

Court File No. CV-19-00630241-00CL

**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 DOUG LAWSON

I, **DOUG LAWSON**, of the City of Toronto, in the Province of Ontario, **AFFIRM AND SAY:**

1. I am the President and Chief Executive Officer of North American Fur Auctions Inc. (the “**Company**” or “**NAFA**”) and as such have knowledge as to the matters which I hereinafter depose. To the extent I am recounting information provided to me by others, I have stated the source of that information and verily believe it to be true.
2. I swear this affidavit in support of a motion by the Applicants for an Order seeking, *inter alia*: (a) approval of the conditions of sale in respect of the Ground Leases (as defined below); (b) approval for the sale of the Carlingview Property (as defined below); and (c) an extension of the stay of proceedings to and including January 31, 2020.
3. All references to currency are denominated in U.S. dollars.

Overview of Activities Since the Initial Order

4. On October 31, 2019, the Applicants commenced proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to the Order of Justice McEwen (as amended and restated, the "**Initial Order**"). Background information about the Applicants' business is set out in the affidavit I affirmed in support of the initial CCAA application ("**Initial Affidavit**"), a copy of which is attached hereto (without exhibits) and marked as **Exhibit "A"**.

5. Since the Initial Order, the Applicants, in close consultation with Deloitte Restructuring Inc., in its capacity as monitor of the Applicants (the "**Monitor**"), have focused on stabilizing their business and operations as part of these CCAA proceedings.

6. The Applicants have been diligently communicating with and responding to inquiries from numerous creditors and stakeholders on a daily basis, including mink farmers, employees and other service providers. In particular, the Applicants have ensured that funding continues to be provided to farmers to allow them to feed and grow mink during this critical time before the pelts are harvested as anticipated by the cash flows filed with this Court.

7. As further set out below, the Applicants have financed the Kit Loans¹ through the DIP Facility and the Saga Transaction (as defined below), which has significantly stabilized the Applicants' business.

8. In addition, the Applicants promptly advised their employees that they had applied for protection under the CCAA and provided them with information about the CCAA proceedings.

¹ A "kit" is an immature mink. The Applicants provide financing to farmers and ranchers who use those funds to finance the development of the kits until pelting and harvesting ("**Kit Loans**"). In exchange for the Kit Loans, the farmers are contractually bound to deliver the mink to the Applicants for auction.

9. The Applicants have been successful in maintaining the confidence of their employees. With the exception of those employees that have been terminated by the Applicants, all other employees have been retained, including those individuals in senior management roles and other key employees (“**Key Employees**”) who have guided and continue to guide the business through the CCAA process.

10. As set out below, I believe the Applicants are acting in good faith and with due diligence and that, provided the Stay Extension Order is granted, the Applicants will be able to continue with their restructuring, which will include considering how best to formulate a Plan for its creditors and stakeholders.

DIP Facility

11. The Initial Order approved an interim financing facility (the “**DIP Facility**”) in the principal amount of \$5 million from Waygar Capital Inc. (the “**DIP Lender**”).

12. With the approval of the Monitor, the DIP Lender advanced \$1.65 million to the Applicants under the DIP Facility on November 4, 2019. In addition, the Applicants, with the assistance of the Monitor, entered into definitive documents in respect of the DIP Facility as between the DIP Lender and NAFA.

13. Pursuant to the DIP Term Sheet approved by the Court under the Initial Order, the DIP Lender was entitled to a \$100,000 closing fee, which was paid on or about November 18, 2019 from the Company’s cash on hand.

14. At this time, as set out in the cash flow forecast that will be appended to the Monitor’s Second Report (the “**Cash Flow Forecast**”), the Applicants do not anticipate seeking further draws

under the DIP Facility during the proposed extension period, although they have the right to do so in accordance with the terms of the DIP Facility and the definitive documents.

15. The Applicants have, in conjunction with the Monitor and with the assistance of their financial advisor KPMG Inc., made regular reports to the DIP lender and Canadian Imperial Bank of Commerce, as agent (in such capacity, the “**Agent**”) for the lenders (the “**Lenders**”) to the Fourth and Restated Credit Agreement dated as of September 27, 2019 (collectively, the “**Syndicate**”), which have demonstrated that the Applicants have shown material positive variances related to disbursements in these first few weeks notwithstanding that the Applicants receipts have materialized slower than projected.

16. I have had an opportunity to review information from the Monitor about these variances and the cash flow projections and understand that the Monitor will be providing a detailed review of the Cash Flow Forecast and other economic factors effecting the business and I will therefore not provide any detailed analysis here.

17. I am satisfied that the Applicants will be in material compliance with their cash flow projections going forward and will have sufficient funds to operate during the projected extension period and beyond, provided the Saga Transaction continues to be performed as projected and the Applicants are able to continue with the realizations and restructuring detailed herein and as will be further developed hereafter.

The Saga Transaction

18. As further described in my Initial Affidavit, the Applicants entered into an arrangement with Saga Furs Oyj (“**Saga**”) that would allow Saga to take over certain European Kit Loans (the “**Saga Transaction**”). Saga agreed to pay to NAFA some or all of the present value of the

outstanding Kit Loans and, in exchange, Saga would receive delivery of the harvested pelts from the farmers and the net proceeds from the sale of the pelts. Pursuant to the Saga Transaction, Saga required that farmers meet certain financing criteria, and that farmers agreed to the terms for financing and selling pelts through Saga.

19. A great deal of the Applicants' time and energy in this first month of restructuring has been spent implementing the Saga Transaction, with good success.

20. The Applicants and representatives of Saga have been meeting with farmers located in Poland, Latvia, Lithuania, the Netherlands and Romania to obtain their consent to transfer the Kit Loans from NAFA to Saga. As of the date of this affidavit, 33 of 36 farmers that have been approached have agreed to have their business transferred to Saga in accordance with the terms of the Saga Transaction. Agreements with the majority of these 33 farmers have now been executed.

21. Pursuant to the terms of the Saga Transaction, once an agreement with the farmer is finalized and Saga takes security over the farmer's mink herd, funds are paid by Saga to the Applicants. Thus far, the Applicants have received approximately USD \$3.5 million pursuant to the Saga Transaction. It was anticipated that the Applicants would receive approximately USD \$3.6 million from Saga by November 1, 2019.

22. The small variance between the forecast amount and the collected amount is attributable to delays in obtaining signatures from farmers and the registration of Saga's security in Europe and some differences in the forecast receipts on a farm by farm basis which were agreed to by the Applicants in order to expedite the agreement and receive funds. In general the process for completing the paperwork has taken longer than anticipated and forecast, but the business terms underlying the deal and the amount of anticipated cash to be received on a collective basis have not changed materially.

23. The Applicants continue to work with Saga and local counsel to complete the Saga Transaction.

VAG Settlement

24. As previously reported in the Initial Affidavit, the Applicants' single largest customer and debtor is the Van Ansem Group (a collection of farms under one corporate umbrella, "**VAG**"), which received substantial Kit Loans from NAFA and was indebted to NAFA for these loans.

25. VAG and NAFA have now reached a settlement agreement to resolve the indebtedness between them, which will see VAG making a payment to NAFA, the amount of which is being kept confidential but is in line with, and indeed slightly above, the amount projected in the initial cash flow forecast filed with the Court (the "**VAG Settlement**").

26. In order to make such a payment, VAG will enter into assignment agreements with Saga pursuant to which Saga will fund the VAG Settlement provided that certain conditions are satisfied, including the transfer of the relevant Kit Loans to Saga, the release of NAFA's security over the VAG pelts, and the execution of new consignment agreements related to these pelts in favour of Saga. A copy of the VAG Settlement is attached hereto and marked as **Confidential Exhibit "A"**. The Applicants are requesting a sealing order to be granted with respect to the Confidential Exhibits.

27. It is a term of the VAG Settlement that its business terms be kept confidential. Those terms have been made known to the Monitor, the DIP Lender and the Agent, all of whom have consented to the Applicants proceeding with the VAG Settlement. The consent of those parties is a requirement of the VAG Settlement.

28. The Initial Order authorizes the Applicants to enter into the VAG Settlement and dispenses with the need for Court approval of the VAG Settlement provided that the Monitor, the Agent and the DIP Lender consent to the settlement, as has now occurred.

29. The parties have finalized the terms of the VAG Settlement and are awaiting for the settlement agreement to be executed by VAG (it has already been executed by NAFA). The Applicants and the Monitor have confirmed that settlement funds in the correct amount are being held in trust by the Canadian counsel for VAG. These funds are expected to be released as early as November 25, 2019 but could slip until later in the week ended November 29, 2019 depending on timing of the settlement agreement being fully executed by VAG.

30. In addition to VAG, there have been other creditors that have reached out to NAFA to settle outstanding debts, either in exchange for the return of their goods on hand with NAFA or for other proposed consideration. The Applicants have brought these proposed settlements to the attention of the Monitor on a case by case basis, but as of yet have not entered into any such settlements because it is unclear whether or not the Applicants have the authority to do so under the Initial Order.

31. Generally, the settlements being proposed allow for the recovery of amounts owed to NAFA other than or in addition to outstanding Kit Loans. The current Cash Flow Forecast does not project any recovery for these additional loans. As such, any amounts recovered in respect of these loans, beyond the Kit Loans, will improve the Applicants' cash flow.

32. The Applicants are seeking authorization to enter into these settlement agreements with the approval of the Monitor, following consultation with the Agent and the DIP lender (while the DIP is available or outstanding), but without requiring further orders of this Court, provided that the settlement are, in each case, for less than \$1,000,000. There are currently two such settlement

proposals pending, which fit the above criteria, which the Applicants would seek to pursue, and others may arise.

Other Kit Loan Transactions

33. The Company was pursuing a tripartite transaction with a third party and a Polish farmer with respect to Kit Loans that would have otherwise been subject to the Saga Transaction. The third party expressed an interest in taking over these Kit Loans on terms that were equal to or more attractive than the terms of the Saga Transaction. As of the date of this affidavit, it does not appear this potential opportunity will proceed, but the Applicants would like the flexibility to enter into such transactions if they arise in the future.

34. Under the terms of the Initial Order, the Applicants are currently restricted from disposing of any assets that have an aggregate value above \$250,000 in the absence of the approval of the Court. On the other hand, the Initial Order does allow for transfers in accordance with the Saga Transaction without further approval being requested.

35. The Applicants are seeking authorization to sell Kit Loans subject to the Saga Transaction for consideration that is equal to or greater than what they would otherwise receive from Saga, without further order of this Court, provided such transactions are approved by the Monitor, the DIP Lender and the Agent.

Consignors

36. As further described in the Initial Affidavit, NAFA currently has approximately 1 million pelts worth approximately \$25,000,000 on hand in storage facilities across the world. Less than

\$250,000 worth of these pelts are NAFA's inventory, the remainder, and vast majority, are furs that NAFA is storing on behalf of its consignors.

37. Next after the Saga Transaction, no single issue is occupying more time for the NAFA staff around the world than fielding calls from consignors/producers seeking the return of their goods. There is speculation (in the Applicants' view unjustified) in the fur community that these goods will be seized by the Agent if left with NAFA. There has been no indication from the Agent of any intent to do so, the Cash Flow Forecast does not anticipate the sale of these goods, and in the current CCAA proceedings the Agent could not do so without an order of the Court, which it has not sought and is not currently anticipated.

38. It is also my understanding that the Monitor supports the view that farmed consignor goods in the possession of NAFA, or goods stored with NAFA that are not consignor goods but which belong to third parties (except consigned wild furs where the Monitor's analysis is not yet complete), are not goods of the Applicants and therefore not goods to which the security of the Agent attaches. The Applicants share this view. The Applicants are of the view that consigned wild fur goods are no different.

39. In the decades of history of the dealings between the Applicants and the Agent, neither party has ever treated the consignor goods as inventory of the Applicants, and the view in the fur community is, in my view, somewhat unwarranted, albeit understandable given most parties lack of experience with a CCAA proceeding and the general worries that often accompany such unfamiliarity.

40. It is also my view that many of the consignors who are asking for the return of their goods would rather not do so (indeed, many do not have comparable storage facilities to locally house

their goods nor do they want to pay shipping costs) but they are panicked by the uncertainty which they perceive in this process.

41. Given the foregoing, the Applicants are of the view that they should be allowed to return, when requested, any consignor goods that they have on hand, which are subject to the standard form of farmed consignment agreements with the Applicants (a copy of which is attached hereto and marked as **Exhibit “B”**) to those consignors after ensuring that any amounts owing by the consignors are paid to NAFA. The same should be the case for any goods which the records of NAFA record as goods which are being stored by NAFA on behalf of third parties, which are not subject to any auction agreement.

42. One caveat to the general position that consignor goods should be returned (if requested) is that it should not apply to inter-sorted goods.

43. When NAFA prepares for its auctions, it receives goods from various producers/consignors. Part of the value add which NAFA brings to the auction of these furs is that its staff of graders review the fur provided and group like quality furs into lots for purchase with other like quality fur from other producers, to create lots which are attractive to the fur auction market. This typically occurs with smaller deliveries where each shipments does not, in and of itself, constitute a large enough lot to sell at auction.

44. This process may result in a single “lot” at auction containing fur from dozens of consignors. A lot made up of mink (or other species) from more than one supplier is called an “intersorted lot”.

45. Unfortunately, the process of desegregating these intersorted lots would be time consuming, expensive, labour intensive and imprecise. It also destroys the value created by an

intersorted lot of like quality furs which might yet be sold. At this time, NAFA is not recommending that it desegregate these intersorted lots and that those furs remain with NAFA for now. This is consistent with the auction agreement that the consignors have agreed to when providing NAFA their furs.

46. NAFA is also delivering goods to parties who had entered into agreements (at the auctions prior to the CCAA filing) to purchase such items but where payment had not yet been completed and, as a result, the goods remained with NAFA. Goods are only being released upon receipt of payment in full of the balance remaining under any such sale agreements or, where payment was previously received in full and NAFA was storing the pelts until required by the purchaser then upon their request.

47. The Applicants' ability to deal with consignor goods on hand and to return them is not expressly dealt with in the Initial Order. As such, the Applicants are seeking a further Order of this Court authorizing the Company, with the consent of the Monitor, to allow for the return of consignor goods and third party stored goods when requested.

48. To the extent any consignor chooses to leave their goods with NAFA (or new goods arrive), NAFA will discuss with that consignor whether or not it would like NAFA's assistance in offering those assets for sale, either through an auction yet to be conducted by NAFA, or through facilitating the delivery of furs to other auction or sale destinations. NAFA will, of course, charge its customary fees and commissions in such case. Any such sales will provide an incremental gain to NAFA's cash flow as the Cash Flow Forecast does not currently anticipate any value from these furs for NAFA.

