMG, Inc..

Valuation judgments were based solely upon the information provided. Due to the nature of a desktop appraisal and the information on the asset lists provided, certain assumptions had to be made by the appraiser and Hilco Valuation Services. These assumptions include that the Machinery and Equipment is in working condition, under power and maintained within industry standards.

#### APPRAISAL APPROACH

The primary approach utilized in evaluating the assets was the market or sales comparison approach. Market data was collected from various sources including, but not limited to: Used equipment dealers that purchase and sell comparable equipment, conversations with new machinery dealers and manufacturers, researching our proprietary in-house databases, consultation with Hilco Industrial’s liquidators and searches on the Internet.

From a market (or sales) comparison approach, general points to value for specific assets include analyzing numerous elements of the asset in question and the specific appraisal scope. The most explicit indications of value for most equipment include: model, age and general capacities and specifications. A more detailed analysis for specific assets includes: market saturation as it relates to large quantities of similar assets put up for sale at once, geographical location and accessibility of the assets and difficulty or ease of removal for an asset.

In practice, the most common method used by personal property appraisers is the sales adjustment grid. It uses a small number of recently sold equipment in similar condition to the subject property to estimate the value of its attributes. Adjustments to the comparables may be determined by trend analysis, matched-pairs analysis, or simple surveys of the market.

This appraisal has not taken into consideration Net Book Value when assigning value to the assets. Typical straight line depreciation has no direct correlation to a true market value of an asset and is not a substitute for specific market research.

The cost approach and income approach were not utilized in this appraisal report.

#### MARKET AND APPRAISAL CONSIDERATIONS

For the purposes of this appraisal, the appraisers’ have assumed an average condition and mileage for the age stated and standard options unless otherwise noted. Further, the appraisers have assumed that all vehicles and equipment appraised herein meet all current federal, state and local emission requirements for the state where the equipment is operated.



# 4.0

## Additional Appraisal Information

## 4.0 Additional Appraisal Information

### 4.1 Certification of Appraisal

I and/or we certify that to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and is the appraisers' unbiased professional analyses, opinions and conclusions.

The appraisers (or the specified) have no present or prospective interest in the property that is the subject of this report, and the appraisers (or the specified) have no personal interest or bias with respect to the parties involved.

Hilco Valuation Services and/or those signing below have not appraised the assets of Heavy North Construction Ltd. as part of a previous engagement during a period covering the previous three years from the current engagement date.

Our engagement in this assignment was not contingent upon developing or reporting predetermined results. The appraisal report is not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

Our analyses, opinions and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice 2018-2019 Standards 7 & 8 promulgated by the Appraisal Standards Board (ASB) of The Appraisal Foundation, and the Professional Standards and Ethics of the American Society of Appraisers.

All information in the appraisal is considered confidential and will not be transmitted to a third party without the express written consent of KPMG, Inc..

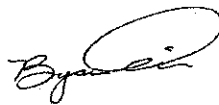
The appraisers signing the report below did not physically inspect the equipment of Heavy North Construction Ltd. at the locations listed in Section 1.2 in the Facilities Summary Table, for utilization and determination in the appraisal process.

Individuals signing the report below who have the professional designation of CEA (Certified Equipment Appraiser of the Association of Machinery and Equipment Appraisers) or ASA (Accredited Senior Appraiser of the American Society of Appraisers) are in conformance with their respective professional society's mandatory reaccreditation program.

No one other than the individuals noted or those signing below provided significant professional assistance in producing this report.



Adam Stump, ASA, CEA  
Managing Director



Bryan Courcier  
Senior Vice President

## 4.2 Definitions of Value<sup>1</sup>

**DESKTOP APPRAISAL:** An estimated opinion of the appropriately defined value, expressed in terms of currency in Canadian Dollars to be realized by the sale of assets, in which the opinion is generated from lists and/or other informational materials supplied to the appraiser and evaluated without the benefit of an actual onsite inspection.

