

**THE QUEEN'S BENCH**  
**WINNIPEG CENTRE**

IN THE MATTER OF THE: *Companies' Creditors Arrangement Act*,  
R.S.C. 1985, c. C-36, as Amended

AND IN THE MATTER OF: A Proposed Plan of Compromise or  
Arrangement of The Puratone Corporation,  
Pembina Valley Pigs Ltd. and Niverville  
Swine Breeders Ltd. (the "Applicants")

Application under the: *Companies' Creditors Arrangement Act*, R.S.C.  
1985, c. C-36, as Amended

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**FIRST REPORT OF THE MONITOR**

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**THE QUEEN'S BENCH  
WINNIPEG CENTRE**

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF THE PURATONE CORPORATION, NIVERVILLE SWINE  
BREEDERS LTD., AND PEMBINA VALLEY PIGS LTD.,**

**APPLICANTS**

**FIRST REPORT OF THE MONITOR  
DATED OCTOBER 5, 2012**

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**INTRODUCTION**

1. On September 12, 2012, The Puratone Corporation (“**TPC**”), Niverville Swine Breeders Ltd., and Pembina Valley Pigs Ltd. (collectively the “**Applicants**” or the “**Company**”) filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the “**CCAA**”). Pursuant to the Order of the Manitoba Court of Queen's Bench (the “**Court**”) dated September 12, 2012 (the “**Initial Order**”), Deloitte & Touche Inc. (“**Deloitte**”) was appointed as the Monitor of the Applicants (the “**Monitor**”) in the CCAA proceedings. A copy of the Initial Order is attached hereto as Exhibit A.
2. The Initial Order provides, *inter alia*, for the following:
  - i. No proceeding or enforcement process in any court or tribunal shall be commenced or continued against or in respect of the Applicants or the Monitor, or affecting the business or property of the Applicants, except with the written

consent of the Applicants and the Monitor, or with leave of the Court until and including October 12, 2012 (the “**Stay Period**”).

- ii. All persons having oral or written agreements with the Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all veterinary, animal husbandry, feed, genetics and environmental services, manure management, removal, pumping and spreading, lagoon cleaning, computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Applicants, are hereby restrained until further order of the Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicants, provided in each case that the normal prices for all such goods or services received after the date of the Initial Order are paid by the Applicants in accordance with normal payment practices of the Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the Applicants and the Monitor, or as may be ordered by the Court.
  - iii. No person shall discontinue, fail to honor, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, license or permit in favor of or held by the Applicants, except with the written consent of the Applicants and the Monitor, or with leave of the Court.
3. Deloitte, in its capacity as Proposed Monitor, provided this Court with a report dated September 11, 2012 (the “**Pre-Filing Report**”) in connection with the Applicants’ application for protection under the CCAA. A copy of the Pre-Filing Report (without exhibits) is attached as Exhibit B to this first report of the Monitor (the “**First Report**”).
  4. Pursuant to the Initial Order, the Monitor has made the Initial Order and other information related to the CCAA proceedings available on its website at [www.deloitte.com/ca/puratone](http://www.deloitte.com/ca/puratone).

## **PURPOSE**

5. The purpose of this First Report is to provide information pertaining to the initial activities of the Company and the Monitor since the granting of the Initial Order. More specifically, this First Report contains information in respect of the following:
  - i. A summary of the Monitor's activities since the granting of the Initial Order;
  - ii. The status of the Company's operations and key stakeholder relationships subsequent to the Initial Order;
  - iii. An update of the Company's cash flow forecast and comments on variances between actual results compared to forecast for the period ended September 30, 2012;
  - iv. The activities of the Company since the Initial Order with respect to restructuring the operations of the Applicants; and
  - v. The Applicants' request for an extension of the stay period.

## **TERMS OF REFERENCE**

6. In preparing this First Report, the Monitor has relied upon unaudited interim financial information, the Applicants' books and records, the Affidavit of Raymond Hildebrand sworn September 11, 2012, and discussions with management ("**Management**") and its financial and legal advisors.
7. The financial information of the Company has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that the First Report may not disclose all significant matters about the Applicants. Additionally, none of the Monitor's procedures were intended to disclose defalcations or other irregularities. If the Monitor were to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing

standards, additional matters may have come to the Monitor's attention. Accordingly, the Monitor does not express an opinion nor does it provide any other form of assurance on the financial or other information presented herein. The Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of the First Report.

