

IN THE SUPREME COURT OF PRINCE EDWARD ISLAND

IN THE MATTER OF THE RECEIVERSHIP OF:

SILVER HILL FUR FARM LTD.

PURSUANT TO Section 44 of the *Judicature Act*, R.S.P.E.I. 1988, Cap. J-2.1 (the “*Judicature Act*”), Rule 41 of the Rules of Court of Prince Edward Island and Section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 as amended (the “*BIA*”)

BETWEEN:

BANK OF NOVA SCOTIA

APPLICANT

- and –

SILVER HILL FUR FARM LTD.

RESPONDENT

SIXTH REPORT OF THE RECEIVER – 15 JULY 2020

INTRODUCTION AND BACKGROUND

1. In connection with the application of the Bank of Nova Scotia (“**BNS**” or the “**Bank**”) pursuant to section 44 of the *Judicature Act* (Prince Edward Island), Rule 41 of the *Rules of Court* of Prince Edward Island, and section 243(1) of the *Bankruptcy and Insolvency Act* (Canada) that was heard by the Honourable Gordon L. Campbell of the Supreme Court of Prince Edward Island on 29 March 2017, Ernst & Young Inc. (“**EYI**”) was appointed receiver and receiver manager (the “**Receiver**”) without security, of all of the assets, undertakings and properties of the Respondent (“**SHFF**” or the “**Company**”) whether in its name or in the name of the predecessor corporations Silver Hill Fur Farms Ltd., Silver Hill Fur and Feeds Inc., Silverhill Transport Ltd. and CJ Gavin Holdings Inc., including all proceeds thereof (collectively the “**Property**”).
2. The 29 March 2017 order (the “**Receivership Order**”) authorized the Receiver, among other things:
 - a. To take possession and control of the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
 - b. To receive, preserve, and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;

- c. To engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by the Receivership Order;
 - d. To receive and collect all monies and accounts now owed or hereafter owing to the Respondent and to exercise all remedies of the Respondent in collecting such monies, including, without limitation, to enforce any security held by the Respondent;
 - e. To market any or all of the Property; including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;
 - f. To sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business, without the approval of this Court in respect of:
 - i. Any transaction not exceeding \$50,000.00, provided that the aggregate consideration for all such transactions does not exceed \$500,000.00; and
 - ii. With the approval of this Court in respect of any transaction not in the form provided in the foregoing clauses.
 - g. To apply for any vesting order or other orders necessary in relation to a transaction for which Court approval is required to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property; and
 - h. To take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations.
3. Copies of court materials in these proceedings may be obtained from the Receiver's website established in connection with these proceedings (www.ey.com/ca/shff).

PURPOSE OF REPORT

4. The purpose of this sixth report (the "**Sixth Report**") is to report to this Honourable Court on the Receiver's efforts to market and sell real property located in Tignish, Prince Edward Island, identified by PID 1054402 (the "**Tignish Property**") and the Agreement of Purchase and Sale (the "**APS**") negotiated between the Receiver and Mark Hackett ("**Hackett**") for the purchase of the Tignish Property. The Receiver requests that this Honourable Court grant an Order authorizing and empowering the Receiver to sell the Tignish Property pursuant to the terms of the APS.

TERMS OF REFERENCE

5. In preparing the Sixth Report, the Receiver has been provided with, and has relied upon unaudited historical financial statements, other unaudited financial information and projections prepared by the Respondent, the books and records of the Respondent, discussions with the management and employees of the Respondent and other information from various sources. The Receiver has assumed that the information it has been provided is accurate and complete. The Receiver did not audit, review or otherwise attempt to verify the accuracy or completeness of the information. Accordingly, the Receiver expresses no opinion or other form of assurance with respect to the information presented in the Sixth Report or relied upon by the Receiver in preparing the Sixth Report. Further, the nature of the Receiver's work completed in these proceedings will not necessarily disclose errors, misstatements, irregularities or illegal acts, if such exist, on the part of the Respondents, or its officers or employees or in the information.
6. All references to monetary amounts in the Sixth Report are in Canadian dollars unless otherwise noted.
7. Capitalized terms not defined in the Sixth Report are as defined in the Receivership Order.

TIGNISH PROPERTY SALES PROCESS

8. The Receiver previously listed certain assets of the Company, including the Tignish Property, for sale via a tender sale process which was completed in early 2018. As reported in the Fourth Report of the Receiver, a copy of which without appendices is attached as **Appendix A**, the tender process failed to produce an acceptable tender bid for the Tignish Property. The Receiver subsequently listed the Tignish Property for sale with a qualified local realtor (the "**Realtor**"). On the advice of the Realtor, the listing price was reduced over time down to \$199,900 as a means to generate interest in the property which had not previously materialized.
9. The Receiver received four offers to purchase the Tignish Property following its listing with the Realtor. The first three offers were rejected by the Receiver on the basis that they were not reflective of the properties perceived market value as evidenced by a property appraisal report commissioned by the Receiver dated 27 March 2017 (the "**Appraisal**").
10. The fourth offer received by the Receiver was presented by Hackett. The Receiver has conditionally accepted the Hackett offer which remains subject to the approval of this Court.
11. Information in relation to: (a) the tender bid received as part of the tender sale process, (b) the three rejected offers, (c) the fourth offer culminating in the APS, and, (d) the Appraisal, will be included within a supplemental report to the Sixth Report (the "**Supplemental Report**") which will be filed prior to the hearing of the motion in respect of the sale approval motion. The Receiver will be seeking a sealing

