

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

April 25th, 2017

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 On September 27, 2016, the Court granted an order (the "Charging Order") granting the Applicants the power to borrow up to \$1.5 million from North American Fur Auctions Inc. ("NAFA") as debtor in possession financing ("DIP Financing").
- 1.4 On September 28, 2016, the Court granted an order (the "First Extension Order") extending the stay of proceedings from September 30, 2016 up to and including November 25, 2016.
- 1.5 On November 24, 2016, the Court granted an order (the "Second Extension Order") extending the stay of proceedings from November 25, 2016 up to and including January 31, 2017.
- 1.6 On December 8, 2016, the Monitor filed its Fourth Report with the Court. The purpose of the Fourth Report was to bring closure regarding certain payments made by the Applicants to Trinity Farms Inc. initially addressed in the Monitor's Third Report dated November 21, 2016.
- 1.7 On January 30, 2017, the Court granted an order (the "Third Extension Order") extending the stay of proceedings from January 31, 2017 up to and including February 14, 2017.
- 1.8 On February 16, 2017, the Court granted an order (the "Fourth Extension Order") extending the stay of proceedings from February 17, 2017 up to and including April 28, 2017.
- 1.9 In addition to the Fourth Extension Order granted on February 16, 2017, the Court also granted an order granting the Applicants the power to borrow up to an additional \$1.5 million from NAFA as DIP Financing (the "Second Charging Order") and authorized the Applicants to undertake a process to sell all of their assets, property and undertakings (the "Stalking Horse and Bidding Procedures Order").
- 1.10 On April 7, 2017, the Court granted an order correcting a clerical error contained within the Second Charging Order (the "Revised Second Charging Order").

- 1.11 On April 10, 2017, the Court granted an on order approving the transaction contemplated by the Stalking Horse Asset Purchase Agreement dated February 9, 2017 (the "Sale Approval and Vesting Order"), and authorized the Monitor to undertake a claims process (the "Claims Procedure Order").
- 1.12 In addition, on April 10, 2017, the Court granted an order (the "Fifth Extension Order") extending the stay of proceedings from April 28, 2017 up to and including May 31, 2017.

2. TERMS OF REFERENCE

- 2.1 In preparing the Supplemental Report to the Seventh Report (the "Supplemental Report"), the Monitor has relied upon financial information of the Applicants, discussions with the Applicants' management ("Management"), BoyneClarke LLP, the Applicants' legal counsel, and McInnes Cooper, the Monitor's 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 this Supplemental Report is to advise the Court regarding:
 - (i) a recent payment taken by a financial institution (the "Financial Institution"); and
 - (ii) provide the Court with a revised cash flow forecast of the Applicants (the "Revised Fifth Extension Cash Flow Projection").

3. FINANCIAL INSTITUTION PAYMENT

- 3.1 At the date of the Initial Order, the Applicants were indebted to the Financial Institution in the amount of approximately \$14 thousand relating to a Visa card in the name of Victory Farms Incorporated ("Victory").
- 3.2 In December 2016, the Monitor spoke with a representative of the Financial Institution and advised that Victory was under creditor protection and the balance owing to the Financial Institution was considered a pre-filing liability that would be dealt with at some point in the future.

- 3.3 On April 5, 2017, the Monitor was advised by Management that on April 4, 2017, the Financial Institution had debited the bank account of Victory for \$19 thousand dollars to settle the balance owing on the Visa in full.
- 3.4 The Monitor has been in contact with representatives of the Financial Institution on several instances during the week of April 10, 2017 in an attempt to resolve this issue and have the \$19 thousand payment returned to Victory. As at the date of the Supplemental Report, the Monitor was yet to resolve the issue.
- 3.5 The Monitor has also directed legal counsel of the Applicants to pursue the return of these funds, which were seized in contravention of the stay of proceedings.

4. REVISED CASH FLOW PROJECTION

- 4.1 The Monitor previously filed with the Court the Fifth Extension Cash Flow Extension for the nine week period April 7 to June 2, 2017, a copy of which is enclosed as Appendix A to the Supplemental Report.
- 4.2 Subsequent to the issuance of the Seventh Report, the Monitor was advised by Management that the Fifth Extension Cash Flow did not contain disbursements related to vaccinations and implants (the "Vaccine Disbursements") anticipated to occur during the period covered by the Fifth Extension Cash Flow.
- 4.3 During the April 7, 2017 Court hearing, legal counsel to the Monitor advised the Court of this issue and that the Monitor would work with Management to file a Revised Fifth Extension Cash Flow Projection
- 4.4 The Monitor has worked with Management to obtain supporting documentation regarding the Vaccine Disbursements which are contained within the Revised Fifth Extension Cash Flow Forecast, a copy of which is enclosed as Appendix B to the Supplemental Report.
- 4.5 The Applicants have prepared the Revised Fifth Extension Cash Flow Projection for the eight week period spanning April 14 to June 2, 2017.
- 4.6 The Monitor's review of the Revised Fifth Extension Cash Flow Projection consisted of inquiries, analytical procedures and discussions on the information provided by Management. Since these hypothetical assumptions are not being supported, the Monitor's involvement with respect to them was limited to evaluating whether they were consistent with the purpose of the Revised Fifth Extension Cash Flow Projection. The Monitor also reviewed the supporting documentation provided by Management for the probable assumptions and the preparation and presentation of the Revised Fifth Extension Cash Flow Projection. Based on our review and the foregoing reservations and limitations, nothing has come to the attention of the Monitor that causes us to believe that, in all material respects:
 - (i) the hypothetical assumptions are not consistent with the purpose of the Revised Fifth Extension Cash Flow Projection;
 - (ii) as at the date of the Supplemental Report, the probable assumptions developed by the Applicants are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Revised Fifth Extension Cash Flow Projection, given the hypothetical assumptions; or
 - (iii) the Revised Fifth Extension Cash Flow Projection does not reflect the probable and hypothetical assumptions.

