

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**

**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 NORTH AMERICAN FUR PRODUCERS INC., NAFA PROPERTIES INC., 3306319 NOVA SCOTIA LIMITED, NORTH AMERICAN FUR AUCTIONS INC., NAFA PROPERTIES (US) INC., NAFA PROPERTIES STOUGHTON LLC, NORTH AMERICAN FUR AUCTIONS (US) INC., NAFPRO LLC (WISCONSIN LLC), NAFA EUROPE CO-OPERATIEF UA, NAFA EUROPE B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO**

(the "Applicants")

**AFFIDAVIT OF ARIYANA BOTEJUE**

**(Sworn October 30, 2019)**

I, **ARIYANA BOTEJUE**, of the City of Toronto, in the Province of Ontario, **AFFIRM AND SAY:**

1. I am an assistant at Blaney McMurtry LLP ("**Blaney**"), lawyers for the Applicants, and as such, have knowledge of the matters to which I hereinafter depose.
2. Where this affidavit is based upon information received from others, I have identified the source of that information, and verily believe that information to be true.
3. To the extent that any information and belief set out in this affidavit is based on my review of documents, I verily believe the information in such documents to be true.

**The Applicants' Financial Statements**

4. On October 30, 2019, Blaney received the Financial Statements for the Applicants from Doug Lawson, the President and Chief Executive Officer of North American Fur Producers Inc. Attached hereto and marked as **Exhibit "A"** to this affidavit is a copy of the Financial Statements for the Applicants.

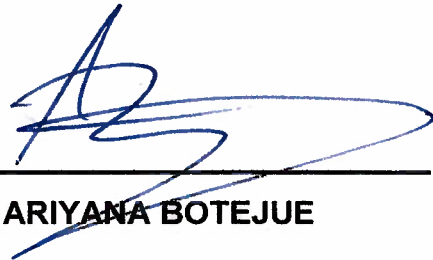
5. I make this affidavit in support of an application by the Applicants for protection under the CCAA and for no other or improper purpose.

**SWORN** before me at the City of  
Toronto, in the Province of Ontario  
on the 30<sup>th</sup> day of October 2019

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A commissioner, etc.  
**Jessica Wuthmann**

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**ARIYANA BOTEJUE**

This is Exhibit "A" referred to in the Affidavit of Ariyana Botejue  
sworn on the 30<sup>th</sup> day of October, 2019.

A handwritten signature in blue ink, consisting of several stylized, overlapping loops and lines, positioned above a horizontal line.

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*Commissioner for Taking Affidavits (or as may be)*

**Jessica Wuthmann**

**NAFA Properties CAD \$**  
**Consolidated Balance Sheet**  
**For the Month Ended:**

October 31, 2018

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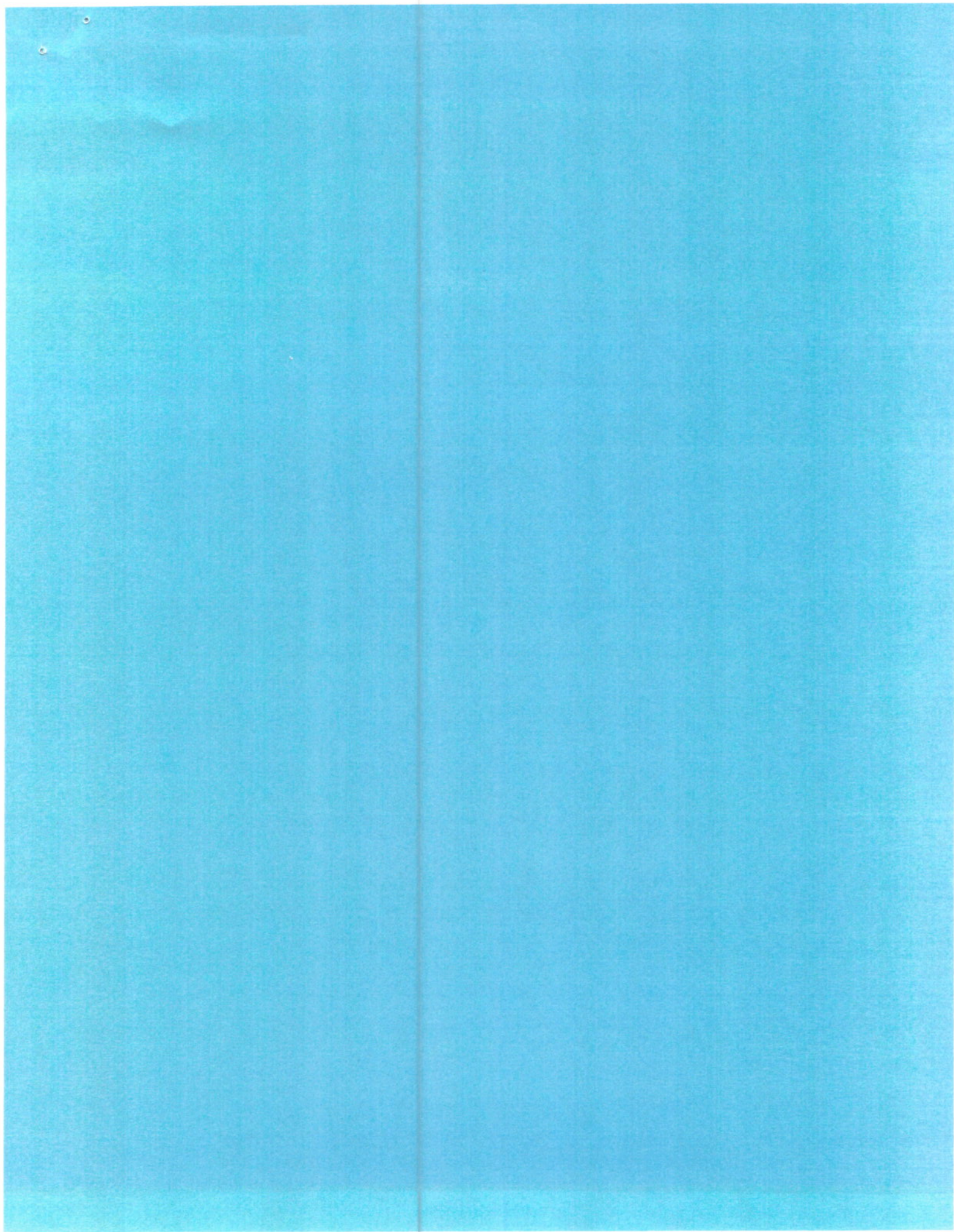
	Current Month					
	Properties	NAFA Farms	Properties US	Subtotal	Eliminations	Consolidation
Cash	\$ 92,347	\$ -	605	\$ 92,953		\$ 92,953
Accounts receivable	104,998	400,225	4,416	509,638		509,638
Income taxes payable (recoverable)	(9,351)	-	-	(9,351)		(9,351)
Inventory - raw pelts	-	2,655,392	-	2,655,392		2,655,392
Prepaid expenses	-	(54,657)	-	(54,657)		(54,657)
<b>Current assets</b>	<b>187,994</b>	<b>3,000,960</b>	<b>5,021</b>	<b>3,193,976</b>	<b>-</b>	<b>3,193,976</b>
Fixed assets:						
- Land & building	13,128,356	377,552	2,532,002	16,037,910		16,037,910
- Other fixed assets		1,630,691	-	1,630,691		1,630,691
	13,128,356	2,008,243	2,532,002	17,668,601	-	17,668,601
- Accumulated amortization	(874,105)	(660,151)	(50,971)	(1,585,226)		(1,585,226)
	12,254,250	1,348,092	2,481,031	16,083,374	-	16,083,374
Due from NAFA Farms	3,685,037	-	-	3,685,037	(3,685,037)	-
Due from NAFA Properties (US)	2,095,178	-	-	2,095,178	(2,095,178)	-
Due from NAFA USA	-	-	242,870	242,870		242,870
Inventory - breeders	-	207,600	-	207,600		207,600
Cash surrender value of life insurance	-	107,888	-	107,888		107,888
Investment in subsidiaries	134,264	-	-	134,264	(134,264)	-
Goodwill	-	3,065,085	-	3,065,085		3,065,085
<b>Total assets</b>	<b>\$ 18,356,724</b>	<b>\$ 7,729,626</b>	<b>\$ 2,728,923</b>	<b>\$ 28,815,273</b>	<b>(\$ 5,914,479)</b>	<b>\$ 22,900,794</b>
Accounts payable	54,656	-	-	54,656		54,656
Accruals	50,645	346,273	-	396,918		396,918
Due to NAFA Properties	-	3,685,037	-	3,685,037	(3,685,037)	-
Current portion of long term debt	819,658	82,932	31,428	934,018		934,018
<b>Current liabilities</b>	<b>924,959</b>	<b>4,114,241</b>	<b>31,428</b>	<b>5,070,628</b>	<b>(3,685,037)</b>	<b>1,385,591</b>
Mortgage Payable	12,380,714	1,648,844	1,971,350	16,000,909	(1,971,350)	14,029,559
Property Tax Payable	-	-	508,561	508,561		508,561
Due to NAFA re Properties US	-	-	(73,456)	(73,456)		(73,456)
Due to NAFA Properties	-	-	123,829	123,829	(123,829)	-
Due to NAFA	4,720,839	-	-	4,720,839		4,720,839
Due to NAFA re: Debt Acquisition	-	3,469,533	-	3,469,533		3,469,533
<b>Total liabilities</b>	<b>18,026,512</b>	<b>9,232,619</b>	<b>2,561,711</b>	<b>29,820,843</b>	<b>(5,780,215)</b>	<b>24,040,628</b>
Capital stock	1	1	134,264	134,266	(134,264)	2
	1	1	134,264	134,266	(134,264)	2
Retained earnings:						
- Opening	498,029	(1,047,998)	225	(549,744)		(549,744)
- Period income (loss)	(167,818)	(454,997)	32,722	(590,092)	0	(590,092)
	330,211	(1,502,994)	32,947	(1,139,836)	0	(1,139,836)
	330,212	(1,502,993)	167,211	(1,005,570)	(5,914,479)	(1,139,834)
<b>Total shareholder's equity</b>	<b>\$ 18,356,724</b>	<b>\$ 7,729,626</b>	<b>\$ 2,728,923</b>	<b>\$ 28,815,273</b>	<b>(\$ 5,914,479)</b>	<b>\$ 22,900,794</b>
<b>Total liabilities &amp; shareholder's equity</b>						