The Carlingview Property

49. The Applicants' principal distribution facility is located at 500 Carlingview Drive, Toronto ("**Carlingview Property**"). NAFA Properties Inc. ("**NAFA Properties**") owns and maintains the Carlingview Property.

50. NAFA Properties engaged CBRE Limited, Brokerage, In Trust ("**CBRE**") to assist with the listing and marketing of the Carlingview Property in April 2019. NAFA Properties and CBRE marketed the Carlingview Property by contacting a number of potentially interested parties and advertising the property widely. The market was canvassed broadly and multiple offers were received for the Carlingview Property.

51. It is my understanding that the Monitor will provide a further review of this sale process to the Court in its report. The Applicants are of the view that the process leading to the ultimate sale of the Carlingview Property was reasonable in the circumstances and but for the requirements that a sale of an asset of this size be put before the court in the CCAA proceedings, the Applicants would have proceeded with the sale without hesitation.

52. On April 18, 2019, NAFA Properties received an agreement of purchase and sale with Lange Group of Companies Ltd. (the "**Purchaser**") for the Carlingview Property which it signed back on April 25, 2019 (the "**APS**"). The APS has been amended twice, most recently in November 2019. The APS and corresponding amendments are attached hereto and marked as **Confidential Exhibit "B"**.

53. The consideration that NAFA Properties will receive under the APS (the "**Purchase Price**") is, in the Applicants' view, confidential information and the disclosure of such information could materially prejudice the Applicants' ability to further market the Carlingview Property in

the event that the proposed transaction does not close as anticipated. The Applicants are requesting a sealing order to be granted with respect to Confidential Exhibit “B”.

54. The APS provides for, *inter alia*, the following:

- a. NAFA Properties agrees to sell, assign and transfer to the Purchaser, and the Purchaser agrees to purchase and assume from NAFA Properties the Carlingview Property in accordance with the terms and conditions set out in the APS.
- b. The Purchaser will pay the Purchase Price. The Purchaser paid a deposit to CBRE in accordance with the terms of the APS, which is currently being held in trust.
- c. The Purchaser will leaseback a portion of the Carlingview Property to NAFA Properties for an initial period of three years following the date of closing with options for termination and renewal.
- d. The completion date for the APS (i.e. the closing) is the 30th day following the waiver of the conditions by the Purchaser.
- e. The APS is conditional for a six week period from November 12, 2019 (“**Conditional Period**”) upon the parties entering into an agreement on the terms of the leaseback, the Purchaser satisfying itself as to financing and title, and NAFA Properties obtaining all required consents.

55. The Purchase Price is factored into the Cash Flow Forecast and is expected to be received in the week ended January 17, 2020.

56. The Applicants believe that the Purchase Price is fair and reasonable and that the APS is in the best interests of the Applicants and their stakeholders. The sale of the Carlingview Property will provide the Applicants with liquidity, and the leaseback provisions contemplated in the APS

will also allow the Applicants to continue using the distribution facility while they evaluate their restructuring options on a go-forward basis.

57. The Applicants understand that the Agent and the Syndicate is supportive of the sale of the Carlingview Property as contemplated under the APS.

The International Properties

58. Among its holdings, the Applicants own one property in Poland and two properties in Stoughton, Wisconsin. The property in Poland is the European head office and a grading and storage facility for European pelts (the “**Poland Property**”). One property in Wisconsin is currently being used as the head office for the Applicants’ operations in the United States, and the second property is primarily used for grading, cold storage and wild fur receiving (the “**US Properties**”).

59. With respect to the Poland Property, the Applicants are in the process of engaging a broker to list and sell the property. Staging work has commenced and videos and photographs have been taken to market the property.

60. The Applicants are currently in discussions with Saga for Saga to enter into a short-term lease with respect to some or all of the US Properties (the “**Stoughton Lease**”). As part of the Saga Transaction, Saga will be harvesting, collecting and grading pelts and it wishes to have NAFA’s grading and storage facilities in Stoughton, Wisconsin available to use during the harvest season.

61. Consignors in the United States have expressed reservation on delivering their goods to the US Properties, even once rented to Saga, again out of a fear that the Agent will seize goods delivered to Saga.

62. There is no reason to suspect the Agent has any intention to do so and the Agent would have no inherent right to enter the US Properties once they were leased to and used by Saga. The Applicants may seek some form of confirmatory declaration to this effect either from the Agent or the Court, or both, if this continues to be an issue which might impact this restructuring.

63. Saga requires the US Properties in order to take delivery of the pelts, which it has agreed to receive pursuant to the Saga transaction. The Stoughton Lease will allow for those goods to be delivered to Saga (and paid for to NAFA by Saga) in North America, before the goods are shipped to Saga instead of having the goods shipped directly to Saga before they are paid for (which is the likely alternative if the consignors remain unsure about delivery to Stoughton).

64. The receipt and conversion of these pelts into cash by Saga is essential to the cash flow projections of the Applicants and to the proposed pay-down of the Agent's debt.

BDC and the Skyway Property

65. NAFA Properties is the registered owner of two long-term ground leases (the "**Ground Leases**") in respect of a property municipally known as 65 Skyway Avenue, Rexdale Ontario (the "**Skyway Property**"), which is the Applicants' head office.

66. The Business Development Bank of Canada ("**BDC**") made a term loan available to NAFA Properties in the principal amount of \$7,240,000 to allow NAFA Properties to acquire its interest in the Skyway Property in connection with the Ground Leases.

67. On October 31, 2019, BDC brought an application seeking to appoint Ernst & Young Inc. as receiver over the Ground Leases (the "**Receivership Application**"). It was agreed on October 31, 2019 that the Receivership Application would be adjourned to November 8, 2019 and that the Initial Order would not impact BDC or the Receivership Application. A copy of Justice McEwen's

Endorsement relating to the Receivership Application is attached hereto and marked as **Exhibit “C”**.

68. On November 8, 2019, the Receivership Application was adjourned to November 21, 2019 on the same terms. Justice McEwen’s Endorsement dated November 8, 2019, is also attached at Exhibit “C”.

69. The Applicants and the Monitor have been in communications with BDC to resolve the Receivership Application. The parties have reached a consensual resolution in respect of the Receivership Application on the following terms:

- a. BDC will withdraw the Receivership Application on a without prejudice basis;
- b. NAFA Properties, BDC and the Agent will be provided with 60 days’ notice if the tenancy at the Skyway Property will be terminated;
- c. NAFA Properties will be authorized to list the Ground Leases for sale, provided that the listing agreement is in form and substance satisfactory to the Monitor and BDC, in consultation with the Agent;
- d. listing, marketing and sales strategy in respect of the Ground Leases will be conducted in consultation with the Monitor, BDC and the Agent, and BDC will be provided with regular updates and information in respect of the Ground Leases and the sale process;
- e. all payments relating to the Ground Leases will continue to be paid to BDC in the ordinary course; and
- f. the security granted to BDC in respect of the Ground Leases will rank in priority to the other charges in the Initial Order (only to the extent of the security held by BDC

over the Ground Leases), subject to the costs incurred by the Monitor, the Applicants and their counsel associated with the Ground Leases and the sale of the Ground Leases, which will rank in priority to BDC's security in respect of the Ground Leases.

BLACKGLAMA Trademark

70. NAFA is the owner of the BLACKGLAMA brand (the "**Marks**") used in association with mink pelts, perfume, as well as false eyelashes and clothing items made from mink fur (the "**Goods**").

71. The BLACKGLAMA brand is an important brand worldwide in the fur industry. In my view, it is effectively the "Rolls Royce of mink". The brand has a history of more than 40 years. BLACKGLAMA furs have been worn and modeled by celebrities.

72. In order to be certified as a BLACKGLAMA mink, the mink has to be a high grade of black North American mink. BLACKGLAMA furs are tracked with specific serial numbered labels which then appear in the garments made from these rare furs.

73. The Marks are seen by some as providing an important competitive advantage for North American fur producers in the worldwide fur market.

74. NAFA holds the exclusive worldwide rights to the Marks and controls the certification process.

75. Various entities have contacted the Applicants and their counsel to ensure that the BLACKGLAMA brand is preserved in the within CCAA proceeding and some have also expressed an interest in purchasing the Marks.

76. In order to maintain the value of the Marks, NAFA believes the Marks must be included in furs in this season's garment production. The season for the production of those garments is right now.

77. The Company does not believe it can successfully market the Marks for sale in the time available to ensure that the Marks are properly used and supported in the 2019/2020 season.

78. As such, the Company has determined that the best interim measure is to enter into a short term license for the use of the Marks, which will maintain the value of the Marks pending further consideration as to how to maximize value from this asset and or include it in the future of NAFA.

79. Accordingly, the Company is in the process of negotiating a short license agreement for the BLACKGLAMA brand ("**License Agreement**").

80. The License Agreement negotiations contemplate that NAFA will temporarily license the BLACKGLAMA brand to Saga for less than a year in exchange for an initial license fee plus tax.

81. The License Agreement would grant Saga an exclusive, non-renewable, non-extendible, non-transferable, worldwide license to use, among other things, the Marks subject to the terms and conditions set out in the agreement (the "**License**"). The License would not include any right to grant sublicenses or to delegate any activity that relates to the Marks.

82. The License Agreement will likely require Saga to maintain accurate records, ledgers, accounts, books, and data reflecting use of the Marks and sales of approved products.

83. The License Agreement will also likely require that Saga will use its best endeavours to develop and increase the Business,² to improve the reputation and public perception of the Marks, and to increase the sales of the approved products.

84. Further, the proposed License Agreement requires that, within 10 days of execution of the License Agreement, Saga shall provide NAFA with a marketing plan detailing the proposed advertising that it proposes to undertake together with a budget for each campaign, initiative, activity or endeavour detailed therein. NAFA will review the marketing plan and retains ultimate discretion.

85. Given the draft license agreement, Saga will begin the BLACKGLAMA marketing campaign in order to promote the Marks and preserve their value during the holiday season.

86. The draft Licence expressly contemplates that NAFA will be allowed to market and sell the Marks any time after June 2020, provided that Saga will have a right of first offer in such a marketing process, and Saga will, if unsuccessful in acquiring the brand, have the right to sell any remaining BLACKGLAMA branded products in its system.

87. There is no presumption in the Licence or the plans of NAFA that the Marks will be owned by Saga and the Applicants intend to run a fair, open and transparent process, supervised by the Monitor, if they decide to sell the brand in the future.

88. It is also possible that NAFA may elect to retain the Mark for its ongoing use after the license expires, depending on future decisions it may make in this restructuring and the support for that proposition from the relevant stakeholders.

² Defined in the draft License Agreement as “the business of marketing and selling the Approved Products under the Marks to persons located in the Territory through the Permitted Distribution Channels.”

KERP and other Employee Matters

Terminated Employees and the KERP

89. Since the Initial Order, certain employees were terminated as the Applicants restructured their business under the CCAA. Further terminations may occur as the CCAA proceedings unfold.

90. It is my understanding that a relatively large group of terminated employees and some current employees are in discussion with a law firm to allow for their collective representation in this process. Proposed counsel attended the November 8th hearing in these proceedings.

91. I do not have the details under which this representation might occur (although I am advised by Company counsel that such representation is not uncommon in CCAA matters). The Applicants are generally in favour of the employees having a voice in this process, just as the directors, the lenders and the other stakeholders do.

92. The Applicants reserve their judgment on the appropriateness of any relief which may be sought by the employees until that relief is made clearer and the Applicants, their advisors, the Monitor and the Court, have had an opportunity to consider the impact of any such relief. In particular, it is my understanding (from discussing it with Company counsel) that funding is sometimes sought for such representative counsel, which is something that would need to be carefully considered in the managed cash flow circumstances of the Applicants.

93. The Initial Order approved and authorized a key employee retention plan (“**KERP**”), which offered the Key Employees a bonus equal to 50% of their ordinary salary over three months (the “**KERP Bonus**”) that would be paid provided they remain engaged with the Company until at least January 15, 2020.

94. The employees were advised of this plan prior to and following the granting of the Initial Order including after the Initial Order was amended. On or about November 15, 2019, the Applicants sent a letter to the Key Employees to explain the KERP and advised that the KERP Bonus would be paid to them on the earliest of the termination of their employment with the Company or January 31, 2020.

95. As of the date of swearing this affidavit, none of the Key Employees have resigned as an employee of the Applicants and I am of the view that the KERP process has contributed to the stability of the business since the commencement of these CCAA proceedings.

Polish Employees

96. NAFA employed, as at the date of the Initial Order, 13 full time employees in Poland. Nine of these employees were terminated on or after the date of the Initial Order.

97. It was initially projected that severance payments to Polish employees would total USD \$500,000. However, the Company has further investigated its obligations to its Polish employees and has determined that the severance obligation is approximately USD \$219,000. This amount is still under final review.

98. Although the full time employees have been terminated, NAFA has hired a material number of seasonal employees to assist with the grading, shipping and processing of fur products in Europe. The work of these employees is required in order to ensure goods which form part of the Saga Transaction reach Saga. The delivery of the goods being processed by these employees is an essential element of the cash flow.

99. The Company seeks to accelerate payments of the severance amounts, which come due hereafter to these Polish employees to coincide with when the employees are given their notice. In

particular, NAFA is relying on some key staff in Poland to effect mink and other asset realizations and perform the necessary work to create value. The necessary work includes managing the Polish farm, delivering skins to Saga, following the kits through to harvest, pelting, auctioning, staging the Poland Property for sale, and assisting the agent with the sale.

100. Further, staff that has been recently terminated from Poland and are not receiving their severance in accordance with Polish labour laws are “poisoning the well” with remaining staff who may decide not to remain if they believe that their severance is in jeopardy or become concerned that they will not receive their wages.

101. I am advised by the Applicants’ Polish counsel that laws in Poland for the payment of severance are very strict and may attract criminal liability. Penalties accrue for non-payment of severance at a rate of USD \$7,500 per employee per day.

102. Based on the Company’s review of the Monitor’s analysis of the realizations expected in Poland net of the salary and severance costs, the Applicants have made certain payments towards these obligations and seek to issue the severance payments ahead of the projected timing in the initial cash flow forecasts. The Monitor is supportive this process and has advised the Agent of same.

103. Given the importance of the Polish employees to preserve the value of the Applicants, as well as the criminal liability that may attach to the Applicants and their officers for failure to pay severance, the Company is of the opinion that it is necessary to treat Polish employees differently than other employees of the Applicants.