**FORCED LIQUIDATION VALUE (AUCTION):** An estimated amount of the most probable price expressed in terms of currency in Canadian dollars which could typically be realized at a properly advertised and conducted public auction sale, held under Forced sale conditions, with the seller obligated to sell, and under present day economic trends, as of the effective date of this appraisal report. Conclusions take into consideration physical location, difficulty of removal, physical condition, adaptability, specialization, marketability, overall appearance and psychological appeal. Further, the ability of the asset group to draw sufficient prospective buyers to insure competitive offers is considered. All assets are to be sold on a piecemeal basis “as is” with purchasers responsible for removal of the assets at their own risk and expense. Any deletions or additions to the total assets appraised could change the psychological and/or monetary appeal necessary to gain the values indicated.

**ORDERLY LIQUIDATION VALUE:** An estimated amount, expressed in terms of currency in Canadian dollars which the subject equipment could typically realize at a privately negotiated sale, properly advertised and professionally managed, by a seller obligated to sell over an extended period of time, usually within six to twelve months, as of the effective date of this appraisal report. Further, the ability of the asset group to draw sufficient prospective buyers to insure competitive offers is considered. All assets are to be sold on a piecemeal basis “as is” with purchasers responsible for removal of the assets at their own risk and expense. Any deletions or additions to the total assets appraised could change the psychological and/or monetary appeal necessary to gain the values indicated.

**FAIR MARKET VALUE:** An estimated amount, expressed in terms of currency in Canadian dollars, that may be reasonably expected to be realized for property in an exchange between a willing buyer and a willing seller, with equity to both, neither being under compulsion to buy or sell, and both parties fully aware of all relevant facts, as of the effective date of this appraisal report. All assets are to be sold on a piecemeal basis “as is” with purchasers responsible for removal of the assets at their own risk and expense.

<sup>1</sup> Source of Value Definitions: Hilco Valuation Services

## 4.3 Approaches to Value

### MARKET APPROACH

One of the three recognized approaches used in appraisal analysis, this approach involves the collection of market data pertaining to the subject assets being appraised. This approach is also known as the “Comparison Sales Approach.” The primary intent of the market approach is to determine the desirability of the assets and recent sales or offerings of similar assets currently on the market in order to arrive at an indication of the most probable selling price for the assets being appraised. If the comparable sales are not exactly similar to the asset being appraised, adjustments must be made to bring them as closely in line as possible with the subject property.

### COST APPROACH

One of the three recognized approaches used in appraisal analysis, this approach is based on the proposition that the informed purchaser would pay no more for a property than the cost of producing a substitute property with the same utility as the subject property. It considers that the maximum value of a property to a knowledgeable buyer would be the amount currently required to construct or purchase a new asset of equal utility. When the subject asset is not new, the current cost must be adjusted for all forms of depreciation as of the effective date of the appraisal.

### DEPRECIATION

Defined as the actual loss in value or worth of a property from all causes including those resulting from physical deterioration, functional obsolescence or economic obsolescence.

#### Physical Deterioration

A form of depreciation where the loss in value or usefulness of an asset is attributable solely to physical causes such as wear and tear and exposure to the elements.

#### Functional Obsolescence

A form of depreciation where the loss in value is due to factors inherent in the property itself and due to changes in design or process resulting in inadequacy, overcapacity, excess construction, lack of functional utility, or excess operation costs.

#### Economic Obsolescence

A form of depreciation or loss in value caused by unfavorable external conditions. These can include such things as the economics of the industry, availability of financing, loss of material and labor sources, passage of new legislation, and changes in ordinances.

### INCOME APPROACH

One of the three recognized approaches used in appraisal analysis, this approach considers value in relation to the present worth of future benefits derived from ownership and is usually measured through the capitalization of a specific level of income. This approach is the least common approach used in the appraisal of Machinery and Equipment since it is difficult to isolate income attributable to such assets.

## 4.4 Statement of Conditions

This appraisal has been made in accordance with the guidelines established by the Uniform Standards of Professional Appraisal Practice 2018-2019 Standards 7 & 8, the Association of Machinery and Equipment Appraisers and/or the American Society of Appraisers and reflects the best judgment of the appraiser.

This document and supporting notes are confidential. Neither all nor any part of the contents of this appraisal shall be copied or disclosed to any party or conveyed to the public orally or in writing through advertising, public relations, news, sales, or in any other manner without the prior expressed written consent and approval of both Hilco Valuation Services and its client.