NAFA Properties Inc. CAD \$

Consolidated Income Statement

For the Month Ended: October 31, 2018

	<i>Year to Date</i>					
	<u>Properties</u>	<u>NAFA Farm</u>	<u>Properties US</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Consolidation</u>
<b>Revenue:</b>						
Lease income	\$ 1,506,835	\$ -	\$ 243,012	\$ 1,749,846	\$ -	\$ 1,749,846
Other income	-	1,939,732	-	1,939,732	-	1,939,732
Interest income	120,098	-	-	120,098	(118,524)	1,574
Mink sales	-	2,866,029	-	2,866,029	-	2,866,029
	1,626,932	4,805,761	243,012	6,675,705	118,524	6,557,181
<b>Cost of sales</b>						
Management fee	-	-	-	-	-	-
Feed	-	(0)	-	0	-	(0)
Implants	-	-	-	-	-	-
Vaccine	-	-	-	-	-	-
Pelting	-	351,851	-	351,851	-	351,851
Commissions	-	111,305	-	111,305	-	111,305
Inventory change	-	3,875,863	-	3,875,863	-	3,875,863
Cost of sales of mink sales	-	4,339,020	-	4,339,020	-	4,339,020
<b>Contribution margin</b>	<b>1,626,932</b>	<b>466,741</b>	<b>243,012</b>	<b>2,336,685</b>	<b>(118,524)</b>	<b>2,218,161</b>
<b>Expenses</b>						
Ground rent	565,293	-	-	565,293	-	565,293
Lease expense	-	14,133	-	14,133	-	14,133
Breeder maintenance	-	605,520	-	605,520	-	605,520
Ranch supplies	(4,481)	-	-	4,481	-	(4,481)
Property tax	(25,882)	97,832	-	71,950	-	71,950
Building maintenance & repairs	87,502	-	-	87,502	-	87,502
Salaries & benefits	2,644	30,458	-	33,101	-	33,101
Insurance	13,829	220	6,833	20,883	-	20,883
Professional services	314	463	-	777	-	777
Administration	639,218	748,627	6,833	1,394,678	-	1,394,678
	987,714	(281,886)	236,178	942,006	(118,524)	823,482
<b>Operating income (loss)</b>	<b>987,714</b>	<b>(281,886)</b>	<b>236,178</b>	<b>942,006</b>	<b>(118,524)</b>	<b>823,482</b>
<b>EBITDA</b>	<b>651,106</b>	<b>85,090</b>	<b>118,524</b>	<b>854,720</b>	<b>(118,524)</b>	<b>736,195</b>
Interest expense	-	-	-	-	-	-
Patronage dividends & rebates	400,653	88,021	51,426	540,100	-	540,100
Amortization	83,278	-	33,506	116,784	-	116,784
Exchange & other	1,135,037	173,111	203,456	1,511,604	(118,524)	1,393,079
Income before income taxes	(147,323)	(454,997)	32,722	(569,597)	0	(569,597)
Income taxes (recovery)	20,495	-	-	20,495	-	20,495
<b>Net income (loss)</b>	<b>(\$ 167,818)</b>	<b>(\$ 454,997)</b>	<b>\$ 32,722</b>	<b>(\$ 590,092)</b>	<b>\$ 0</b>	<b>(\$ 590,092)</b>





North American Fur Auctions Inc.

Consolidated Income Statement

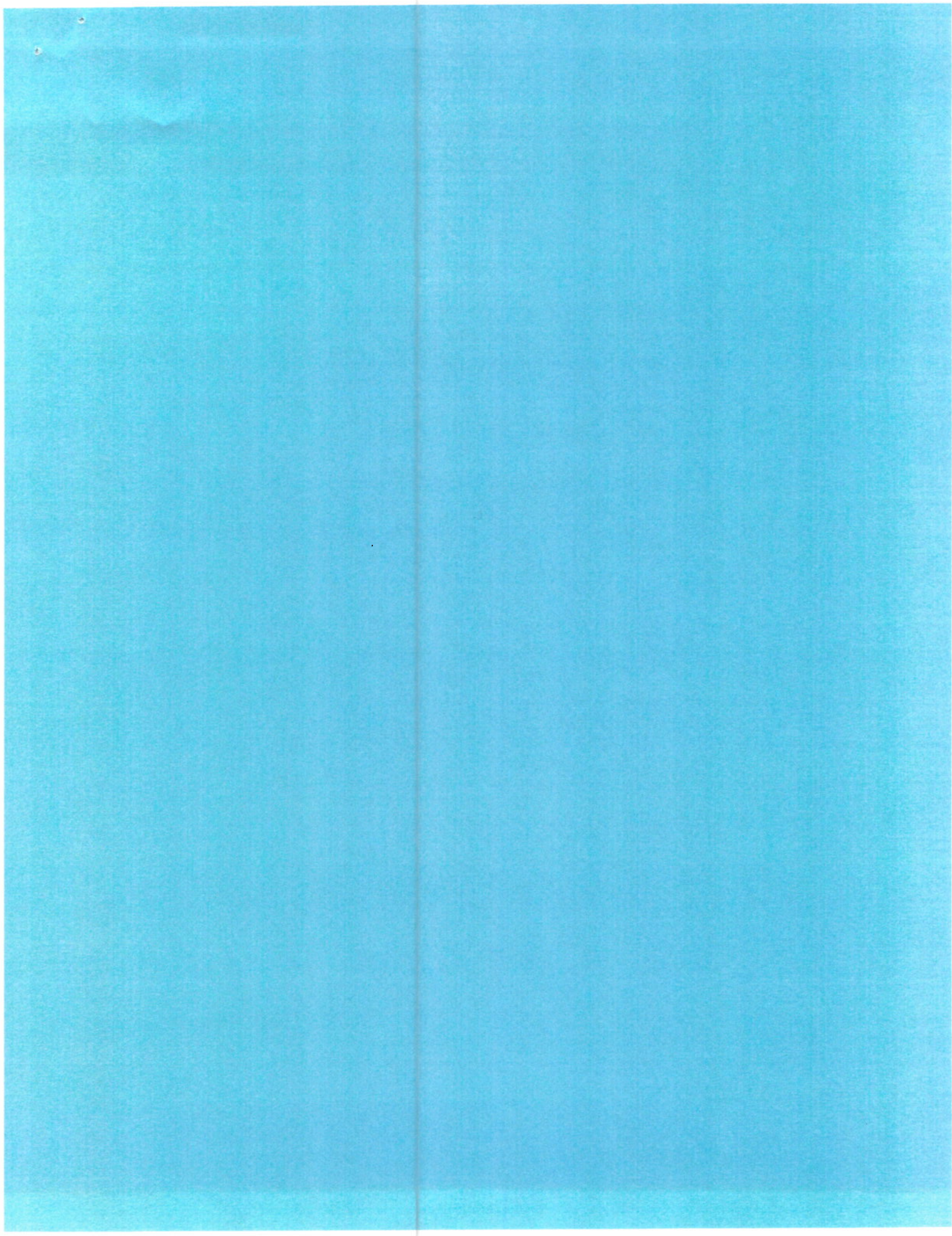
For the Month Ended: October 31, 2018

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	Year to Date										
	Canada	US	Subtotal	Adjustments	NA Consolidation	Europe	Multifar	Pol ska	Subtotal	Adjustments	Consolidation
<b>Turnover:</b>											
- North American mink	\$ 162,997,352	\$ -	\$ 162,997,352	\$ -	\$ 162,997,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,997,352
- European mink	102,444,069	-	102,444,069	-	102,444,069	-	-	-	-	-	102,444,069
- Wild fur	25,997,919	-	25,997,919	-	25,997,919	-	-	-	-	-	25,997,919
- North American fox	111,726	-	111,726	-	111,726	-	-	-	-	-	111,726
- European fox	686,160	-	686,160	-	686,160	-	-	-	-	-	686,160
- Other	292,237,226	-	292,237,226	-	292,237,226	-	-	-	-	-	292,237,226
- Reassigned goods	7,391,266	-	7,391,266	-	7,391,266	-	-	-	-	-	7,391,266
	\$ 299,628,491	\$ -	\$ 299,628,491	\$ -	\$ 299,628,491	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 299,628,491
<b>Revenue:</b>											
Buyer fees	\$ 18,081,510	\$ -	\$ 18,081,510	\$ -	\$ 18,081,510	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,081,510
Consignor commission	13,345,356	-	13,345,356	-	13,345,356	-	-	-	-	-	13,345,356
	31,426,866	-	31,426,866	-	31,426,866	-	-	-	-	-	31,426,866
Interest income & other:											
Buyers	504,283	-	504,283	-	504,283	-	-	-	-	332	504,615
Consignors	5,301,262	-	5,301,262	-	5,301,262	-	3,976	-	3,976	-	5,305,238
Other revenue	5,881,734	1,706,265	7,588,000	254,217	7,842,217	-	1,675,246	6,533,783	8,209,029	(8,139,425)	7,911,821
Sales of company fur inventory	-	-	-	5,913,037	5,913,037	-	-	-	-	-	5,913,037
	43,114,145	1,706,265	44,820,411	6,167,254	50,987,665	-	1,679,222	6,533,783	8,213,005	(8,139,093)	51,061,577
<b>Grading, collection &amp; warehouse:</b>											
Salaries, benefits & commissions	3,361,005	2,900,936	6,261,941	-	6,261,941	-	-	2,028,493	2,028,493	-	8,290,434
Collections	10,929,133	116,236	11,045,369	-	11,045,369	-	11,480	300,482	311,963	(8,329,727)	3,027,604
Warehouse & supplies	392,328	658,550	1,050,878	-	1,050,878	-	(26)	365,279	365,253	-	1,416,131
Promotion	2,986,082	-	2,986,082	-	2,986,082	-	-	-	-	-	2,986,082
Auction services	780,389	-	780,389	-	780,389	-	-	-	-	-	780,389
Insurance	691,066	150,000	841,066	-	841,066	-	-	-	-	-	841,066
	19,140,003	3,825,722	22,965,725	-	22,965,725	-	11,454	2,694,254	2,705,709	(8,329,727)	17,341,706
Cost of sales of company fur inventory	-	-	-	6,167,254	6,167,254	-	-	2,694,254	2,705,709	(8,329,727)	6,167,254
	19,140,003	3,825,722	22,965,725	6,167,254	29,132,979	-	11,454	2,694,254	2,705,709	(8,329,727)	23,508,960
	23,974,142	(2,119,456)	21,854,686	-	21,854,686	-	1,667,768	3,839,529	5,507,297	190,634	27,552,617
<b>Contribution margin</b>											
Selling, general & administration:											
Salaries & benefits	4,270,435	4,020,306	8,290,741	-	8,290,741	-	596,676	920,741	1,517,417	-	9,808,158
Occupancy	2,000,019	613,672	2,613,691	-	2,613,691	-	59,056	272,529	331,585	-	2,945,276
Office equipment & vehicles	932,145	29,941	962,086	-	962,086	-	44,116	18,538	62,654	-	1,024,740
Warehouse	135,915	205,823	341,738	-	341,738	-	2,181	43,731	45,912	-	387,650
Solicitation & selling	328,110	229,027	557,137	-	557,137	-	493,683	235,190	728,873	-	1,286,010
Administration	10,457,654	(7,410,323)	3,047,331	-	3,047,331	-	141,671	442,006	583,676	(47,015)	3,583,992
	18,124,277	(2,311,553)	15,812,724	-	15,812,724	-	1,337,382	1,932,735	3,270,117	(47,015)	19,035,826
Bad debt expense	900,000	-	900,000	-	900,000	-	-	-	-	(47,015)	900,000
	19,024,277	(2,311,553)	16,712,724	-	16,712,724	-	1,337,382	1,932,735	3,270,117	(47,015)	19,935,826
<b>Operating income (loss)</b>	4,949,866	192,097	5,141,962	-	5,141,962	-	330,386	1,906,794	2,237,180	237,649	7,616,791
Employee profit sharing	(63,161)	(78,027)	(141,188)	-	(141,188)	-	-	(28,959)	(28,959)	-	(170,147)
<b>EBITDA</b>	4,886,705	114,070	5,000,774	-	5,000,774	-	330,386	1,877,835	2,208,220	237,649	7,446,643
Interest expense	2,746,565	-	2,746,565	-	2,746,565	84	(29)	7,206	7,261	332	2,754,158
Commission rebates	865,308	-	865,308	-	865,308	-	-	403,843	408,001	47,015	865,308
Amortization	1,269,890	380,531	1,650,420	-	1,650,420	-	4,158	42,554	46,712	-	2,105,437
Exchange & other	323,466	323,466	646,932	-	646,932	1,138	49,582	42,554	8,166	190,326	521,958
	5,205,229	380,531	5,585,760	-	5,585,760	1,222	53,711	368,495	423,428	237,673	6,246,861
Non-recurring costs	87,389	-	87,389	-	87,389	-	-	-	-	-	87,389
	5,292,618	380,531	5,673,149	-	5,673,149	1,222	53,711	368,495	423,428	237,673	6,334,250
Income before income taxes	(405,914)	(266,461)	(672,375)	-	(672,375)	(1,222)	276,675	1,509,340	1,784,792	-	1,112,393
Income taxes (recovery)	536,763	(1,242)	535,521	-	535,521	1,355	77,096	244,410	322,862	-	858,383
<b>Net income (loss)</b>	\$ 942,677	\$ 265,219	\$ 1,207,896	\$ -	\$ 1,207,896	\$ (2,578)	\$ 199,579	\$ 1,264,930	\$ 1,461,930	\$ -	\$ 254,010





Consolidated Financial Statements  
(Expressed in United States dollars)

**NORTH AMERICAN FUR  
AUCTIONS INC.**

Year ended October 31, 2018



KPMG LLP  
Vaughan Metropolitan Centre  
100 New Park Place, Suite 1400  
Vaughan ON L4K 0J3  
Canada  
Tel 905-265-5900  
Fax 905-265-6390

## INDEPENDENT AUDITORS' REPORT

To the Shareholder of North American Fur Auctions Inc.