Stay Extension

104. Since the Initial Order, the Applicants have been acting in good faith and with due diligence, and continue to act in this manner in their relationships with their creditors, employees, lenders, and farmers. As set out in greater detail above, the Applicants have:

- a. worked with the Monitor and the DIP Lender to finalize the definitive documents for the DIP Facility and obtained financing from the DIP Lender as contemplated in the cash flow forecast appended to the Monitor's First Report, dated November 7, 2019;
- b. communicated with farmers in Europe and Saga representatives in order to effectuate the Saga Transaction;
- c. negotiated and finalized the VAG Settlement to improve liquidity;
- d. attended to the monetization of the Applicants' real estate holdings, including by finalizing the APS for the Carlingview Property, working on listing the Poland Property, and negotiating a short-term lease with Saga in respect of the US Properties;
- e. settled the Receivership Application with BDC, which will see the Ground Leases being listed for sale in consultation with the Monitor, BDC and the Agent;
- f. arranged for the KERP notices to be sent to the Key Employees;
- g. liaised with stakeholders, including the Agent, the Syndicate, the DIP Lender, creditors and the Applicants' international employees to keep them apprised of

developments in the CCAA proceedings and the Applicants' business operations;
and

- h. worked with the Monitor and the Applicants' financial advisor to prepare the Cash Flow Forecast.

105. The current stay of proceedings under the Initial Order will expire on November 29, 2019 (“**Stay Period**”). The Applicants request an extension of the Stay Period to and including January 31, 2020 to continue their restructuring efforts, including with respect to the Kit Loans in Europe and North America and its real estate holdings in Canada, the United States and Poland.

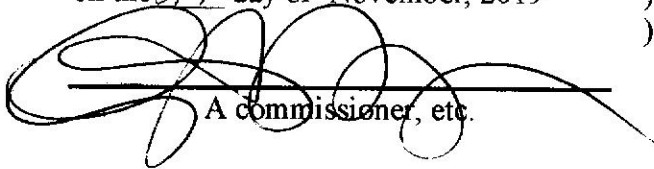
106. At this time, the Applicants are still reviewing whether they will be in a position to conduct the pelt auction in March 2020.

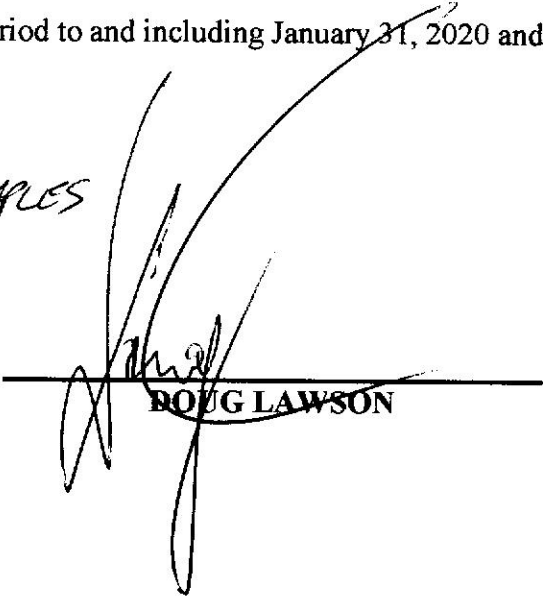
107. I understand that the Cash Flow Forecast will demonstrate that the Applicants will have access to sufficient liquidity to fund operations during the requested extension of the Stay Period.

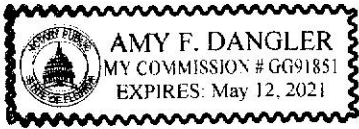
108. The Monitor has expressed its support for the extension of the Stay Period to and including January 31, 2020.

109. I affirm this affidavit in support of the Applicants' motion for an Order, *inter alia*: (a) approving the sale of the Carlingview Property; (b) approving the conditions for sale in respect of the Skyway Property; (c) the various additional relief items aimed at addressing consignor and operational issues; and (d) extending the Stay Period to and including January 31, 2020 and for no other or improper purpose.

AFFIRMED before me at the CITY OF NAPLES
in the STATE OF FLORIDA
on the 27th day of November, 2019

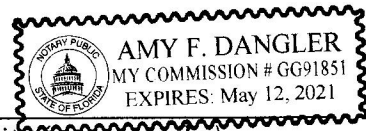

A commissioner, etc.


DOUG LAWSON



This is Exhibit "A" referred to in the Affidavit of Doug Lawson
sworn on the th day of November, 2019.


Commissioner for Taking Affidavits (Or as may be)



Court File No.

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 DOUG LAWSON

I, **DOUG LAWSON**, of the City of Toronto, in the Province of Ontario, **AFFIRM AND SAY**:

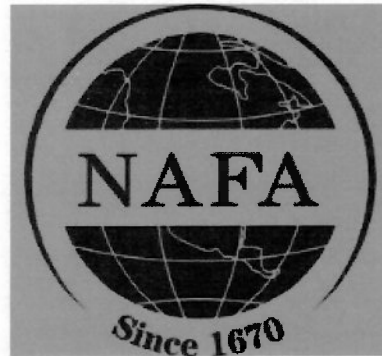
1. I am the President and Chief Executive Officer of North American Fur Auctions Inc. (the "**Company**" or "**NAFA**") and as such have knowledge as to the matters which I hereinafter depose. To the extent I am recounting information provided to me by others, I have stated the source of that information and verily believe it to be true.
2. I swear this affidavit in support of an Application by the Applicants seeking protection from their creditors pursuant to the provisions of the *Companies' Creditors Arrangement Act* (the "**CCA**").

3. All currency references in this affidavit are in USD, the primary operating currency for the Applicants, unless otherwise noted.
4. The Applicants' key lending syndicate (the "**Syndicate**") has advised that it will no longer provide further funding to the Applicants. As such, the Applicants unable to meet certain of their key liabilities as they fall due, in particular their obligation to provide funding to more than 50 farmers around the world who rely on those funds to grow and harvest animals (mainly mink) for sale by NAFA. As a result, the Applicants seek the following urgent relief to:
 - a. ensure continuity of management control (albeit in a public process supervised by a court officer);
 - b. receive priority debtor in possession ("**DIP**") financing ("**DIP Financing**") to allow the Applicants to maintain operations and address the funding needs of their farming clients;
 - c. pursue a transaction for the refinancing of their obligations; and
 - d. have "breathing space" within which to formulate a restructuring plan satisfactory to the stakeholders.
5. In the last week, the Company has entered into an arrangement with one of its competitors that provides it with immediate liquidity which, in combination with some short term DIP Financing described herein, should provide the Applicants with the necessary breathing space to consider their options and obligations to stakeholders.

Company Background and Recent Events

6. NAFA has a corporate lineage, in one corporate incarnation or another, which is approximately 350 years long. It is the direct corporate descendant of the original Hudson

Bay Fur Trading Company and later the Hudson's Bay Company ("**HBC**"). Its logo recounts that it has been in business since the year 1670:



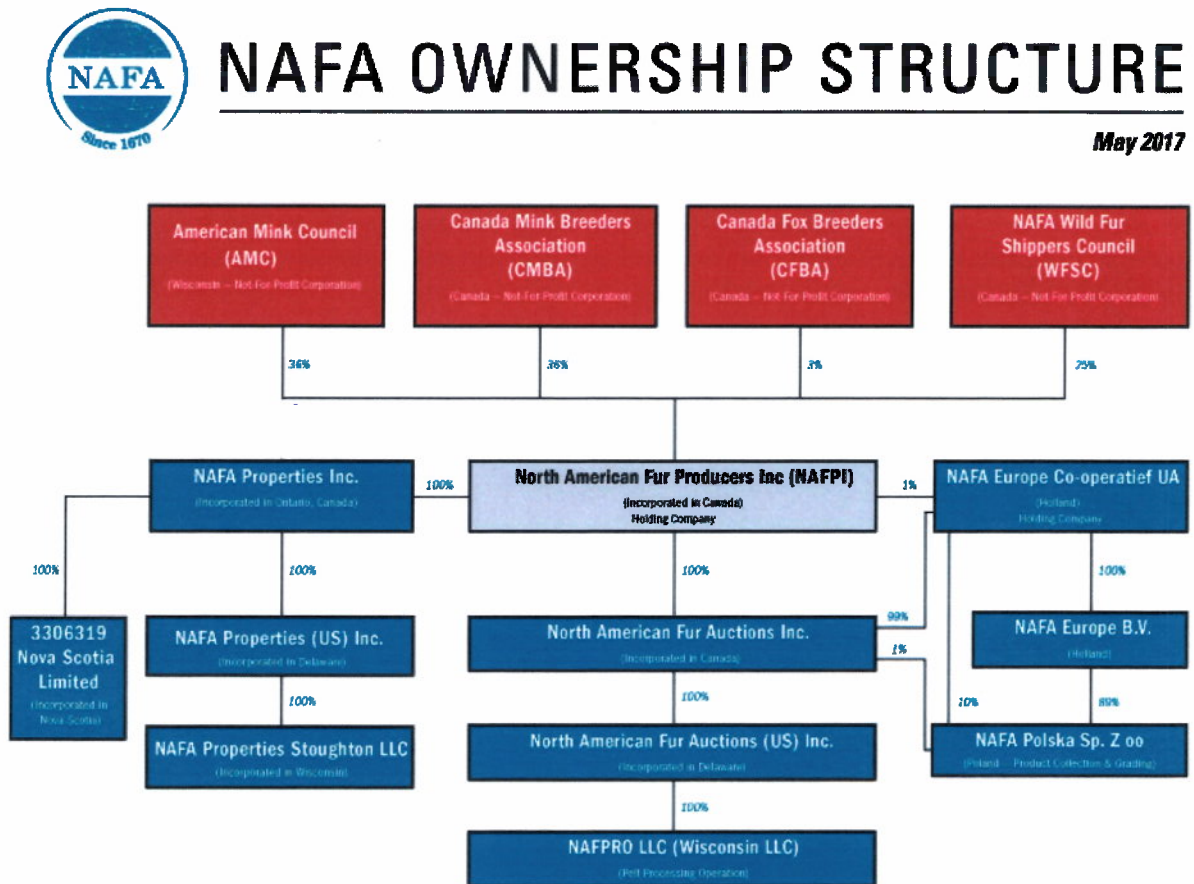
7. NAFA is in the business of farming, financing, preparing, grading and auctioning fur products, such as raw fur Pelts ("**Pelts**"), for use in the garment industry. It is one of essentially three such companies in the world that operate in this industry with similar size and scale. The other two are based in Finland and Denmark. There is no material North American competitor that provides these services.
8. NAFA sells in excess of \$200,000,000 worth of fur products annually at the auctions it conducts, as described in greater detail below. It employs in excess of 100 people worldwide through the Canadian and foreign subsidiaries, as well as approximately 300 seasonal workers worldwide from December to June annually.
9. NAFA had lending facilities with the Syndicate in the amount of approximately \$50,000,000 to \$80,000,000, depending on the time of year (as explained below). It is currently indebted to the Syndicate in the amount of approximately \$32,000,000 as at October 28, 2019.

Corporate Structure and Business of the Applicants

10. NAFA has two principal sources of revenue. It collects interest and fees on loans it makes into the fur farming industry, and it collects consignor and buyer commissions and related auction charges, and amounts due from those loans, when it conducts its auctions to sell those fur products.
11. In addition, NAFA makes loans to farmers to support those businesses in excess of and separate from the Kit Loans (as defined below). NAFA also includes 3306319 Nova Scotia Limited (“3306319”), which owns one mink farm in Nova Scotia. 3306319 generates 48,000 Pelts annually worth approximately \$1,500,000 CAD.
12. The Company also provides storage facilities for furs from around the world for entities which have purchased and not collected furs from previous auctions or for parties who wish to store fur pending future auctions. The Company also stores furs provided to it for an auction but which have failed to sell, with instructions to sell those furs at a future auction.
13. Between the NAFA owned furs and the furs in storage, NAFA currently has approximately 1,000,000 Pelts worth approximately \$25,000,000 on hand. Less than \$250,000 worth of these Pelts are NAFA’s inventory, while the remainder are furs that NAFA is storing on behalf of their owners as described above.
14. The Applicants, although located in different countries, are principally controlled by and do business through the Canadian operations of NAFA. The Canadian operations conduct the auctions, oversee the lending operations, and have central command and control over the material decisions made at the subsidiaries. All business of the Applicants is focused on the delivery of Pelts to the Canadian operations centralized around NAFA to be auctioned at NAFA’s Head Office (as defined below) in Toronto. All funding of loans, collection of loans,

and receipt of proceeds are also conducted at the Head Office location and by the staff in Canada, as further set out below.

- 15. The corporate structure of the Applicants is set out in the chart below:



- 16. In addition to the entities in the above corporate chart, there is an additional entity in Poland named Daikoku Sp.Z oo (“**Daikoku**”), which is a direct subsidiary of NAFA.

- 17. Operational control for the entities in this corporate structure is conducted from the head office located at 65 Skyway Avenue, Toronto, which is also the Company’s principal auction location and grading facility (the “**Head Office**”). The Company’s principal distribution facility is located at 500 Carlingview Drive, Toronto. All buyer services, marketing services, buyer

logistics, storage of sold goods and related activities are carried out within these two buildings.

18. The Head Office staff control and administer all consignor loans finance, oversee all consignor accounts, and administer related consignor marketing activities for all the entities in the corporate structure. The Head Office deals with soliciting ranch mink, ranch fox and wild fur within Canada. It is a major receiving depot (receiving individual Pelts into accounts, ticketing for identification, and CITES¹ registration and administration) for both wild fur and ranched fur.
19. The Head Office (through Buyer Services and Logistics) is the shipping point for all buyer purchases acquired at auction and staff at the Head Office pack, stage and co-ordinate shipments. NAFA is the major staging location and co-ordination facility for intercompany shipments between NAFA Europe B.V. ("**NAFA Europe**") and North American Fur Auctions (US) Inc. ("**NAFA USA**").
20. North American Fur Producers Inc. ("**NAFPI**") is the holding company for the producer associations. The producer association shareholders appoint the NAFPI Board of Directors, who in turn, nominate the directors for NAFA.
21. NAFA Properties Inc. ("**NAFA Properties**") is wholly owned by NAFPI. It owns and maintains various properties located within Canada, including the Carlingview property.
22. 3306319 is a fur farm operation located in Nova Scotia and owned by NAFA Properties.
23. NAFA USA is wholly owned by the Company. NAFA USA performs all soliciting functions within the United States, administers the American consignor accounts, serves as a receiving deposit for the American goods, and serves as a major grading depot for ranch mink and wild fur. The two facilities in the United States commonly receive and grade mink

¹ Convention on International Trade of Endangered Species of Wild Flora and Fauna.

and varying types of wild fur. NAFA USA is also currently storing Pelts. It also owns one of the two properties located in Stoughton, Wisconsin. This building is used primarily as the USA head office and grading facility (also containing the former NAFPRO LLC (Wisconsin LLC) ("**NAFPRO**") facility).