8. The financial projections attached to the First Report were prepared by Management (except where noted). Although the Monitor has reviewed the assumptions underlying the projections for reasonableness, financial projections, by their nature, are dependent upon future events, which are not susceptible to verification. Actual results will vary from the information presented and the variations may be material. The Monitor has not prepared a compilation as contemplated by Section 4250 of the Canadian Institute of Chartered Accountants Handbook.
9. The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of the First Report. Any use which any party makes of the First Report, or any reliance or decision to be made based on the First Report, are the sole responsibility of such party.
10. Unless otherwise stated, all monetary amounts contained in this First Report are expressed in Canadian dollars.
11. Capitalized terms used in this First Report but not defined are as defined in the Pre-Filing Report.

#### **MONITOR'S ACTIVITIES SINCE THE GRANTING OF THE INITIAL ORDER**

12. Since the date of the Initial Order, the Monitor's activities have included the following:
  - a) Established a website and made available the Initial Order, application materials, service list, and a list of creditors with claims against the Applicants ([www.deloitte.com/ca/puratone](http://www.deloitte.com/ca/puratone));
  - b) Prepared and issued notices required under the Initial Order, including the following creditor correspondence and notices:

- i. Published the notice to creditors in the Globe and Mail and the Winnipeg Free Press on September 18 and September 25, 2012, a copy of which is attached hereto as Exhibit C.
  - ii. Mailed the notice to creditors on September 13, 2012 to approximately 229 of the Company's creditors with respect to the CCAA proceedings. A copy of the notice is attached hereto as Exhibit D.
  - iii. Mailed notice to all 12 participants in the Hog Marketing Program as defined in the Hildebrand Affidavit and as identified by the Company on September 13, 2012. A copy of the notice is attached hereto as Exhibit D.
  - iv. Issued the notice to the Office of the Superintendent of Bankruptcy in the prescribed form as required under section 23(1)(f) of the CCAA.
- c) Held discussions with Management and the Company's legal counsel and financial advisors regarding the Company's business and financial affairs, including the Cash Flow Statement, restructuring activities, employee and creditor matters and other matters relating to the CCAA proceedings generally;
  - d) Continued the Sales Process as detailed in the Initial Order and as further discussed below;
  - e) Attended to continued enquiries from creditors and customers of the Company; and
  - f) Continued monitoring of the business and financial affairs of the Company in accordance with the Initial Order.
13. The Monitor is monitoring on a weekly basis the receipts and disbursements of the Company with the full co-operation of Management. Consequently, cash flow forecasts are updated regularly following the weekly variance analysis of the cash utilization.

## **STAKEHOLDER UPDATE**

14. The Company's key stakeholders continue to generally support the ongoing operations of the Company during these CCAA proceedings:

i. Suppliers

The Monitor has been advised by Management that many of the suppliers have been generally supportive of the Company post-filing and continue to supply goods and services on commercially reasonable terms. Certain of the larger suppliers have requested to be paid on a cash on delivery basis and the Company has complied.

ii. Employees

Management has advised that the existing employees remain committed to the Company during the restructuring efforts. Management further advised that employee source deductions outstanding as at the date of the CCAA filing have been remitted to Canada Revenue Agency ("CRA") in full and that source deductions will be remitted on a timely basis going forward.

## **CASH FLOW STATEMENT AND LIQUIDITY**

15. The Company's cash receipts and disbursements for the period September 12, 2012 to September 30, 2012 are attached as Exhibit E with a comparison to the Cash Flow Statement filed with the Court in connection with the Company's initial application.