We have audited the accompanying consolidated financial statements of North American Fur Auctions Inc., which comprise the consolidated balance sheet as at October 31, 2018, the consolidated statements of operations and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of North American Fur Auctions Inc. as at October 31, 2018, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

January 9, 2019

Vaughan, Canada

# NORTH AMERICAN FUR AUCTIONS INC.

Consolidated Balance Sheet  
(Expressed in United States dollars)

October 31, 2018, with comparative information for 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash (note 14)	\$ 3,969,854	\$ 10,188,554
Receivables:		
Buyers (note 14)	18,196,751	34,297,191
Consignors (note 14)	96,391,427	90,282,128
Other (notes 15 and 16)	735,879	1,859,609
	<u>115,324,057</u>	<u>126,438,928</u>
Allowance for doubtful accounts	(2,727,718)	(6,892,078)
	112,596,339	119,546,850
Income taxes recoverable	258,927	981,044
Inventories (note 3)	5,666,920	6,810,929
Prepaid expenses	2,371,016	2,893,051
Derivative financial instruments asset (note 13)	1,945,332	957,737
	<u>126,808,388</u>	<u>141,378,165</u>
Long-term consignor and other receivable (note 16)	7,564,118	7,283,040
Advances to affiliated company (note 16)	5,991,362	6,118,756
Land and building (note 4(a))	9,337,164	9,538,713
Other fixed assets (note 4(b))	7,103,816	7,664,177
Goodwill and trademark (note 5)	3,963,840	1,043,640
	<u>\$ 160,768,688</u>	<u>\$ 173,026,491</u>

## Liabilities and Shareholder's Equity

Current liabilities:		
Bank indebtedness (notes 2 and 14)	\$ 30,000,000	\$ 45,000,000
Accounts payable and accrued liabilities (notes 7, 14 and 16)	24,557,865	31,018,123
Sales proceeds due to consignors (notes 8 and 14)	44,287,272	37,635,913
Current portion of long-term debt (notes 9 and 14)	4,629,878	7,115,422
Current portion of capital lease obligation (note 10)	234,032	307,288
	<u>103,709,047</u>	<u>121,076,746</u>
Long-term debt (notes 9 and 14)	7,674,001	2,641,484
Capital lease obligation (note 10)	-	176,631
	<u>111,383,048</u>	<u>123,894,861</u>
Shareholder's equity:		
Share capital issued (note 11):		
10,000 common shares	65	65
10,000 preference shares, retractable and redeemable at the option of the Company for the Canadian stated amount of \$500,000 plus declared and unpaid dividends	321,027	321,027
	<u>321,092</u>	<u>321,092</u>
Retained earnings	55,839,327	55,585,317
Due from parent company (note 12)	(6,774,779)	(6,774,779)
	<u>49,385,640</u>	<u>49,131,630</u>
Commitments (note 18)		
Guarantees (note 19)		
Subsequent event (note 19(iii))		
	<u>\$ 160,768,688</u>	<u>\$ 173,026,491</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# NORTH AMERICAN FUR AUCTIONS INC.

Consolidated Statement of Earnings and Retained Earnings  
(Expressed in United States dollars)

Year ended October 31, 2018, with comparative information for 2017

	2018	2017
<b>Gross consignment sales</b>	<b>\$ 299,628,491</b>	<b>\$ 244,935,315</b>
Revenue:		
Auction fees - Buyers	18,081,510	13,416,612
Selling commissions - Consignors (note 16)	13,345,356	10,429,725
Other fees and processing revenue	7,911,821	6,831,306
Fur sales of company inventory	5,913,037	15,525,091
	<u>45,251,724</u>	<u>46,202,734</u>
Interest income (note 16)	5,809,853	4,854,390
	<u>51,061,577</u>	<u>51,057,124</u>
Expenses:		
Cost of sales of company inventory	6,167,254	15,172,796
Operating expenses (notes 6, 15 and 16)	36,293,930	32,824,073
	<u>42,461,184</u>	<u>47,996,869</u>
Earnings before the undernoted	8,600,393	3,060,255
Financing costs:		
Interest expense and financing cost	(2,754,158)	(1,569,079)
Amortization of deferred financing fees and financing fees expenses (note 9)	(144,651)	(803,202)
Commission rebate (note 8)	(865,308)	(447,330)
Amortization	(2,105,437)	(2,012,956)
Acquisition consulting costs	(172,410)	(400,000)
Restructuring costs	(924,127)	-
Foreign exchange gain (loss) (note 13)	(521,909)	437,070
	<u>(7,488,000)</u>	<u>(4,795,497)</u>
Earnings (loss) before income taxes	1,112,393	(1,735,242)
Income tax expense (recovery) (note 17)	858,383	(193,542)
Net earnings (loss)	254,010	(1,541,700)
Retained earnings, beginning of year	55,585,317	57,127,017
Retained earnings, end of year	<u>\$ 55,839,327</u>	<u>\$ 55,585,317</u>

See accompanying notes to consolidated financial statements.

# NORTH AMERICAN FUR AUCTIONS INC.

Consolidated Statement of Cash Flows  
(Expressed in United States dollars)

Year ended October 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ 254,010	\$ (1,541,700)
Items not involving cash:		
Amortization of deferred financing fees	-	613,486
Amortization of building and other fixed assets	2,105,437	2,012,956
Loss on disposal of building and other fixed assets	19,778	17,229
Change in unrealized (gain) loss on valuation of derivative financial instrument asset/liability	(987,595)	643,578
Unrealized foreign exchange loss (gain)	1,390,994	(627,492)
	2,782,624	1,118,057
Changes in non-cash operating working capital:		
Receivables	5,235,311	(19,209,608)
Inventories	1,144,009	(2,009,405)
Prepaid expenses	522,035	179,096
Accounts payable and accrued liabilities	(6,033,315)	5,389,034
Sales proceeds due to consignors	6,669,809	(15,323,406)
Income taxes payable/recoverable	722,117	(134,820)
	11,042,590	(29,991,052)
Financing activities:		
Bank indebtedness	(15,000,000)	35,000,000
Repayment of capital lease obligation	(249,887)	-
Repayment of long-term debt	(275,000)	(3,966,664)
Increase in callable debt	-	4,379,808
Advances to affiliated company	(95,401)	(5,866,630)
Repayment of callable debt	(3,033,172)	-
Increase in long-term debt	6,035,671	-
	(12,617,789)	29,546,514
Investing activities:		
Additions to building and other fixed assets	(1,433,207)	(936,712)
Proceeds from disposal of building and other fixed assets	9,162	53,252
Net decrease (increase) in long-term consignor receivables	(281,078)	2,948,952
Purchase of trademark	(2,920,200)	-
	(4,625,323)	2,065,492
Foreign currency loss on cash held in foreign currency	(18,178)	(36,533)
Increase (decrease) in cash	(6,218,700)	1,584,421
Cash, beginning of year	10,188,554	8,604,133
<b>Cash, end of year</b>	<b>\$ 3,969,854</b>	<b>\$ 10,188,554</b>
Supplemental cash flow information for non-cash financing activities:		
Capital assets financed through capital leases	\$ (60,739)	\$ 483,918
Issuance of debt by way of transfer from accounts payable and accrued liabilities	400,000	-
Settlement of debt by way of offset against consignor receivable balance	-	(5,488,500)
Issuance of debt by way of transfer from sales proceeds due to consignors	-	1,546,647

See accompanying notes to consolidated financial statements.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Year ended October 31, 2018

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North American Fur Auctions Inc. (the "Company") is subject to the Canada Business Corporations Act. The Company's principal business activity is the sale, at auction, of fur pelts received on consignment.

## 1. Significant accounting policies:

These consolidated financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The significant accounting policies are as follows:

### (a) Subsidiaries:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: North American Fur Auctions (U.S.) Inc. ("NAFA US"), NAFPRO, LLC, NAFA Europe Co-operatif UA ("NAFA Co-op"), NAFA Europe B.V. ("NAFA Europe") and NAFA Polska Sp. Zoo ("NAFA Polska"). All significant intercompany transactions and balances have been eliminated on consolidation.

### (b) Foreign currency translation:

The Company's reporting currency is the United States ("US") dollar.

Monetary items denominated in a foreign currency and non-monetary items carried at market are adjusted at the balance sheet date to reflect the exchange rate in effect at that date. Exchange gains and losses are included in the determination of net income for the period.

NAFA Co-op, NAFA Europe and NAFA Polska are considered to be integrated foreign operations for purposes of foreign currency translation. Financial statements of integrated foreign operations are translated as follows: monetary items at the exchange rate at the balance sheet date; non-monetary items, including amortization thereon, at historical exchange rates and; revenue and expense at the average rates of exchange in effect for the period. Exchange gains and losses are included in the determination of net income for the period.

### (c) Inventories:

Inventories consist of raw and dressed fur pelts held for resale. Inventories are measured at the lower of average cost and net realizable value.

Cost of dressed pelts includes all costs of conversion. There are no costs of conversion on raw pelts. Net realizable value refers to the amount the Company expects to realize from the sale at auction of the inventory in the ordinary course of business less costs necessary to make the sale.



# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

## 1. Significant accounting policies (continued):

### (d) Fixed assets:

Fixed assets are stated at cost less accumulated amortization. Amortization is provided for over the estimated useful lives of the assets using the following methods and annual rates:

Asset	Basis	Rate
Building	Straight-line	39 years
Machinery and equipment	Straight-line and declining-balance	3-7 years/20% - 30%
Furniture and fixtures	Straight-line and declining-balance	3-7 years/20% - 30%
Computer equipment	Straight-line and declining-balance	20% - 30%
Computer software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term
Vehicles	Straight-line and declining-balance	20% - 30%

### (e) Impairment of long-lived assets:

Long-lived assets, including fixed assets, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on quoted market prices, when available, when quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

### (f) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 1. Significant accounting policies (continued):

### (f) Intangible assets (continued):

Expenditures incurred to acquire, develop, maintain and enhance intangible resources are recognized as assets only when they are separable or arise from contractual or other legal rights regardless of whether these rights are transferable or separable and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost can be reliably measured.