The fees for this appraisal are not contingent upon the values reported.

The effective date(s) of the appraisal establishes the dates of the current and prospective market value.

This Appraisal is subject to the following limitations:

No responsibility is assumed for matters of a legal nature, which might affect the property that is the subject of this appraisal. In particular, but without limiting the generality of the foregoing, the annexed appraisal assumes that the property is not subject to any liens, encumbrances, or impediments to its free transferability and that such property conforms to all statutes, regulations, and codes that might relate to or affect the use, sale or other disposition of such representations.

The Appraisal is based on the following:

Information provided to Hilco Valuation Services, which Hilco Valuation Services has been led to believe is representative of the assets subject to this appraisal. This information has been subjected by Hilco Valuation Services to such tests as Hilco Valuation Services determined, in good faith, to be appropriate to confirm the accuracy of such representations.

Confirmation of the quantities of such assets was based upon information Hilco Valuation Services has been led to believe is accurate. Hilco Valuation Services also has subjected this information to such tests as deemed appropriate, in good faith, to conduct.

These appraisals are based upon the value of the assets as of the effective date of this report and for the stated purpose. Subsequent changes, including changes in the market or in the composition of assets, could have a significant effect on the values herein. Hilco Valuation Services assumes no responsibility for economic, functional or physical factors occurring subsequent to the effective date of this report.

Hilco Valuation Services was provided with asset listings and supplemental information, which were not audited before being used for the purposes of our review and analysis. We have accepted the Company's representation and have assumed, without independent verification, that all such information was reasonably prepared and that it is accurate and complete in all material respects. We assume no responsibility for its accuracy.

The opinions as to value stated in this report are premised upon the specific methods of sale discussed herein and must not be used in conjunction with any other proposed method of disposition.

The appraiser is not an attorney at law. The reader is advised to consult with his/her attorney on general rules of law as they apply to the property in question.

All opinions as to value are presented as the appraiser's considered opinion, based on the facts and data set forth in the report. The values reported herein are an opinion only and are not a warranty or representation of fact. No responsibility is assumed for any inability to sell the designated assets at the values projected

herein. Other than stated herein, no representation, warrant, or statement is made as to the value or marketability of the assets.

The opinions expressed herein are valid only for the express and stated purpose of providing information and assistance to the parties to whom this report is specifically addressed and to their counsel in connection with the proposed financing and are not in any way, implied or expressed, to be construed, used, circulated, quoted, relied upon, or otherwise referred to for any other purpose.

It is an express condition of this report that the appraiser is not required to give testimony or appear in court regarding this appraisal, unless arrangements have been previously made therefore.

The appraiser's opinion of Machinery and Equipment condition is derived from documentation supplied by KPMG, Inc.. The values reported assume the equipment is operational, serviceable and properly maintained within industry standards unless otherwise stated in the report.

Consideration for possible environmental hazards or the existence of potentially hazardous or toxic materials, which may have been used in the maintenance and operation of the equipment, was not considered in arriving at the opinion of value stated and goes beyond the scope of this appraisal. In the development of our opinion of value, no consideration has been given to such liability or its impact on value.

Unless otherwise stated in the appraisal, compliance with the requirements of the Americans with Disabilities Act of 1990 ("ADA") has not been considered in arriving at the opinion of value stated in the appraisal. Failure to comply with the requirements of the ADA may negatively affect the value of the designated assets. Hilco Valuation Services recommends that an expert in this field be employed for further analysis.

The appraisal assumes (a) responsible ownership and competent management of the designated assets; (b) there are no hidden or unapparent conditions of the designated assets that would render the values more or less valuable (no responsibility is assumed for such conditions or for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state, and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the appraisal; (d) all required licenses, certificates of occupancy, and other governmental consents have been or can be obtained and renewed for any use on which the value estimate contained in the appraisal is based.

Hilco's appraised values are dependent upon a number of key factors, including the proper execution of any liquidation methodologies outlined in this report. In addition, where Hilco has not appraised all of the Company's tangible and intangible assets, certain liquidation strategies to maximize the value of some assets could conflict with Hilco's Machinery and Equipment valuation, and adversely affect our estimate values. Should liquidation become an appropriate exit strategy, coordination of the exit strategies for all asset classes may be necessary to realize the appraised values herein.

