

Supreme Court of Nova Scotia**Application by Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited (the "Applicants") for relief under the *Companies' Creditors Arrangement Act***

SECOND REPORT OF DELOITTE RESTRUCTURING INC.,
IN ITS CAPACITY AS MONITOR OF
THE APPLICANTS

SEPTEMBER 23rd, 2016

**1. INTRODUCTION AND BACKGROUND**

- 1.1 On August 31, 2016, the Supreme Court of Nova Scotia (the "Court") granted an order (the "Initial Order") under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA") granting certain relief to Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited (collectively the "Applicants").
- 1.2 As part of the Initial Order, Deloitte Restructuring Inc. ("Deloitte") was appointed as Monitor under these CCAA proceedings.
- 1.3 Deloitte advises that this report (the "Second Report") should be read in conjunction with the affidavit of Jonathan Mullen (the "Mullen Affidavit"), which is to be filed in support of the Applicants' motion for an extension of the stay of proceedings in this matter.

2. TERMS OF REFERENCE

- 2.1 In preparing the Second Report, the Monitor has relied upon financial information of the Applicants, discussions with the Applicants' management ("Management") and BoyneClarke LLP, the Applicants' legal counsel.
- 2.2 The financial information of the Applicants 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 Second Report may not disclose all significant matters about the Applicants. Additionally, none of our procedures were intended to disclose defalcations or other irregularities. Were we 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 our attention. Accordingly, the Monitor does not express an opinion or 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 Second Report.

- 2.3 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 Second Report. Any use which any party makes of the Second Report, or any reliance or decisions to be made on the Second Report, is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the Second Report are expressed in or converted to Canadian dollars.
- 2.5 The purpose of the Second Report is to inform this Court on the status of:
- (i) The Monitor's activities since the date of the First Report
 - (ii) The Applicants' activities since the date of the Initial Order
 - (iii) The Applicants' request for an interim financing order (the "Charging Order")
 - (iv) A review of the Cash Flow Projection submitted as part of the Initial Order
 - (v) A revised Cash Flow Forecast of the Applicants (the "Revised Cash Flow Projection")
 - (vi) The Applicants' request for an extension (the "Extension Order")

3. MONITOR'S ACTIVITIES

- 3.1 Since the date of the First Report, the Monitor's activities have included:
- (i) arranging for materials relating to the CCAA Proceedings be published online at the Monitor's website, which is located at <http://www.insolvencies.deloitte.ca/en/VictoryFarms>;
 - (ii) implementing procedures for monitoring the Applicants' actual cash flow and for ongoing reporting of variances to the Cash Flow Forecast filed with the Court as part of the Applicants' Initial Application Record;
 - (iii) working with the Applicants to create the Revised Cash Flow Projection further discussed herein;
 - (iv) assisting the Applicants in their pursuit of interim financing, including the engagement of discussions with affected creditors and considering the terms negotiated between the Applicants and a prospective lender;
 - (v) attending site visits at the majority of the mink farms either owned by the Applicants or at mink farms contracted by the Applicants to grow mink for the current herd; and
 - (vi) attending meetings and corresponding with creditors of the Applicants, including the Canada Revenue Agency and the Nova Scotia Farm Loan Board.

4. APPLICANTS' ACTIVITIES

- 4.1 Since the date of the Initial Order, Management of the Applicants has advised the Monitor that operations have continued uninterrupted.

- 4.2 The Monitor has been advised by Management that representatives of North American Fur Auctions (“NAF”) visited the Applicants during the week of September 12, 2016 to perform a review of the current mink crop.
- 4.3 Despite repeated directions from the Monitor to the contrary, including the issuance of reminders of the terms of the Initial Order provided to the Applicants and their counsel, the Applicants have made payments on certain pre-filing debts (“Pre-filing Payments”) since the granting of the Initial Order totaling \$85,521.
- 4.4 The Monitor has reviewed the financial information of the Applicants and enclosed as Appendix A to the Second Report is a schedule that categorizes the totality of these Pre-filing Payments.
- 4.5 The Monitor will continue to investigate any recourse potentially available with respect to the Pre-filing Payments and will update the Court when further information becomes available and/or if a direction from the Court is required in this respect.
- 4.6 Based on recent discussions with Management of the Applicants, the Monitor is confident that no further Pre-Filing Payments will occur past the date of the Second Report.