The assessment of the probability of the future economic benefits using reasonable and supportable assumptions represents management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Subsequent expenditures to maintain such expected economic benefits are only capitalized to the carrying amount of the existing intangible asset if these expenditures separately meet the prescribed criteria for recognition as an intangible and that these costs could be directly attributable to a specific intangible asset rather than to the business as a whole.

Intangible asset consists of a trademark. The trademark is considered to have an indefinite life and therefore is not amortized and is tested for impairment only when events or change in circumstances indicate that the carrying amount may not be recoverable and exceeds its fair value.

### (g) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired and liabilities assumed, based on their fair values. Goodwill is allocated, at the date of the business acquisition, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned may exceed the fair value of the reporting unit. When the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is charged to goodwill in an amount equal to the excess. An impairment loss is not subsequently reversed.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 1. Significant accounting policies (continued):

### (h) Revenue recognition:

The Company earns revenue from selling commissions charged to both fur producers and buyers of fur pelts consigned to the Company and subsequently sold at auction, as well as sales of Company inventory on the date the fur pelts are sold at auction. Revenue is recognized where there is evidence of an arrangement and the amounts are considered collectible and the auction sale final. Sales of Company owned pelts are recorded gross based on the sales price and revenue from selling commissions are recorded net.

Other fees and processing revenue, including packaging fees revenue is recognized when the risks and rewards transfer, services are performed and amounts are considered collectible.

### (i) Employee future benefits:

The Company maintains a defined contribution pension plan to provide pension and post-employment benefits to certain existing and former employees. The cost of the defined contribution plan is recognized based on the contributions required to be made during each year.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

### (j) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 1. Significant accounting policies (continued):

### (j) Financial instruments (continued):

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

Preferred shares issued in tax planning arrangements under the provisions of the Income Tax Act are recorded at stated value in equity. When redemption is demanded, the preferred shares are reclassified as liabilities and measured at the redemption amount. Any adjustment is recognized in retained earnings.

### (k) Income taxes:

The Company uses the taxes payable method to account for income taxes whereby the expense (income) of the period consists only of the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by taxation authorities.

### (l) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of fixed assets; provisions for impairment of buyers and consignors receivable; provision for inventory and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 2. Bank indebtedness:

On August 15, 2018, the Company signed an amendment with its bank syndicate that extended its current operating credit facility until April 30, 2019. Under this credit agreement, the Company has operating credit facilities for seasonal working capital purposes of the following: (i) U.S. \$60,000,000 on each day in November 2017, (ii) U.S. \$70,000,000 on each day in December 2017, (iii) U.S. \$80,000,000 in January 2018, (iv) U.S. \$90,000,000 in February and March 2018, (v) U.S. \$65,000,000 in April and May 2018, (vi) U.S. \$50,000,000 from June to October 2018, (vii) U.S. \$60,000,000 in November 2018, (viii) U.S. \$70,000,000 in December 2018 and January 2019, (ix) U.S. \$80,000,000 in February 2019 through to March 20, 2019, (x) U.S. \$70,000,000 starting March 21, 2019 through to and including March 31, 2019, and (xi) U.S. \$60,000,000 on each day in April 2019 through to and including April 30, 2019. Borrowing under this new facility may be drawn by way of U.S. dollar base rate loans, Canadian ("Cdn.") dollar prime rate loans, London Interbank Borrowing Rate ("LIBOR") loans, revolving loans of letters of credit and swingline loans by way of overdraft.

Base rate loans bear interest at the bank's U.S. base rate plus 1.95% (2017 - 0.95%); the prime rate loans bear interest at the Canadian prime rate plus 1.95% (2017 - 0.95%), and the LIBOR loans bear interest at LIBOR plus 3.45% (2017 - 2.45%).

At October 31, 2018, \$30,000,000 (2017 - \$45,000,000) has been drawn against the operating credit facilities.

The operating credit facility is due on demand and is secured by all of the Company's assets pursuant to a general security agreement, a fixed and floating first charge debenture, an assignment of inventory and an assignment of receivables.

In addition, under the credit facility agreement, the Company has U.S. \$15,000,000 Foreign Exchange Contingent Liability facility and a U.S. \$150,000 Corporate Visa card, which remained the same as the previous facility.

Availability of the credit facilities is subject to certain financial and non-financial restrictive covenants. As at October 31, 2018, the Company was in compliance with the covenants.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

## 2. Bank indebtedness (continued):

The Company is currently under discussions to renew their credit facility, however, there can be no assurance that the credit facility will be extended or renewed or that future borrowings will be available, or available on acceptable terms, in an amount sufficient to meet the Company's financing requirements at that time. If such an extension or renewal or future borrowings were not available, or not available on acceptable terms, it could have a material adverse impact on the Company's business and financial condition.

## 3. Inventories:

Inventory consists of raw pelts inventory. During the year ended October 31, 2018, an amount of \$350,836 (2017 - \$343,222) was recorded as a write-down from cost to net realizable value.

During the year, a reversal of a write-down and the provision relating to 2017 amounted to \$343,222 (2017 - \$313,034). The reversal was recorded as a result of recoveries in net realizable value of certain inventories when compared to their respective carrying amounts.

The carrying amount of inventory that is valued at net realizable value is \$5,480,204 (2017 - \$6,633,038).

## 4. Land and building, and other fixed assets:

### (a) Land and building:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
United States:				
Land	\$ 90,000	\$ -	\$ 90,000	\$ 90,000
Building and improvements	3,112,975	966,649	2,146,326	2,226,147
Poland:				
Land	264,666	-	264,666	275,370
Building	8,048,621	1,293,199	6,755,422	6,947,196
The Netherlands:				
Land	80,750	-	80,750	-
	\$ 11,597,012	\$ 2,259,848	\$ 9,337,164	\$ 9,538,713

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

## 4. Land and building, and other fixed assets (continued):

### (b) Other fixed assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Machinery and equipment	\$ 10,050,942	\$ 7,391,315	\$ 2,659,627	\$ 2,699,476
Furniture and equipment	1,217,617	1,098,833	118,784	160,651
Computer equipment	3,907,797	2,891,063	1,016,734	603,911
Leasehold improvements	8,471,818	5,709,564	2,762,254	3,561,672
Vehicles	455,937	332,701	123,236	154,549
Computer software under capital lease	423,181	-	423,181	483,918
	<b>\$ 24,527,292</b>	<b>\$ 17,423,476</b>	<b>\$ 7,103,816</b>	<b>\$ 7,664,177</b>

During 2017, capital assets were acquired at an aggregate cost of \$1,420,630 of which \$483,918 were acquired by means of capital lease. During 2018 the Company received a refund from the lessor of \$60,737 for the unused portion of the software. Assets under capital lease have not been amortized during the year, as those have not been put to use.

Amortization expense of \$2,105,437 (2017 - \$2,012,956) was recorded during the year for building and other fixed assets.

## 5. Goodwill and trademark:

	2018	2017
Goodwill (a)	\$ 1,043,640	\$ 1,043,640
Trademark (b)	2,920,200	-
	<b>\$ 3,963,840</b>	<b>\$ 1,043,640</b>

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 5. Goodwill and trademark (continued):

- (a) Goodwill arose as a result of the purchase on October 31, 2009 of all the shares of Multifur B.V. (subsequently renamed NAFA Europe B.V.) and its wholly owned subsidiary NAFA Polska. The acquisition has been accounted for by the purchase method. The results of operations of the acquired business are included in the consolidated results of the Company commencing on November 1, 2009.
- (b) During 2018, the Company acquired the BLACKGLAMA trademark from American Legend Cooperative for consideration of \$2,500,000 plus directly attributable costs of \$420,200.

The Company does not amortize the trademark and only tests it for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. There was no such impairment during the year.

## 6. Employee future benefits:

Pension expense for the defined contribution plan was approximately \$238,179 (2017 - \$248,075), included in operating expenses.

## 7. Government remittances:

Included in accounts payable and accrued liabilities are government remittances payable of \$76,325 (2017 - \$102,596) relating to federal and provincial sales taxes, payroll taxes, health taxes and workers' safety insurance.

## 8. Sales proceeds due to consignors:

Sales proceeds due to consignors represent unsecured auction proceeds left on deposit. These obligations have no fixed terms of repayment and are payable on request by the consignor.

Commission rebate expense represents the rate of return paid on consigner sales proceeds left on deposit for longer than two months at annual rates ranging from 1.2% to 3.2% (2017 - 1.2% to 3.2%).



# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

## 9. Long term debt:

	2018	2017
(i) Term financing of \$5,500,000, bearing interest at three-month U.S. LIBOR plus 4.0%, repayable in full on July 31, 2023, with quarterly repayments of \$137,500 commencing on July 31, 2018, secured by a collateral charge on land and buildings in Goleniow, Poland	\$ 5,225,000	\$ -
(ii) Callable unsecured debt from a senior executive		
Cdn. denominated balances, bearing interest of 4.0% per annum	501,421	2,568,775
U.S. denominated balances, bearing interest of 3.2% per annum	31,810	1,000,000
(iii) Callable unsecured debt from a consignor, bearing interest of 3.2% per annum	3,546,647	3,546,647
(iv) Loans from ultimate shareholders bearing interest of 6.75%, secured by a general security agreement providing a charge on all assets subordinated to the banks and the mortgage:		
Loan payable in three principal payments, with \$500,000 Cdn. due on November 30, 2019 (2017 - due November 30, 2018), and \$500,000 Cdn. due on July 31, 2020 (2017 - due July 31, 2019), and \$500,000 Cdn. due on November 30, 2020 (2017 - due November 30, 2019)	1,141,350	1,163,400
Loan payable in two principal payments with \$500,000 Cdn. due on December 31, 2019 and \$500,000 Cdn. due on July 31, 2020 (2017 - December 31, 2018 and July 31, 2019)	760,900	775,600
Loan payable due on November 30, 2019 (2017 - November 30, 2018)	296,751	302,484
Loan payable due on November 30, 2019 (2017 - November 30, 2018)	800,000	400,000
	<u>12,303,879</u>	<u>9,756,906</u>
Less:		
Current portion	550,000	-
Callable debt	4,079,878	7,115,422
	<u>4,629,878</u>	<u>7,115,422</u>
	<u>\$ 7,674,001</u>	<u>\$ 2,641,484</u>

Deferred financing cost represents the unamortized cost of obtaining the long-term debt, including financing fees. Amortization is recorded over the term of long-term debt. For the year ended October 31, 2018, nil (2017 - \$803,202) was amortized. Cost relating to current year consists of nil (2017 - \$613,486) amortization of previously deferred costs and \$144,651 (2017 - \$189,716) of costs incurred and expensed in current year.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 9. Long term debt (continued):

Principal repayments required on all long-term debt for the next five years are due as follows:

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2019	\$ 4,629,878
2020	3,168,551
2021	930,450
2022	550,000
2023	3,025,000
	<hr/>
	\$ 12,303,879

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- (i) During the year, Export Development Canada, one of the participants in the Company's bank syndicate (note 2), provided debt refinancing of \$5,500,000 for the Polish facility as a separate tranche of the credit facilities agreement.
- (ii) During 2016, a senior executive provided the Company with \$2,500,000 Cdn. in debt financing. During 2017, additional tranches of debt in the amount of \$3,311,985 Cdn. and \$1,000,000 U.S. were provided and \$2,500,000 Cdn. was repaid. During 2018, \$2,653,000 Cdn. and \$968,190 U.S. was repaid. The transaction is a related party in nature. The debt is unsecured and due on demand.
- (iii) During 2017, the Company obtained financing in the amount of \$3,546,647 from consignor, a portion of this amount of \$1,546,647 has been transferred from sales proceeds due to consignors. The balance remained the same during 2018.
- (iv) Principal repayments on loans with ultimate shareholders of \$2,999,001 (2017 - 2,641,484) are due through to maturity in fiscal 2020 and 2021.