24. NAFA Properties (US) Inc. ("**NAFA Properties US**") is wholly owned by NAFA Properties. It owns a warehouse in Stoughton, Wisconsin, through NAFA Properties Stoughton LLC, that was under a graduated development as an eventual replacement building for all Stoughton operations, but is currently used primarily for cold storage, packing, and wild fur receiving.
25. NAFPRO is wholly owned by NAFA US. Its function was to receive "green" mink Pelts and process them into dry, raw and stable Pelts suitable for grading. This operation has been, or is in the process of being, closed and will not operate in the 2019/2020 season.
26. The Pelts that are being processed through NAFPRO and are currently graded and stored through NAFA USA and NAFA Properties US will ultimately be shipped to Canada to be sold at NAFA's auctions held at the Head Office.
27. NAFA Europe ran the Western European office, which has since been closed. It administered and paid for all non-Polish solicitors working outside of Poland and in countries including the Netherlands and Denmark. It also administered account proceeds for all European Consignor Auction revenue. As set out above, the accounts for consignor auctions handled through NAFA Europe were ultimately coordinated and controlled by the staff at the Head Office. These operations have now been closed and transitioned to NAFA Polska (as defined below).
28. NAFA Polska Sp. Z oo ("**NAFA Polska**") is the company tasked with the collection and grading of European origin ranch mink for delivery to the Canadian auction. NAFA Polska

serves a cold storage function for 805,000 Pelts and provides the facility for much of the NAFA team located in Europe to operate from. NAFA Polska's grading capacity is about 8,000,000 Pelts per year. These furs are also ultimately shipped to and auctioned in Canada.

29. Diakoku is a fur farm operation located in Poland.
30. NAFA Europe Co-operatief UA ("**NAFA Co-op**") is a holding company for all NAFA entities in Europe.
31. NAFA also operates the largest wild fur auction house in North America. Annually, NAFA facilitates the sale of approximately \$25,000,000 worth of wild fur.²
32. This part of NAFA's business is extremely important to the North American wild fur industry, particularly to the aboriginal community that uses NAFA's wild fur auction house as an important way of selling their furs.
33. NAFA's wild fur business administration also assists the Canadian Ministry of Natural Resources and Forestry to monitor the catching and trapping of animals across Canada, including with respect to the limits related to endangered species.
34. The Applicants own or lease the following real estate:
 - a. NAFPI – 65 Skyway Avenue, Toronto, Ontario (lease);
 - b. NAFA Properties – 500 Carlingview Avenue, Toronto (owned);
 - c. NAFA USA - 205 Industrial Circle, Stoughton, Wisconsin, U.S.A. (owned);
 - d. NAFA Properties Stoughton LLC - 1600 Williams Drive, Stoughton, Wisconsin (owned);

² "Wild fur" are furs trapped in the traditional sense as opposed to farm raised furs which make up the majority of the fur industry.

- e. NAFA Polska - ul. Granitowa 10 in Goleniow, Poland (composed of 0.8916 hectares of land and development erected thereon) (owned);
 - f. NAFA Polska – ul Produkcyjna in Goleniow, Poland (composed of 0.8003 hectares of land and development erected thereon) (owned);
 - g. 3306319 – 569 Middle Cross Road, Roxville, N.S.;
 - h. 3306319 – 241 Riverdale Road, Riverdale, N.S.; and
 - i. Daikoku - 72-100 Lozienica, Poland (a farm that is leased).
35. NAFA conducts three auctions a year, which are held at its Head Office location. The last of these auctions was just concluded successfully on August 27, 2019. The next auction is currently scheduled to be held in March, 2020.
36. During the period between July and March, the Applicants have traditionally had access to bank financing to fund the growing cycle for their product, which I understand to be similar to other agricultural businesses.
37. In particular, from the period of July until November in most years, including this one, NAFA borrows in excess of \$45,000,000, a portion of which is lent to farmers/ranchers who use those funds to fund the development of mink. Those farmers are then contractually bound to deliver those mink to NAFA for auction. These loans are referred to herein as “**Kit Loans**”.³
38. The farmers who contract with NAFA for the Kit Loans are, once the loans are in place, completely dependent on NAFA for these funds to purchase necessities such as feed in order to grow the mink.

³ Infant mink are called “Kits”.

39. NAFA's lending cycle ends around the end of November each year. Thereafter, the mink are harvested and turned into Pelts for auction.
40. NAFA's lenders, and in particular the Syndicate, have made loans to NAFA to fund this farming cycle for decades (since the late 1980's).
41. This year, in both May and July, the Syndicate confirmed its willingness to do so again (subject to certain terms) and entered into a new loan agreement with NAFA in July, as further described below.

Dealings with the Syndicate

42. In 2018, NAFA decided to delay its third auction in 2019 (which would usually have been in July) to the end of August. This decision was made in April of 2018 and was made known to the Canadian Imperial Bank of Commerce ("**CIBC**" or the "**Agent**"), the Agent for the Syndicate, at that time.
43. The other two 2019 auctions were scheduled to take place in March and June 2019.
44. Although the results from the auctions held in March and June 2019 were acceptable competitively and relative to the current market, the results of the auctions were materially below projections.
45. The auction results in June were depressed, in part, by changes in the worldwide price for mink and other furs, which trade as commodities and are subject to the volatility as other internationally traded commodities.
46. At the end of June, I voluntarily approached CIBC and advised my principal bank contact that due to the poor outcome of the auction in June, and the fact that the auction normally held in July was taking place in August, NAFA would not have sufficient cash to fund the Kit Loans in July and August without assistance from the Syndicate.

47. In particular, NAFA calculated that it would require a bulge facility from the Syndicate in the amount of up to \$20,000,000. The Company had previously requested and received bulge facilities from the Syndicate in prior years.
48. At that time, the total amount owing to the Syndicate was approximately \$45,000,000.
49. The Agent was advised that NAFA intended to hold its auction in August (as scheduled) and that when it did so, it was expected that it would return to a more usual level of debt with the Syndicate.
50. On July 8, 2019, a meeting was held between the Agent's Special Loans group, its financial advisors, the Company's financial advisors, and representatives from the other lenders from the Syndicate and counsel to canvass options and concerns.
51. Following that meeting, the Company and the Syndicate entered into a new credit agreement whereby the Syndicate agreed to provide funding to the Company for the period from July 17, 2019 up to and including the current date and beyond. A copy of that Credit Agreement (the "**Credit Agreement**") is attached hereto and marked as **Exhibit "A"**.
52. The Credit Agreement is extremely dense and complex, reflecting the size and complexity of the loan products used in the NAFA business. I will not describe it in detail here. I will note that, as was confirmed in July of this year, all of the Applicants (with the exception of Daikoku, NAFA Europe and NAFA Co-op) were either borrowers or guarantors under the Credit Agreement, with the guarantors guaranteeing the entire amount of the debt, jointly and severally.
53. In the Credit Agreement, CIBC affirmed that it would continue to provide funding to ensure that the Kit Loan payments were made. In reliance on this fact, NAFA made it known to their farmers that they could reasonably expect to continue to receive the Kit Loans for this growing season.

54. Attached as Schedule "1.1.23" of the Credit Agreement was a cash flow forecast which strictly limited the Company's disbursements and the Company covenanted to follow it.
55. The new Credit Agreement was focused on three new business points:
- a. First, the Company would diligently follow the cash flow, which would be closely monitored by the parties and their financial advisors;
 - b. Second, the Company would engage in an aggressive program to sell the business, or part of it, and would immediately hire KPMG Corporate Finance ("KPMG Corporate") to spearhead that initiative; and
 - c. Third, the Company would conduct the August auction in the usual course and ensure maximum recovery from those assets.
56. The cash flow forecast was prepared after careful and detailed review by KPMG Inc. ("KPMG") (our auditor and financial advisors), the Agent, its counsel and their financial advisor, Alvarez & Marsal Canada ULC ("Alvarez").
57. Pursuant to the cash flow forecast, the Syndicate did allow for funding to be made to pay the Kit Loans and the Company did so. Thereafter, the Kit Loans were generally kept current to the farmers until October 17, 2019, as further described below.
58. The Company held its auction in August, 2019 as agreed.
59. The Company was obliged, pursuant to its credit and other arrangements with the Syndicate, to certify by August 30th that the receipts from that auction were at least \$53,000,000. In fact the auction proceeds were in excess of \$55,600,000, as certified in the certificate provided to the Syndicate, which is attached hereto and marked as **Exhibit "B"**.
60. As required by the Credit Agreement, the Company hired KPMG Corporate in July 2019, who began the process of seeking sale or refinance opportunities for the Company.

Immediately after being retained, KPMG Corporate advised the Company and CIBC that while a strategic sale of some or all of the Company was possible, the deadlines set out in the Credit Agreement were unrealistic in its view.

61. The Syndicate made demand on the Company on August 2, 2019 and issued notices of intent to enforce under the *Bankruptcy and Insolvency Act* (“**BIA**”), largely because the Company had failed to meet the sales guidelines. Attached hereto and marked as **Exhibit “C”** are copies of the demand letters and BIA notice.
62. By August 14, 2019, the Syndicate had agreed to a forbearance with the Company and the Syndicate agreed to new timelines for the sale process which were supported by KPMG Corporate (“**Forbearance Agreement**”). A copy of the Forbearance Agreement is attached hereto and marked as **Exhibit “D”**.
63. The Company continued to follow its cash flow forecast (as amended from time to time with the agreement of the Syndicate) and delivered the first SAGA LOI (described below) within the timeline provided in the Forbearance Agreement.
64. The Company has substantially lived up to its obligations under the Credit Agreement and the Forbearance Agreement (as amended) except in regards to certain covenants to sell certain assets and/or enter into merger transactions within the timeframes that proved to be unrealistic.
65. On September 19, 2019, the Syndicate issued a default letter purportedly terminating the Forbearance Agreement and the Credit Agreement. While I did not agree that there had been a default which entitled the Syndicate to issue the default letter, the Forbearance Agreement expired in any event on September 19, 2019 and so NAFA did not contest it as it seemed a moot point. Attached hereto and marked as **Exhibit “E”** is the default letter, dated September 19, 2019 from counsel to CIBC.

66. Since September 19, 2019, the Syndicate has not made any further cash advances to NAFA.

The Waygar Refinancing Transaction and First Interim Funding

67. In accordance with the sale process sanctioned by the Credit Agreement and subsequent forbearances, the Company solicited and received a letter of intent from Waygar Capital Inc. ("**Waygar**") on or about August 27, 2019, under which Waygar expressed its intent to finance the Company.
68. Waygar advised of its intent to advance \$60,000,000 in loan repayment and working capital by mid-October, 2019.
69. At a conference call attended by Waygar, the Agent, and all of the advisors on September 19, 2019, Waygar advised that it had delayed moving forward with its loan until the Company made the majority of the payments owing by it to parties who had supplied furs to NAFA on consignment for the August auction from the proceeds of that auction. As a result, Waygar advised that it would now not be able to meet its planned advance date to retire the Syndicate's indebtedness, upon which the Company had relied. Those payments were made, as scheduled, on September 17, 2019.
70. On or about September 18, 2019, the Company was advised by the tax authorities in the Netherlands that they had sequestered funds (ultimately totalling approximately 1.2 million Euros – subsequently reduced to 830,000 Euros, which has been transferred to the Dutch Tax authorities as security and approximately 100,000 Euros held in a Rabobank account) due to suspicion that, in the past, funds which were payable to certain consignors of furs to the three major fur auction companies in Europe (including NAFA), were part of a tax fraud scheme being perpetrated by the intended recipients. The investigation is going to go back in time approximately fourteen years.

71. No allegation was made specifically against NAFA in this regard, but the suspension of the funds further depleted the availability of funds for NAFA and further complicated NAFA's ability to make payments of any kind into Europe. Two letters from the Dutch tax authority dated September 11, 2019 are attached hereto and marked as **Exhibit "F"** along with a translation.
72. Following this, the Agent advised the Company on Saturday, September 21, 2019 that it intended to place the Company into receivership.
73. In response, on Sunday, September 22, 2019, the Company arranged for interim funding from Waygar.
74. In particular, Waygar agreed to advance, and the Syndicate agreed to allow, up to \$8,000,000 to fund operations until the closing of the \$60,000,000 financing with Waygar, which was to take place on October 17, 2019.
75. Waygar provided the interim financing through Waygar joining the Syndicate, as set out in the agreement attached hereto and marked as **Exhibit "G"**.
76. The key terms of the advance between Waygar and the Syndicate were that Waygar would advance the funds and would have first priority to repayment of those funds. The funding was principally to be used to fund Kit Loan obligations. That funding closed on September 27, 2019.
77. It was my understanding, based on multiple conversations which I attended with the Agent and/or its advisors (along with NAFA's advisors) that the Syndicate recognized the utility in making this funding to the farmers in order to ensure the further development of the kits into harvestable product.
78. I believe that it is understood among the Company, the Syndicate and our respective advisors, that under-funded and under fed kits are essentially valueless.

79. By comparison, it is estimated by our advisors that the conservative market value of the kits, which are subject to Kit Loans, and anticipated to be converted into Pelts would be in excess of \$90,000,000 once harvested. Based on the terms of the current 2019 Kit Loans, approximately \$65,000,000 would be payable to the Company to repay those loans upon those animals being pelted, auctioned and sold (assuming NAFA completed its loans to all of these farmers).

Termination of the \$60,000,000 refinance Waygar Transaction

80. On October 14, 2019, Waygar advised the balance of the Syndicate (the “**Original Syndicate**”) and the Company that it was no longer prepared to enter into long term funding with the Company or provide the \$60,000,000.
81. Confronted with the fact that the Company was going to be unable to fund its Kit Loans or other obligations beyond day-to-day operations after October 17, 2019, the Company approached each of Waygar and the Original Syndicate members to seek interim funding to allow it to finish the Kit Loans and operate.
82. The Agent advised the Company, at an all parties meeting on October 15, 2019, that the Syndicate was unwilling to provide any further funding to the Company. On the other hand, the Agent advised that the Syndicate might be willing to consider allowing for the Company to consume certain easy to liquidate assets, if that might provide it some runway before it ran out of funds.
83. CIBC also advised that it would not allow for further DIP funding from Waygar to come in ahead of the Original Syndicate.
84. Further, CIBC advised that in its opinion, there may not be sufficient value in the current business to even repay the \$8,000,000 due to Waygar in priority to the Original Syndicate. I disagree with this statement.

85. The Agent strongly encouraged the Company to seek a transaction with its competitors to see if that might either solve the liquidity issues or provide a basis for a merger, transaction or wind-down.
86. Waygar, confirmed on October 18 and October 20, 2019, that it was prepared to provide DIP Financing to allow the Company to meet its Kit Loan obligations. As set out below, Waygar has provided a term sheet outlining a DIP funding transaction which, if approved by the Court, will provide the Company with the funding to move forward.
87. In the interim, while continuing to operate in the normal course (subject to its extreme cash constraints), the Company has pursued a transaction with its competitor, SAGA Furs ("**SAGA**"), to address these liquidity issues.

