

**Estate #51-1810705
Court #37735**

**NOVA SCOTIA BANKRUPTCY COURT
IN THE MATTER OF THE PROPOSAL OF
BLUE WAVE SEAFOODS INC.

OF THE VILLAGE OF PORT MOUTON
IN THE PROVINCE OF NOVA SCOTIA**

Report of the Proposal Trustee on the Proposal

Section A – Background

Blue Wave Seafoods Inc. (“Blue Wave” or the “Company”) was incorporated in Nova Scotia on April 19, 1991. The shares of Blue Wave are largely owned by the D’Eon family and the sole director of Blue Wave is Sylvain D’Eon.

Blue Wave is part of a group of affiliated companies (the “D’Eon Group of Companies”) consisting of operating companies including: Blue Wave, D’Eon Fisheries Limited (“D’Eon Fisheries”), and D’Eon Fish Market Limited; developmental companies including D’Eon Fisheries Atlantic Limited and SFD Consulting Limited and holding companies incorporated for purposes of succession planning including SF Holding Limited and 3230827 Nova Scotia Limited.

Blue Wave is in the business of processing silver hake and other fish species which it primarily sells to the European market. Management intended Blue Wave to also process underutilized fish species such as artic surf clams and waved whelks, however aside from silver hake, processing of underutilized species has yet to reach commercial viability.

Blue Wave owns and operates a 54,000 sq. ft. processing facility in Port Mouton, Queens County, Nova Scotia. The facility houses a super chiller haddock processing line owned by D’Eon Fisheries. The Company has one major supplier of fish who historically secured raw material through a quota owned by D’Eon Fisheries.

On November 15, 2013, Blue Wave filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to Section 50.4 of the Bankruptcy and Insolvency Act (“BIA”). Deloitte Restructuring Inc. (“Deloitte” or the “Proposal Trustee”) was appointed as the trustee under the NOI.

On December 12, 2013, the Proposal Trustee filed a report with the Nova Scotia Bankruptcy Court (the “Court”) pertaining to the Company’s application for an Order extending the amount of time for the Company to file its Proposal to creditors and an application for an Order providing for security or a charge to cover certain costs pursuant to section 64.2 of the BIA.

On December 16, 2013, the Court issued an Order to:

- i. Extend the time for the Company to file a proposal pursuant to section 50.4(9) of the BIA to and including December 20, 2013, to allow the Company and Bank of Montreal (“BMO”) to discuss conditions related to the further extension for the Company to file a Proposal pursuant to section 50.4(9) of the BIA to and including January 15, 2014; and
- ii. Provide for a charge to cover certain costs pursuant to section 64.2 of the BIA up to a limit of \$40,000.

On December 19, 2013, following an agreement between the Company and BMO with respect to the conditions related to the further extension for the Company to file a Proposal, the Court issued an Order

to extend the time for the Company to file a Proposal to and including January 15, 2014, pursuant to section 50.4(9) of the BIA.

On January 14, 2014, with the consent of the Company's secured creditors, the Court issued an order to extend the time for the Company to file a proposal pursuant to section 50.4(9) of the BIA to and including January 17, 2014.

On January 17, 2014, with the consent of the Company's secured creditors, the Court issued an order to extend the time for the Company to file a proposal pursuant to section 50.4(9) of the BIA to and including February 17, 2014.

On February 17, 2014, Blue Wave filed a proposal for the general benefit of its Creditors.

Capitalized terms used herein shall bear the meanings ascribed to them in the Proposal, unless otherwise noted.

Section B – Summary of Proposal

The Proposal is a liquidation proposal whereby a prospective investor, Bluenose Seafoods Inc., will incorporate Newco to purchase the Assets of Blue Wave, which include all accounts receivable except accounts with balances greater than 90 days due, inventory, the processing facility and related equipment and land parcels.