During the year \$400,000 was transferred from accounts payable and accrued liabilities to loans with ultimate shareholders.

Loans with ultimate shareholders and senior executives represent related party transactions and are recorded at the exchange amounts.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 9. Long term debt (continued):

Interest expense related to loans with ultimate shareholders amounted to \$184,286 (2017 - \$176,029).

Interest expense related to a loan with a senior executive amounted to \$45,304 (2017 - \$96,641).

Interest expense related to a callable loan with a consignor amounted to \$113,493 (2017 - \$112,560).

Interest expense related to other long-term debt amounted to approximately \$174,481 (2017 - \$234,334).

## 10. Capital lease obligation:

The Company has financed certain computer software program by entering into capital leasing arrangements. Capital lease repayments are due as follows:

	2018	2017
2018	\$ -	\$ 313,487
2019	238,975	188,092
Total minimum lease payments	238,975	501,579
Less amount representing interest at 5.90% (2017 - 4.15%)	4,943	17,660
Present value of net minimum capital lease payments	234,032	483,919
Less current portion of obligations under capital lease	234,032	307,288
	\$ -	\$ 176,631

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

## 11. Share capital issued:

	2018	2017
Issued and outstanding:		
10,000 preference shares	\$ 321,027	\$ 321,027
10,000 common shares	65	65
	<b>\$ 321,092</b>	<b>\$ 321,092</b>

## 12. Due from parent company:

The amount due from parent company represents advances made by the Company to its parent company, North American Fur Producers Inc., in connection with the parent company's purchase of certain shares of the Company and as a result has been presented as a deduction from shareholder's equity. The amount is non-interest bearing, unsecured and due on demand once a minimum of twelve months' notice has been given in writing.

## 13. Derivative financial instruments:

The Company believes that forward exchange contracts are an effective way to manage exposure to foreign exchange rates. The Company is committed under various forward exchange contracts to sell currency of Euro 35,333,000 for \$41,619,799 U.S. dollars (2017 - Euro 44,940,000 for \$52,886,074 U.S. dollars) and to sell currency of Cdn. \$15,500,000 for \$11,759,000 U.S. dollars (2017 - Cdn. \$10,000,000 for \$7,970,134 U.S. dollars). The Euro contracts have expiration dates ranging from March 19, 2019 to June 21, 2019, and have exchange rates ranging from 1.14 to 1.20. The Cdn. contracts have expiration dates ranging from March 22, 2019 to June 21, 2019, and have exchange rates ranging from 1.30 to 1.33.

The Company is also committed under forward exchange contract to sell U.S. \$625,350 for \$550,000 Euro (2017 - nil). This contract has an expiration date of November 1, 2018 and an exchange rate of 1.137.

The Company is also committed under put contract to sell currency of Euro 12,000,000 for \$14,160,000 U.S. dollars (2017 - nil) and call contract to sell currency of Euro 12,000,000 for \$14,820,120 U.S. dollars. The contacts have an expiration date of June 20, 2019 and exchange rates ranging from 1.18 to 1.24.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 13. Derivative financial instruments (continued):

These forward contracts are not designated as hedges and are recorded at the fair value with changes in fair value being recognized in earnings. At October 31, 2018, the Company recognized an unrealized gain of \$1,945,332 (2017 - \$957,737) on these derivative financial instruments, included in foreign exchange gain (loss).

## 14. Financial risk management:

### (a) Credit risk:

The Company performs ongoing credit evaluations of buyers and consignors. In respect of buyer receivables, the Company does not release fur pelts purchased by buyers until the buyer's receivable balance is paid in full or the buyer provides an acceptable letter of credit or the majority of the amount is covered by receivable insurance. Consignor receivables are advances against expected sales of fur pelts. Consignor receivables are secured by consignor's livestock, fur pelts or other forms of security or collateral as the Company deems necessary and bear interest at bank prime plus 3%, or in the case of European consignors, loans ranging from 3.50% to 5.0% (2017 - 3.50% to 5.0%). Consignor receivables are repayable from the proceeds from the sale of the fur pelts at auction. There has been no change to the risk exposure from 2017.

### (b) Foreign exchange risk:

The Company carried on business transactions denominated in currencies other than the reporting currency exposing the Company to fluctuations in the exchange rates between the reporting currency and foreign currencies. These currencies included: Canadian (Cdn.), Euro (€), and Polish Zloty (PLN). The Company holds cash in foreign currencies and periodically uses derivative financial instruments and foreign currency denominated bank indebtedness to reduce its exposure to fluctuations in foreign currency exchange rates. The counterparties to the derivative contracts are multinational commercial banks; therefore, credit risk of counterparty non-performance is considered to be low. There has been no change to risk exposure from 2017.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

## 14. Financial risk management (continued):

The Company had the following foreign denominated monetary balances:

	2018		2017	
	Balance in foreign currency	U.S. dollar equivalent	Balance in foreign currency	U.S. dollar equivalent
Cash (bank indebtedness)	(€) 103,052	\$ 116,645	(€) 798,722	\$ 930,112
Cash (bank indebtedness)	PLN 1,554,725	\$ 407,027	PLN 2,341,503	\$ 641,104
Cash (bank indebtedness)	Cdn. 444,403	\$ 338,146	Cdn. 3,355,735	\$ 2,602,708
Cash (bank indebtedness)	Cny 107,781	\$ 15,456	Cny 2,763,855	\$ 416,513
Receivables	Cdn. 19,657,655	\$ 14,957,510	Cdn. 21,019,374	\$ 16,302,627
Receivables	(€) 48,210,959	\$ 54,569,984	(€) 45,310,175	\$ 52,763,699
Receivables	PLN 204,064	\$ 53,424	PLN 998,930	\$ 273,507
Receivables	Cny 144,505	\$ 20,722	-	\$ -
Accounts payable	Cdn. 5,920,965	\$ 4,505,262	Cdn. 6,221,542	\$ 4,825,428
Accounts payable	(€) 1,354,487	\$ 1,533,144	(€) 3,008,834	\$ 3,503,788
Accounts payable	PLN 1,003,840	\$ 262,805	PLN 657,093	\$ 179,912
Advances to affiliated company	Cdn. 7,874,046	\$ 5,991,362	Cdn. 7,365,490	\$ 5,712,674
Sales proceeds due to consignors	Cdn. 2,527,379	\$ 1,923,083	Cdn. 2,655,211	\$ 2,059,382
Long-term debt and current portion of long-term debt	Cdn. 3,548,985	\$ 2,700,423	Cdn. 6,201,985	\$ 4,810,260

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 15. Transactions with parent company:

Included in other receivables are amounts receivable from parent company of nil (2017 - \$10,964). These advances are non-interest bearing, unsecured and have no specified terms of repayment. These are included as current receivables as this reflects the parties' intentions.

During the year, management fees of \$34,393 (2017 - \$60,620) was paid to the parent company, included in operating expenses.

## 16. Other related party transactions and balances:

Included in accounts payable and accrued liabilities are \$516,539 (2017 - \$1,004,685) of amounts payable to related entities that are shareholders of the parent company. These payables arose from advances and fees collected on behalf of these related parties. These related party balances are interest bearing, unsecured and without specific terms of repayment. Interest expense related to these interest bearing balances amounted to \$8,601 (2017 - \$8,835). The balances have been reflected as current liabilities, as this reflects the parties' intentions.

Included in other receivables is \$359,073 (2017 - \$511,896) of amounts receivable from a related entity that is a shareholder of the parent company. The receivable arose from the payment of marketing expenses on behalf of the related party. These advances are non-interest bearing, unsecured and have no specified terms of repayment. These are included as current receivables as this reflects the parties' intentions.

On April 2, 2013, a subsidiary of NAFA's parent company, North American Fur Producers Inc., purchased a new 88,867 square foot warehouse building located at 500 Carlingview Drive in Toronto, Ontario which is in close proximity to the Company's current head office. In order to facilitate this purchase, NAFA loaned this affiliated company called NAFA Properties Inc. \$4.2 million in Canadian funds in the form of a five year mortgage at an annual interest rate of 5% with monthly principal payments based upon a ten year amortization schedule. NAFA Properties Inc. then leased the Carlingview building back to NAFA to use as its new Toronto distribution and storage centre over the next 10 years, until the building lease expires on September 30, 2022. During 2018, the mortgage receivable was fully settled and repaid by NAFA Properties Inc. (note 19). Included in operating expenses is \$306,563 (2017 - \$306,482) rent expense and included in interest income is nil (2017 - \$85,720) interest income related to this transaction.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 16. Other related party transactions and balances (continued):

On February 22, 2017, NAFA Properties Inc., purchased a building at 65 Skyway Ave., parking lot and parking lot structures ("Skyway property") and then leased the corporate office building back to the Company to use as its Toronto headquarters over the next five years until the building lease expires on September 30, 2022. Included in operating expense is \$699,832 (2017 - \$484,498) rent expense and \$230,870 (2017 - \$146,163) share of property taxes related to this transaction.

During 2017, the Company advanced funds to NAFA Properties Inc. and its subsidiaries to facilitate purchase of Victory Farms (note 19), to assist with construction of Stoughton building and to assist with operational funding. As at October 31, 2018, the amount outstanding and receivable from the affiliated company is \$5,991,362 (2017 - \$6,118,756), related to those transactions. The amount is non-interest bearing (2017 - interest bearing), unsecured and has no specified terms of repayment. Included in interest income is nil (2017 - \$228,174) related to these transactions.

On November 1, 2017, NAFA Properties Inc. completed the construction of the Stoughton building and leased the property back to the company over the next three years until the building lease expires on October 31, 2020. Included in operating expense is \$256,529 (2017 - nil) rent expense related to this transaction.

During the year, a recovery of \$64,289 (2017 - \$64,193) for administrative services provided to NAFA Properties Inc. was recorded in operating expenses.

Included in selling commissions - consignors is \$130,293 (2017 - \$110,513) of selling commissions paid to the Company by an affiliated consignor, 3306319 Nova Scotia Limited.

During 2015, the Company provided relocation assistance to a senior executive in the form of an interest free housing loan in the amount of \$770,000 in Canadian funds. As at October 31, 2018, \$208,421 U.S. (2017 - \$212,448 U.S.) related to this transaction was outstanding and is included in long-term consignor and other receivable balance. During 2018, the Company's executive repaid nil (2017 - nil) in Canadian funds of this loan. The executive is also required to make annual payments of \$10,000 - \$30,000 in Canadian funds against the remaining debt until the earlier of such time as the principal amount of the loan is repaid in full, or January 31, 2025.



# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

## 17. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rate of 26.50% (2017 - 26.50%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2018	2017
Earnings (loss) before income taxes	\$ 1,112,393	\$ (1,735,242)
Income taxes computed at the statutory rates	\$ 294,784	\$ (459,839)
Increase (decrease) in income taxes resulting from:		
Tax effect of difference between Canadian and foreign income tax rate	(169,237)	91,687
Tax effect of difference between amortization of capital assets and capital cost allowance claimed	(64,858)	(127,703)
Tax effect of permanent differences	48,715	127,251
Tax effect on non-deductible reserves	167,723	2,650
Loss carryforward not utilized	65,128	222,262
Income taxes paid to foreign jurisdictions	304,176	21,424
Other	211,952	(71,274)
Income taxes	\$ 858,383	\$ (193,542)

## 18. Commitments:

Future minimum lease payments required under non-cancelable leases are approximately as follows:

2019	\$ 1,312,000
2020	1,269,000
2021	1,229,000
2022	934,000
2023	-
	\$ 4,744,000

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

Year ended October 31, 2018

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## 19. Guarantees:

During 2017, the Company assisted an affiliated company, NAFA Properties Inc., with debt refinancing on three property loans. Under the terms of the new debt issued in the affiliated entity, the Company is a guarantor for the full amount of the loans supported by a General Security Agreement providing a security interest in all present and after acquired personal property, except consumer goods, subject only to existing and future registered charges.

- (i) On October 26, 2016, the Company entered into a binding agreement to purchase its Toronto based corporate headquarters 65 Skyway Ave. ("Skyway property") building from its current landlord and building owner for \$8.6 million in Canadian funds. The deal to buy the building, as well as an existing restaurant building and associated parking facilities, was subsequently assigned to the Company's affiliate, NAFA Properties Inc. and closed in February 2017. NAFA Properties Inc. secured approximately \$7.3 million in Canadian funds in long term mortgage financing from the Business Development Bank of Canada to assist it with the purchase of the building. As at October 31, 2018, the balance outstanding on this debt, and cross guaranteed by the Company, was approximately \$6,756,400 (2017 - \$7,046,000) in Canadian funds.
- (ii) In June 2017, the Company facilitated and guaranteed the refinancing by NAFA Properties Inc. of its Toronto Distribution Centre located at 500 Carlingview Drive ("Carlingview property"), with Farm Credit Canada in the amount of U.S. \$4 million. The existing outstanding portion of the Company's mortgage on the Carlingview property with NAFA Properties Inc. was repaid from the net proceeds of this debt. The Company then used these proceeds to also repay the outstanding balance of approximately U.S. \$2.9 million on its original U.S. \$8.5 million demand term loan, partially secured and collateralized by a charge of the land and buildings of the Carlingview property. As at October 31, 2018, the balance outstanding on this debt, and cross guaranteed by the Company, was approximately U.S. \$3,462,185 (2017 - U.S. \$3,900,000).

The mortgage is subject to certain financial and non-financial covenants as defined in the agreement. Non-financial covenants are applicable to both the Company and NAFA Properties. Financial covenant of Fixed Charge Covenant ratio is applicable to the Company. As at October 31, 2018, NAFA Properties was in compliance with the covenants.

# NORTH AMERICAN FUR AUCTIONS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in United States dollars)

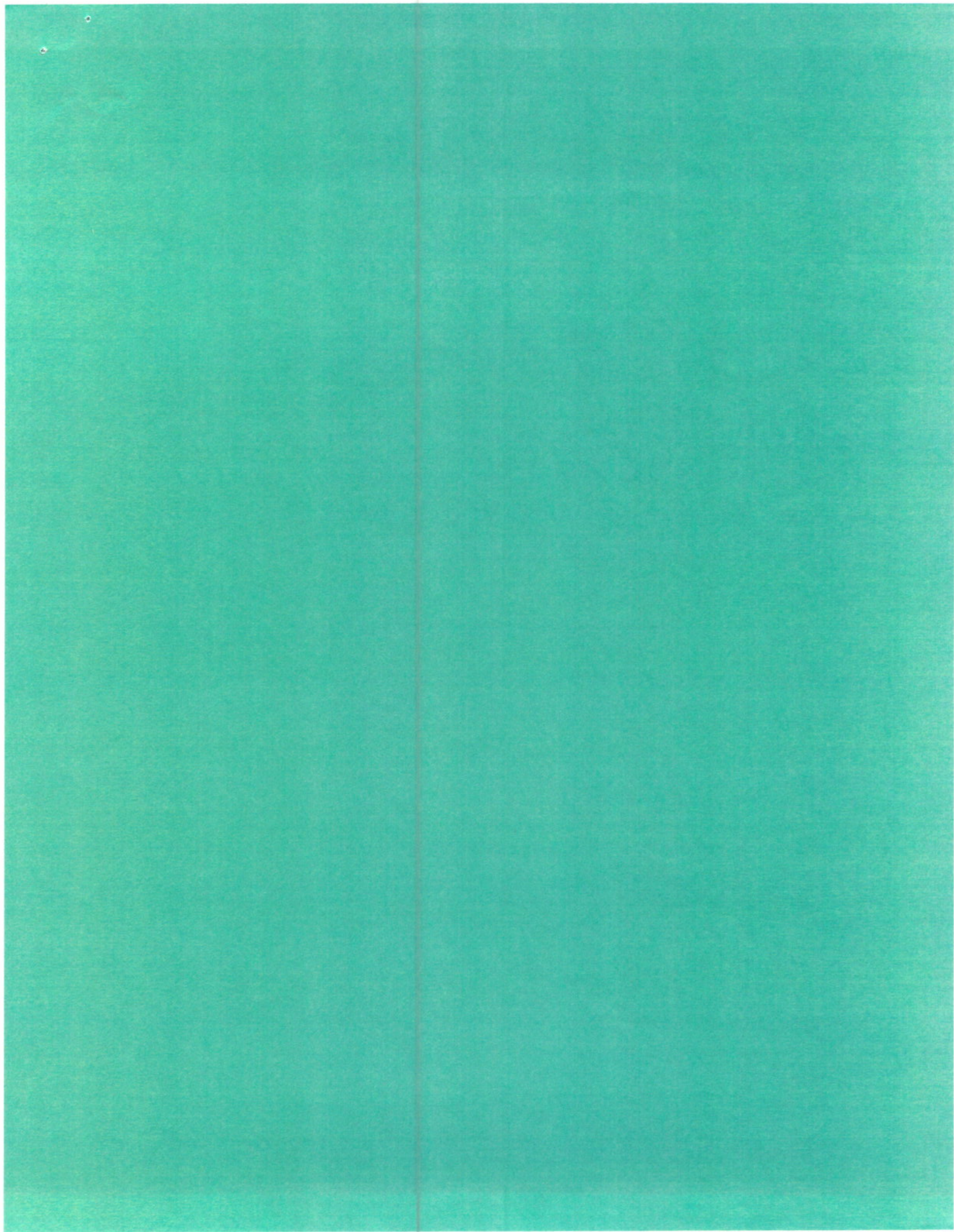
Year ended October 31, 2018

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## 19. Guarantees (continued):

- (iii) During 2017, a subsidiary of NAFA Properties Inc., 3306319 Nova Scotia Limited ("NAFA Farms"), acquired the assets of Victory Farms Inc. and Jonathan Mullen Mink Ranch Limited from the court appointed monitor for these companies under the Companies' Creditors Arrangement Act. As part of the Asset Purchase Agreement, in order to secure the assets, NAFA Farms was required to assume and repay the existing land and property mortgage loans held by Farm Credit Canada and the Nova Scotia Farm Loan Board, totalling approximately \$1.8 million Cdn. Farm Credit Canada subsequently agreed to provide NAFA Farms with a new land and property mortgage in the amount of \$1.8 million in Canadian funds. On October 31, 2018, the balance outstanding on this debt, and cross guaranteed by the Company and NAFA Properties Inc., was approximately \$1,731,776 (2017 - \$1,800,000) in Canadian funds.

The mortgage is subject to certain financial covenants as defined in the agreement. Financial covenant of Fixed Charge Coverage ratio is applicable to NAFA Farms. As at October 31, 2018, NAFA Farms was not in compliance with the financial covenant. Subsequent to year end, the lender has provided NAFA Farms with a waiver with respect to the covenant violation.



Consolidated Financial Statements of

**NAFA PROPERTIES INC.**

Year ended October 31, 2018



KPMG LLP  
Vaughan Metropolitan Centre  
100 New Park Place, Suite 1400  
Vaughan ON L4K 0J3  
Canada  
Tel 905-265-5900  
Fax 905-265-6390

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholder of NAFA Properties Inc.

We have audited the accompanying consolidated financial statements of NAFA Properties Inc., which comprise the consolidated balance sheet as at October 31, 2018, the consolidated statements of operations and deficit and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NAFA Properties Inc. as at October 31, 2018, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

January 9, 2019

Vaughan, Canada

# NAFA PROPERTIES INC.

## Consolidated Balance Sheet

October 31, 2018, with comparative information for 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash	\$ 92,953	\$ 116,578
Accounts receivable	454,982	453,105
Income taxes recoverable	-	64,080
Inventories (note 2)	2,655,392	2,661,229
Prepaid expenses	-	85,072
	<u>3,203,327</u>	<u>3,380,064</u>
Mink breeding herd (note 2)	207,600	683,350
Cash surrender value of life insurance	107,888	70,973
Land and building (notes 4 and 5(e))	15,104,410	15,491,791
Other fixed assets (note 4)	978,964	1,411,872
Goodwill (note 3)	3,065,085	3,065,085
	<u>\$ 22,667,274</u>	<u>\$ 24,103,135</u>
<b>Liabilities and Shareholder's Equity (Deficiency)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 451,573	\$ 559,200
Income taxes payable	9,352	-
Current portion of long-term debt (note 5)	902,590	879,112
Current portion of property tax payable (note 5(d))	31,428	-
	<u>1,394,943</u>	<u>1,438,312</u>
Long-term debt (notes 5 and 8)	14,029,559	14,785,505
Property tax payable (note 5(d))	508,561	539,989
Due to NAFA (notes 3 and 8)	7,874,046	7,889,072
	<u>23,807,109</u>	<u>24,652,878</u>
Shareholder's deficiency:		
Capital stock (note 6)	1	1
Retained deficit	(1,139,836)	(549,744)
	<u>(1,139,835)</u>	<u>(549,743)</u>
Commitments (note 11)		
Subsequent events (note 5(c))		
	<u>\$ 22,667,274</u>	<u>\$ 24,103,135</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director



# NAFA PROPERTIES INC.

## Consolidated Statement of Operations and Deficit

Year ended October 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Mink pelt sales	\$ 2,866,029	\$ 2,374,772
Rental income (note 8)	1,749,846	1,116,098
Interest and other income (note 7)	1,941,305	715
	<u>6,557,180</u>	<u>3,491,585</u>
Expenses:		
Cost of sales of mink inventory (notes 2 and 8)	4,339,020	2,520,441
Operating expenses (notes 3 and 8)	1,394,677	1,333,725
	<u>5,733,697</u>	<u>3,854,166</u>
Earnings (loss) before the undernoted items and income taxes	823,483	(362,581)
Other expenses (income):		
Interest expense (notes 5 and 8)	736,196	505,286
Amortization of buildings and other fixed assets	540,100	269,978
Foreign exchange (gain) loss	116,784	(136,807)
	<u>1,393,080</u>	<u>638,457</u>
Loss before income taxes	(569,597)	(1,001,038)
Provision for income taxes (note 10)	20,495	(33,423)
Net loss for the year	(590,092)	(967,615)
Deficit, beginning of year	(549,744)	417,871
Deficit, end of year	<u>\$ (1,139,836)</u>	<u>\$ (549,744)</u>

See accompanying notes to consolidated financial statements.

