

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**

Applicants

FOURTEENTH REPORT OF THE MONITOR

DATED SEPTEMBER 25, 2023

INTRODUCTION

1. On October 31, 2019, 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. (“NAFA USA”), NAFPRO LLC (Wisconsin LLC), NAFA Europe Co-Operatief Ua, NAFA Europe B.V., Daikoku Sp.Z Oo and NAFA Polska Sp. Z Oo (“NAFA Polska”) (collectively, the “Applicants” or “NAFA”) commenced these CCAA Proceedings pursuant to the Initial Order. The Applicants’ principal business consists of advancing loans to mink farmers to produce mink furs for auctions run by the Applicants. For ease of reference and readability, capitalized terms not defined in this fourteenth report of the Monitor (the “**Fourteenth Report**”) are defined in the glossary attached as **Appendix “A”** to this Fourteenth Report.
2. On November 8, 2019, the Applicants obtained an Amended and Restated Initial Order.

3. On November 5, 2020, the Court issued an Order (the “**Expanded Powers Order**”) that, among other things, granted the Monitor expanded powers with respect to certain items, including:
 - a. Insurance claims that may be advanced by NAFA. The claims are primarily trade credit insurance claims that NAFA is currently advancing to recover unpaid kit loans(i.e., loans to farmers to raise their mink crop as juvenile mink or “kits”) made to farmers in 2019;
 - b. Claims in respect of NAFA’s “rollover loan” balances (i.e., unpaid loans advanced by NAFA in 2018 and prior);
 - c. Litigation in proceedings in which the Applicants are either a plaintiff or claimant (other than these CCAA Proceedings);
 - d. Oversight over material expenditures related to NAFA’s nascent “brokerage business” (i.e., the process whereby NAFA finds buyers for fur pelts being marketed by consignors that formerly sold their skins at NAFA’s auctions);
 - e. Matters related to NAFA’s employees; and
 - f. The right, title and interest of the Applicants in any real property.
4. Since the date of the Expanded Powers Order, the Monitor has been working closely with the Applicants in respect of the items above, with the two parties sharing a common approach without the need to seek direction from the Court. The Monitor has provided regular updates to the Agent on these matters and has sought input from the Agent when appropriate.
5. Since the beginning of these CCAA Proceedings, and as set out further in the April 2021

Lawson Affidavit, the fur market has been affected by a number of factors, including the coronavirus pandemic (the “**Covid-19 Pandemic**”) that began to have significant effects in early 2020. As a result, the entire premise of the Applicants’ restructuring and monetization efforts were affected and NAFA was required to alter its approach accordingly (i.e., primarily waiting for auctions to resume online or in person so that pelts delivered to auction houses can be monetized).

6. Given the Covid-19 Pandemic, NAFA’s primary cash inflows, which are based on auction proceeds on mink that it financed during 2019, were significantly depressed between 2020 and September 2022 and generally remain below pre-Covid-19 Pandemic numbers, both in respect of pelt volumes sold and the prices achieved in 2019. This resulted in the Applicants repaying less Syndicate Debt and over an extended period than contemplated at the beginning of these CCAA Proceedings. Since the beginning of the Covid-19 pandemic, auction sale volumes have been depressed, due in large part to travel restrictions imposed by various foreign governments. As a result, a significant portion of skins anticipated to be auctioned in 2020 and 2021 were held over for auction in 2022 and 2023. The sale volumes in these years continues to be depressed; accordingly, a significant amount of NAFA skins remain to be sold in 2024.
7. On April 26, 2023, the Court granted an Order (the “**Stay Extension Order**”) that, among other things:
 - a. Extended the Stay Period from April 28, 2023 to September 29, 2023;
 - b. Approved the Monitor’s Twelfth Report dated April 24, 2023 (the “**Twelfth Report**”) and the actions and the conduct of the Monitor and its counsel; and
 - c. Sealed certain confidential appendices to the Twelfth Report.