- 4.7 Since the Revised Fifth Extension Cash Flow Projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor does not express an opinion as to whether the projections in the Revised Fifth Extension Cash Flow Projection will be achieved.
- 4.8 The Revised Fifth Extension Cash Flow Projection has been prepared solely for the purpose described in the notes to the Revised Fifth Extension Cash Flow Statement, and readers are cautioned that the Revised Fifth Extension Cash Flow Projection may not be appropriate for other purposes.
- 4.9 The Monitor has reviewed the Revised Fifth Extension Cash Flow Projection and offers the following commentary:
- (i) Outside of HST refunds, the Applicants are not projecting to receive any operating inflows for the period covered by the Fifth Extension Cash Flow Projection. A portion of the Applicants' herd will be auctioned during the week of May 12, 2017; however, proceeds from this sale will not be received until the week ending June 9, 2017.
 - (ii) Proceeds projected to be received under the AgriInvest program relate to funds available through a federal subsidy program. The Monitor has been in contact with representatives of AgriInvest in order to verify information provided by the Applicants.
 - (iii) Compensation costs contains payments to staff at existing rates for anticipated hours through the period covered, along with statutory remittances to Canada Revenue Agency and Workers' Compensation Board of Nova Scotia.
 - (iv) Feed costs are based on anticipated consumption levels of the herd during the period at existing feed prices, factoring in payment terms with suppliers.
 - (v) Contracted mink care payments are based on existing arrangements the Applicants have entered into with other mink farmers to care for mink.
 - (vi) Vaccine and implant costs are based on existing market prices and based on a mink herd of approximately 100 thousand pelts for vaccinations and 60 thousand for implants.
 - (vii) Professional fees are estimates only and do not account for retainers that have been provided to the professionals involved in the engagement.
 - (viii) Pelting costs are based on the existing market prices and based on approximately 49 thousand pelts being invoiced during the period.
 - (ix) The Monitor can also advise that as at the date of this report approximately \$2.6 million of DIP Financing has been advanced including accrued interest added to the balance.
- 4.10 As indicated in the Revised Fifth Extension Cash Flow Projection, the Applicants are projected to exhaust current DIP financing during the week ending May 26, 2017. The Monitor advises the Court that should the Applicants require additional time to complete the process described herein pursuant to the Claims Process Order, and/or the Sale Approval Order, additional DIP Financing may be required.

5 CONCLUSION

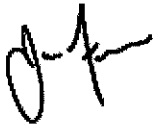
- 5.1 This Report has been prepared to provide this Court with information regarding a payment taken by the Financial Institution and the Applicants' Revised Fifth Extension Cash Flow Projection.

All of which is respectively submitted on April 25, 2017.

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:

A handwritten signature in black ink, appearing to read 'J. Foran', is positioned above the printed name and title.

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

APPENDIX A: FIFTH EXTENSION CASH FLOW

Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited (Combined)
 Fifth Extension Cash Flow Projection
 For the period April 7 to June 2, 2017

Week	1	2	3	4	5	6	7	8	9	Total
Date (MM/DD/YYYY)	4/7/2017	4/14/2017	4/21/2017	4/28/2017	5/5/2017	5/12/2017	5/19/2017	5/26/2017	6/2/2017	Total
Opening cash	101,442	38,681	393,323	31,934	177,095	48,012	18,088	140,429	98,670	101,442
Operating inflows	-	-	-	44,000	-	-	-	30,000	-	74,000
HST	-	-	-	44,000	-	-	-	30,000	-	74,000
Total inflows	-	-	-	88,000	-	-	-	60,000	-	148,000
Operating outflows	27,836	11,674	23,787	11,674	26,515	10,327	21,062	10,327	24,969	168,170
Compensation	12,075	12,075	13,225	13,225	17,193	17,193	17,193	17,193	52,900	172,270
Feed costs	20,025	-	84,000	-	82,970	-	-	-	82,970	269,965
Contracted mink care	1,825	8,905	1,405	20,440	1,405	1,405	1,405	5,740	1,405	43,935
Operating expenses	-	11,704	-	52,500	-	-	-	37,500	-	101,704
Professional fees	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	9,000
Repairs and maintenance	-	-	237,972	-	-	-	-	-	-	237,972
Pelting costs	-	-	-	-	-	-	-	-	-	-
Total outflows	62,761	45,358	361,390	98,839	129,082	29,924	40,659	71,759	163,244	1,003,016
Operating cash flow	(62,761)	(45,358)	(361,390)	(54,839)	(129,082)	(29,924)	(40,659)	(41,759)	(163,244)	(929,016)
Cash position (before DIP)	38,681	(6,677)	31,934	(22,905)	48,012	18,088	(22,571)	98,670	(64,574)	(827,574)
DIP Financing	-	400,000	-	200,000	-	-	163,000	-	-	763,000
Cash position (after DIP)	38,681	393,323	31,934	177,095	48,012	18,088	140,429	98,670	(64,574)	(64,574)