# NAFA PROPERTIES INC.

## Consolidated Statement of Cash Flows

Year ended October 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Net loss	\$ (590,092)	\$ (967,615)
Items not involving cash:		
Amortization of buildings and other fixed assets	540,100	269,978
Amortization of deferred financing costs	21,762	9,667
Amortization of building and other fixed assets capitalized to the cost of inventories	352,083	176,955
Write down of inventory	716,945	-
	1,040,798	(511,015)
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(1,877)	147,070
Decrease (increase) in income taxes recoverable	64,080	(64,080)
Decrease (increase) in inventories	(711,108)	113,137
Decrease (increase) in prepaid expenses	85,072	(85,072)
Decrease (increase) in accounts payable and accrued liabilities	(107,627)	158,662
Increase (decrease) in income taxes payable	9,352	(11,091)
Decrease in sales taxes payable	-	(12,708)
	378,690	(265,097)
Financing:		
Increase (decrease) in due to NAFA, (net) (note 8)	(15,026)	4,053,660
Proceeds from long-term debt	-	14,490,917
Repayment of long-term debt	(754,230)	(3,513,565)
Deferred financing costs	-	(108,809)
	(769,256)	14,922,203
Investing:		
Additions to land, buildings and other assets	(71,894)	(10,501,232)
Change in mink breeding herd due to redesignation to inventory (note 2) or sale	475,750	3,460
Acquisition of Victory Farms	-	(4,000,000)
Cash surrender value of life insurance	(36,915)	(70,973)
	366,941	(14,568,745)
Increase (decrease) in cash	(23,625)	88,361
Cash, beginning of year	116,578	28,217
Cash, end of year	\$ 92,953	\$ 116,578
Supplemental cash flow information:		
Land acquired though government grant non-cash incentive by way of offset with property taxes payable (note 5(e))	\$ -	\$ 539,989
Purchase of capital assets	-	339,038

See accompanying notes to consolidated financial statements.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements

Year ended October 31, 2018

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## **Nature of operations:**

NAFA Properties Inc. (the "Company") is a private company incorporated on March 22, 2013 under the Canada Business Corporations Act. The Company generates revenue from the sale of mink pelts from mink farming operations and rental of three commercial properties in the cities of Toronto, Ontario and Stoughton, Wisconsin.

## **1. Significant accounting policies:**

These consolidated financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The significant accounting policies are as follows:

### **(a) Subsidiaries:**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: 3306319 Nova Scotia Limited incorporated on March 31, 2017, NAFA Properties (US) Inc. incorporated on April 5, 2017 and its subsidiary NAFA Properties Stoughton LLC incorporated on March 31, 2017. All significant intercompany transactions and balances have been eliminated on consolidation.

### **(b) Foreign currency translation:**

The Company's reporting currency is the Canadian ("Cdn") dollar. Monetary items denominated in a foreign currency and non-monetary items carried at market are adjusted at the balance sheet date to reflect the exchange rate in effect at that date. Exchange gains and losses are included in the determination of net income for the period.

NAFA Properties (US) Inc. and NAFA Properties Stoughton LLC are considered to be integrated foreign operations for purposes of foreign currency translation. Financial statements of integrated foreign operations are translated as follows: monetary items at the exchange rate at the balance sheet date; non-monetary items, including amortization thereon, at historical exchange rates and; revenue and expense at the average rates of exchange in effect for the period. Exchange gains and losses are included in the determination of net income for the period.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

## 1. Significant accounting policies (continued):

### (c) Capital assets:

Building, parking lot and other fixed assets are stated at cost, less accumulated amortization. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Building	Straight-line	39 years
Machinery, equipment and vehicles	Declining balance	10% - 30%
Farm improvements	Declining balance	10% - 20%
Vehicles	Straight-line and declining balance	20% - 30%
Parking lot	Straight-line	10 years

### (d) Impairment of long-lived assets:

Long-lived assets, including other fixed assets, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on quoted market prices, when available, when quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

### (e) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, at the date of the business acquisition, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying value of the reporting unit to which goodwill is assigned may exceed the fair value of the reporting unit. When the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is charged to goodwill in an amount equal to the excess. An impairment loss is not subsequently reversed.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 1. Significant accounting policies (continued):

### (f) Revenue recognition:

The Company recognizes revenue when services are rendered, the customer takes ownership and assumes risk of loss, collection of the related receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

Rental income is recognized in accordance with the underlying lease terms. To the extent that rents include free-rent periods and rental increases over the term of the lease, income is recognized on a straight-line basis over the term of the lease.

### (g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 1. Significant accounting policies (continued):

### (h) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product or property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount. All other related party transactions are measured at the carrying amount.

### (i) Income taxes:

The Company uses the taxes payable method to account for income taxes whereby the expense (income) of the period consists only of the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by taxation authorities.

### (j) Inventories:

Inventories are measured at the lower of cost and net realizable value. Cost includes purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. The costs are assigned using the weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (k) Mink Breeding herd:

The Mink Breeding herd is valued at the original cost. Cost is defined as the cost of purchase, including the cost of production and other costs incurred in bringing replacement Mink Breeding herd to their present location and condition.

The cost of the Mink Breeding herd will not change unless there is a major reduction or increase in the herd which would generally occur as a result of movement or replacement animals.

Animals at the end of their production cycle are pelted for eventual sale at the pelt auction and moved to inventory and replaced with new breeding herd.

Mink Breeding herd is recorded as a long-term asset as the production cycle of the asset on average is more than one year.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 1. Significant accounting policies (continued):

### (l) Government assistance:

The Company periodically applies for financial assistance under available government incentive programs. Government assistance related to current expenses and revenue is included in the determination of net income for the period.

### (m) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of capital assets and other fixed assets; provision for inventories and breeding herd. Actual results could differ from those estimates.

## 2. Inventories and Mink Breeding herd:

	2018	2017
Live mink designated for pelting and eventual sale	\$ 769,472	\$ 2,261,357
Mink pelts designated for eventual sale	1,885,920	399,872
	<u>\$ 2,655,392</u>	<u>\$ 2,661,229</u>

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 2. Inventories and Mink Breeding herd (continued):

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	2018	2017
Mink breeding herd	\$ 207,600	\$ 683,350

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The mink inventory consists of live mink designated for pelting and available for sale and pelted mink designated for eventual sale at the pelt auctions. In addition, the Company retains a breeding herd consisting of male and female breeders that will be bred in the spring following year end. Mink inventory for sale as pelts or live animals are carried at the lower of estimated cost and net realizable value. Mink Breeding herd is carried at cost. As at October 31, 2018, the mink breeding herd consisted of 6,000 (2017 - 19,750) breeders with an estimated carrying value of \$34.60 (2017 - \$34.60) per mink. During 2018, 13,750 breeders with a cost of \$475,750 were re-designated as inventory and were pelted for sale. At October 31, 2018, new breeders are being raised and expected to be ready for reproduction in February 2019, at which point the breeding herd will be replenished.

Inventory of live mink, designated for pelting and eventual sale consisted of 24,046 (2017 - 81,104) minks with an estimated carrying value of \$32.00 (2017 - \$27.88) per mink. Inventory of mink pelts, designated for sale consisted of 58,935 (2017 - 11,557) pelts with an estimated carrying value of \$32.00 (2017 - \$34.60) per pelt.

During the year ended October 31, 2018, an amount of \$716,945 (2017 - nil) was recorded as a write down from cost to net realizable value.

## 3. Acquisition:

On May 5, 2017, the Company, via its subsidiary 3306319 Nova Scotia Limited acquired the assets of Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited (collectively "Victory Farms"). Victory Farms operates mink farms in Nova Scotia, Canada.

The aggregate purchase price was \$4,000,000 plus assumed liabilities.



# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

### 3. Acquisition (continued):

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Allocation of the purchase price:

Assets:

Accounts receivable	\$	545,686
Other fixed assets		2,006,663
Mink inventory		2,774,366
Mink breeding herd		686,810
Goodwill		3,065,085
		<u>9,078,610</u>

Liabilities:

Mortgage payable		(1,820,233)
Due to NAFA		(3,258,377)
		<u>(5,078,610)</u>

Net identifiable assets acquired and liabilities assumed 4,000,000

Total consideration was as follows:

Cash		4,000,000
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\$ -

Subsequent to the acquisition date, the assumed mortgage payable liability was extinguished by an affiliated company, North American Fur Auctions Inc. The debt was subsequently refinanced with Farm Credit Canada ("FCC") on October 31, 2017 as described in (note 5(d)).

Acquisition related costs were \$48,000, included in operating expenses in 2017.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

## 4. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
United States:				
Land	\$ 539,990	\$ -	\$ 539,990	\$ 539,990
Building	1,992,033	50,991	1,941,042	-
Construction in progress	-	-	-	1,943,915
Canada:				
Land	1,410,152	-	1,410,152	1,410,152
Building	11,095,756	732,530	10,363,226	10,647,734
Parking lot	1,000,000	150,000	850,000	950,000
	\$ 16,037,931	\$ 933,521	\$ 5,104,410	\$ 5,491,791

Construction in progress represented construction of building in Stoughton (note 5(d)). The building was not amortized until it's completed and available for use. On November 1, 2017, the building was completed construction in progress was reclassified to building and amortization commenced.

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Machinery, equipment and vehicles	\$ 1,325,297	\$ 568,173	\$ 757,124	\$ 1,134,328
Farm improvements	305,394	83,554	221,840	277,514
	\$ 1,630,691	\$ 651,727	\$ 978,964	\$ 1,411,842

Amortization expense of \$869,986 (2017 - \$446,933) was recorded during the year for building, parking lot and other fixed assets.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 5. Long-term debt:

- (a) On April 2, 2013, the Company purchased a warehouse building located at 500 Carlingview Drive in Toronto, Ontario ("Carlingview property"). The purchase was initially financed by a mortgage from a related company North American Fur Auctions Inc. ("NAFA") and was subsequently refinanced as discussed below.

On June 16, 2017, the Company, along with a related company NAFA, secured a long term financing commitment for Carlingview property with Farm Credit Canada ("FCC") in the amount of \$4,000,000 in U.S. funds in the form of a five year mortgage at an annual interest rate of 3 month U.S. dollar LIBOR rate plus 2.295%, based upon a ten year amortization schedule. The mortgage is secured by the Carlingview property, general security agreement of personal property of the Company and personal property of NAFA and assignment of insurance from the Company and NAFA. The mortgage is payable in monthly principal payments of \$33,613 U.S., plus interest and is due May 2, 2022 (2017 - May 1, 2022).

As at October 31, 2018, the amount outstanding under the mortgage is \$3,462,185 U.S. (\$4,500,003 Cdn.) (2017 - \$3,865,546 U.S. (\$4,983,849 Cdn.)).

The mortgage is subject to certain financial and non-financial covenants as defined in the agreement. Non-financial covenants are applicable to both the Company and NAFA. Financial covenant of Fixed Charge Coverage ratio is applicable to related company NAFA and is effective for the financial year ending October 31, 2018 and thereafter.

As at October 31, 2018, the Company was in compliance with the covenants.