Hilco Valuation Services has made no investigation as to the emissions levels from any off-road, on-highway or stationary diesel equipment contained within this report. Any information provided by the company or client, its owners or representatives, regarding the subject equipment's compliance with federal, state or local emission standards is assumed to be accurate and true.

This appraisal report is deemed a fractional appraisal in that there is no consideration given for business goodwill, royalties, licensing, or any other type of intangible asset associated with the business wherein the respective designated assets are located unless otherwise stipulated in the report.

The total value of the appraisal was determined by adding together the individual values of the assets. The appraisal report has not considered the effect on value, if any, of the assemblage of the various assets at each of the locations detailed on the Conclusion of Value page(s).

Any deletions or additions to the total assets could change the psychological and/or monetary appeal necessary to gain the values indicated.

## 4.5 Methodology

This appraisal was prepared utilizing some or all of the following methodology:

Machinery and Equipment is appraised according to its highest and best use. Factors such as condition, age, functionality, obsolescence, marketability and plant location are considered when assigning the appraised value(s) herein. Items that are out of service and/or incomplete are so noted in the appraisal report.

The appraisers did not physically inspect the equipment of Heavy North Construction Ltd.. The equipment was appraised on a "Desktop" basis. The appraiser's opinion of Machinery and Equipment condition is derived from documentation supplied by KPMG, Inc.. The values reported assume the equipment is operational, serviceable and properly maintained within industry standards unless otherwise stated in the report.

**Market Approach:** Values are established by comparing the items appraised with equivalent items sold at recent auction or liquidation sales, consulting with new and/or used equipment dealers offering comparable equipment for sale, consulting selected trade publications, periodicals and machinery catalogs, and when appropriate, consulting with professional machinery movers.

**Cost Approach:** Values are established based on the proposition that the informed purchaser would pay no more for a property than the cost of producing a substitute property with the same utility as the subject property. It considers that the maximum value of a property to a knowledgeable buyer would be the amount currently required to construct or purchase a new asset of equal utility. When the subject asset is not new, the current cost must be adjusted for all forms of depreciation as of the effective date of the appraisal.

Where appropriate, acknowledged outside experts have provided an opinion of value based upon written and pictorial information, and are fee compensated by Hilco Valuation Services. Those individuals are identified in the Certification of Appraisal.

Prior to its release to the client, an administrative review of each appraisal, for compliance with applicable standards and requirements as well as for quality control purposes, may be performed by peer appraisers of Hilco Valuation Services and/or liquidators of Hilco Industrial, LLC.

## 4.6 Glossary

**Leased:** Asset is not owned by the company. Rather it is being operated under either a “Capital Lease” or an “Operating Lease”.

**Capital Lease:** The lessee assumes some of the risks of ownership. The lease is recognized as both an asset and a liability. The company can claim depreciation on the asset and can also deduct the interest expense. At the end of the lease term, there is either a transfer of ownership to the lessee or there is an option to purchase the asset.

**Operating Lease:** The lessor (or owner) transfers only the right to use the property to the lessee. At the end of the lease period, the lessee returns the property to the lessor. The lease expense is treated as an operating expense in the income statement.

**Not Valued:** The appraiser has not assigned a value due to one or more of the following: (1) not enough information to reach an opinion of value; (2) asset is third party owned; or (3) asset is considered part of real property

**Valued for Salvageable Components Only:** Indicates that the value assigned to an asset or group of assets (Line/Lot/Cell) is the aggregate total of the values of only those components that the appraiser deems saleable.

**Disassembled at Time of Inspection:** Asset is partially or fully disassembled, in storage and not expected to be put back into production.

**Not Inspected by Appraiser, Information Provided by Company:** Asset was not physically inspected by the appraiser. All information used to arrive at an opinion of value was provided solely by the company and/or client and evaluated without the benefit of an actual inspection.

**Out of Service at Time of Inspection:** Asset is not in operating condition. Asset may be in place or in storage and has been valued “as-is, where-is”. This definition does not apply to assets that are temporarily out-of-service due to production schedules, preventative maintenance or periodic rebuilding.