8. On May 25, 2023, the Court granted an Order (the “**Claims Process Order**”), authorizing the Applicants and the Monitor to undertake a claims process for the identification and quantification of certain claims of creditors of the Applicants, including their Directors and Officers (the “**Claims Process**”).
9. On May 25, 2023, the Court granted an Order declaring that the *Wage Earner Protection Program Act* (“**WEPPA**”) applies to NAFA and that NAFA’s former employees are eligible to receive payments in accordance with WEPPA.
10. The Applicants’ motion record dated September 22, 2023, returnable on September 26, 2023 (the “**Motion**”), seeks an Order with the following relief, among other things:
 - a. Extending the Stay Period from September 29, 2023 to and including December 1, 2023;
 - b. Compelling the delivery from NAFA’s former insurance broker, John Middleton (**Mr. Middleton**) of Global Credit Risk Management (“**GCRM**”) and/or HUB International (“**HUB**”), of the brokerage file, and documents in their possession, control, and power relating to NAFA’s trade credit policies with Red Rock Insurance Services Ltd. (“**Red Rock**”);
 - c. Approving the Thirteenth Report of the Monitor dated May 24, 2023 (the “**Thirteenth Report**”) and this Fourteenth Report and the actions and conduct of the Monitor and its counsel, Miller Thomson LLP, as described therein. A copy of the Thirteenth Report is located on caselines at Master: E513; and
 - d. Sealing certain confidential appendices to this Fourteenth Report, until the conclusion of these CCAA proceedings.

PURPOSE

11. The purpose of this Fourteenth Report is to provide the Court with the Monitor's observations and recommendations on the relief sought by the Applicants in its Motion and to update the Court on the following items:
 - a. The Applicants' and the Monitor's activities since the Thirteenth Report;
 - b. Updating the Court in respect of the auction results from the KF and Saga auctions held in June and September 2023;
 - c. The status of the Applicants' insurance claims in respect of loans made to farmers in 2019;
 - d. The status of the Applicants' Claims Process; and
 - e. The Monitor's recommendations in respect of the relief that NAFA is seeking in its Motion.

TERMS OF REFERENCE

12. In preparing this Fourteenth Report and making the comments herein, the Monitor has been provided with, and has relied upon certain unaudited financial information, books, records and financial information prepared by the Applicants, discussions with and information from the Applicants' management ("**Management**") and other third-party sources (collectively, the "**Information**"). Except as described in this Fourteenth Report:
 - a. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally

Accepted Assurance Standards (“GAAS”) pursuant to the *CPA Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor express no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

- b. Some of the information referred to in this Fourteenth Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the CPA Canada Handbook, has not been performed.
13. Future oriented financial information referred to in this Fourteenth Report was prepared based on the Applicants’ estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize and the variations could be significant.
14. Unless otherwise stated, monetary amounts contained herein are expressed in U.S. dollars, the Applicants’ reporting currency.

ACTIVITIES OF THE MONITOR SINCE THE THIRTEENTH REPORT

15. Since the date of the Thirteenth Report, the Monitor has undertaken, among other things, the following activities:
 - a. Monitoring NAFA’s receipts and disbursements and reporting same to the Agent. This includes the calculation of NAFA’s Distributable Funds (as such term is defined in the First Report) when such funds are available;
 - b. Addressing matters in respect of the sale of NAFA’s mink farm comprising two properties in Nova Scotia with such transaction closing on August 11, 2023;
 - c. Monitoring efforts ongoing in Europe to recover loans provided to mink farmers in

- a number of Baltic countries and Poland;
- d. Responding to queries from the Agent and providing the Agent with summaries of the Applicants' realization efforts and necessary supporting documentation to allow the Agent to be consulted and to provide its approval in accordance with the Agent's consultation and approval rights granted under various orders in these CCAA Proceedings;
 - e. Corresponding with various stakeholders, including mink ranchers and other third-party creditors;
 - f. Undertaking the expanded powers granted to the Monitor in accordance with the Expanded Powers Order;
 - g. Updating the Monitor's case website to provide stakeholders with relevant information;
 - h. Implementing the Claims Process pursuant to the Claims Process Order;
 - i. Assisting NAFA in facilitating the WEPPA process for NAFA's former employees;
 - j. Assisting the Applicants in developing a plan of arrangement ("**Plan**") in these CCAA proceedings;
 - k. Directing NAFA's insurance litigation counsel to continue advancing the trade credit insurance claim against Red Rock, including requesting the Mr. Middleton's brokerage file and documents related to NAFA's policy;
 - l. Assisting NAFA in the development of the cash flow forecast (the "**Cash Flow Forecast**") attached as **Confidential Appendix "1"** to this Fourteenth Report; and

- m. Preparing this Fourteenth Report.