The SAGA Furs Transaction

88. Since July of this year, NAFA has been engaged in negotiations with SAGA about a possible transaction. The transaction was sourced and organized by KPMG Corporate in accordance with the mandate provided to it pursuant to the Credit Agreement. Various iterations of the transaction were vetted and considered from time to time by KPMG Corporate and reported to the Syndicate and Alvarez.
89. SAGA provided the Company with an LOI to allow it to acquire certain of the Kit Loans in August (the "**August LOI**"), but that transaction was not pursued at that time because of the opportunity provided by the anticipated transaction with Waygar which NAFA thought would retire the Original Syndicate loan or provide the business with a path forward.
90. On October 20, 2019, the Company and KPMG Corporate solicited and received a new LOI from SAGA (the "**SAGA LOI**"). A copy of the SAGA LOI is attached hereto as **Confidential Exhibit "A"** to this affidavit.

91. Fundamentally, the SAGA LOI proposes a transaction which allows for NAFA to receive some or all of the present value of the outstanding Kit Loans, without having to wait to recover those amounts from auction proceeds which would not otherwise be available until March, 2020 or later. In exchange for this, NAFA is surrendering the right to auction these kits at its March auction, and foregoing the profit it would make from conducting such an auction.
92. The SAGA LOI sets out the following deal terms:
- a. SAGA would provide immediate funding to NAFA with respect to certain farmers in Europe who had outstanding Kit Loans, up to the amount of those loans (which certain advances made by it would be repaid to NAFA). In accordance with the terms of SAGA LOI, these farmers are referred to as the “**Schedule 1 Farmers.**”
 - b. SAGA would fund the balance of the requirements owing under the Kit Loans for the balance of the season for the Schedule 1 Farmers, thereby relieving NAFA of the obligation to do so.
 - c. SAGA would take over funding the pelting, grading and auctioning of the kits subject to Kit Loans.
 - d. SAGA would also make offers to acquire the balance of the European Kit Loans from the other European farmers, which are referred to as the “**Schedule 2 Farmers**”. In respect of these farmers, SAGA would provide NAFA with an amount equal to 85% of the past market price averages. The balance due for these Kit Loans would be paid when the kit Pelts were auctioned by SAGA.
 - e. To the extent NAFA was owed anything from the farmers beyond the payment contemplated in sub-paragraphs a) or b) above to be financed by SAGA, it would have a second secured position over the Pelts which were the subject of the Kit

Loans and would be paid the balance owing to them from the proceeds realized at auction.

- f. SAGA also offered a similar structure for NAFA's North American Kit Loans, but on a less immediate basis.
- g. A commission fee would be payable to NAFA in connection with the Pelts to be sold at auction provided through this structure (the "**SAGA Furs Transaction**").

Immediate Cash Flow Impact of the SAGA Furs Transaction

- 93. On October 21, 2019, the Company, in consultation with KPMG provided to the Syndicate and Alvarez two cash flow forecasts for the period of October 11 to December 13, 2019, which assumed the SAGA Furs Transaction would be performed and the Company could utilize some or all of that cash to meet its remaining Kit Loan obligations and operational obligations. Those cash flows are attached hereto as **Confidential Exhibit "B1"** and **"B2"** to this affidavit.
- 94. These illustrative cash flow forecasts are no longer current as the Company has continued to work with KPMG to prepare a cash flow forecast for these CCAA proceedings. Deloitte Restructuring Inc. ("**Deloitte**"), in its capacity as proposed monitor for the Applicants (the "**Proposed Monitor**") is currently working with the Company and KPMG to review and finalize the cash flow forecasts, as discussed below.
- 95. The Company, with the assistance of KPMG, also reviewed and provided an analysis of the benefit of the SAGA Furs Transaction to the Syndicate and Alvarez. A copy of this analysis is attached hereto and marked as **Confidential Exhibit "C"**. The analysis was positive.
- 96. Having reviewed the SAGA Furs Transaction with KPMG Corporate, KPMG, the Syndicate and its advisors, and with particular regard to the fact that the Syndicate was unwilling to

provide any further bridge funding or any funding at all, the Company determined that the SAGA Furs Transaction was the best available option to support the Company and its obligations to its stakeholders. The Board also supported and authorized that the Company proceed with this transaction.

97. The SAGA Furs Transaction will, if completed on schedule, provide sufficient liquidity to allow NAFA to harvest the current mink crop and thereafter to reconsider its business operations.
98. Under the SAGA Furs Transaction, it is likely the case that NAFA will not hold an auction in March 2020 as it is expected that the remaining Pelts consigned to NAFA could be directed to be auctioned by SAGA. It is unclear what role, if any, the existing NAFA staff would play in conjunction with those products.
99. It is my hope that once the Company gets through the immediate cash crunch related to the completion of the 2019 Kit Loans, it will then be able to review with its advisors what future business, if any, might be performed by NAFA or its personnel both in Canada and or in its satellite offices to further support the fur industry. For example, SAGA and the Company have also discussed the possibility of a transaction in the future whereby SAGA will assist NAFA to fund the Kit Loans and assist with operations in North America.
100. Attached hereto and marked as **Confidential Exhibit "D"** to this affidavit is the NAFA/SAGA Furs Rancher Visitation Schedule and Estimate Valuation, which shows a summary of the Kit Loans and the corresponding next farm visit and payment, as at October 28, 2019. As set out therein, certain loans have already been assigned to SAGA, and more than \$3 million is expected to arrive by the end of the week.

101. It is anticipated by the Company in its Cash Flow Forecast (as defined below) that the Syndicate will allow the Company to use these proceeds to fund operations, but the Syndicate has not committed to this position.
102. I have advised SAGA of the Company's intention to seek protection under the CCAA and have been advised by Juha Huttunen, the CFO of SAGA, that the CCAA filing will not impact SAGA's desire to complete the SAGA Furs Transaction.

Financial Impact of the SAGA Furs Transaction

103. The cash flow at B1 assumed the SAGA Furs Transaction will be performed entirely on an expedited basis and with the best outcome for all assumptions. On this cash flow, the Company would have sufficient liquidity to meet its obligations, including the ability to complete the remaining Kit Loan funding, without the need for further DIP Financing over that period.
104. On October 21, 2019, counsel for Waygar, CIBC and the Company, KPMG/KPMG Corporate, and Alvarez had a call in which the Company expressed its belief that while it was possible, based on the best case scenario cash flow, that the Company would be able to operate without any further funding from the Syndicate, it was of the view that it was prudent to have a DIP Financing facility of \$5,000,000 given the potential risk surrounding the timing of the assumption of the loans by SAGA (as the cash flow at Confidential Exhibit B1 outlined a doable but optimistic time frame).
105. By comparison, the cash flow at Confidential Exhibit B2 assumes there will be some greater difficulty in completing the anticipated SAGA Furs Transaction with the various farmers which causes a greater period of time to pass before the first or significant funds are provided by SAGA. Under this forecast, the Company requires \$5,000,000 from Waygar immediately (i.e. on or before November 1, 2019) to allow it to maintain funding to the Kit

Loans while the SAGA Furs Transaction matures and generates material funds a week later.

106. Both cash flow forecasts also include material repayments to the Syndicate and the continuation of current payments in accordance with the existing security and lending arrangements. A delay or "holiday" in those payments could improve the Company's cash position going forward, but it would not provide the additional liquidity the Company immediately needs in order to keep the Kit Loans current. The Company is reviewing the appropriateness of these pay downs during the period of the cash flow.
107. As the cash flow demonstrates, after nearly 4 months of carefully managed and occasional acrimonious negotiations and funding, the Company is, according to projections, literally within only a few weeks of being able to complete the funding of the Kit Loans (with the proceeds from the SAGA Furs Transaction) and see the benefit of those loans turning into collectable assets.
108. The Company has now commenced the process of contacting farmers and implementing the SAGA Furs Transaction (even prior to receiving final documentation from SAGA) and it is optimistic it will provide the much needed liquidity to the Applicants. I personally flew to Finland on October 23rd and remained there until October 27th to help coordinate this process. My initial report is that the contact with the first group of farmers by SAGA proceeded well and I am optimistic the balance of the transaction will proceed equally well.
109. The negotiations with our single largest customer and debtor, the Van Ansem Group ("**VAG**"), are ongoing and to date have proven somewhat difficult. The Company's business dealings with VAG are complex and relatively large (with VAG owing in excess of \$16,000,000 to NAFA and NAFA owing \$7,000,000 to VAG from the most recent auction) which may not be resolved as quickly as the above cash flow forecasts had projected. I am confident that a resolution will be found shortly.

110. In the interim, the Company, in conjunction with KPMG have determined that it is prudent to have a DIP Financing facility in place to ensure there is no further interruption of funding to the kit farmers or to NAFA operations. The Company is prepared to only draw on that funding as needed and if needed. The Company is working on a cash flow with the Proposed Monitor which anticipates the availability of this DIP.
111. CIBC rejected providing the required \$5,000,000 standby facility at an all counsel call on October 21, 2019. Waygar confirmed it would provide that funding on that call, but only on a priority basis.
112. At an all hands meeting on October 28, 2019, CIBC and Waygar confirmed this remained their respective positions. CIBC also confirmed its position that the Company should vigorously pursue the SAGA Furs Transaction to resolve its liquidity issues, which the Company confirmed it was doing (and is doing) in any event.

Current Circumstances of the Company

113. On October 23, 2019, the Company met with its employees in Toronto to discuss the challenges being faced by the Company. In the circumstances, the Company advised that it may not have the funds necessary to pay any statutory termination pay or other notice amounts owing to these individuals. The employees were also advised that all wages were current until October 31, 2019. The Company is also not engaging the seasonal workers it would usually engage at this time of year.
114. The Company is being pursued by its creditors. My staff is in daily communication, of increasing frequency, with consignors looking for their outstanding payments, customers looking for their deferred proceeds, parties looking to repossess inventory that remains under NAFA's control following the last auction, and parties seeking Kit Loans or related loan funding.

115. We have not been able to provide satisfactory answers to most of these inquiries and I suspect that some or all of these parties are going to seek legal recourse against the Company with respect to their perceived breaches of NAFA's obligations to them.
116. The Company is still current with its salary and other current expenses. Its payroll is paid until the end of October, but the Company is struggling to meet other employee liabilities, including accrued vacation pay. As at October 29, 2019, the outstanding vacation pay liability was approximately \$100,000.

Assets

117. According to the most recent analysis of KPMG, based on up-to-date information and audited financial statements, the Company has assets with a book value in excess of \$129,000,000. This is materially more than the Syndicate is owed.
118. Attached as **Confidential Exhibit "E"** is a Net Realization Analysis ("**NRA**") from the Company and reviewed and revised by KPMG as at October 18, 2019. Similar ones with similar asset classes was prepared during the negotiations of the Credit Agreement in July and in relation to the Forbearance Agreement in August. As set out therein, the principal assets of the Company are:
- a. Accounts receivable owing from parties who purchased goods at auction;
 - b. Kit Loans which remain outstanding;
 - c. Other loans to consignors (i.e. capital loans to support Farm operations not directly tied to Kits);
 - d. Inventory; and
 - e. Real estate assets.

119. As set out therein, the Company has in excess of \$53,000,000 worth of Kit Loans. The collectability of these assets increases dramatically if the final payments are made to the farmers so that the kits reach full size and can be converted into Pelts.
120. If that occurs, even on a liquidation basis, it is estimated that NAFA will recover approximately \$39,000,000 from the Kit Loans, which alone is substantially more than the Syndicate is owed. I understand that the Proposed Monitor is reviewing the NRA with KPMG.
121. On a going concern basis, I believe that these loans will be nearly 100% collected. In my experience, we have had a less than 1% loan loss rate on these loans. On a going concern basis, the Kit Loans would be worth approximately \$52,000,000.
122. Also, on a going concern basis, NAFA has in excess of \$12,000,000 worth of loans owing by farmers separate and apart from the Kit Loans and loans from previous years of approximately \$11,000,000 which are still outstanding, which in the ordinary course would have some value. On a liquidation basis, it is estimated that these will not be collected for any material value.
123. In addition, I note that the NRA does not provide a value for the Company's intellectual property (in particular, trademarks), which I believe could have some material value.
124. In terms of its fixed assets, the Company is in the process of completing a sale of its Carlingview property, which will provide a further pay down of the Syndicate's indebtedness of approximately \$5,000,000 possibly within the next two weeks. That transaction is quite advanced, and the Syndicate is fully informed of and approves that transaction. It is estimated that the balance of the Company's real estate holdings could, on a liquidation, generate a further \$5,000,000 to \$6,000,000 in realizations.

125. On or about October 28, 2019, the Company was provided with a revised purchase agreement for the Carlingview property for a reduced price. If accepted, the transaction is due to close within two weeks. The agreement does not currently include a provision from the purchaser requiring a vesting order or court approval.
126. As at October 18, 2019, the total indebtedness of the Company to the Syndicate, inclusive of the \$8,000,000 DIP already advanced by Waygar, was approximately \$32,000,000
127. As set out in the Confidential Exhibit, assuming the Kit Loans are funded to maturity, it is reasonable to expect the Company to have a liquidation value which is more than \$20,000,000 in excess of its current indebtedness to the Syndicate and Waygar (before repayment of the additional \$5,000,000 DIP described below).
128. The financial statements for each of the Applicants from 2018 will be provided at the hearing. The financial statements were audited by KPMG.
129. But for the indebtedness to the Syndicate which NAFA directly owes and the other Applicants (with the exception of Daikoku, NAFA Europe and NAFA Co-op) jointly and severally guaranteed, the businesses are otherwise solvent.

Creditors

130. Attached hereto and marked as **Exhibit "H"** are PPSA searches for each of the Canadian Applicants. As set out therein, the entities with registrations against the Company are:
- a. CIBC – NAFA Properties, NAFA, and 3306319;
 - b. Business Development Bank of Canada ("**BDC**") – NAFA Properties and NAFA;
 - c. Farm Credit Canada ("**FCC**") – NAFA Properties, NAFA, and 3306319;
 - d. National Leasing Group Inc. – NAFA;

- e. Xerox Canada Ltd. – NAFA; and
- f. CNH Industrial Capital Canada Ltd. – 3306319.

131. There are also inter-company secured loans subordinated to the Syndicate, the details of which we are assembling for review by the Proposed Monitor during the CCAA proceedings.
132. Each of BDC and FCC have specific loans on real property. BDC holds a mortgage on the Skyway property lease interest. FCC holds a first mortgage on the Carlingview property and the Nova Scotia Farm.
133. Neither real property lender has taken any material steps to enforce their security although both are aware of the default notice provided by CIBC. Attached hereto and marked as **Exhibit “I”** are the property searches for the two properties in Toronto. The Company is in the process of completing searches of the Nova Scotia properties.
134. BDC did contact Company counsel by letter and by phone to express its concern with the apparent issues with the Company. They have taken no further steps.
135. There has been no communication from FCC.
136. Outside of secured creditors with security over its real estate, the only material secured creditor for NAFA is the Syndicate. As at October 28, 2019, the Syndicate was owed approximately \$32,000,000. Of that amount approximately \$8,000,000 is a result of the interim financing provided by Waygar.
137. Since July 2019, the amount owing to the Syndicate has been reduced from approximately \$60,000,000 to under \$25,000,000 (not including the \$8,000,000 loaned by Waygar).

