

Estate #51-1810695
Court #37734

NOVA SCOTIA BANKRUPTCY COURT
IN THE MATTER OF THE PROPOSAL OF
D'EON FISHERIES LIMITED
OF THE VILLAGE OF PORT MOUTON
IN THE PROVINCE OF NOVA SCOTIA

Report of the Trustee in Bankruptcy on the Proposal

Section A – Background

D'Eon Fisheries Limited ("D'Eon Fisheries" or the "Company") was incorporated in Nova Scotia on February 7, 1990. The shares of D'Eon Fisheries are largely owned by the D'Eon family. The directors of Blue Wave are Sylvain D'Eon and Patricia D'Eon.

D'Eon Fisheries is part of a group of affiliated companies (the "D'Eon Group of Companies") consisting of operating companies including: D'Eon Fisheries, Blue Wave Seafoods Inc. ("Blue Wave"), 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.

D'Eon was in the business of securing sources of raw material for the D'Eon Group of Companies' processing operations, Blue Wave. D'Eon Fisheries has developed the silver hake fishery on the south shore of Nova Scotia and owns 25% of the total allowable catch ("TAC") of silver hake. D'Eon Fisheries' 25% of the TAC represents approximately 3,750 metric tonnes of silver hake. The Company was also attempting to develop underutilized species, including waved whelks and arctic surf clams, which are in various development stages.

D'Eon owns a super chiller haddock processing line which is housed in Blue Wave's 54,000 sq. ft. processing facility in Port Mouton, Queens County, Nova Scotia. The Company had a relationship with a fisher who fished the D'Eon Fisheries TAC, and in turn, this fisher sold the catch to Blue Wave for processing and sale to the European market.

On November 15, 2013, D'Eon Fisheries filed a Notice of Intention to Make a Proposal ("NOI") pursuant to subsection 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 November 22, 2013, the Proposal Trustee was advised by representatives of the Business Development Bank of Canada ("BDC") that, without the prior knowledge of the Proposal Trustee and the Company's professional advisors, BDC had issued demand notices and notices to enforce security (the "Notices") on May 10, 2013 pursuant to subsection 244 of the BIA. The Company provided the Proposal Trustee with copies of the Notices that same day.

On November 27, 2013 the Proposal Trustee received a security opinion (the "Security Opinion") from Burchell MacDougall, the Proposal Trustee's legal counsel, advising that the BDC security was valid as registered against the silver hake quota and associated licence and the super chiller haddock processing line. As a result of the Notices and the Security Opinion, the Proposal Trustee was of the view that BDC was not stayed by the Company's NOI filing by virtue of subsection 69.1(2)(b) of the BIA.

On December 6, 2013 the Proposal Trustee received written correspondence from McInnes Cooper, counsel of BDC, advising that BDC had decided to proceed with the realization over all of its security by way of a private appointment of PwC Inc. ("PwC) as Receiver.

On December 11, 2013 the Proposal Trustee received written correspondence from PwC advising that the Receiver intended to immediately move to take control of, and sell by way of public process, the silver hake quota and associated licence. Net proceeds from this sales process would be remitted to BDC in satisfaction of its indebtedness.

On December 11, 2013, the Proposal Trustee filed a report with the Nova Scotia Bankruptcy Court (the "Court") advising of a material adverse change in the NOI proceedings of D'Eon Fisheries as the Proposal Trustee had the view that the appointment of PwC as Receiver by BDC was a material adverse change to the financial circumstances of the Company. Further, the Proposal Trustee was advised that the Company would not seek an extension to the NOI proceedings and as such would be deemed bankrupt effective December 17, 2013. Deloitte's appointment as trustee in bankruptcy of D'Eon Fisheries (the "Trustee in Bankruptcy") was affirmed at the first meeting of creditors held on January 6, 2014.

From December 11, 2013 to present, former management of D'Eon Fisheries (also current management of Blue Wave pursuant to its NOI proceedings) and Deloitte, in its role as Proposal Trustee of Blue Wave and Trustee in Bankruptcy of D'Eon Fisheries, held discussions with a prospective investor, Bluenose Seafoods Inc., regarding the purchase all of the assets of Blue Wave and D'Eon Fisheries (including the Port Mouton facility, the silver hake quota and associated licence and the super chiller haddock processing line), in order to explore all options in attempt to provide maximum value to Company stakeholders.

On February 24, 2014, the Trustee in Bankruptcy filed a proposal for the general benefit of the creditors of the D'Eon Fisheries bankrupt estate. With the estate having no inspectors, per subsection 30(3) of the BIA, the Trustee in Bankruptcy decided it was beneficial to the estate to file a proposal on behalf of the D'Eon Fisheries' general body of 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 Bluenose will incorporate Newco to purchase the Assets of D'Eon Fisheries which shall consist of all intellectual property and equipment, including a super chiller haddock processing line.