16. The Monitor has conducted weekly reviews of the Company's actual cash flow compared to the forecast prepared by Management and contained in the Cash Flow Statement. As detailed in the DIP Term Sheet, weekly variance analysis updates have been provided to BMO and FCC accordingly. The Monitor's comments on the actual cash flow to September 30, 2012 are as follows:

- i. Compared with the initial statement of projected cash flow presented by the Applicants to the Court with its application for the Initial Order (the “**Initial Cash Flow Statement**”), the Company experienced an unfavorable variance of approximately \$(1.1) million in respect of cash outflows.
  - ii. This variance is primarily attributable to the following:
    1. \$0.5 million favorable variance compared to forecast with respect to cash receipts from sales primarily attributable to unbudgeted retail feed sales of \$0.5 million.
    2. \$(2.2) million unfavorable ingredient purchase variance primarily attributable to two factors: 1) \$(1.5) million in cheques issued prior to September 12, 2012 which cleared post filing; and \$(0.7) million in cash on delivery payments required by suppliers that were not built into the projections.
    3. \$0.2 million favorable production input cost and operating expense variance due to the following: consumption of supplies on hand as at the filing date and deferring the replenishment of same; and deferring certain operating expenses to future weeks.
    4. \$0.4 million favorable restructuring cost variance as professional fee invoices were not received by the Company in accordance with the projections.
17. As of the date of this First Report, all expenses incurred have been or will be paid, as per the Initial Order, out of the authorized DIP facility. As the Company is forecasting to have adequate availability in the existing DIP facility, the Company does not need additional financing as appears from the Revised Cash Flow Statement attached hereto as Exhibit F (the “**Revised Cash Flows**”) for the period ending December 30, 2012.



18. The Revised Cash Flows adopt the assumptions as set out in the Notes and Summary of Assumptions (“**Notes and Assumptions**”) set out in Notes 1 to 16 of the cash flow statement.

19. The Monitor’s comments on the Revised Cash Flows to December 30, 2012 are as follows:

- i. The revised cash flow statement estimates that for the period October 1, 2012 to December 30, 2012, the Company will have gross receipts of approximately \$20.9 million and disbursements of approximately \$28.3 million, representing a net operating cash outflow of \$7.4 million.
- ii. The \$6.0 million DIP facility granted in the Initial Order is projected to be fully utilized during the week commencing November 5, 2012.
- iii. The Monitor’s view of the revised cash flow statement consisted of inquiries, analytical procedures and discussions related to information supplied to the Monitor by certain of the Management and employees of the Company. Since the Notes and Assumptions need not be supported, the Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the cash flow statement. The Monitor has also reviewed the support provided by Management for the Notes and Assumptions, and the preparation and presentation of the cash flow statement.
- iv. Based on the Monitor’s review, nothing has come to our attention that causes us to believe that, in all material respects:
  - a) The Notes and Assumptions are not consistent with the purpose of the cash flow statement;
  - b) As at the date of the First Report, the Notes and Assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the cash flow statement, given the Notes and Assumptions; or
  - c) The cash flow statement does not reflect the Notes and Assumptions.

20. Since the cash flow statement is based on assumptions regarding future events, actual results will vary from the information presented even if the Notes and Assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the cash flow statement will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in the First Report, or relied upon by the Monitor in preparing the First Report.

## **RESTRUCTURING EFFORTS AND THE SALES PROCESS**

21. Subsequent to the September 12, 2012 Court hearing, the Monitor met with EYI, the Company's financial advisor, to more completely understand the status of the SISP. EYI confirmed that there were four (4) parties who received the CIM and who may still have an interest in pursuing a sales transaction with the Company. EYI provided contact details for all parties.
22. On September 13<sup>th</sup> and 14<sup>th</sup>, 2012, the Monitor contacted all four (4) parties and advised of the CCAA proceedings and that the Monitor would be continuing with a sales process (the "**Sales Process**").
23. During the week of September 17, 2012, the Monitor engaged in various discussions with all four (4) parties. Certain parties requested further information with respect to the assets of the Company and the Monitor arranged for same to be prepared by the Company and provided to the interested party(s). One of the parties expressed interest in only a very small portion of the assets.
24. Given the prior SISP process undertaken by EYI, in consultation with the Company, BMO and FCC, it was determined that a reasonable deadline for any expression of interest would be Wednesday, September 26, 2012. All interested parties were made aware of the deadline.
25. At the request of one interested party, the submission deadline was extended to 12:00 pm (CDT) on Thursday, September 27, 2012. Two expressions of interest were received by the Monitor. Both expressed interests in all or substantially all of the assets.
26. Based on the format and content of the submissions received, it was challenging, if not impossible to equitably assess the offers. As such, in consultation with the Company, BMO, and FCC, a further revision to the Sales Process was undertaken whereby the Company, with the assistance of the Monitor, prepared certain standardized offering schedules. These

schedules were provided to both the two parties that had expressed interest to the Monitor as well as another party that had made an offer for substantially all of the assets pursuant to the SISP. These three parties were provided with a notice and offer on October 2, 2012.