Government Remittances and Unsecured Creditors

138. All government remittances are up to date to the best of my knowledge and no amounts are owed for source deductions. The Company routinely files HST and from time to time is in a deficit or refund position. Currently, it is expected that there is a small refund for HST owing to the Company.
139. The Company owes approximately \$7,000,000 to its buyers for "Buyer Credits", which are credits that the Company has agreed to provide to buyers who have provided funds for future purchases, provided back up collateral against future amounts, or are entitled to commissions/rebates that they earned on prior sales that they have not applied to purchases.
140. The Company owes in excess of \$11,500,000 (out of which \$7,000,000 is owing to VAG) to its consignors who have not yet received funds derived from the sale of their goods in the August auction. Those payments were interrupted by CIBC when it issued its default letter on September 19, 2019. Approximately 7,500 consignors are owed funds.
141. Beyond the consignors, the Company has the ordinary unsecured creditors expected of an enterprise of this size. I estimate the debts to those creditors to amount to approximately \$8,000,000 to \$9,000,000, but I have not had the opportunity to properly itemize the Company's obligations to its ordinary unsecured creditors at this time.
142. Beyond this, NAFA is obliged to provide in excess of \$13,000,000 (the "**Deferred Proceeds**") to various parties who were owed funds from previous auctions, but who for one reason or another, have not collected them and or had asked that they continue to be held at NAFA pending direction from those parties. The total number of parties with Deferred Proceeds from NAFA are approximately 50.

Employees

143. NAFA also employs in excess of 70 full-time employees in Canada, and 35 full-time employees around the world at its satellite offices. There is no union for these employees. It is my understanding at this time that the employment, severance and termination of these employees are governed by the laws of Canada, the United States, the Netherlands and Poland.
144. NAFA's Canadian employees are all a part of a defined contribution pension plan with Sun Life Financial (the "Plan"). The Company pays into the Plan on a monthly basis. The Company does not have any obligations with the Plan which are in arrears at this time.
145. Approximately 7 Canadian employees are also part of a HBC Legacy Fund. These were former employees of HBC who joined NAFA in 1987 when NAFA acquired the fur business from HBC. At HBC, these employees were part of a pension plan.
146. It is my understanding that as a result of a promise under which these employees joined NAFA, the Company provides these employees an additional pension payment ranging from approximately \$400 per month to \$2000 per month after their retirement until their death. Five of the seven employees have already retired and have been paid monthly as required. Two have yet to retire and are still employees.
147. Currently, it is my understanding that the Company's projected obligations in respect of this HBC Legacy Fund are in the amount of approximately \$1,000,000 (CDN), but NAFA does not have a recent actuarial report to certify that liability.
148. We are in the process of accumulating information about the Applicant's obligations and options in various foreign jurisdictions.

DIP Loan Agreement Key Terms

149. Having regard to the cash flows at Confidential Exhibits B1 and B2, the Company has asked and Waygar has offered to provide a DIP Financing facility available to the Company, which is conditional on Court approval (the “**DIP Facility**”).
150. Attached hereto and marked as **Exhibit “J”** is a draft term sheet for the DIP Facility dated October 29, 2019 (“**Term Sheet**”). I expect to have an executed Term Sheet by the time of the CCAA hearing date which will be provided to the Court.
151. The key provisions of the proposed DIP Facility are as follows:
- a) The DIP Facility will be in the amount of no more than \$5,000,000;
 - b) The DIP Facility may be drawn as needed but will not revolve;
 - c) The Interest rate will be 12% per annum, payable monthly in arrears;
 - d) There is a set-up fee charged in the amount of 2%;
 - e) The DIP Facility matures within 60 days from execution of the DIP loan agreement or upon completing milestones related to the Kit Loan refinancing;
 - f) Waygar, in its capacity as lender under the DIP Facility (in such capacity, the “**DIP Lender**”), must be granted a Court ordered first priority charge over all of the property, assets and undertakings of the Applicants; and
 - g) The terms of the Initial Order must be satisfactory to the DIP Lender.
152. I have reviewed the terms of the DIP Facility with Company counsel as well as KPMG. I understand that the Proposed Monitor is reviewing the DIP Facility and will provide its views in their Pre-Filing Report.

Need for DIP Funding to Fund Kit Loans

153. It is estimated that the total number of mink kits which were sired, acquired and raised in reliance on promises from NAFA to fund the carrying costs of those animals is approximately 3,400,000 animals worldwide. Kit Loans are required to ensure these mink reach maturity and the farmers have the resources to process them properly and humanely.
154. The historic loss rate on these Kit Loans is less than 1%. Over my tenure at NAFA the total amount lent in this fashion has exceeded \$1 billion.
155. If the Kit Loans are terminated suddenly, most of the farmers have no ability to seek alternate funding quickly, and the minks would starve to death or they would have to be euthanized by their ranchers. The immature Pelts have no value.
156. The farmers will have, as of Wednesday, October 29, 2019, been without funding since October 17, 2019 when the \$8,000,000 financing from Waygar was exhausted by NAFA. It is therefore critical that funding be re-established immediately to ensure the health of the kits.
157. It is not an exaggeration to say that a significant portion of the worldwide mink ranching business is wholly dependent on the flow of funds from NAFA. If these funds are not provided on a timely basis, these minks will starve, cannibalize their siblings, or will not mature or grow in a normal manner, causing the farmers to suffer a material loss from which they may not recover.
158. As noted above, it is a condition of the Kit Loans that the ranchers who take on these loans deliver their minks to NAFA for auction. In this fashion, by making these loans, NAFA ensures that it has inventory to sell at its auction.

159. Although NAFA takes security for its loans from the ranchers, the principal way that NAFA collects on these loans is by offsetting the amounts owing to NAFA against the obligations owing to these farmers from their product which is sold at auction.
160. Although some of the Kit Loans are to be assumed by SAGA under the SAGA Furs Transaction, not all of them are and the ones that are may not be done immediately.
161. If NAFA fails to pay its Kit Loans when due and the mink in question are killed or not made available for sale it makes collection of the loans much more difficult or even unlikely.
162. It is also reasonable to expect that any mink rancher who does not receive the funding agreed to be provided to it by NAFA will assert a cause of action against NAFA which might nullify any amount owing by that farmer to NAFA. In any event, collection would be materially more difficult, if not impossible.
163. It is also the case that many of these farmers (approximately 70%) are located in Europe, which further complicates enforcement.

Current Cash Flow Forecast

164. The Applicants, with the assistance of KPMG, are preparing a cash flow forecast from the current week to the week ending December 13, 2019 (the “**Cash Flow Forecast**”). The Cash Flow Forecast is in the process of being finalized and I understand that it will be attached to the Proposed Monitor’s Pre-Filing Report and that the Proposed Monitor will review the Cash Flow Forecast and comment on it in its report.

Relief Sought under the Initial Order

165. The Applicants likely do not have adequate means to maintain going concern operations (including funding the Kit Loans) without commencing a CCAA proceeding, along with

authorization to enter into the DIP Facility. The Applicants are unable to meet their obligations as they come due and are therefore insolvent. I believe that the Applicants will benefit from the granting of an Initial Order under the CCAA. Below, I have outlined the key components of the proposed Initial Order.

Stay of Proceedings for Canadian and Foreign Entities

166. In order to provide breathing space to the Applicants while they restructure and to continue to allow them to operate as a going concern, the Applicants require a stay of proceedings. The Applicants are concerned about the potential termination of contracts and the potential claims that may be made against them by farmers and other creditors arising out of the Applicants' insolvency and the application for protection under the CCAA.
167. The Applicants include foreign entities in the United States and Europe, as well as the Canadian corporations. The operations of the Applicants are intertwined in terms of their auction and consignee accounts, as further described above. The inclusion of the entire NAFA structure, including the American and European subsidiaries, is, in my view, appropriate and necessary to ensure the enterprise can continue to operate as a cohesive unit to maintain stability and value in the CCAA process.
168. The stay will allow management to develop and oversee an orderly restructuring of the business with minimal disruption which will protect the interests of the Applicants' employees, landlords, customers, farmers and lenders. I believe that the granting of a stay of proceeding is in the best interests of the Applicants and their stakeholders.

DIP Financing

169. As a result of the Applicants' immediate need to fund the Kit Loans, as described above, and as set out in the cash flow, the Applicants require interim financing pursuant to the DIP

Facility to provide stability and ensure that the value of the Applicants' business is not eroded.

170. As part of the Applicants' consideration of strategic alternatives for funding, Waygar was canvassed on its willingness to provide DIP Financing. In the view of the Applicants and KPMG, Waygar would be in the best position to provide DIP Financing in a timely manner as it was already familiar with the Applicants' unique business and lending structure. Given the immediate need for funding, any non-current lender would likely be unable to conduct due diligence and provide committed DIP Financing in the timeline required.
171. The funds available under the DIP Facility will be used to meet the Applicants' funding requirements in respect of the Kit Loans in the short-term in accordance with the Cash Flow Forecast to be filed.
172. It is proposed that the DIP Facility will be secured by a Court-ordered charge on all of the present and future assets, property and undertaking of the Applicants in favour of the DIP Lender (the "**DIP Lender's Charge**"). This is a condition precedent to the funding under the DIP Facility being made available by the DIP Lender to the Applicants. The DIP Lender's Charge will be subordinate to the Administration Charge and the KERP Charge (as defined below), but in advance of the Directors' Charge (as defined below).
173. The DIP Facility and the DIP Lender's Charge are critical to the successful restructuring as they will provide the Applicants with the necessary liquidity to maintain the going concern value of the Kit Loans, which is a substantial asset for the Applicants. Absent an injection of cash in accordance with the DIP Facility, the Kit Loans will significantly deteriorate and may not be collectable, which will be detrimental to the Applicants' stakeholders, including the Syndicate.

Monitor

174. It is proposed that Deloitte will act as Monitor in these CCAA proceedings if the proposed Initial Order is issued. Deloitte has consented to act as the Monitor of the Applicants.

KERP

175. The proposed Initial Order includes approval of a key employee retention plan (the “KERP”) and the granting of a charge up to a maximum aggregate amount of \$150,000 as security for payments made to key employees under the KERP (“KERP Charge”). The KERP Charge will be subordinate to the Administration Charge (as defined below), but in priority to the DIP Lender’s Charge and the Directors’ Charge (as defined below).

176. I am of the view that our labour force, especially our executive team, is quite mobile and will, given the uncertainty, potentially flee to other opportunities (albeit perhaps out of the fur industry) or safer options once we make this public declaration of insolvency.

177. The staff and key executives, including myself, have indicated their intention to resign if a receiver is appointed or the business pursues a path that is not for the benefit of the Applicants’ stakeholders as a whole. I continue to be of the belief that the retention of key staff is essential to maximizing recovery for those stakeholders.

178. I have consulted with our counsel and KPMG and have been advised that in restructurings staff can be provided with incentives to encourage staff retention in the form of the KERP.

179. In consultation with KPMG, I have created the attached schedule of such KERP payments which I believe will materially enhance the restructuring process, which is attached hereto and marked as **Confidential Exhibit “F.”** The KERP will provide the key employees with a bonus equal to 50% of their ordinary salary over three months, which will be paid provided they remain engaged with the Company until at least January 15, 2020.

180. The KERP also includes payment to me in the amount of my full RRSP contribution for 2019. This is part of my ordinary compensation and will be fully earned as of October 31, 2019 in the ordinary course. I have deferred paying any of this amount to myself due to cash constraints. This amount will only be payable to me if I remain engaged with the Company until at least January 15, 2020.
181. By December 15, 2019, the Applicants should have managed much of the transition necessary to ensure that the 2019 harvest of mink has been converted into Pelts and a decision will have been made how, either under the SAGA Fur Transaction or otherwise, those Pelts will be converted into cash.
182. The KERP was developed to facilitate and encourage the continued participation of senior management and other key employees who are required to guide the business through the restructuring process and preserve the value of the business for the stakeholders. These employees have significant experience and specialized knowledge of the business that cannot be easily replicated or replaced. Furthermore, these employees will be faced with a significantly increased workload during the restructuring and will likely have other, more stable employment opportunities they could pursue.
183. Assuming that the Applicants are able to retain all of the key employees, the total amount payable to these employees under the KERP would be a maximum of \$150,000, which is reasonable given the value that these employees will provide to the enterprise.

Administration Charge

184. In accordance with the Credit Agreement, the Applicants retained KPMG Corporate to assist with a potential sale of the business in July 2019. KPMG also acts as NAFA's auditor and financial advisor. It is contemplated that, given KPMG's role to date and KPMG Corporate's involvement in the SAGA Furs Transaction, KPMG and KPMG Corporate would continue to

act as the Applicants' financial advisor during the CCAA process (in such capacity, the "**Financial Advisor**"). The Applicants are seeking Court approval of the continued engagement of the Financial Advisor.

185. I believe that the Financial Advisor's significant investment banking expertise, its extensive experience running sales processes both outside the context of and within insolvency proceedings and its capabilities of debt restructurings have benefited the Applicants in their sale efforts to date. I believe the Applicants will continue to benefit from the Financial Advisor's advice as they continue to work towards closing the SAGA Furs Transaction and during the CCAA process.
186. If the Applicants were required to retain a new financial advisor, it would likely take a significant amount of time for a new firm to acquire a working knowledge of the Applicants' unique business and would slow down the Applicants' restructuring efforts.
187. In connection with its appointment, it is proposed that the Monitor, along with its counsel, counsel for the Applicants, the Financial Advisor, and counsel for the Applicants' board of directors will be granted a charge on all of the present and future assets, property and undertaking of the Applicants as security for their respective fees and disbursements relating to the services rendered in connection with this CCAA proceeding up to a maximum of \$500,000 (the "**Administration Charge**"). The Administration Charge is proposed to have priority over all other charges and security interests.
188. These professionals are required to provide assistance and guidance to the Applicants as they navigate the CCAA process and liaise with the various stakeholders during their restructuring efforts. I am of the view that the Administration Charge is fair and reasonable given the complexity of the business and the value that the professionals will contribute to the restructuring.