**Not In Use at Time of Inspection:** Asset is fully operational but temporarily out-of-service due to production schedules, preventative maintenance or periodic rebuilding. Asset may be in place or in storage; this definition does not apply to assets that are out of service.

**Not Yet Installed at Time of Inspection:** Asset may be new, used or rebuilt; is partly or fully disassembled, however, the company does plan to install. Value assumes that asset is complete, fully installed and operational.



## CONDITION CODES

In accordance with ASA guidelines, Hilco Valuation Services has adopted the following definitions/condition codes to identify the overall condition of an item.

CONDITION	DEFINITION	ESTIMATED % REMAINING USEFUL LIFE
New (N)	Unused item; May or may not be installed, However, no loss in value due to physical depreciation	100%
Excellent (E)	Near new condition; Very little use, very low hours or miles; May or may not be recently purchased	80-99%
Very Good (VG)	Above average condition; May have been refurbished or rebuilt or may not have been used enough to require such efforts	60-79%
Good (G)	Good or average condition and appearance; No known defects or serious problems; Repair or refurbishment not necessary	40-59%
Fair (F)	May require repair or refurbishment soon; Appears to have seen extensive service; May be aged, have suffered hard use or may be visually unattractive to potential buyers	20-39%
Poor (P)	Item appears worn; Requires major repairs or refurbishment; Visually unattractive to potential buyers	5-19%
Salvage (S)	Value in some or all unit components as reusable or spare parts only; Little other value	0-4%
Scrap (X)	No longer serviceable; Little or no value other than for materials contained	0-4%
Not Applicable (N/A)	Asset was not physically inspected. Condition unknown.	N/A

Condition codes are included solely as a guide in evaluating the appearance of the subject assets as compared with similar or like items as new, as offered for sale on the secondary market, or as seen in general use by the appraisers throughout their careers. These codes are opinions only and are correct to the nearest of the appraisers' ability to render such judgments. Other than of visual observations or interviews with Company management and personnel, no investigation has been made as to the true operating condition of the appraised assets or their fitness for any subsequent use.

No testing was performed to determine functional condition, capacity, repeatability, tolerances, or roadworthiness. All assets are assumed to be in working order unless otherwise indicated. Actual condition may be an unknown or partially unknown factor for all or many of the items listed. In certain cases, aesthetic or visual appeal of the subject assets is given due consideration with respect to historical desirability of such items in a liquidation, exchange, or In Place analysis, true operational condition notwithstanding.

All assets should be considered in-service and in working condition unless explicitly stated otherwise.

## 4.7 Qualifications

### Adam Stump, ASA, CEA

Managing Director  
Hilco Valuation Services  
One Northbrook Place  
5 Revere Drive, Suite 300  
Northbrook, Illinois 60062

#### Experience

Adam has been in the auction, liquidation and appraisal industries since 1998.

#### Industry Specialties

- Automotive
- CNC Machine Tools
- Computers
- Construction
- Distribution & Fulfillment
- Electronics
- Ferrous & Nonferrous Wire
- Food and Chemical Processing
- Forging
- Foundry & Primary Metals
- Glass Forming
- Lumber Mills and Sawmills
- Metalworking
- Metal Forming
- Mining
- Oil and Gas Field
- Packaging
- Plastics & Rubber Molding
- Printing
- Production
- Production & Assembly
- Recycling Facilities
- Stamping
- Steel Processing
- Textiles
- Transportation
- Woodworking

#### Professional Designations and Association Memberships

- Accredited Senior Appraiser (ASA), American Society of Appraisers (ASA)
- Certified Equipment Appraiser (CEA), Association of Machinery and Equipment Appraisers (AMEA)

#### Professional Accomplishments

- Consultant to Financial Institutions on Asset-Based Loans and Recovery
- Completed American Society of Appraisers Courses ME201, ME202, ME203 and ME204
- Successfully completed the Uniform Standards of Professional Appraisal Practice (USPAP) course
- Testified as Expert Witness in Litigation

#### Education

- Bowling Green State University, BSCS
- Colorado Mountain College, AA

## Bryan Courcier

Senior Vice President  
Hilco Valuation Services  
One Northbrook Place  
5 Revere Drive, Suite 300  
Northbrook, Illinois 60062

### Experience

Bryan has worked in all areas of the auction, liquidation and appraisal industries since 2007.