In summary, Newco will make a payment to the Proposal Trustee for ultimate distribution to Creditors in consideration for Blue Wave's assets, as follows:

- i. An amount to be determined for payment in full of Subsequent Creditor's claims against Blue Wave as at the Effective Date;
- ii. An amount to be determined for payment in full of Priority Claims outstanding against Blue Wave as at the Effective Date;
- iii. An amount to be determined for payment in full of BMO's advances to Blue Wave (which includes amounts due from D'Eon Fisheries, all of which were guaranteed by Blue Wave and secured against its assets) as at the Effective Date;
- iv. In consideration of NSBI's outstanding advances and its associated security (which includes amounts due from D'Eon Fisheries, all of which were guaranteed by Blue Wave and secured against its assets) as at the Effective Date, NSBI will elect one of the following options for full and final settlement of its advances outstanding to Blue Wave:
 - a. \$100,000 cash payment to be made on the Effective Date; or
 - b. \$150,000 of indebtedness to be assumed by Newco payable to NSBI over five Fiscal Years under credit terms consistent with NSBI's current fixed and floating debenture with Blue Wave.
- v. Proven Claims of Unsecured Creditors as of the NOI Date, not including Proven Claims of Deferred Creditors, shall be paid as follows:
 - a. The Convenience Class portion of the claim (the first \$1,000 of any Unsecured Creditor's Proven Claim) will be paid in full, without interest;
 - b. In consideration of the portion of Proven Claims of Unsecured Creditors not paid within the Convenience Class, Unsecured Creditors will elect one of the following options for full and final settlement of its outstanding advances to Blue Wave;
 - i. 10% of the Proven Claim less payment made through the Convenience Class, without interest, from the Fund; or

- ii. 25% of Proven Claim less payment made through the Convenience Class, without interest, payable from Distributable Free Cash Flow generated by Newco over the next 5 Fiscal Years, limited to 30% of Distributable Free Cash Flow of Newco in any given Fiscal Year.

vi. Deferred Creditors shall not receive any distribution in this Proposal.

All Preferred Creditors will be paid in full, without interest, under the statutory requirements as contained within the BIA, before any payments are made to the Unsecured Creditors. The Proposal Trustee advises that there are no known Preferred Creditors as at February 17, 2014.

All payments made to the Unsecured Creditors are subject to a 5% levy payable to the Office of Superintendent of Bankruptcy (the "OSB").

The professional fees owing to the Proposal Trustee, its legal counsel, and legal counsel of the Company are to be paid in priority to any amounts distributed to Secured Creditors, Preferred Creditors, Unsecured Creditors and Subsequent Creditors. Further, pursuant to a Court order, outstanding professional fees of the Trustee, its counsel, and the counsel of the Company have a priority charge up to a limit of \$40,000 pursuant to section 64.2 of the BIA.

The offer contained within the Proposal is conditional on being accepted by the requisite support of all Secured Creditor classes, the Unsecured Creditors class and approval by the Court.

Section C – Financial Position and Causes of Difficulties

The Company has informed the Proposal Trustee that its financial difficulties resulted from:

- i. The Nova Scotia haddock quota decreased significantly subsequent to D'Eon Fisheries' \$1.5 million investment in a modern super chiller haddock processing line in 2009. Decreased supply in raw material resulted in an increased competitive pricing environment for whole haddock and a trend of shipping whole haddock to the United States ("U.S.") for processing due to a combination of a strong Canadian dollar and low U.S. labour rates. The underutilized processing line is currently idle, resulting in a significantly underutilized 54,000 sq. ft. processing facility;
- ii. Blue Wave is currently owed \$987,825, plus interest charges, from Acme Seafoods Limited, a former sales broker Blue Wave engaged to sell silver hake and other species to the European market. Despite collection efforts taken by the Company to date, collection of the accounts receivable remains uncertain;
- iii. The Other Assets consists of deferred development expenses and research and development costs related to the development of new production processes involving new fish species. Canada Revenue Agency ("CRA") allows such investments to be capitalized as an asset for tax purposes and amortized over a 10 year period. Blue Wave has yet to earn a material return on the investment as the processing of underutilized species has yet to reach commercial viability; and
- iv. Macroeconomic events including the global financial crisis in late 2008 and early 2009, and the uprising in the middle east in 2013 resulted in a declining end market in Europe for silver hake, reducing Blue Wave revenues.