5. APPLICANTS’ REQUEST FOR INTERIM FINANCING

- 5.1 On September 16, 2016, a hearing was held with this Court with respect to the Applicants’ request for a Charging Order. As part of the hearing, the Monitor filed with the Court a First Report, along with a Supplemental Report to the First Report. The hearing was adjourned to September 22, 2016, following the intervention of American Legend Cooperative (“ALC”) in the matter. Particulars of the position taken by ALC in respect of the Applicants’ Motion for a Charging Order are contained within documentation filed by ALC with the Court, which documents have been posted on the Monitor’s website.
- 5.2 On September 22, 2016, the Court re-convened the September 16, 2016 hearing relating to the Applicants’ request for a Charging Order. The Court reserved its decision until September 27, 2016. Particulars of the position taken by NAF in respect of the Applicants’ Motion for a Charging Order are contained within documentation filed by NAF with the Court, which documents have been posted on the Monitor’s website.

6. ACTUAL CASH FLOW

- 6.1 The Monitor previously filed with the Court a Supplemental Report to the First Report (the “Supplemental Report”) containing a reconciliation of actual cash position (the “Actual Cash Flow”) of the Applicants as at September 15, 2016 compared to the Cash Flow Projection.
- 6.2 The Monitor has updated the Actual Cash Flow to include September 16, 2016 and enclosed it as Appendix B to the Second Report.
- 6.3 The Monitor advises there are no material changes to the financial position of the Applicants since the filing of the Supplemental Report.

7. REVISED CASH FLOW PROJECTION

- 7.1 The Applicants have prepared a consolidated 13-week cash flow projection for the period September 23, 2016 to December 16, 2016 (the "Revised Cash Flow Projection"), attached as Appendix C to this Report.
- 7.2 The Monitor's review of the Revised Cash Flow Projection consisted of inquiries, analytical procedures and discussions on the information provided by Management of the Applicants. Since these hypothetical assumptions are not being supported, the Monitor's involvement with respect to them was limited to evaluating whether they were consistent with the purpose of the Revised Cash Flow Projection. The Monitor also reviewed the supporting documentation provided by Management of the Applicants for the probable assumptions and the preparation and presentation of the Revised Cash Flow Projection.
- 7.3 Based on our review and the foregoing reserves and limitations, nothing has come to the attention of the Monitor that causes us to believe that, in all material respects:
- (i) the hypothetical assumptions are not consistent with the purpose of the Revised Cash Flow Projection;
 - (ii) as at the date of this Second Report, the probable assumptions developed by the Applicants are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Revised Cash Flow Projection, given the hypothetical assumptions; or
 - (iii) the Revised Cash Flow Projection does not reflect the probable and hypothetical assumptions.
- 7.4 Since the Revised Cash Flow Projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor does not express an opinion to whether the projections in the Revised Cash Flow Projection will be achieved.
- 7.5 The Revised Cash Flow Projection has been prepared solely for the purpose described in the notes to the Revised Cash Flow Statement, and readers are cautioned that the Revised Cash Flow Projection may not be appropriate for other purposes.
- 7.6 The Monitor has reviewed the Revised Cash Flow Projection and offers the following commentary:
- (i) Outside of HST refunds, the Applicants are not projecting to receive any operating inflows for the period covered by the Revised Cash Flow Projection. The Applicants' herd will not be available for sale until auctions scheduled to be held during the first half of 2017.
 - (ii) The Applicants currently employ 13 individuals and this number increases slightly during the period covered by the Revised Cash Flow Projection. The Revised Cash Flow Projection contains payments to staff at existing rates for anticipated hours through

the period covered, along with statutory remittances to Canada Revenue Agency and Workers' Compensation Board of Nova Scotia.

- (iii) Feed costs are based on anticipated consumption levels of the herd during the period at existing feed prices, factoring in payment terms with suppliers.
- (iv) Professional fees are estimates only and do not account for retainers that have been provided to the professionals involved in the engagement.
- (v) As discussed in the Monitor's First Report and herein, the Applicants are projected to require interim debtor in possession ("DIP") financing during the period of the Revised Cash Flow Forecast. Without such DIP financing, the Applicants will not have sufficient resources to operate according to the Revised Cash Flow Forecast.

8. STAY EXTENSION APPLICATION

8.1 The Monitor has been advised by the Applicants that they intend to seek an Extension Order from this Court on September 28, 2016.

8.2 Based on the Monitor's dealing with Management of the Applicants and the Monitor's review of the Applicants' operations and restructuring efforts to date, it can advise:

- (i) that circumstances exist that make the Extension Order appropriate;
- (ii) that the Applicants have acted and continue to act in good faith; and
- (iii) that the Applicants have acted and continue to act with due diligence.