### Industry Specialties

- Agriculture Equipment
- Asphalt
- Automotive
- Bulk Transport
- Chartered Coach Services
- Class 8 Trucking
- Concrete-Ready Mix
- Construction
- Demolition Services
- Excavation
- Livery Fleets
- Metal Recycling
- Mining
- Moving – Storage Industries
- Oil and Gas Field
- Transportation and Intermodal
- Towing Services
- Scrap Recycling

### Professional Designations and Association Memberships

- Member of ELFA, ABI, TMA, CFA
- Member of Association of Machinery and Equipment Appraisers (AMEA)
- Member: Machinery Dealers National Association (MDNA)

### Professional Accomplishments

- \$200,000,000+ in managed construction and commercial transportation asset dispositions from 2010 - 2015
- Consultant to Financial Institutions on Asset-Based Loans and Recovery
- Testified as expert witness in Litigation
- International Business Development, Relationship Management, and Project Management in South America, Australia and Canada

### Education

- Bachelor of Arts in History with an emphasis on Europe and Regional Religions
- Minor in Communications Studies

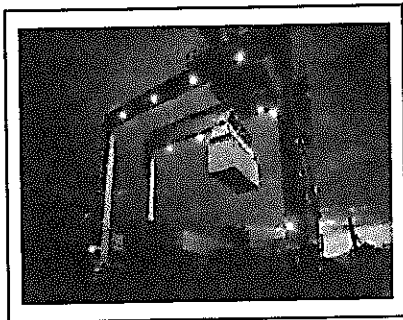
# 5.0

# Asset Exhibits

# Hilco Asset Disposition Services

***The World's Largest, Most Experienced  
Multi-Class Asset Disposition Company***

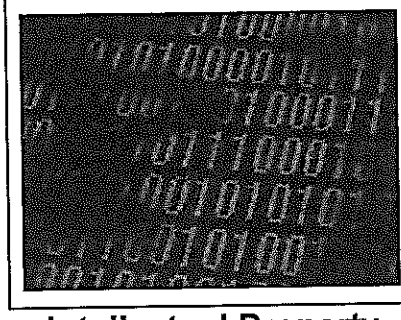
With offices worldwide, Hilco can offer greater exposure for your assets. Through comprehensive marketing campaigns and established relationships with our existing global network of buyers, we have the ability to identify and locate the most qualified and interested buyers of any type of asset.



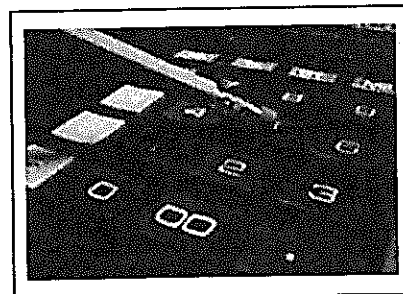
**Industrial Asset  
Monetization**



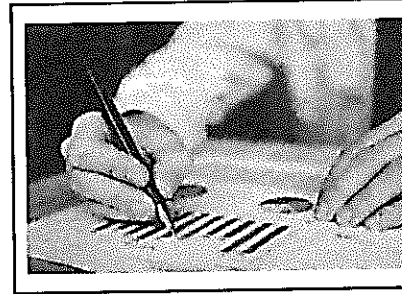
**Retail Asset  
Monetization**



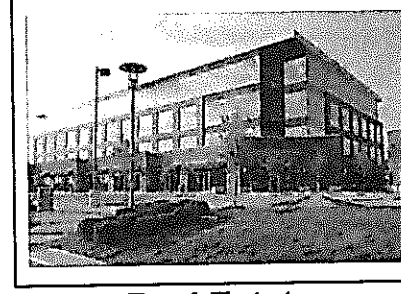
**Intellectual Property  
Monetization**



**Accounts  
Receivables**



**Corporate  
Finance**



**Real Estate  
Monetization**

For More Information Contact:

 **Hilco Global**<sup>TM</sup>  
Vested in Your Success

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