In summary, Newco will make a payment to the Trustee in Bankruptcy for ultimate distribution to Creditors in consideration for D'Eon Fisheries' Assets, as follows:

- i. An amount to be determined for payment in full of Subsequent Creditor's claims against D'Eon Fisheries as at the Effective Date;
- ii. An amount to be determined for payment in full of Priority Claims outstanding against D'Eon Fisheries as at the Effective Date;
- iii. An amount to be determined for payment in full of BMO's advances to D'Eon Fisheries (which includes amounts due from Blue Wave, all of which were guaranteed by D'Eon Fisheries and secured against its assets) as at the Effective Date;
- iv. In consideration of ERDT's outstanding advances and its associated security (which includes amounts due from Blue Wave, as the advances were made to both Blue Wave and D'Eon Fisheries) as at the Effective Date, ERDT will elect one of the following options for full and final settlement of its advances outstanding to D'Eon Fisheries:
 - a. \$200,000 cash payment to be made on the Effective Date; or

- b. \$300,000 of indebtedness to be assumed by Newco payable to ERDT over five Fiscal Years under credit terms consistent with ERDT's advances to D'Eon Fisheries.
- v. With regard to NSBI's advances outstanding and its associated security as at the Effective Date, arising from the guarantee by D'Eon Fisheries of the obligations of Blue Wave, NSBI will compromise and release its Claim against D'Eon Fisheries, but shall not be entitled to receive any distribution from the Fund;
- vi. 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 D'Eon Fisheries;
 - 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.
- vii. 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 23, 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.

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 Trustee in Bankruptcy 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; and
- ii. 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 D'Eon Fisheries revenues.

The Company produced unaudited financial information as at July 31, 2012 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
Equipment	\$ 1,387,043	\$ 500,000	\$ 650,000
Silver Hake Licence & Quota	219,111	500,000	1,000,000
Total	\$ 1,606,154	\$ 1,000,000	\$ 1,650,000

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 and the Unsecured Creditor class (and eventually approved by the Court). These assets are discussed in greater detail hereunder:

Equipment

According to the Company's records, the net book value of the Company's equipment as at July 31, 2012 (the latest unaudited financial statements available) was \$1,387,043. Equipment consists of fish processing equipment, mobile vehicles, and office equipment. The Company engaged Castle Appraisals during the NOI proceedings to appraise the equipment, including the super chiller processing line. The equipment was appraised with a forced sales value of \$650,000, of which \$500,000 was attributed to the super chiller processing line.

Due to the nature and specific use of the equipment, and taking into consideration sales commission and expenses, the Trustee in Bankruptcy estimates that the realizable value of the Company's equipment would be between \$500,000 and \$650,000 in a liquidation scenario.

Silver Hake Licence and Quota

According to the Company's records, the net book value of the Company's silver hake quota and associated licence was \$219,111. The quota represents 25% of the TAC of silver hake off Nova Scotia, approximately 3,750 metric tonnes of silver hake.

TriNav Fisheries Consulting Inc. prepared a valuation report effective March 2013 that provided a fair market value of \$4.6 million for the silver hake quota and associated licence. Historically, the quota has been utilized at approximately 50% of its capacity. Further, the quota has been leased historically at a rate of \$0.02/Lb. and Blue Wave has secured access to additional quota from a third party at this rate during its NOI proceedings to allow it to continue operations. This lease rate extrapolated over the 50% of the quota's limit of 8.3 million Lbs., the quota's historical utilization rate, is \$83,000 per annum.

Due to multiple factors including the historic utilization of the silver hake quota, the low lease rate and abundance of excess quota in the Nova Scotia market, the market for the species being primarily overseas and the asset is to be realized in a liquidation scenario, the Trustee in Bankruptcy estimates

that the realizable value of the Company's equipment would be between \$500,000 and \$1,000,000 in a liquidation scenario.

Section F – Conduct of the Debtor

Through monitoring the cash flows of the Company during the NOI period (from November 15, 2013 to December 17, 2013) in its role as Proposal Trustee, and administered the bankrupt estate, the Trustee in Bankruptcy 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 Trustee in Bankruptcy is not aware of any offenses under the BIA having been committed during the NOI period.

Section G – Creditors' Claims

According to the Company's books and records and claims filed by Creditors in the bankrupt estate, the Company's Creditors as at the Bankruptcy Date are comprised of:

Category	No. of Creditors	Value
Priority	0	\$ -
Secured	4	1,795,515
Preferred	0	-
Unsecured	12	1,895,059
Total	16	\$ 3,690,574

The Trustee in Bankruptcy is not aware of any material discrepancies between the amounts contained within the books and records of the Company and the expected claims of Creditors who have yet to file a proof of claim. Any discrepancies will be investigated by the Trustee in Bankruptcy.

According to Company's books and records, Creditors related to the D'Eon Fisheries as per subsection 4(2) of BIA are listed below. The Trustee in Bankruptcy is not aware of any material related party transactions incurred by D'Eon Fisheries since the NOI Date.

