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2016

Hfx. No. 454744

Supreme Court of Nova Scotia

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

SUPPLEMENTAL REPORT TO FIRST REPORT OF DELOITTE RESTRUCTURING INC.,
IN ITS CAPACITY AS MONITOR OF
THE APPLICANTS

SEPTEMBER 16th, 2016

1. INTRODUCTION AND BACKGROUND

1.1 On August 31, 2016, the Supreme Court of Nova Scotia (the "Court") granted an order (the "Initial Order") under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA") granting certain relief to Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited (collectively the "Applicants").

1.2 As part of the Initial Order, Deloitte Restructuring Inc. ("Deloitte") was appointed as Monitor under these CCAA proceedings.

1.3 Deloitte advises that this report (the "Supplemental Report") should be read in conjunction with the First Report of the Monitor filed with the Court on September 12, 2016.

2. TERMS OF REFERENCE

2.1 In preparing the Supplemental Report, the Monitor has relied upon financial information of the Applicants, discussions with the Applicants' management ("Management") and Boyne Clarke LLP, the Applicants' legal counsel.

2.2 The financial information of the Applicants has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that the Supplemental Report may not disclose all significant matters about the Applicants. Additionally, none of our procedures were intended to disclose defalcations or other irregularities. Were we to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to our attention. Accordingly, the Monitor does not express an opinion or provide any other form of assurance on the financial or other information presented herein. The Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of the Supplemental Report.

- 2.3 The Monitor assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of the Supplemental Report. Any use which any party makes of the Supplemental Report, or any reliance or decisions to be made on the Supplemental Report, is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the Supplemental Report are expressed in or converted to Canadian dollars.
- 2.5 The purpose of the Supplemental Report is to inform this Court on the status of:
- (i) The financial position of the Applicants as of September 15, 2016.

3. FINANCIAL POSITION OF THE APPLICANTS

- 3.1 The Monitor has prepared an analysis of the actual cash flow activity of the Applicants' since the date of the Initial Order as against the Cash Flow Forecast and enclosed as Appendix A to this Supplemental Report is the summary comparison (the "Actual Cash Flow").
- 3.2 As of September 15, 2016, the Applicants are showing a favorable variance of \$303,904 in net cash position as against the Cash Flow Forecast prepared by the Applicants on August 24, 2016, which was filed with the Court in advance of the August 31, 2016 hearing. The Monitor offers the following commentary with respect to material variances contained within the Actual Cash Flow:
- (i) an unfavorable variance of \$45,244 in the opening cash position relating to the timing and magnitude of operating expenditures incurred prior to the granting of the Initial Order;
 - (ii) a favorable variance of \$107,417 relating to a HST refund received from the Canada Revenue Agency ("CRA") on September 12, 2016 relating to July 2016. At the time the initial Cash Flow Forecast was prepared, the Applicants did not anticipate receiving a HST refund from CRA as prior refunds were being offset against amounts owing to CRA;
 - (iii) an unfavorable variance of \$17,623 relating to compensation expense. The majority of this variance relates to payments made to the Workers' Compensation Board of Nova Scotia for amounts owing at the time of the Initial Order;
 - (iv) a favorable variance of \$181,703 relating to feed costs. Prior to the granting of the Initial Order, the Applicants' feed costs were being paid directly by North American Fur Auctions Inc. During the week of September 2, 2016, the Applicants had projected feed costs to be \$96,304, however, a prepaid credit existed to cover the feed costs during that week and as such no cash outlay was required. In addition, there is currently a cheque outstanding in the amount of \$50,000 to cover feed costs for the week of September 16, 2016 that has yet to clear the Applicants' bank account;
 - (v) a favorable variance of \$78,688 relating to professional fees. This favorable variance is temporary and timing-related however, as the Monitor and its legal counsel will be presenting the Applicants with an invoice in the coming days. In addition, legal counsel to the Applicants has advised the Monitor that they will be providing an invoice in the coming days as well; and
 - (vi) an unfavorable variance of \$11,883 relating to debt repayments that the Monitor advised this Court of in its First Report. The Monitor along with legal counsel to the Applicants continue to have dialogue with the Royal Bank of Canada and will update the Court as further information becomes available.

- 3.3 Based on the financial position of the Applicants as at September 15, 2016, and extrapolating the current cash position as against the Cash Flow Forecast, the Monitor anticipates that the Applicants will not need to draw down on the proposed interim ("DIP") financing until the week of October 7, 2016.
- 3.4 The above-described favourable variance in the Applicants' cash position has thus pushed ahead by roughly two weeks the date on which the Applicants are projected to run out of money completely, which date had initially been projected to fall during the week of September 23, 2016.
- 3.5 Notwithstanding this unanticipated positive variance in the Applicants' cash flow, the Monitor remains of the view that the Applicants imminently require interim DIP financing to sustain their operations; it is only the timing of that need which has been affected by the variance. By way of this Supplemental Report, the Monitor merely wishes to advise the Court of this favourable adjustment to the Applicants' cash position, to the extent it modifies the information presently before the Court as to the date on which the Applicants are anticipated to fall into a negative cash position.
- 3.6 The Monitor notes that the Applicants have advised the Monitor that in the event that DIP financing is not available it will be necessary to euthanize the approximately 100,000 mink currently held. This process is not without cost, and will take approximately two weeks to complete. The Applicants advise that the carcasses will have no commercial value.
- 3.7 The Monitor will continue to work with the Applicants and will provide the Court with an updated Cash Flow Forecast as part of the anticipated Applicants' Motion for a Stay Extension Order to be heard on or before September 30, 2016.

4. CONCLUSION

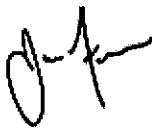
- 4.1 This Supplemental Report has been prepared to provide this Court with information regarding the Applicants' financial position as at September 15, 2016 in advance of the Applicant's Motion for a Charging Order, which is to be heard on September 16, 2016.

All of which is respectfully submitted this 16th day of September, 2016.

DELOITTE RESTRUCTURING INC.

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

Per:



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

Appendix A: Actual Cash Flow

Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited
Actual Cash Flow
For the period August 27th to September 15th, 2016

	Projected	Actual	Variance
Opening cash position	600,000	554,756	(45,244)
Operating inflows			
HST	-	107,417	107,417
Total inflows	-	107,417	107,417
Operating outflows			
Compensation	42,959	60,582	(17,623)
Feed Expense	288,912	107,209	181,703
Contracted Mink Care	68,436	58,725	9,711
Operating Expenses	8,758	12,964	(4,206)
Professional Fees	90,445	11,757	78,688
Repairs and Maintenance	5,340	-	5,340
Loan Payments		11,883	(11,883)
Total outflows	504,850	263,120	241,730
Operating cash flow	(504,850)	(155,702)	349,147
Ending cash position	95,150	399,054	303,904