8.3 The Monitor believes that a 60-day extension will provide the Applicants with adequate time to engage in formal discussions with their creditors, which will allow them to formulate a Plan of Arrangement. The Monitor has held preliminary discussions with Management of the Applicants and their legal counsel around what a restructuring plan of the Applicants would entail.

8.4 The Monitor is of the opinion that no creditor would be materially prejudiced by the Court granting the Extension Order as requested by the Applicants.

8.5 In the absence of the Extension Order being granted, the Applicants will not be in a position to file a Plan of Arrangement on or before September 30, 2016. Although the Monitor has yet to prepare a realization schedule in the event of a liquidation, based on the quantum of secured debt owing by the Applicants against the expected asset realizations, it is unlikely that a distribution would be available to the unsecured creditors.

9. CONCLUSION

9.1 This Report has been prepared to provide this Court with information regarding the Monitor's activities since the date of the First Report, the Applicants' activities since the date of the Initial Order, a review of the Cash Flow Forecast submitted as part of the Initial Order, a Revised Cash Flow Forecast, and the Applicants' request for an Extension Order.


- 9.2 In the event the Court does not grant the Applicants' request for a Charging Order on September 27, 2016, and in the absence of a new DIP Lender being identified in the interim period, the Monitor wishes to advise the Court that, based on the Revised Cash Flow Projection, the Applicants are expected to deplete their existing cash resources during the week of October 7, 2016.
- 9.3 In addition, the Monitor wishes to alert the Court to the fact that the Revised Cash Flow Projection does not contain any allowance for the costs associated with the potential euthanization of the herd, should interim financing not become available to sustain the Applicants' operations, rendering that action necessary. The exact costs and timelines associated with the potential euthanization of the herd are not known with accuracy, but the Monitor is presently reviewing this alternative scenario with the Applicants out of an abundance of caution.

All of which is respectively submitted on September 23, 2016.

DELOITTE RESTRUCTURING INC.

Acting in its capacity as
Monitor of Victory Farms Incorporated and
Jonathan Mullen Mink Ranch Limited
and not in its personal capacity

Per:



James Foran, CPA, CA, CIRP, LIT
Vice President

Appendix A: Pre-filing payments

**Pre-filing Payments
Since Initial Order**

CRA remittances	\$10,719
WCB premiums	\$12,473
Jonathan Mullen Mink Ranch property tax	\$4,141
Mink care contract payments	\$30,650
Related party transfers	\$2,500
Outstanding cheques as at August 31, 2016	\$10,679
Debt repayments	\$14,358
	<u>\$85,521</u>

Appendix B: Actual cash flow

Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited
Actual Cash Flow
For the period August 27, 2016 to September 16, 2016

	Projected	Actual	Variance
Opening cash position	600,000	554,756	(45,244)
Operating inflows			
HST	-	107,417	107,417
Total inflows	-	107,417	107,417
Operating outflows			
Compensation	42,959	60,582	(17,623)
Feed Expense	288,912	107,209	181,703
Contracted Mink Care	68,436	58,725	9,711
Operating Expenses	8,758	13,004	(4,246)
Professional Fees	90,445	11,757	78,688
Repairs and Maintenance	5,340	-	5,340
Loan Payments		11,883	(11,883)
Total outflows	504,850	263,160	241,690
Operating cash flow	(504,850)	(155,742)	349,107
Ending cash position	95,150	399,014	303,864

Appendix C: Revised cash flow projection

IN THE MATTER OF
THE COMPANIES CREDITOR ARRANGEMENT ACT,
and
IN THE MATTER OF
THE COMPROMISE OR ARRANGEMENT OF THE APPLICANTS,
VICTORY FARMS INCORPORATED AND JONATHAN MULLEN MINK RANCH
LIMITED

The management of Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited have developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 23rd day of September, 2016, consisting of weekly projections for the period September 23rd to December 16th, 2016.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note A, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in Note B.

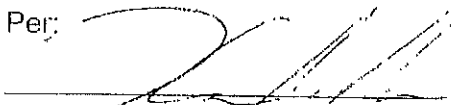
Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared by Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited solely for the purpose described in Note A, using a set of hypothetical and probable assumptions set out in Note B.

Dated at Digby, Nova Scotia this 23rd day of September, 2016.