Directors' and Officers' Protection

189. In my view, the board of directors and management, including myself, are necessary to the successful restructuring. The continued participation of the Applicants' directors and management are essential to the viability of the Applicants' continuing business and the preservation of its value.
190. I have a significant amount of institutional knowledge in respect of the Applicants' business, as I have already demonstrated in dealing with the SAGA Furs Transaction. The directors are generally members of the fur industry who are uniquely situated to provide advice on how to restructure the business.
191. I held a meeting with the Board of Directors on October 28, 2019 to discuss the insolvency process. The directors have authorized the Applicants to proceed with the CCAA filing.
192. The directors advised at that meeting that they are particularly concerned that the assets be realized for the highest and best possible value to ensure the greatest possible recovery to the stakeholders. They believe that a creditor driven receivership will not create the highest or best value and are worried there would be wholesale discounting of assets to drive in cash quickly rather than prudently.
193. On the other hand, the directors and I are keenly aware that liabilities can accrue to us, either in respect of our past actions, or the actions which follow. I understand that directors can be held liable for certain obligations of a company owing to employees and government agencies, such as unpaid wages and unremitted taxes.
194. I also understand, and I have discussed with the Board of Directors, that the liabilities being faced by Board members in different countries may be materially different than in Canada. In particular, I am advised by Company counsel that criminal penalties can be sought against Board members related to these liabilities in Poland, but that these liabilities and

remedies might be mitigated by a CCAA filing in Canada and an eventual plan of arrangement.

195. Many of the directors have considered resigning, as I myself have.
196. I am advised by our counsel that the Applicants' present and former directors and officers may be the beneficiaries under a liability insurance policy held by the Applicants (the "**D&O Policy**"). A copy of the insurance policy will be made available to this Court at the hearing, if requested. Pursuant to the summary of the D&O Policy, I understand the policy is a "claims made" policy with limits of \$10,000,000 CAD for liability, \$1 million CAD for punitive damages, and \$1 million CAD for defence costs.
197. However, I have not been provided with an opinion that insurance coverage under the D&O Policy either universally applies or is sufficient to pay all possible liabilities, and I understand there are various exceptions, exclusions and carve-outs where coverage may not be available. I am also very concerned about possible liabilities in other jurisdictions outside of Canada.
198. Moreover, the D&O Policy upon which the directors rely will expire on November 1, 2019. The financial situation of the Company makes renewal complicated and uncertain. It is also not yet clear that the renewal of the D&O Policy will be funded.
199. I am advised by our counsel and the Proposed Monitor that it is usual that there be a stay of claims against directors and a charge in favour of the directors from which the Company can honour its obligation to indemnify the directors for post-filing obligations.
200. In light of the potential liabilities and the uncertainty surrounding available indemnities and insurance, I and the other directors and officers have indicated to counsel for the Applicants that our continued service and involvement in this CCAA proceeding is conditional upon the granting of an Order under the CCAA which grants a charge in favour of the directors and

officers in the amount of \$1,000,000 (**Directors' Charge**) and provides a stay of all claims pending a plan or the end of the CCAA process. It is contemplated that the Directors' Charge will rank behind the other court ordered charges being sought.

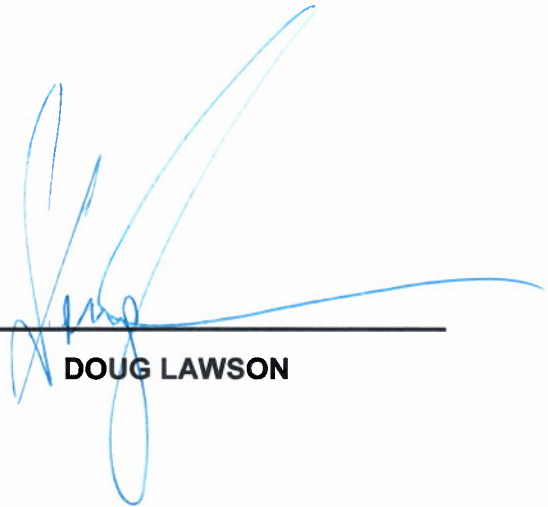
201. It is my hope that once the immediate pressure of managing the realization of the 2019 harvest is completed, the Applicants will be in a position to turn their attention to considering and formulating a plan of arrangement which will be acceptable to the Applicants' stakeholders.

202. 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 30th day of October 2019)
)
)

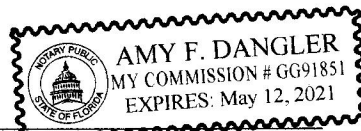


A commissioner, etc.



DOUG LAWSON

This is Exhibit "B" referred to in the Affidavit of Doug Lawson
sworn on the th day of November, 2019.



Commissioner for Taking Affidavits (or as may be)

CANADA KIT LOAN FINANCING PROGRAM



CONSIGNMENT AGREEMENT FOR RANCH MINK and/or RANCH FOX – CANADA

Consignor Information:

Name of Consignor: _____

If Corporation, Name of Principal Owner: _____

Full Mailing Address _____

NAFA Main A/C No: _____

Telephone No: _____ Fax No: _____

E-mail: _____

Special Payment Instructions: _____

Pelt Information:

Description	Committed Quantities
_____	_____
_____	_____
_____	_____
_____	_____

Payment Information:

 Please select one of the following payment methods:

By Cheque

By Electronic Funds Transfer (EFT)*

***Electronic Funds Transfers:** Please attach a personal cheque marked "VOID" in case your bank information has been changed during last year or this is the first time you are requesting to be paid by EFT.

Charges in Effect:

 Please see **Schedule A.**

This Agreement is subject to the Terms and Conditions as fully set out on the following page.

On behalf of
North American Fur Auctions Inc.

On behalf of
Consignor

(signature)

(print name)

(date)

(signature)

(print name)

2019-2020

CANADA KIT LOAN FINANCING PROGRAM



TERMS AND CONDITIONS OF ACCEPTANCE OF FUR CONSIGNMENTS FOR SALE BY AUCTION OR PRIVATE TREATY

The following Terms and Conditions apply to all ranch mink and fox consignments received by North American Fur Auctions Inc., hereinafter referred to as "the Company".

1. Consignment Receipts and Acknowledgements

On receipt of consigned fur pelts at one of the Company's designated receiving locations, an Acknowledgement Form will be delivered to the Consignor. The Acknowledgement Form records the quantities and types as stated on the Consignors shipment advice or permit, solely for the purpose of notifying receipt of the shipment. It does not signify that the count stated on the form is correct. The Company will subsequently inspect and count all shipments received and advise in writing of any discrepancies in count or description. The Company reserves the right at any time after inspection of the furs to return all or any part of any shipment which in its sole discretion it may refuse to offer for sale.

2. Company's Agreement to Offer for Sale

Those consigned pelts accepted by the Company will be offered for sale at public auction or by private treaty, and in either case in accordance with the Company's Rules of Auction and Conditions of Sale printed in the Auction Catalogue. Unless otherwise instructed in accordance with paragraph 5 below, the consigned fur pelts will be offered for sale to the Company's best discretion, taking into account the prevailing market conditions. In the event that any shipment of furs is not sold at the auction sale for which they were originally consigned and if such furs have not been withdrawn by the Consignor immediately thereafter, said furs may be offered for sale by private treaty or at any succeeding public auction sale to be conducted by the Company. In such event, no charge will be made by the Company for storage and insurance prior to sale. Legal title to the fur pelts remains with the Consignor until the pelts are sold.

3. Insurance

All consignments will be insured by the Company at its expense from the later of the date of harvest or the date an executed Consignment Agreement is received by NAFA against fire and theft under the terms of the Company's general insurance policies. Loss, if any should occur, will be payable at the fair value of the pelts lost in accordance with the terms and conditions of these policies and the Company shall be entitled to the portion thereof equivalent to its regular commission as if sale of the pelts produced proceeds in the amount paid under the policies.

4. Grading/Lotting/Valuation

All furs received on consignment will be graded and lotted for sale in accordance with international standards agreed to by the respective consignor associations which have marketing agreements with the Company. With the prior agreement of the Consignor, the Company may intersort pelts belonging to various consignors in order to enhance marketability and value. A Lotting Letter showing each graded lot and the Company's internal valuation of each lot will be delivered to the Consignor prior to each auction. The Company's valuation is for internal use only and does not necessarily represent market value. The Company cannot be held responsible for any errors, omissions or inaccuracies in these forms nor are they representations or warranties as to what the pelts will bring at sale.

5. Consignees Selling Instructions

A Consignor may place a minimum price level on consigned fur pelts which are not intersorted and the Company agrees that such furs will not be sold for less, unless prior approval is received from the Consignor or an authorized representative of the Consignor. For purposes of this paragraph, a Consignor can mean a group of Consignors that intersort together and agree in writing on minimum price levels. These instructions and other Instructions related to timing of sale or other matters must be communicated in writing to the Company within a reasonable period of time prior to the time at which the pelts are scheduled for sale. In the absence of specific instructions, the Company will use its best efforts to sell the furs at the highest possible price. The company's internal valuation will not be deemed to be a limit set by the Consignor. The Company retains the right to place a reserve bid on all lots and to alter, vary or withdraw any lot or lots before or during an auction sale.

6. Security Interest and Lien Notification

By delivery of the fur to the Company, the Consignor thereby grants to the Company a security interest in all furs so delivered, the proceeds accruing from sales in whole or in part of such furs, the proceeds of insurance thereon, and any other claims for damage to or loss thereof, to secure payments of all sums or other indebtedness owing by the Consignor to the Company. For this purpose, these Terms and Conditions shall constitute a security agreement and the original or a copy hereof may be filed as a financing statement. In addition to all other remedies available at law or in equity, the Company upon any default, shall have the right to resell any or all of the Consignees furs at public or private sale, without notice to the Consignor except as required by law, and apply the proceeds to pay the costs of sale and any sums owing the Company. In such circumstances, the rights of the consignor under paragraph 5 herein are no longer applicable, unless otherwise agreed in writing with the Company. To the extent that the proceeds of any resale are insufficient to pay the costs thereof and all sums owing the Company, the Consignor shall remain liable for any deficiency.

2019-2020

CANADA KIT LOAN FINANCING PROGRAM



The Consignor agrees to notify the Company in writing prior to sale, of the name and mailing address of all persons or entities claiming a security interest, lien or other interest in Consignor's furs, or the proceeds therefrom, including a description of the nature and amount thereof, and to defend, indemnify and hold the Company harmless from any claims, loss, damages or expenses, including attorney's fees incurred by the Company as a result of persons or entities not so identified by Consignor and who claim to have such a security interest, lien or other interest.

7. **Withdrawal by Consignor**

No withdrawal of pelts by Consignors can be made after the sale thereof. On furs withdrawn before grading into lots, a charge of 1% of estimated market value will apply. After the furs have been graded, lotted and valued, no withdrawal of intersorted goods can be made. A Consignor of owner-lotted furs may, at his own expense, withdraw them at any time prior to the opening of bidding on such pelts and the Company may charge a fee of 3% of the estimated market value.

8. **Right of Company to Return Furs**

The Company reserves the right to return any furs to any Consignor at any time, whether or not such furs have been previously offered for sale, and Consignors shall be required to accept such return of goods. Should the Consignor fail to accept such return of goods, then in that event the said furs may be placed in cold storage and storage and insurance will in that case be charged to the Consignor at the Company's then prevailing rates (but the Company shall not be responsible for storing and insuring them accordingly). In the event that all such charges are not paid by the Consignor within ten (10) days after invoicing, the Company shall have the right without further notice to sell the furs at any public auction sale or by private treaty and out of the proceeds of such sale to reimburse itself for the amount of such charges, together with selling commissions and all other applicable charges. Any balance thereafter remaining shall be remitted to the Consignor.

9. **Commission, Charges and Association Deductions**

The Company will charge the Consignor a selling commission at the published rate in effect at the time of the sale, applied to the selling price of the furs and subject to any commission rebate plan published annually by the Company. The commission shall be deemed earned by the Company immediately upon sale and may be withheld from the proceeds of such sale. The Company will also levy the usual and customary charges for insurance, freight, etc., such charges to be set out in the Company's published rate schedule prior to the beginning of each selling season and to remain unchanged for the duration of such selling season. The Company may also deduct from sale proceeds any membership fees, promotional levies or other assessments agreed to by the membership of those consignor associations which have marketing agreements with the Company.

10. **Guaranteed Payment**

For the protection of the Consignor, the Company guarantees the credit of the buyer on sales made through it and the Company shall be responsible in the event that the buyer is insolvent or otherwise incapable of paying. On this basis the Company advances payment of the net balance of the proceeds of the sale of the consigned pelts (after deduction of commissions, pelt loan advances, and any other charges due to the Company) on the "Prompt Date" of each sale, which may be prior to receipt of the selling price from the buyer. If, however, the buyer claims defects in the Consignor's pelts which are attributable to improper handling or processing by the Consignor or the Consignor's pelt processor, the Company reserves the right to recover from the Consignor the amount of any claims payments made.

These Terms and Conditions constitute the entire agreement of the parties, supersede all prior agreements and understandings, oral or written, and may be amended only in writing executed by the Company and Consignor. The potential liability of the Company, if any, shall be exclusively limited to the amount of the commissions and charges paid by the Consignor, and shall not extend to interest charges or other charges or damages of any nature. The validity and interpretation of these Terms and Conditions and the rights and obligations of the Company, the Consignor and their successors and assigns, shall be governed in the United States by the laws of the State of Wisconsin and in Canada by the laws of the Province of Ontario.

Rev. 08/18/2014

2019-2020

CANADA KIT LOAN FINANCING PROGRAM



SCHEDULE A CONSIGNOR CHARGES AND DEDUCTIONS CANADIAN RANCH MINK – 2018/2019

Auction Commission

NAFA Basic Auction Commission ^A 5.0%^B

^A Minimum auction commission of **\$1.00 US** per pelt

^B Includes any applicable CMBA Agri-Marketing levies

NAFA Volume Rebate Plan

Gross Sales (USD)	Commission Rebate
\$100,000 - \$499,999	0.25%
\$500,000 - \$749,999	0.50%
\$750,000 - \$999,999	0.625%
\$1,000,000 - \$1,999,999	0.75%
\$2,000,000 - \$2,999,999	0.875%
\$3,000,000 - \$3,999,999	1.00%
\$4,000,000 - \$4,999,999	1.10%
\$5,000,000 - \$10,000,000	1.20%
Over \$10,000,000	1.30%

NAFA Loyalty Rebate Plan

0.25% of 2018/2019 season's total gross turnover provided that the consignor ships back to NAFA in 2019/2020 at least 90% of the previous year's pelt volume. NAFA will, on a case by case basis, consider exceptions to this rule where circumstances outside of the consignor's control do not allow them to meet the 90% volume threshold.

Current Charges In Effect

- | | |
|-----------------------|-----|
| 1. CMBA Deduction | TBD |
| 2. CMBA Research Levy | TBD |

^C In addition to the above mandatory charges, volunteer association charges may apply.

North American Fur Auctions Inc. reserves the right, at our discretion, to change, modify, add or remove portions of the above fees or rebates at any time without notice.