The Company continues to lease the Carlingview property back to NAFA to use as its Toronto Distribution Centre at an annual net rent ranging from \$373,241 to \$408,788 in Canadian funds until the building lease expires on September 30, 2022.

- (b) On February 22, 2017, the Company purchased corporate office building, existing restaurant building and associated parking facilities at 65 Skyway Ave., Toronto, Ontario ("Skyway property") from its current landlord and building owner for \$8.6 million in Canadian funds.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 5. Long-term debt (continued):

In order to facilitate the purchase, on November 9, 2016, the Company secured a long term financing commitment with Business Development Bank of Canada ("BDC") in the amount of \$7.24 million in Canadian funds in the form of a twenty five year mortgage at BDC's floating base interest rate minus a variance of 0.70% per year. The mortgage is secured by the first mortgage of the land lease of the Skyway property, first general assignment of rents of the Skyway property, general security agreement from the Company, guarantee for a full amount of the loan from a related companies NAFA and its subsidiary North American Fur Auctions (US) Inc. The mortgage is payable in monthly principal payments of \$25,130 on November 30, 2017 and \$24,130 effective December 31, 2017, plus interest and is due February 28, 2042.

As at October 31, 2018, the amount outstanding under the mortgage is \$6,756,400 (2017 - \$7,045,960).

The mortgage is subject to certain non-financial covenants as defined in the agreement. The Company was in compliance with covenants during the year and as at October 31, 2018.

In 2017, the Company leased the corporate office building back to NAFA to use as its Toronto headquarters over the next five years at an annual net rent ranging from \$638,000 to \$667,000 in Canadian funds until the building lease expires on September 30, 2022.

- (c) In order to facilitate financing of the acquisition of Victory Farms (note 3), on July 18, 2017, the Company via its subsidiary 3306319 Nova Scotia Limited, secured a long term financing commitment, with FCC in the amount of \$1.8 million in Canadian funds in the form of a five year mortgage at an annual interest rate of the bank's variable rate plus 0.55%, based upon a fifteen year amortization schedule. The mortgage is secured by the former Victory Farms property (land and building), personal property of the Company and guarantees from the Company and NAFA up to a maximum of \$1.8 million each. The mortgage is payable in monthly blended principal and interest payments of \$13,959 and is due November 1, 2022 (2017 - October 31, 2022).

As at October 31, 2018, the amount outstanding under the mortgage is \$1,731,776 (2017 - \$1,800,000).

The mortgage is subject to certain financial and non-financial covenants as defined in the agreement based on 3306319 Nova Scotia Limited stand-alone results. As at October 31, 2018, the Company was not in compliance with the financial covenant. Subsequent to year end, the lender has provided the Company with a waiver with respect to the covenant violation.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 5. Long-term debt (continued):

- (d) On December 14, 2016, the Company via its subsidiary North American Fur Auction (US) Inc. entered into an agreement with the City of Stoughton wherein, the City promises to offer an approximately 10.5 acre parcel of land in a Tax Increment Financing District ("TIF District"). In exchange of the land, NAFA, via its affiliated company NAFA Properties Stoughton LLC, pledged to build a 110,000 sq. ft. industrial building ("Stoughton building"). The building shall have a minimum assessed tax value of not less than \$1,100,000 U.S. by no later than January 1, 2018; not less than \$3,500,000 U.S. by no later than January 1, 2019 and \$5,000,000 U.S. by no later than January 1, 2021. Purchase price was defined in the agreement to be \$37,500 U.S. per acre. The City agreed to provide development incentive to the Company in the amount of the purchase price ("Tax Incentive Grant"). During 2017, in connection with the above transaction, the Company received a development incentive of \$539,989 Cdn. (\$393,750 U.S.) from the City and recorded land with a value of \$539,989 (note 4).

In fiscal 2017, the Company also commenced construction of the building and completed construction in 2018. As at October 31, 2018, the Company accrued \$539,989 (2017 - \$539,989) Cdn. in property taxes payable which represent Company's minimum property tax liability over the next five years on Stoughton property. This liability is based on the minimum assessed tax value stipulated in the TIF Agreement.

In order to facilitate the financing of Stoughton building, on October 27, 2017, the Company secured long term financing commitment by way of promissory note with 464676 B.C. Ltd. in the amount of \$1,500,000 U.S. dollars.

The note is secured by the Stoughton building and a guarantee from the Company's subsidiary NAFA Properties (US) Inc. The note bears interest at 6.75% per annum and is payable in quarterly installments commencing on March 31, 2018. The full balance of the note is due October 27, 2020.

As at October 31, 2018, the amount outstanding under the promissory note is \$1,500,000 U.S. (\$1,971,350 Cdn.) (2017 - \$1,500,000 U.S. (\$1,933,950 Cdn.)).

In 2018, the Company leased the Stoughton building to NAFA to use for its U.S. pelting operations over the next three years at an annual net rent ranging from \$184,800 to \$191,520 in U.S. funds until the building lease expires on October 31, 2020.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

## 5. Long-term debt (continued):

	2018	2017
(a) Mortgage with FCC for a total of \$4,000,000 U.S. for 500 Carlingview property	\$ 4,550,003	\$ 4,983,849
(b) Mortgage with BDC for a total of \$7,240,000 Cdn. for 65 Skyway property	6,756,400	7,045,960
(c) Mortgage with FCC for a total of \$1,800,000 Cdn. for Victory Farms acquisition	1,731,776	1,800,000
(d) Promissory note with 464676 B.C. Ltd. for a total of \$1,500,000 U.S. for Stoughton building	1,971,350	1,933,950
	15,009,529	15,763,759
Less deferred financing cost	77,380	99,142
	14,932,149	15,664,617
Less current portion	902,590	879,112
	\$ 14,029,559	\$ 14,785,505

Interest expense on all long-term debt amounted to \$654,720 (2017 - \$361,941).

Deferred financing cost represent the unamortized cost of obtaining the long-term debt, including financing fees. Debt financing costs of nil (2017 - \$108,809) were incurred during the year. Amortization of deferred financing fees is recorded on a straight-line basis over the term of the long-term debt. For the year ended October 31, 2018 \$21,762 (2017 - \$9,667) was amortized and included in interest expense.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 5. Long-term debt (continued):

Principal payments required on all long-term debt for the next five years are due as follows:

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2019	\$	902,590
2020		907,060
2021		912,293
2022		5,310,128
2023		1,668,858
Thereafter		5,308,600
	\$	15,009,529

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## 6. Capital stock:

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	2018	2017
Authorized:		
Unlimited common voting shares, without par value		
Unlimited preference non-voting shares, without par value and a redemption value set at the time of issuance		
Issued and outstanding:		
1 common share	\$ 1	\$ 1

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## 7. Government assistance:

During the year, the Company received \$1,939,732 (2017 - nil) in government assistance related to the AgriStability program for the 2017 tax year. No amounts have been accrued in the financial statements for the 2018 tax year.

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 8. Related party transactions:

During 2017, the Company and its subsidiaries received funds from NAFA to facilitate purchase of Victory Farms (note 3), to assist with construction of Stoughton building (note 5(e)) and to assist with operational funding. Included as an offset within Due to NAFA is \$242,870 (2017 - nil) accrued rent receivable and \$73,456 (2017 - nil) receivable for costs incurred on behalf of NAFA related to the rental of the Stoughton property. As at October 31, 2018, the amount outstanding and payable to the affiliated company is \$7,874,046 (2017 - \$7,889,072).

The amount is non-interest bearing (2017 - interest bearing), unsecured and has no specified terms of repayment. NAFA has agreed to not demand repayment of the outstanding advances before November 1, 2019. Included in interest expense is nil (2017 - \$133,608) related to the amounts payable to NAFA. Included in the assumed debt payable to NAFA on acquisition of Victory Farms is \$178,839 (2017 - \$178,839) in pre-acquisition interest.

On June 19, 2017, the Company repaid the mortgage owed to NAFA for the 500 Carlingview Drive property in Toronto, Ontario and refinanced the debt with Farm Credit Canada (note 5(a)). Included in the interest expense is nil (2017 - \$90,914) interest expense related to the NAFA mortgage.

Included in rental income is \$1,569,613 (2017 - \$989,381) related to the rental of premises at 500 Carlingview Drive in Toronto, Ontario; 65 Skyway Ave. in Toronto, Ontario, and 1600 Williams Drive in Stoughton, Wisconsin, U.S.A. to NAFA. Included in operating expenses is \$87,502 (2017 - \$97,278) of administrative expenses provided to the Company by NAFA plus a recovery of property taxes of \$293,839 (2017 - \$200,471) related to rental of properties by the Company from NAFA.

Included in cost of sales of mink inventory is \$171,235 (2017 - \$142,487) of selling commission costs paid by the Company to NAFA for the sale of mink pelts at auction.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 9. Financial risk and management:

### (a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Company deals with creditworthy counterparties to mitigate the risk of financial loss from defaults. The Company monitors the credit risk of customers through credit rating reviews. There has been no change to the risk exposures from 2017.



# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

## 9. Financial risk and management (continued):

### (b) Foreign exchange risk:

The Company carried on business transactions denominated in currencies other than the reporting currency exposing the Company to fluctuations in the exchange rates between the reporting currency and foreign currencies. The Company carries mortgages and purchases capital assets denominated in U.S. dollars. The Company does not currently enter into forward contracts to mitigate this risk.

### (c) Interest rate risk:

The Company's long-term debt has variable interest rates (note 5). As a result, the Company is exposed to interest rate risk due to fluctuations in the interest rate.

### (d) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2017.

## 10. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rate of 26.50% (2017 - 26.50%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2018	2017
Earnings (loss) before income taxes	\$ (569,597)	\$ (1,001,038)
Income taxes (recovery) computed at statutory rates	\$ (150,943)	\$ (265,275)
Increase (decrease) in income tax expense resulting from:		
Tax effect of difference between provincial statutory income tax rate	(8,122)	(47,220)
Tax effect of difference between amortization of capital assets and capital cost allowance claimed	(69,684)	27,434
Loss carryforward not utilized	(197,284)	271,305
Other	446,528	(19,667)
Income tax expense	\$ 20,495	\$ (33,423)

# NAFA PROPERTIES INC.

Notes to Consolidated Financial Statements (continued)

Year ended October 31, 2018

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## 11. Commitments:

The Company is committed to lease payments on the land at its corporate headquarters as a result of purchasing corporate office building, existing restaurant building and associated parking facilities at 65 Skyway Ave. in Toronto, Ontario (note 5 (b)). The land lease obligation extends to 2073 with rental rate reset every 15 years. The next rental reset period is 2029.

Future lease payments required under land leases as follows:

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2019	\$	579,000
2020		579,000
2021		579,000
2022		575,000
2023		565,000
Thereafter		27,888,000
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	\$	30,765,000

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## 12. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

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 NORTH AMERICAN FUR PRODUCERS INC., NAFA PROPERTIES INC., 3306319 NOVA SCOTIA LIMITED, NORTH AMERICAN FUR AUCTIONS INC., NAFA PROPERTIES (US) INC., NAFA PROPERTIES (US) INC., NAFA PROPERTIES STOUGHTON LLC, NORTH AMERICAN FUR AUCTIONS (US) INC., NAFFRO LLC (WISCONSIN LLC), NAFA EUROPE CO-OPERATIEF UA, NAFA EUROPE B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO (the "Applicants")

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**COMMERCIAL LIST**  
Proceeding commenced at Toronto

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