27. The revised sales process and timing of same were articulated in the covering letter attached to the standardized offering schedules (the “**Notice of Intended Process**”). All parties were advised that the previously submitted expressions of interest were rejected, and that all parties were requested to re-submit their offers in the standardized offering schedules. The deadline for re-submission and completion of any due diligence procedures is October 15, 2012 with a view to concluding a binding purchase agreement on or before October 22, 2012.

#### **REQUEST FOR EXTENSION OF THESE PROCEEDINGS AND RECOMMENDATIONS**

28. The current stay of proceedings under the Initial Order expires on October 12, 2012. In order to facilitate restructuring efforts and possibly complete a sale transaction in accordance with the Sales Process, the Company is requesting an extension of the stay proceedings to November 2, 2012. Management and its counsel have advised that this extension period will provide time to complete the previously discussed Sales Process.
29. At the hearing for the Initial Order, there was discussion as to whether the Applicants should be granted protection under CCAA or be in ordered into Receivership. The Monitor is aware of its duty under Section 23(1)(h) of the CCAA which states that, if the Monitor is of the opinion that it would be more beneficial to the company's creditors if proceedings in respect of the company were taken under the *Bankruptcy and Insolvency Act* (“**BIA**”), it shall so advise the court without delay after coming to that opinion. The Monitor has not formed that opinion. The Monitor is also aware that certain agricultural suppliers of grain to the Applicants in the last thirty (30) days prior to the commencement of the CCAA proceedings may be of the view that that receivership or bankruptcy proceedings would advance their priority claim pursuant to Section 81.1 of the BIA (or in the last fifteen (15) days prior to the commencement of the CCAA proceedings pursuant to Section 81.2 of the BIA). These Sections are intended to protect agricultural suppliers in the event of the

insolvency of their customer. The Monitor has been advised by its counsel that, while those Sections have no direct relevance in CCAA proceedings, there are cases in which the courts have essentially suspended the running of time during CCAA proceedings so that, should bankruptcy or receivership ultimately occur, the suppliers rights would not have been prejudiced by the mere passage of time. The Monitor is of the view that the issue of whether such an order ought to be made in these proceedings should be the subject of an appropriate motion to this Court on behalf of such a supplier, either on its own behalf or as a representative of a group of such suppliers, at which time the Applicants, BMO and FCC would also be entitled to make representations. The Monitor has also been advised by its counsel that merely putting the Applicants into receivership at this time would not be of any benefit to agricultural suppliers as their rights, except to the extent that they might effectively be revived pursuant to such a motion, have now expired.

30. The Monitor is of the view that continuing the Company's restructuring under the CCAA proceedings will preserve the business as a going concern and will allow time for the completion of the Sales Process, which hopefully will result in a going concern buyer, which offers the only opportunity for many of the stakeholders to make a recovery. Receivership at this time would be very disruptive and costly and, in the view of the Monitor, would be counterproductive to the interests of all stakeholders.
31. The Applicants are working diligently to manage their financial and operational restructuring while assisting with the Sales Process. In accordance with the Revised Cash Flows, the Company is forecasting to be able to operate within the Court ordered DIP facility during the requested extension period.
32. Both BMO and FCC are in support of the extension of the requested stay period.
33. The Monitor is of the view that the Company has acted, and is acting, in good faith and with due diligence. Accordingly, the Monitor respectfully recommends that this Court approve an extension of the stay of proceedings to November 2, 2012.

34. The Monitor respectfully requests that the Court approve this First Report and the conduct and activities of the Monitor described herein.

All of which is respectfully submitted at Winnipeg, Manitoba, this 5<sup>th</sup> day of October, 2012.

**DELOITTE & TOUCHE INC.**

In its capacity as Proposed Monitor of  
The Puratone Corporation, Niverville Swine  
Breeders Ltd., and Pembina Valley Pigs Ltd.,  
and not in its personal capacity.

A handwritten signature in cursive script, reading "Steven Peleck", written in black ink on a light-colored background.

Per: Steven Peleck, CA•CIRP  
Senior Vice-President