UPDATE ON THE AUCTIONS IN JUNE AND SEPTEMBER 2023

- 16. KF and Saga held auctions in June and September 2023. Auction houses typically hold auctions in March, June and September each year. Generally, goods offered in the September auctions are smaller pelts and lower value items compared with goods offered in the March and June auctions. Accordingly, the September auctions are smaller in terms of attendance, activity and proceeds realized. This was the case with the September 2023 auctions as well.
- 17. The Saga June and September auctions have concluded. The KF September auction commenced on September 17, 2023 and is expected to conclude September 22, 2023.
- 18. NAFA achieved better than forecast June auction results. Specifically, NAFA received \$1,053,884 in auction proceeds from the Saga and KF auctions in June 2023. NAFA's cash flow forecast filed with the Court for the last stay extension anticipated proceeds of \$900,000 from auction receipts during the last Stay Period thereby creating a positive variance of \$153,884.
- 19. Proceeds from the Saga September 2023 auction have not yet been received, but NAFA understands that receipts will be approximately \$583,000 which is approximately \$33,000 greater than forecast in the cash flow forecast filed confidentially with the Twelfth Report.

UPDATE ON THE APPLICANTS' INSURANCE CLAIMS

- 20. The Monitor previously advised the Court that the Applicants submitted 26 claims to their insurer related to unpaid kit loans. The gross amount of the claims asserted by NAFA is approximately \$25 million. These claim amounts have not been agreed to by the insurer and are subject to country, borrower and policy limits and payment of a deductible.

21. NAFA’s credit policy insurer is Red Rock and the claims are underwritten by Lloyd’s of London (“**Lloyd’s**”).
22. NAFA, in consultation with the Monitor and the Agent, agreed to enter into a pre-litigation mediation with Red Rock to attempt to resolve these claims. It is anticipated that the mediation will take place on or about December 2023 or January 2024, subject to the availability of a mediator.
23. NAFA’s negotiations with Red Rock to date included NAFA responding to information and document production requests from Red Rock. As part of the disclosure requests, Red Rock requested the brokerage file (i.e., coverage application, correspondence and notices sent to/from NAFA, memos, notes, etc.) and documents relating to NAFA’s trade credit policy from NAFA’s insurance broker, John Middleton (“**Mr. Middleton**”). Mr. Middleton was the principal of GCRM (the Applicants’ insurance broker), which was acquired by HUB.
24. Counsel for NAFA has made multiple requests from Mr. Middleton for NAFA’s brokerage file, but the file has not been provided to NAFA to date. The Monitor has been provided with correspondence from Mr. Middleton to NAFA’s counsel advising that a direction from the Court is necessary for such disclosure.
25. The Monitor agrees with NAFA that Mr. Middleton’s broker file is necessary for NAFA to pursue its insurance claims and attempt resolution with Red Rock, and that the documents go to a material issue in the dispute with Red Rock, being coverage.

UPDATE ON CLAIMS PROCESS

26. NAFA determined that in order to begin to formulate a Plan, it needed to determine the total number and quantum of claims against it. Accordingly, NAFA sought and obtained

the Claims Process Order authorizing the Monitor to implement a claims process for the identification and quantification of certain claims of creditors of the Applicants, including their Directors and Officers (the “**Claims Process**”).

27. In accordance with the Claims Process Order, NAFA has completed the Claims Process, which required different actions by different types of creditors as set out in the Claims Process Order.
28. Creditors with claims over \$10,000 were required to submit proofs of claims with their claim amount by August 3, 2023 (the “**Claims Bar Date**”).
29. The Claims Process Order did not contemplate a review and determination of the claims at this juncture. The Monitor has conducted an initial high-level review of the claims to identify what appeared to be obvious duplications, which resulted in a reduction of the total dollar amount of the claims filed.
30. The Monitor has also provided the Company with an estimate of the remaining assets of NAFA and their estimated realization value, which demonstrates that recovery may be possible for the unsecured creditors, subject to certain assumptions and contingencies.
31. The Monitor will further update the Court with respect to NAFA’s Claims Process in due course.

CASH FLOW FORECAST

32. Attached as **Confidential Appendix “1”** to this Fourteenth Report is NAFA’s Cash Flow Forecast for the period from September 18, 2023 to December 1, 2023 (the “**CF Period**”) including an overview and the notes thereto. The notes to the Cash Flow Forecast are an integral part thereof and the two documents should be read together. The Cash Flow Forecast was prepared by the Applicants, with the assistance of the Monitor, to forecast

receipts and disbursements during the CF Period.