The Company produced unaudited financial information as at February 10, 2014 which is summarized in the Company's Statement of Affairs ("Statement of Affairs"). Detailed analysis of the Company's current financial position is found in Section E below.

Section D – Interim Receiver

Not applicable as there was no appointment of an Interim Receiver during the period of the NOI.

Section E – Identification and Evaluation of Assets

According to the Company's Statement of Affairs as at February 10, 2014, and information provided to the Proposal Trustee by the Company, the Company's assets and their estimated realizable value (in liquidation) consisted of the following:

Asset	Book Value	Estimated Realizable Value	
		Low	High
Accounts receivable	\$ 1,571,432	\$ 272,237	\$ 408,356
Inventory	191,224	19,122	47,806
Capital Assets	1,925,086	-	250,000
Total	\$ 3,687,742	\$ 291,359	\$ 706,162

The estimated realizations contained in this Report are based on the assumption that the financial position of the Company will not change materially between February 10, 2014 and March 6, 2014, the date of deemed bankruptcy if the Proposal is not accepted by all the Secured Creditor classes, the Unsecured Creditor class and approved by the Court. These assets are discussed in greater detail hereunder:

Accounts Receivable

The accounts receivable balance per the Statement of Affairs of \$1,571,432 represents the Company's book value of receivables. This balance includes \$1,059,750 of accounts receivable greater than 90 days due, of which \$1,026,958 is owed from Acme Seafoods Limited, a former sales broker of Blue Wave. This account was placed with a collection agency in October, 2013 and is considered a bad debt by the Company.

In a liquidation scenario, customers of the Company may claim offsets for product quality, lack of continued supply, etc. against the remaining accounts receivable of \$544,475. As a result, the Proposal Trustee estimates that in a liquidation scenario, the realizable value of the accounts receivable would be between \$272,237 (50%) and \$408,356 (75%).

Inventory

The amount of \$191,224 per the Statement of Affairs represents the Company's book value of inventory. According to the Company, inventory consists of packaging and shipping supplies (\$117,441), frozen processed and unprocessed fish (\$59,986), and miscellaneous supplies (\$13,167). Due to the market for Blue Wave's frozen fish products being primarily overseas and the potential for unpaid supplier and fisherman claims under BIA subsections 81.1(1) and 81.2(1), respectively, the Proposal Trustee estimates the realizable value in a liquidation scenario would be between \$19,059 (10%) and \$47,649 (25%).

Capital Assets

According to the Company's records, the net book value of the Company's capital assets as at July 31, 2012 (the latest unaudited financial statements available) was \$1,925,086. Capital assets consist of machinery and equipment (\$189,468), buildings and land parcels (\$1,732,262), and office furniture (\$3,356).

The buildings and land parcels consist of a 54,000 sq. ft. processing facility, four periphery buildings and four land parcels located at the same general location in Port Mouton, Queens County, Nova Scotia. The machinery and equipment consists primarily of equipment that are fixtures to the processing facility or periphery buildings, including freezer equipment, water pumps and chlorination equipment, above ground fuel tanks, security systems, etc. Other equipment consists of mainly fish processing and packaging equipment such as lobster cars and a strapping machine.

Due to the nature and specific use of the capital assets, and taking into consideration potential environmental liabilities, sales commission and expenses, the Proposal Trustee estimates that the realizable value of the Company's capital assets would be between nil and \$250,000 in a liquidation scenario.

Section F – Conduct of the Debtor

The Proposal Trustee monitored the cash flows of the Company during the NOI period and is not aware of any material payments relating to pre-NOI debts or of payments which could be viewed as reviewable under the BIA.

The Proposal Trustee is not aware of any offenses under the BIA having been committed during the NOI period.

Section G – Creditors' Claims

According to information provided to the Proposal Trustee by the Company, the Company's Creditors as at the NOI Date are comprised of:

Category	No. of Creditors	Value
Priority	2	\$ 257,042
Secured	3	3,773,970
Preferred	0	-
Unsecured	46	900,928
Total	51	\$ 4,931,940

The Proposal Trustee is not aware of any material discrepancies between the amounts contained within the books and records of the Company and the expected claims to be filed by Creditors. Any discrepancies will be investigated by the Proposal Trustee.