APPENDIX B: REVISED FIFTH EXTENSION CASH FLOW

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

The management of Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited have developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 24th day of April, 2017, consisting of weekly projections for the period April 14th to June 2nd, 2017.

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

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

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

Dated at Digby, Nova Scotia this 24th day of April, 2017.

Victory Farms Incorporated
Jonathan Mullen Mink Ranch Limited

Per:

A handwritten signature in black ink, appearing to read 'J. Mullen', is written over a horizontal line.

Jonathan Mullen
President

VICTORY FARMS INCORPORATED AND JONATHAN MULLEN MINK RANCH
LIMITED

ASSUMPTIONS TO THE CASH FLOW PROJECTIONS

FOR THE PERIOD APRIL 14 TO JUNE 2, 2017

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

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

Proceeds projected to be received under the AgriInvest program relate to funds projected to be received from a federal government initiative and is based on 2016 net sales.

Visa recovery proceeds relate to the recovery of funds withdrawn from the bank account of Victory Farms by its Financial Institution.

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

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

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

Contracted mink care payments are based on existing arrangements the Applicants have entered into with other mink farmers to care for mink.

Operating expenses are based on historical amounts.

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

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

Pelting costs are based on the existing market prices and based on approximately 49 thousand pelts being invoiced during the period.

Vaccination and implant costs are based on management's estimate using the size of the herd, historic breeding results, and price quotes received from vendors.

DIP funding is based on an estimate of available funds provided by the DIP Lender factoring in interest charges applied to the balance.



The attached statement of projected cash flow of Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited, as of the 24th day of April, 2017 consisting of weekly projections for the period April 14th to June 2nd, 2017, has been prepared by the management of the insolvent debtor for the purpose described in Note A, using the probable and hypothetical assumptions set out in Note B.

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

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

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

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

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

Dated at Halifax, Nova Scotia this 24th day of April, 2017.

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

Victory Farms Incorporated and Jonathan Mullen Mink Ranch Limited (Combined)
 Revised Fifth Extension Cash Flow Projection
 For the period April 14 to June 2, 2017

Week	1	2	3	4	5	6	7	8	Total	
Date (MM/DD/YYYY)	4/14/2017	4/21/2017	4/28/2017	5/5/2017	5/12/2017	5/19/2017	5/26/2017	6/2/2017		
Opening cash	101,442	23,519	197,778	124,052	31,403	104,125	72,701	51,032	(28,914)	101,442
Operating inflows										
Proceeds from AgriInvest	-	-	-	-	-	-	-	-	15,000	15,000
Visa Recovery	-	-	-	-	-	18,991	-	-	-	18,991
HST	-	-	44,000	-	-	-	-	30,000	-	74,000
Total inflows	-	-	44,000	-	-	18,991	18,991	30,000	15,000	107,991
Operating outflows										
Compensation	26,773	11,674	11,674	26,515	10,327	21,062	10,327	24,969	167,107	167,107
Feed costs	7,000	20,000	13,225	17,193	17,193	17,193	17,193	52,900	175,120	175,120
Contracted mink care	23,575	-	7,905	81,166	-	-	-	82,970	195,616	195,616
Operating expenses	1,584	5,405	1,665	1,405	2,905	1,405	5,740	1,405	40,894	40,894
Professional fees	-	5,500	47,000	-	-	-	37,500	-	101,704	101,704
Repairs and maintenance	-	1,000	2,500	1,000	1,000	1,000	1,000	1,000	11,000	11,000
Pelting costs	-	182,162	34,965	-	-	-	-	-	237,972	237,972
Vaccination and implant costs	-	-	-	-	-	-	201,187	-	201,187	201,187
Visa Payment	18,991	-	-	-	-	-	-	-	18,991	18,991
Total outflows	77,923	225,741	73,726	136,649	127,278	31,424	40,659	272,946	163,244	1,149,591
Operating cash flow	(77,923)	(225,741)	(73,726)	(92,649)	(31,424)	(21,668)	(242,946)	(148,244)	(1,041,600)	(1,041,600)
Cash position (before DIP)	23,519	(202,222)	124,052	31,403	(95,875)	72,701	51,032	(191,914)	(177,158)	(940,158)
DIP Financing	-	400,000	-	-	200,000	-	163,000	-	763,000	763,000
Cash position (after DIP)	23,519	197,778	124,052	31,403	104,125	72,701	51,032	(28,914)	(177,158)	(177,158)