Rev: 06/18/2018

2019-2020

USA KIT LOAN FINANCING PROGRAM



CONSIGNMENT AGREEMENT FOR RANCH MINK and/or RANCH FOX – USA

Consignor Information:

Name of Consignor: _____

If Corporation, Name of Principal Owner: _____

Full Mailing Address _____

NAFA Main A/C No: _____

Telephone No: _____ Fax No: _____

E-mail: _____

Special Payment Instructions: _____

Pelt Information:

Description	Committed Quantities
_____	_____
_____	_____
_____	_____
_____	_____

Payment Information: Please select one of the following payment methods:

By Cheque

By Wire Transfer*

*Wire Transfers: Please attach a personal cheque marked "VOID" in case your bank information has been changed during last year or this is the first time you are requesting

Charges in Effect: Please see **Schedule A.**

This Agreement is subject to the Terms and Conditions as fully set out on the following page.

On behalf of
North American Fur Auctions Inc.

On behalf of
Consignor

(signature)

(print name)

(date)

(signature)

(print name)

2018-2019

USA KIT LOAN FINANCING PROGRAM



TERMS AND CONDITIONS OF ACCEPTANCE OF FUR CONSIGNMENTS FOR SALE BY AUCTION OR PRIVATE TREATY

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On receipt of consigned fur pelts at one of the Company's designated receiving locations, an Acknowledgement Form will be delivered to the Consignor. The Acknowledgement Form records the quantities and types as stated on the Consignors shipment advice or permit, solely for the purpose of notifying receipt of the shipment. It does not signify that the count stated on the form is correct. The Company will subsequently inspect and count all shipments received and advise in writing of any discrepancies in count or description. The Company reserves the right at any time after inspection of the furs to return all or any part of any shipment which in its sole discretion it may refuse to offer for sale.

2. Company's Agreement to Offer for Sale

Those consigned pelts accepted by the Company will be offered for sale at public auction or by private treaty, and in either case in accordance with the Company's Rules of Auction and Conditions of Sale printed in the Auction Catalogue. Unless otherwise instructed in accordance with paragraph 5 below, the consigned fur pelts will be offered for sale to the Company's best discretion, taking into account the prevailing market conditions. In the event that any shipment of furs is not sold at the auction sale for which they were originally consigned and if such furs have not been withdrawn by the Consignor immediately thereafter, said furs may be offered for sale by private treaty or at any succeeding public auction sale to be conducted by the Company. In such event, no charge will be made by the Company for storage and insurance prior to sale. Legal title to the fur pelts remains with the Consignor until the pelts are sold.

3. Insurance

All consignments will be insured by the Company at its expense from the later of the date of harvest or the date an executed Consignment Agreement is received by NAFA against fire and theft under the terms of the Company's general insurance policies. Loss, if any should occur, will be payable at the fair value of the pelts lost in accordance with the terms and conditions of these policies and the Company shall be entitled to the portion thereof equivalent to its regular commission as if sale of the pelts produced proceeds in the amount paid under the policies.

4. Grading/Lotting/Valuation

All furs received on consignment will be graded and lotted for sale in accordance with international standards agreed to by the respective consignor associations which have marketing agreements with the Company. With the prior agreement of the Consignor, the Company may intersort pelts belonging to various consignors in order to enhance marketability and value. A Lotting Letter showing each graded lot and the Company's internal valuation of each lot will be delivered to the Consignor prior to each auction. The Company's valuation is for internal use only and does not necessarily represent market value. The Company cannot be held responsible for any errors, omissions or inaccuracies in these forms nor are they representations or warranties as to what the pelts will bring at sale.

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2018-2019

USA

KIT LOAN FINANCING PROGRAM



Company. To the extent that the proceeds of any resale are insufficient to pay the costs thereof and all sums owing the Company, the Consignor shall remain liable for any deficiency.

The Consignor agrees to notify the Company in writing prior to sale, of the name and mailing address of all persons or entities claiming a security interest, lien or other interest in Consignor's furs, or the proceeds therefrom, including a description of the nature and amount thereof, and to defend, indemnify and hold the Company harmless from any claims, loss, damages or expenses, including attorney's fees incurred by the Company as a result of persons or entities not so identified by Consignor and who claim to have such a security interest, lien or other interest.

7. **Withdrawal by Consignor**

No withdrawal of pelts by Consignors can be made after the sale thereof. On furs withdrawn before grading into lots, a charge of 1% of estimated market value will apply. After the furs have been graded, lotted and valued, no withdrawal of intersorted goods can be made. A Consignor of owner-lotted furs may, at his own expense, withdraw them at any time prior to the opening of bidding on such pelts and the Company may charge a fee of 3% of the estimated market value.

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9. **Commission, Charges and Association Deductions**

The Company will charge the Consignor a selling commission at the published rate in effect at the time of the sale, applied to the selling price of the furs and subject to any commission rebate plan published annually by the Company. The commission shall be deemed earned by the Company immediately upon sale and may be withheld from the proceeds of such sale. The Company will also levy the usual and customary charges for insurance, freight, etc., such charges to be set out in the Company's published rate schedule prior to the beginning of each selling season and to remain unchanged for the duration of such selling season. The Company may also deduct from sale proceeds any membership fees, promotional levies or other assessments agreed to by the membership of those consignor associations which have marketing agreements with the Company.

10. **Guaranteed Payment**

For the protection of the Consignor, the Company guarantees the credit of the buyer on sales made through it and the Company shall be responsible in the event that the buyer is insolvent or otherwise incapable of paying. On this basis the Company advances payment of the net balance of the proceeds of the sale of the consigned pelts (after deduction of commissions, pelt loan advances, and any other charges due to the Company) on the "Prompt Date" of each sale, which may be prior to receipt of the selling price from the buyer. If, however, the buyer claims defects in the Consignor's pelts which are attributable to improper handling or processing by the Consignor or the Consignor's pelt processor, the Company reserves the right to recover from the Consignor the amount of any claims payments made.

These Terms and Conditions constitute the entire agreement of the parties, supersede all prior agreements and understandings, oral or written, and may be amended only in writing executed by the Company and Consignor. The potential liability of the Company, if any, shall be exclusively limited to the amount of the commissions and charges paid by the Consignor, and shall not extend to interest charges or other charges or damages of any nature. The validity and interpretation of these Terms and Conditions and the rights and obligations of the Company, the Consignor and their successors and assigns, shall be governed in the United States by the laws of the State of Wisconsin and in Canada by the laws of the Province of Ontario.

Rev. 08/18/2014

2018-2019

USA KIT LOAN FINANCING PROGRAM



SCHEDULE A CONSIGNOR CHARGES AND DEDUCTIONS AMERICAN RANCH MINK – 2018/2019

Auction Commission

NAFA Basic Auction Commission ^A 5.0%

^A Minimum auction commission of **\$1.00 US** per pelt

NAFA Volume Rebate Plan

Gross Sales (USD)	Commission Rebate
\$100,000 - \$499,999	0.25%
\$500,000 - \$749,999	0.50%
\$750,000 - \$999,999	0.625%
\$1,000,000 - \$1,999,999	0.75%
\$2,000,000 - \$2,999,999	0.875%
\$3,000,000 - \$3,999,999	1.00%
\$4,000,000 - \$4,999,999	1.10%
\$5,000,000 - \$10,000,000	1.20%
Over \$10,000,000	1.30%

NAFA Loyalty Rebate Plan

0.25% of 2018/2019 season's total gross turnover provided that the consignor ships back to NAFA in 2019/2020 at least 90% of the previous year's pelt volume. NAFA will, on a case by case basis, consider exceptions to this rule where circumstances outside of the consignor's control do not allow them to meet the 90% volume threshold.

Current Charges In Effect

1. Fur Commission USA Levy TBD ^B

^B In addition to the above mandatory charges, volunteer association charges may apply.

North American Fur Auctions Inc. reserves the right, at our discretion, to change, modify, add or remove portions of the above fees or rebates at any time without notice.

Rev: 06/18/2018

2018-2019

WILD FUR

UNITED STATES CONDITIONS OF SALE

1. Sales Commission: 9% of gross sales for NAWFSC Members, 11% for Non-Members. Please refer to our website for further information.
2. NON NAWFSC, while using pick-up services, will be charged shipping and handling at the following rates per pelt; Muskrats, Ermine and Squirrels \$0.10; Raccoon, Mink, Marten, Badger, Skunk and Opossum \$0.20; Beaver, Coyote, Fisher, Foxes \$0.25. Timber Wolf and Wolverine \$2.00.
3. Consignor receipts will be issued when fur is picked up. Quantities and information will be subject to verification upon delivery to our warehouses.
4. For proper presentation and increased value, all long haired varieties will be drummed and the appropriate charges deducted upon verification of receipts.
5. Our sales are conducted and paid in U.S. dollars
6. All merchandise will be sold at the company's discretion and, as always, we propose to protect our shippers' interest. Part-lotted pelts will not be returned and if unsold, will be offered in subsequent sales until sold.
7. For account sale proceeds in excess of \$5.00, cheques will be mailed within 15 business days from the conclusion of the auction. Proceeds with less than \$5.00 will not be mailed, but credited to your account, and at the end of the season, may be written off.
8. Fur received by our depots and agents is fully insured once a receipt is issued. We also provide free insurance on registered carriers for customers shipping directly. In this case customers are encouraged to secure minimum insurance coverage as proof of shipment. Documentation (i.e. waybill) must be provided should a claim arise.
9. Castoreum will be acknowledged as received, however the final weight will be determined at the time of grading, reflecting the shrinkage that has occurred.
10. There will be a \$2.50 charge for CITES (bobcat, lynx, and otter) per pelt for shippers

NOTE: We reserve the right to destroy any merchandise determined to have no commercial value. The low-grades or section III (DGD, III, IV) are difficult to sell or can only be sold for little money. A skin that has little use combined with the high cost of dressing is impossible for manufacturers to use. We encourage customers to not ship badly tainted (rotting) badly damaged and summer skins. Our policy on all low grades, when possible, is to sell them freely into the market. In the best interests to our shippers and ourselves, inventorying this type of merchandise is not beneficial.

WILD FUR | FOURRURE SAUVAGE

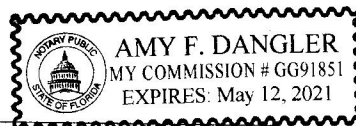
CANADIAN CONDITIONS OF SALE

CONDITIONS DE VENTE S'APPLIQUANT AU CANADA

1. Sales Commission: 9% of gross sales for NAWFSC Members, 11% for Non-Members. Please refer to our website for further information.
2. NON - NAWFSC Members, while using pick-up services, will be charged shipping and handling at the following rates per pelt; Muskrats, Ermine and Squirrels \$0.10; Raccoon, Mink, Marten, Badger, Skunk and Opossum \$0.20; Beaver, Coyote, Fisher, Lynx, Otter, Lynx Cat and Foxes \$0.25. Bears, Timber Wolf, Wolverine and Cougar \$2.00 (Non-members shipping Directly to NAFA Warehouses will not be charged)
3. Consignor receipts will be issued when fur is picked up. Quantities and information will be subject to verification upon delivery to our warehouses.
4. For proper presentation and increased value, all long haired varieties will be drummed and the appropriate charges deducted upon verification of receipts.
5. Our sales are conducted in U.S. dollars. Payment is converted and paid in Canadian dollars.
6. All merchandise will be sold at the company's discretion and, as always, we propose to protect our shippers' interest. Part-lotted pelts will not be returned and if unsold, will be offered in subsequent sales until sold.
7. For account sale proceeds in excess of \$5.00, cheques will be mailed within 15 business days from the conclusion of the auction. Proceeds with less than \$5.00 will not be mailed, but credited to your account, and at the end of the season, may be written off.
8. Fur received by our depots and agents is fully insured once a receipt is issued. We also provide free insurance on registered carriers for customers shipping directly. In this case customers are encouraged to secure minimum insurance coverage as proof of shipment. Documentation (i.e. waybill) must be provided should a claim arise.
9. Castoreum will be acknowledged as received, however the final weight will be determined at the time of grading, reflecting the shrinkage that has occurred.
10. Where applicable, provincial royalties that have not been paid, are deducted and remitted to the province of origin.

NOTE: We reserve the right to destroy any merchandise determined to have no commercial value. The low-grades or section III (DGD, III, IV) are difficult to sell or can only be sold for little money. A skin that has little use combined with the high cost of dressing is impossible for manufacturers to use. We encourage customers to not ship badly tainted (rotting) badly damaged and summer skins. Our policy on all low grades, when possible, is to sell them freely into the market. In the best interests to our shippers and ourselves, inventorying this type of merchandise is not beneficial.

This is Exhibit "C" referred to in the Affidavit of Doug Lawson
sworn on the th day of November, 2019.



Commissioner for Taking Affidavits (or as may be)

BUSINESS DEVELOPMENT BANK OF CANADA

Applicant

- and -

NAFA PROPERTIES INC.

Respondent

31 Oct 19

Court File No.

Application is adj to

Nov 8/19 subject to the terms in Schedule A attached.

MoE

8 Nov 19

Application adj to

Nov 21/19.

MoE

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at Toronto, Ontario

APPLICATION RECORD
(returnable on October 31, 2019)

Thornton Groat Finnigan LLP
TD West Tower, Toronto-Dominion Centre
100 Wellington Street West, Suite 3200
Toronto, ON M5K 1K7
Fax: (416) 304-1313

Leanne M. Williams (LSO# 41877E)
Email: lwilliams@tgf.ca
Tel: (416) 304-0060

Puya Resharaki (LSO# 70588L)
Email: pfesharaki@tgf.ca
Tel: (416) 304-7979

Lawyers for the Applicant, Business Development Bank of Canada

Mr
Schedule ATM

This Order is granted without prejudice to the application for the appointment of a receiver (the "Receivership Application") brought by Business Development Bank of Canada ("BDC") bearing C. File No. CV-19-006-3095-00CL.

None of the charges granted in the initial Order shall take priority over the security granted in favour of BDC in respect of the Ground Leases (as defined in the affidavit of Matthew Goldberg filed as part of the Receivership Application).

The applicants are required to make payments in respect of the Ground Leases in the ordinary course.

The applicants and the monitor shall cooperate with BDC and the proposed receiver in respect of access to information.

TM

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**")

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

AFFIDAVIT OF DOUG LAWSON

BLANEY MCMURTRY LLP

Barristers & Solicitors
2 Queen Street East, Suite 1500
Toronto ON M5C 3G5

David T. Ullmann (LSO # 423571)

Tel: (416) 596-4289

Fax: (416) 594-2437

Email: DUllmann@blaney.com

Alexandra Teodorescu (LSO #63889D)

Tel: (416) 596-4279

Fax: (416) 594-2506

Email: ATeodorescu@blaney.com

Jessica Wuthmann (LSO #72442W)

Tel: (416) 593-3924

Fax: (416) 594-3595

Email: JWuthmann@blaney.com

Counsel for the Applicants