

Action No: 0901-02873

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

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

AND IN THE MATTER OF **BUDGET WASTE INC.**

SECOND REPORT OF THE MONITOR
HARDIE & KELLY INC.
MAY 14, 2009

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INTRODUCTION

1. On March 4, 2009, Budget Waste Inc. (“BWI” or the “Company”) made application for and obtained protection from its creditors under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended, (the “CCAA”) pursuant to an order (the “Initial Order”) of the Court of Queen’s Bench of Alberta (the “Court”).
2. Pursuant to the Initial Order, Hardie & Kelly Inc. was appointed as monitor (the “Monitor”) of BWI.
3. On April 2, 2009, the Monitor prepared a report to this Honourable Court (the “First Report”) in advance of the Company’s application for an extension of the stay of proceedings provided in the Initial Order.
4. On April 3, 2009, this Honourable Court granted a further extension of the Stay of Proceedings through to May 14, 2009
5. The purpose of this second report (the “Second Report”) is to provide an update to this Honourable Court with respect to the following:
 - a. The Company’s operations since the date of the Monitor’s First Report;
 - b. The Company’s restructuring activities;
 - c. Financial performance since the date of the Initial Order;
 - d. The revised cash flow forecast for the period May 14, 2009 to June 17, 2009; and
 - e. The Company’s request for an extension of the stay of proceedings and the Monitor’s recommendation thereto.

TERMS OF REFERENCE

6. In preparing this Second Report, the Monitor has relied upon unaudited financial information, records of the Company and discussions with the Company's management ("Management"). The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information relied upon in this report is based on Management's assumptions regarding future events and actual results achieved may vary from this information and the variations may be significant.

OPERATIONAL UPDATE

7. Company operations continued as expected over the period since the March 4th Order. Sales were budgeted to increase, which is seasonally expected, however, the Company has engaged several new sales personnel in an attempt to overcome the economic downturn.
8. As a result of concerns expressed by the Monitor in our last report, with respect to accounting systems and administration, the Company did engage the services of Mr. Rob White. A preliminary review was conducted and administrative changes made. These changes have resulted in significant improvement in the Company's billing and Receivable processes.
9. Unfortunately, for reasons unknown to the Monitor Mr. White's tenure with the Company was sporadic and he was not available to assist with the preparation of information required for this latest extension application. The result has been delay and the receipt of unreliable information that has required numerous corrections and adjustments. While in the end analysis we are satisfied that all issues have been addressed, our concerns continue. We do not believe that the Company can be successful until these accounting and administration concerns are adequately dealt with. We have addressed these concerns with Management and they have advised Mr. White will commence and continue assisting the Company immediately.

RESTRUCTURING EFFORTS

10. The Company recognised that in order to affect a successful restructuring plan it would have to identify and categorise its assets. As a result, the Company undertook a detailed asset analysis and listing. Assets were categorised into type (rolling stock, bins, toilets, office and other), owned, leased directly by the Company, leased through others and used and paid for by the Company. Specific creditor charges relating to the assets were also identified and the outstanding liability determined. A copy of this listing is attached as Appendix A.
11. Coincidental with this analysis and identification the Company also engaged Timeline Asset Services of Vancouver British Columbia (the Timeline Appraisal”) to inspect the assets and prepare an appraisal, on both an Orderly Liquidation basis and on a Replacement basis. A copy of that appraisal is attached as Exhibit F to the affidavit of Jim Can, Sworn May 13, 2009 (the “Can Affidavit”).
12. Upon review of the Timeline Appraisal we note that the value of the Company assets, including leased assets, total approximately \$10,000,000 on an orderly liquidation value. Specific charges attributable to individual assets by way of lease, and as determined by the Company total approximately \$4,800,000. It appears, therefore, that there is significant equity available to satisfy the claims of both the priority creditor and the ordinary unsecured creditors.

13. The assets of the Company as identified in the Timeline Appraisal, the listing attached as Appendix A hereto and paragraphs 9-11 of the Can Affidavit, include certain assets that are leased by the Company and its predecessor companies. However, the assets also include certain assets leased by other companies and individuals, such as 349416 Alberta Ltd., a company owned by Mr. Can's spouse; R. Baker Plumbing and Heating Ltd., a company owned by one of the other directors of the Company; and Mr. Jim Can, that are neither predecessor companies nor within the auspices of the CCAA Order ("Other Entities"). We have previously expressed concerns to the Company about it making lease payments on behalf of these Other Entities for assets the Company did not lease and had no legal obligation to make payments on. We are satisfied with the statements of Mr. Can as set out in paragraphs 9-11 of the Can Affidavit that this issue is being addressed. We would expect to see the 'legal documentation pertaining to clarifying this situation' that is referred to in paragraph 11 of the Can Affidavit, prior to the expiration of the sought after extension stay period.
14. A closer examination of the leased assets that the Company intends to return indicates that the majority of these are assets that have been leased by the Company or one of the entities of which the Company is a successor corporation, and for which the equity is either marginal or negative. There are other leased assets that have negative equity that the Company proposes to retain. The primary lessor and/or guarantor for these other leased assets are either Mr. Can or a related Company.
15. The Company also advises it has undertaken discussions with potential lenders in order to obtain a letter of commitment with respect to asset financing so as to enable them to put forward a restructuring plan. While the monitor has participated in one such discussion at the invite of the Company, we are unable to comment on their progress to date.

FINANCIAL PERFORMANCE

16. Concurrent with the April 3, 2009 application for an extension of the stay of proceedings, the Company filed a revised cash flow forecast for the period March 30 to May 17, 2009 attached as Exhibit D to our first report (the "April Forecast").