33. The Cash Flow Forecast is being filed to provide the Applicants' current financial picture to the Court and to demonstrate the importance on an extension to the Stay Period to NAFA regarding its ability to continue operations over the CF Period to enable it to continue to seek recovery on its remaining assets for the benefit of its stakeholders.
34. The Cash Flow Forecast contains commercially sensitive information that is required to be kept confidential and sealed as public disclosure of the Cash Flow Forecast could negatively affect the litigation efforts being undertaken by the Applicants as set out herein if obtained by the counterparties to that litigation.
35. The Agent and FCC have been provided with the Cash Flow Forecast under terms of confidentiality.
36. The Monitor supports the sealing order being sought by the Applicants and is of the view that release of the Cash Flow Forecast would unduly prejudice the Applicants and does not unduly prejudice the Applicants' creditors.

MONITOR'S RECOMMENDATIONS REGARDING THE RELIEF BEING SOUGHT

37. The Monitor notes the following with respect to the relief currently being sought by the Applicants.

Extension of the Stay Period

38. NAFA is currently seeking to extend the Stay Period to December 1, 2023 to allow it to continue its restructuring and pursue certain asset recovery activities for the benefit of its stakeholders. Such activities include, among other things:
 - a. Continuing litigation to recover loans made to mink farmers in Europe;

- b. Continuing to pursue NAFA’s insurance claims;
 - c. Receiving proceeds from the sale of pelts at KF and Saga;
 - d. Continuing to implement the Claim Process; and
 - e. Working with the Agent and its stakeholders to consider a potential Plan.
39. The Monitor is of the view that the Applicants continue to act in good faith and with due diligence. The Monitor is further of the view that the extending the Stay Period to December 1, 2023 will allow NAFA to continue to implement its restructuring and asset monetization plan for the benefit of all stakeholders.
40. The Monitor recommends that the Court grant NAFA’s request for the extended Stay Period should it see fit to do so.

Compelling Production of the Brokerage File from Mr. Middleton

41. As set out above, the Monitor supports the relief sought by the Applicants to compel Mr. Middleton to disclose NAFA’s brokerage file to NAFA so that it can pursue its insurance claims and attempt to reach a resolution with Red Rock.

Approval of the Monitor’s and its Counsel’s Activities

42. By Order dated April 26, 2023, the Court approved the Monitor’s Twelfth Report. The Applicants are currently seeking approval of the Thirteenth Report and this Fourteenth Report as part of the Motion.

Sealing of Certain Confidential Exhibits

43. The Cash Flow Forecast contains confidential business information and assumptions about the Applicants which, if disclosed, the Applicants believe could hamper or interfere with the restructuring of the Applicants or the maximization of value. Accordingly, the

Cash Flow Forecast is being filed as a confidential appendix to this Fourteenth Report and a sealing Order is being sought by the Applicants as has been granted by the Court for previous cash flow forecasts in these CCAA Proceedings. The Monitor supports the granting of a sealing Order being sought by the Applicants as set out above.

All of which is respectfully submitted this 25th day of September, 2023.

Deloitte Restructuring Inc.
Solely in its capacity as Court-appointed
Monitor of North American Fur Auctions Inc. et al

Per:



Jorden Sleeth, LIT
Senior Vice President



Todd Ambachtsheer, LIT
Senior Vice President

**Appendix “A”
Glossary of Terms**

Glossary	
Term	Definition
Administration Charge	A charge granted pursuant to the Initial Order, as amended securing the fees and disbursements of the Applicants’ counsel, the Monitor and its counsel, the advisors of the Syndicate, the Financial Advisor and counsel for the Directors (to a maximum of \$100,000 for the latter), which amount and priority have been amended such that currently the charge is in the amount of \$1,500,000 with \$900,000 ranking in first priority (now that the DIP Facility has been repaid) and \$600,000 ranking in fourth priority behind the KERP Charge and the Syndicate Debt
Agent	Canadian Imperial Bank of Commerce in its capacity as Agent for the Syndicate
Amended and Restated Initial Order	The Amended and Restated Initial Order of the Court dated November 8, 2019
AME	American Mink Exchange, a north American solicitor of fur pelts
Applicants	Collectively, 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
April 2021 Lawson Affidavit	The Affidavit of Douglas Lawson affirmed April 2, 2021
August Lawson Affidavit	The Affidavit of Douglas Lawson affirmed August 21, 2020
BDC	Business Development Bank of Canada
Carlingview Property	NAFA’s former distribution centre on Carlingview Avenue in Toronto
CCAA	<i>Companies’ Creditors Arrangement Act</i> , R.S.C., 1985, c. C-36
CCAA Proceedings	The CCAA proceedings commenced pursuant to the Initial Order bearing Court file no. CV-19-00630241-00CL