Creditor	Claim
Blue Wave Seafoods Inc.	\$ 413,133
D'Eon Fish Market Limited	333,513
Nelson Burbridge	16,101
Sylvain D'Eon	1,880
Total	\$ 764,627

Section H – Previous Business Dealings with the Debtor

Deloitte has had no previous dealings with D'Eon Fisheries 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 its appointment as Proposal Trustee or as Trustee in Bankruptcy.

Section I – Informal Meetings with Major Creditors

The Trustee in Bankruptcy has held several discussions with BDC, 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.

Section J – Remuneration of Trustee

For the purposes of the Proposal, all proper fees of the Trustee in Bankruptcy, and the reasonable expenses and legal costs of the Trustee in Bankruptcy, 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 Trustee in Bankruptcy and its legal counsel at their normal billing rates.

Section K – Other

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

BDC

The Security Opinion states BDC, 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. The Security Opinion summarizes BDC's security position as follows:

- i. First positioned secured lender of the silver hake quota owned by D'Eon Fisheries;
- ii. First positioned secured lender of the silver hake licence owned by D'Eon Fisheries; and
- iii. First positioned secured creditor of the equipment, including the super chiller haddock processing line, owed by D'Eon Fisheries.

BMO

The Security Opinion states BMO, which holds a general security agreement over all assets of D'Eon Fisheries (BMO's advances in D'Eon Fisheries are also guaranteed by the assets of Blue Wave), has valid and enforceable security over certain assets of D'Eon Fisheries. The Security Opinion summarizes BMO's security position as follows:

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

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

NSBI

The Security Opinion states NSBI, which holds a fixed and floating debenture on all assets of D'Eon Fisheries through a cross guarantee over the assets of Blue Wave, has valid and enforceable security over certain assets of D'Eon Fisheries. The Company is in arrears in excess of \$3.4 million of debt owing

from Blue Wave under the debenture according to a proof of claim filed with the Trustee in Bankruptcy. The Security Opinion summarizes NSBI's security position as follows:

- i. 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;
- ii. The Security Opinion states 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 equipment, including the super chiller processing line;
- iii. First positioned secured lender of the 54,000 sq. ft. processing facility owned by Blue Wave through a cross guarantee over the assets of Blue Wave; and
- iv. Second positioned secured lender of the accounts and receivables of Blue Wave through a cross guarantee over the assets of Blue Wave, subject to the priority of BMO's general security agreement.

As stated in Section B, NSBI will compromise and release its Claim against D'Eon Fisheries, but shall not be entitled to receive any distribution from the Fund.

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 D'Eon Fisheries and Blue Wave for \$500,000; however security was only taken on the assets of D'Eon Fisheries. The Security Opinion summarizes ERDT's security position as follows:

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

As stated in Section B, ERDT will receive one of the following options for full and final settlement of its advances outstanding to D'Eon Fisheries:

- i. \$200,000 cash payment to be made on the Effective Date; or
- ii. \$300,000 of indebtedness to be assumed by Newco payable to ERDT over five Fiscal Years under credit terms consistent with ERDT's current advances to D'Eon Fisheries.

Section L – Statement of Estimated Realization

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

	Book Value	Proposal		Liquidation in Bankruptcy	
		Low	High	Low	High
Equipment	\$ 1,387,043			\$ 500,000	\$ 650,000
Silver Hake Licence & Quota	219,111			500,000	1,000,000
Estimated gross realizations	\$ 1,606,154	\$ 1,628,496	\$ 1,906,239	\$ 1,000,000	\$ 1,650,000
Less: claims of Priority Creditors		Nil	Nil	Nil	Nil
Less: claims of Preferred Creditors		Nil	Nil	Nil	Nil
Less: claims of Secured Creditors		1,510,000	1,610,000	1,000,000	1,650,000
Less: professional fees		15,000	15,000	12,500	12,500
		1,525,000	1,625,000	1,012,500	1,662,500
Estate Balance		103,496	281,239	Nil	Nil
Levy to OSB		5,175	14,062	Nil	Nil
Available for distribution		98,321	267,177	Nil	Nil
Total unsecured claims (less deferred claims)		1,184,957	1,184,957	1,184,957	1,184,957
Dividend yield		8.3%	22.5%	0%	0%

Section M – Recommendations

It is the opinion of the Trustee in Bankruptcy that the Proposal is in the best interests of the Secured and Unsecured Creditors. If the Proposal is rejected and the Company were to remain bankrupt, the Trustee in Bankruptcy has estimated that Secured Creditors are likely to 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 Trustee in Bankruptcy recommends that Secured and Unsecured Creditors support the Proposal. Furthermore, the Trustee in Bankruptcy intends to vote proxies received, naming the Trustee in Bankruptcy 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 in Bankruptcy of
D'Eon Fisheries Limited
and not in its personal capacity

Per:

Neil Jones, CA, CIRP
Vice President