According to information provided to the Proposal Trustee by the Company, Creditors related to the Blue Wave as per subsection 4(2) of BIA are listed below. The Proposal Trustee is not aware of any material related party transactions incurred by Blue Wave since the NOI Date.

Creditor	Claim
RBC Visa - Boyd D'Eon	\$ 6,120
Scotiabank Visa - Wesley D'Eon	6,111
Wesley D'Eon	6,957
Total	\$ 19,188

Section H – Previous Business Dealings with the Debtor

Deloitte has had no previous dealings with Blue Wave or the D'Eon Group of Companies prior to providing its consent to act as the Proposal Trustee on November 15, 2013.

Deloitte further confirms that it does not have any knowledge of any conflict of interest situation arising from the acceptance of this appointment as Proposal Trustee.

Section I – Informal Meetings with Major Creditors

The Proposal Trustee has held several discussions with BMO, NSBI and ERDT, and their respective legal counsels, since the NOI Date. The Secured Creditors have remained supportive of the Company since

the filing and BMO has continued to provide access to an operating line in accordance with the financing agreement approved by Court order dated December 20, 2013.

Section J – Remuneration of Trustee

For the purposes of the Proposal, all proper fees of the Proposal Trustee, and the reasonable expenses and legal costs of the Proposal Trustee, on and incidental to the proceedings arising out of the Proposal (including the preparation of the Proposal) shall be paid in priority to all claims of the Secured Creditors, Preferred Creditors, Unsecured Creditors and Subsequent Creditors. Such fees shall be based on the time expended and charged by the Proposal Trustee and its legal counsel at their normal billing rates.

Section K – Other

The Proposal Trustee engaged Burchell MacDougall of Truro, Nova Scotia as its legal counsel. Burchell MacDougall provided Deloitte, in its role as Proposal Trustee of Blue Wave and Trustee in Bankruptcy of D'Eon Fisheries, an independent legal opinion (the "Security Opinion") on the security positions of BMO, NSBI and ERDT. The security position of each Secured Creditor is summarized as follows:

BMO

The Security Opinion states BMO, which holds a general security agreement over all assets of Blue Wave (BMO's advances in Blue Wave are also guaranteed by the assets of D'Eon Fisheries), has valid and enforceable security over certain assets of Blue Wave. The Company currently has a margin line limit of \$224,000 which is utilized to manage cash flow from operations. The Security Opinion summarizes BMO's security position as follows:

- i. First positioned secured lender on accounts receivable and inventory of Blue Wave;
- ii. Second positioned secured lender of the processing facility and related land lots in Port Mouton owned by Blue Wave, subject to the priority of NSBI's a fixed and floating debenture;
- iii. Second positioned secured lender of the silver hake quota owned by D'Eon Fisheries through a cross guarantee over the assets of D'Eon Fisheries, subject to the priority security of Business Development Bank of Canada ("BDC");
- iv. Third positioned secured creditor of the super chiller haddock processing line owed by D'Eon Fisheries through a cross guarantee over the assets of D'Eon Fisheries, subject to the security of BDC and ERDT; and
- v. Fourth positioned secured lender of the silver hake licence owned by D'Eon Fisheries through a cross guarantee over the assets of D'Eon Fisheries, subject to the priority security of BDC, NSBI and ERDT.

As stated in Section B, BMO will receive an amount to be determined for payment in full of its advances to Blue Wave as at the Effective Date.

NSBI

The Security Opinion states NSBI, which holds a fixed and floating debenture on all assets of Blue Wave, has valid and enforceable security over certain assets of Blue Wave. The Company is in arrears in excess of \$3.4 million of debt owing under the debenture. The Security Opinion summarizes NSBI's security position as follows:

- i. First positioned secured lender of the 54,000 sq. ft. processing facility owned by Blue Wave;
- ii. Second positioned secured lender of the accounts and receivables of Blue Wave, subject to the priority of BMO's general security agreement;

- iii. Second positioned secured lender of the silver hake licence owned by D'Eon Fisheries through a cross guarantee over the assets of D'Eon Fisheries, subject to the priority security of BDC; and
- iv. NSBI does not have valid and enforceable security through a cross guarantee over the certain assets of D'Eon Fisheries, namely the silver hake quota and the super chiller processing line.