CIBC	Canadian Imperial Bank of Commerce
City Landlord	City of Toronto
Court	Ontario Superior Court of Justice (Commercial List)
December Lawson Affidavit	The Affidavit of Douglas Lawson affirmed December 20, 2019
Deloitte	Deloitte Restructuring Inc.
DIP Charge	The charge granted by the Court pursuant to the Initial Order against the Applicants' Property as security for the DIP Financing
DIP Fee	A fee in the amount of 2% earned by the DIP Lender for providing the DIP Financing
DIP Financing	The interim financing in the maximum principal amount of \$5.0 million provided by the DIP Lender approved by the Court pursuant to the Initial Order
DIP Lender	Waygar Capital Inc.
DIP Term Sheet	The DIP Term Sheet dated October 31, 2019 between NAFA and the DIP Lender in respect of the DIP Financing approved by the Court pursuant to the Initial Order
EDC	Export Development Canada
Eighth Report	The Eighth Report of the Monitor dated January 27, 2022
Eleventh Report	The Eleventh Report of the Monitor dated January 18, 2023
FCC	Farm Credit Canada
Financial Advisor	Collectively, KPMG Inc. and KPMG Corporate Finance
Fifth Report	The Fifth Report of the Monitor dated November 3, 2020
First Report	The First Report of the Monitor dated November 7, 2019
Fourth Report	The Fourth Report of the Monitor dated August 24, 2020
Fur Harvesters	Fur Harvesters Auctions Inc.
Ground Leases	Two long-term ground leases in respect of the Skyway Property, one with the Private Landlord and one with the City Landlord, copies of which are attached as Exhibits "B" and "C" to the October Lawson Affidavit.

Initial Order	The Order of Justice McEwen dated October 31, 2019, as amended by the Amended and Restated Initial Order
IP Assets	The intellectual property, software, computers and other soft assets necessary to operate a fur auction business. This includes the “Blackglama” trademark
KERP	Key employee retention program approved by the Court
KERP Charge	Charge in the amount of \$150,000 approved the Court on November 8, 2019
KF	Kopenhagen Fur, a large Danish auction house that, along with Saga and NAFA, was one of the leading mink auction houses in the world
KPMG CF	KPMG Corporate Finance Inc.
Monitor	Deloitte in its capacity as Court-appointed Monitor of the Applicants
NAFA	North American Fur Auctions Inc.
NAFA Properties	NAFA Properties Inc.
Ninth Report	The Ninth Report of the Monitor dated April 23, 2022
October Lawson Affidavit	Affidavit of Doug Lawson sworn October 30, 2020
Pre-filing Report	The pre-filing report of the proposed Monitor, dated October 31, 2019
Polish Property	NAFA’s main European office owned in Goleniów, Poland
Property	Has the meaning ascribed to that term in the Amended and Restated Initial Order
Second Report	The Second Report of the Monitor dated November 27, 2019
Seventh Report	The Seventh Report of the Monitor dated September 27, 2021
Sixth Report	The Sixth Report of the Monitor dated April 5, 2021
SISP	Sale and Investment Solicitation Process
Skyway Property	NAFA’s corporate head office building located at 65 Skyway Avenue in Toronto, Ontario
Stay Period	The stay of proceedings granted pursuant to the Initial Order, as may be extended from time to time

Success Fee	An amount payable to KPMG CF in the event that it achieved the result set out in its engagement letter that was signed in July, 2019
Syndicate	A group of financial institutions that, together, have provided senior secured financing to the Applicants as represented by the Canadian Imperial Bank of Commerce as Agent
Syndicate Debt	The indebtedness owing by the Applicants to the Syndicate
Tenth Report	The Tenth Report of the Monitor dated July 22, 2022
Third Report	The Third Report of the Monitor dated January 29, 2020
Thirteenth Report	The Thirteenth Report of the Monitor dated May 24, 2023
Twelfth Report	The Twelfth Report of the Monitor dated April 24, 2023
VAG	Van Ansem Group (being a collection of farms under one corporate umbrella)
Wisconsin Properties	NAFA's owned buildings on Williams Drive and Industrial Circle in Stoughton, Wisconsin