17. A variance analysis of the Company's actual receipts and disbursements over the period March 30 – May 10, 2009 versus the April Forecast is set out in Appendix B. Significant variances are explained as follows:

- a) Account's receivable collections have a negative variance of approximately 7%. While collections of current to 90 day accounts were better than anticipated, older account balances are proving to be less collectable than anticipated.
- b) GST remittances for post CCAA liabilities are paid monthly and were omitted from the budget.
- c) Fuel costs were over estimated in anticipation of rising fuel prices. That price increase has become effective approximately May 10, 2009.
- d) Land fill costs remain at 21% of sales; however the absolute increase over budget is a result of an increase in sales.
- e) Labour cost increases reflect vacation pay and severance as a result of closing and contracting out the repair shop.
- f) The Company engaged a new driver as a sub-contractor.
- g) Repairs were higher than anticipated with the largest increase as a result of having to tow vehicles. Also, the Company incurred insurance deductible repair charges for a vehicle involved in a roll over collision.
- h) Administrative salaries increased as a result of the hiring of three sales personnel.
- i) The WCB budget included arrears for 2008 payroll which was deferred as a result of the CCAA filing.
- j) The accounting budget included anticipated charges for additional personnel which have now been deferred.
- k) Utilities were over estimated.
- l) Two additional consulting sales personnel were engaged for the oilfield division.
- m) Lease payments were lower than budget because a number of leases were not paid as explained in the Can Affidavit in Paragraphs 3 through 8.

- n) While the Company has had some significant variances from the budget put forward in April, both positive and negative, their ending cash position is approximately \$40,000 better than anticipated. In the case of the unpaid lease payments this represents a deferral only.

CASH FLOW FORECAST

18. Attached as Appendix C is the Company's revised cash flow forecast for the weeks ending May 10 – June 14, 2009 (the “June 14 Forecast”) prepared by Management with assistance from the Monitor. Management has prepared the June 14 Forecast based on the most current information available.
19. The June 14 Forecast reflects a negative cash flow of approximately \$20,000 over the period leaving a projected ending cash balance of approximately \$40,000; however, the Company will come very close to running out of cash in the week of May 31, 2009 unless arrangements are made to have a DIP loan in place. While the Company has obtained the permission of the court to utilize DIP financing, satisfactory arrangements to allow an advance have not been concluded with any DIP lender.
20. Other significant observations with respect to the June 14 Forecast are as follows:
- a. The forecast is based on budgeted sales of \$900,000 in May and \$1,000,000 in June. We understand this is consistent with seasonal sales increases the Company experienced in previous years.
 - b. Account's receivable collections assume collection of virtually all of the current through 60 day accounts outstanding at the start of the period as well as collection of approximately 25% of current period billings and collection of deposits for future billings. Collection of current period billings are consistent with previous periods. To the extent that there is any significant account aging the use of a DIP facility will become even more critical. Also, the use of Future billing deposits to fund current operations has the potential to become problematic in future periods.
 - c. Budgeted expenses appear to be indicative of increased sales activity.
 - d. Lease payments continue to reflect non payment of some leases in anticipation of either a return of the assets or a renegotiation on a successful Restructuring.

THE COMPANIES' REQUEST FOR AN EXTENSION OF THE STAY PERIOD

21. The Company has requested the Court extend the stay provided by the CCAA to June 14, 2009. In support of the request they have provided an asset appraisal indicating they have sufficient assets to support a refinancing and thus make a Restructuring plan feasible; a cash flow forecast indicating positive cash over the period; and an outline of their intended direction in formulating a restructuring plan.
22. We have reviewed the Company's material and concur that, on the basis of the Timeline Appraisal, there are sufficient assets that, if liquidated, would satisfy the claims of creditors.
23. We are concerned, however, with the number and quantum of third party leases the Company is supporting with no apparent or contractual benefit.
24. We have also examined their projected cash flow. While there appears to be sufficient cash to fund operations and still have a surplus at the end of the proposed stay period, we are concerned that, without arrangements in place for a DIP advance, any amount of negative slippage will result in failure.
25. We continue to be concerned about the Company's accounting and reporting system. While we were under the impression this issue had been dealt with at the time of our previous report, we were disappointed to discover the arrangement for assistance had been suspended. The Company is now assuring us the arrangement with Mr. White will be reinstated.
26. Of the three objectives we had set as a measure of progress in our last report, the Company has achieved only one in the form of the asset analysis.

RECOMMENDATION

27. At this time, the Monitor is satisfied the creditors' positions are not deteriorating as to date the Company is generating sales and cash flows on a positive basis.
28. There are sufficient assets so as to make a viable restructuring plan a real possibility.

29. It is the Monitor's view that Management continues to act with due diligence and in good faith.

30. On the basis of the foregoing, and in spite of our reservations noted earlier, we are supportive of a continuation of the stay as requested by the Company, with the expectation that the Company will accomplish the following by June 15, 2009:

- a) Continue to engage Mr. White or a person with similar experience to assist with its accounting and restructuring efforts;
- b) Continue to improve the financial reporting systems;
- c) Regarding the leases that the Company wishes to retain, keeping all such lease payments current;
- d) Make progress in identifying a DIP lender to assist in funding a restructuring plan and provide working capital; and
- e) Provide legal documentation pertaining to clarifying the lease situation as between the Company and the Other Entities.

All of which is respectfully submitted this 14th day of May 2009.

Hardie & Kelly Inc., in its capacity
as Monitor of Budget Waste Inc.
and not in its personal capacity

Per: _____
A. Ronald Hardie, CA•CIRP
President

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APPENDIX A

ASSET LISTING

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APPENDIX B

VARIANCE ANALYSIS

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APPENDIX C

CASH FLOW FORCAST