As stated in Section B, NSBI will receive one of the following options for full and final settlement of its advances outstanding to Blue Wave:

- i. \$100,000 cash payment to be made on the Effective Date; or
- ii. \$150,000 of indebtedness to be assumed by Newco payable to NSBI over five Fiscal Years under credit terms consistent with NSBI's current fixed and floating debenture with Blue Wave.

ERDT

The Security Opinion states ERDT, which holds a general security agreement over all assets of D'Eon Fisheries, has valid and enforceable security over certain assets of D'Eon Fisheries. ERDT advanced a loan to Blue Wave and D'Eon Fisheries for \$500,000, however security was only take on the assets of D'Eon Fisheries. The Security Opinion summarizes ERDT's security position as follows:

- i. Second positioned secured creditor of the super chiller haddock processing line owed by D'Eon Fisheries through a cross guarantee over the assets of D'Eon Fisheries, subject to the security of BDC;
- ii. Third positioned secured lender of the silver hake licence owned by D'Eon Fisheries through a cross guarantee over the assets of D'Eon Fisheries, subject to the priority security of BDC and NSBI; and
- iii. ERDT does not have valid and enforceable security over the silver hake quota owned by D'Eon Fisheries.

As ERDT does not hold security over the assets of Blue Wave, the Proposal does not offer any consideration for ERDT's advances to the Company.

Section L – Statement of Estimated Realization

The Proposal Trustee estimates the realization to Unsecured Creditors under the Proposal or a potential bankruptcy situation as follows:

	Book Value	Proposal		Liquidation in Bankruptcy	
		Low	High	Low	High
Accounts receivable	\$ 1,571,432			\$ 272,237	\$ 408,356
Inventory	191,224			19,122	47,806
Capital Assets	1,925,086			Nil	250,000
Estimated gross realizations	\$ 3,687,742	\$ 770,174	\$ 952,435	\$ 291,359	\$ 706,162
Less: claims of Priority Creditors		232,000	232,000	232,000	342,000
Less: claims of Preferred Creditors		Nil	Nil	Nil	15,000
Less: claims of Secured Creditors		400,000	450,000	59,359	349,162
Less: professional fees		50,000	50,000	12,500	12,500
		682,000	732,000	303,859	718,662
Estate Balance		88,174	220,435	Nil	Nil
Lewy to OSB		4,409	11,022	Nil	Nil
Available for distribution		83,765	209,413	Nil	Nil
Total unsecured claims (less deferred claims)		881,740	881,740	881,740	881,740
Dividend yield		9.5%	23.8%	0%	0%

The Proposal Trustee, in its preparation of the above analysis, assumes that the financial position of the Company as at March 6, 2014, the date of a potential bankruptcy, will not be materially different than the financial position as at February 10, 2014.

Section M – Recommendations

It is the opinion of the Proposal Trustee that the Proposal is in the best interests of the Secured and Unsecured Creditors. If the Proposal is rejected and the Company is deemed bankrupt, the Proposal Trustee has estimated that Secured Creditors would realize less on their security and Unsecured Creditors would not receive any distribution, as opposed to a distribution in the range of 10 - 25% contemplated by the terms of the Proposal. Accordingly, the Proposal Trustee recommends that Secured and Unsecured Creditors support the Company's Proposal. Furthermore, the Proposal Trustee intends to vote proxies received, naming the Proposal Trustee as the proxy holder, in favor of the Proposal.

Dated at Halifax, Nova Scotia, the 24th day of February, 2014.

DELOITTE RESTRUCTURING INC.
In its capacity as Trustee under the Proposal of
Blue Wave Seafoods Inc.
and not in its personal capacity

Per:



Neil Jones, CA, CIRP
 Vice President