Victory Farms Incorporated
Jonathan Mullen Mink Ranch Limited

Per:



Jonathan Mullen
President

VICTORY FARMS INCORPORATED AND JONATHAN MULLEN MINK RANCH
LIMITED

ASSUMPTIONS TO THE CASH FLOW PROJECTIONS
FOR THE PERIOD SEPTEMBER 2 TO NOVEMBER 25, 2016

Note A: The statement of projected cash flow is being filed pursuant to the *Companies Creditor Arrangement Act* using the hypothetical assumptions set out in Note B.

Note B: Opening cash balance reflects the estimated cash contained within the Applicant's account at RBC.

HST refunds relate to ITCs claimed by the Applicants and are assumed to be received under normal filing cycles during the period covered by the projections.

Compensation expense is based on current head count levels and management's estimate of future needs during the period covered by the projections.

Feed costs are based on management's estimate using the size of the herd, current feed prices and expected feeding requirements during the period covered by the projections.

Contracted mink care expenses are based on underlying contracts the Applicant has entered into with third parties to grow mink.

Operating expenses are based on historical amounts.

Professional fees are based on estimates provided by the various professional firms involved.

Repairs and maintenance expenses are based on historical averages and are management's best estimates of amounts required during the period covered by the projections.

DIP funding is based on the shortfall in the cash flow projections and will be advanced in tranches of \$250 thousand. The DIP funding is contingent on the Court granting a DIP charge.



The attached statement of projected cash flow of Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited, as of the 23rd day of September, 2016, consisting of weekly projections for the period September 23rd to December 16th, 2016, has been prepared by the management of the insolvent debtor for the purpose described in Note A, using the probable and hypothetical assumptions set out in Note B.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the management and employees of the insolvent debtor. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- a) the hypothetical assumptions are not consistent with the purpose of the projection;
- b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in Note A, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Halifax, Nova Scotia this 23rd day of September, 2016.

DELOITTE RESTRUCTURING INC.

Acting in its capacity as
Proposed Monitor of Victory Farms Incorporated
and not in its personal capacity

Per:

James Foran, CPA, CA, CIRP, LIT
Vice President

Victory Farms Incorporated
 Revised Cash Flow Projection
 For the 13 weeks September 23 to December 16, 2016

	1 23-Sep	2 30-Sep	3 7-Oct	4 14-Oct	5 21-Oct	6 28-Oct	7 4-Nov	8 11-Nov	9 18-Nov	10 25-Nov	11 2-Dec	12 9-Dec	13 16-Dec	Total
Opening cash	399,014	185,198	84,598	59,886	171,002	264,812	223,810	234,295	93,203	181,107	172,811	315,311	144,584	399,014
Operating inflows	-	42,300	-	-	-	95,984	-	-	-	91,805	-	-	-	231,088
HST	-	42,300	-	-	-	95,984	-	-	-	91,805	-	-	-	231,088
Total inflows	-	42,300	-	-	-	95,984	-	-	-	91,805	-	-	-	231,088
Operating outflows	9,635	8,478	31,238	8,478	17,929	10,000	32,995	11,201	23,182	11,157	30,501	15,321	23,226	233,342
Compensation	77,500	99,943	135,217	99,943	135,217	99,943	135,217	99,943	135,217	55,232	74,725	55,232	74,725	1,278,057
Feed costs	55,960	-	80,094	-	-	-	67,970	-	-	-	-	56,183	-	260,207
Contracted milk care	3,879	2,698	1,513	3,813	1,393	1,393	2,433	4,048	2,788	2,813	1,033	2,753	1,853	32,414
Operating expenses	65,062	30,000	25,000	25,000	-	25,000	-	25,000	-	30,000	-	40,000	-	265,062
Professional fees	1,780	1,780	1,650	1,650	1,650	1,650	900	900	900	900	1,240	1,240	1,240	17,480
Repairs and maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total outflows	213,816	142,899	274,712	138,884	156,189	137,986	239,515	141,092	162,096	100,101	107,499	170,728	101,044	2,086,562
Operating cash flow	(213,816)	(100,599)	(274,712)	(138,884)	(156,189)	(41,002)	(239,515)	(141,092)	(162,096)	(8,296)	(107,499)	(170,728)	(101,044)	(1,855,474)
Cash position (before DIP)	185,198	84,598	(190,114)	(78,998)	14,812	223,810	(15,705)	93,203	(68,893)	172,811	65,311	144,584	43,540	(1,456,460)
DIP funding	-	-	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	1,500,000
Closing cash position (after DIP)	185,198	84,598	59,886	171,002	264,812	223,810	234,295	93,203	181,107	172,811	315,311	144,584	43,540	43,540