order with respect to the Supplemental Report on the basis that the Supplemental Report contains sensitive commercial information, the dissemination of which could be prejudicial to the best interests of the Respondents' stakeholders and to the successful completion of any future sales transactions in the event the sale of the Tignish Property does not close.

12. The Receiver has been attempting to liquidate the Tignish Property for an extended period of time through multiple marketing processes. The tender sale process was broadly marketed but failed to produce a bid which the Receiver considered to be acceptable. Thereafter the Tignish Property was listed for sale with a qualified realtor and spent approximately 28 months on the public market prior to the Hackett offer being presented. The Receiver has been responsible for holding and preservation costs associated with the Tignish Property since its appointment.
13. The Receiver believes it has conducted an appropriate market test for the sale of the Tignish Property and that the APS negotiated with Hackett represents an acceptable recovery to the estate. Accordingly, the Receiver recommends this Honourable Court approve the sale of the Tignish Property to Hackett as reflected within the APS.

RELIEF SOUGHT BY THE RECEIVER

14. The Receiver respectfully requests that this Honourable Court grant an Order:
 - a. Approving the sale of the Tignish Property to Hackett and/or his assignee pursuant to the terms of the APS; and,
 - b. Approving the activities of the Receiver, as reported herein, to the extent not previously approved.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 15th day of July 2020.

ERNST & YOUNG INC.

LICENSED INSOLVENCY TRUSTEE

Acting solely in its capacity as the Court Appointed Receiver and Receiver-Manager of Silver Hill Fur Farm Ltd. and not in its personal capacity

Per:



Christopher Keliher, JD, MBA, CIRP, LIT
Manager, Ernst & Young Inc.

Appendix A

Receiver's Fourth Report

IN THE SUPREME COURT OF PRINCE EDWARD ISLAND

IN THE MATTER OF THE RECEIVERSHIP OF:

SILVER HILL FUR FARM LTD.

PURSUANT TO Section 44 of the *Judicature Act*, R.S.P.E.I. 1988, Cap. J-2.1 (the “*Judicature Act*”), Rule 41 of the Rules of Court of Prince Edward Island and Section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 as amended (the “*BIA*”)

BETWEEN:

BANK OF NOVA SCOTIA

APPLICANT

- and –

SILVER HILL FUR FARM LTD.

RESPONDENT

FOURTH REPORT OF THE RECEIVER – 2 APRIL 2018

INTRODUCTION AND BACKGROUND

1. In connection with the application of the Bank of Nova Scotia (“**BNS**” or the “**Bank**”) pursuant to section 44 of the *Judicature Act* (Prince Edward Island), Rule 41 of the *Rules of Court* of Prince Edward Island, and section 243(1) of the *Bankruptcy and Insolvency Act* (Canada) that was heard by the Honourable Gordon L. Campbell of the Supreme Court of Prince Edward Island on 29 March 2017, Ernst & Young Inc. (“**EYI**”) was appointed receiver and receiver manager (the “**Receiver**”) without security, of all of the assets, undertakings and properties of the Respondent (“**SHFF**” or the “**Company**”) whether in its name or in the name of the predecessor corporations Silver Hill Fur Farms Ltd., Silver Hill Fur and Feeds Inc., Silverhill Transport Ltd. and CJ Gavin Holdings Inc., including all proceeds thereof (collectively the “**Property**”).
2. The 29 March 2017 order (the “**Receivership Order**”) authorized the Receiver, among other things:
 - a. To take possession and control of the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
 - b. To receive, preserve, and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or

- desirable;
- c. To engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by the Receivership Order;
 - d. To receive and collect all monies and accounts now owed or hereafter owing to the Respondent and to exercise all remedies of the Respondent in collecting such monies, including, without limitation, to enforce any security held by the Respondent;
 - e. To market any or all of the Property; including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;
 - f. To sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business, without the approval of this Court in respect of:
 - i) Any transaction not exceeding \$50,000.00, provided that the aggregate consideration for all such transactions does not exceed \$500,000.00; and
 - ii) With the approval of this Court in respect of any transaction not in the form provided in the foregoing clauses.
 - g. To apply for any vesting order or other orders necessary in relation to a transaction for which Court approval is required to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property; and
 - h. To take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations.
3. Copies of court materials in these proceedings may be obtained from the Receiver's website established in connection with these proceedings (www.ey.com/ca/shff).

PURPOSE OF REPORT

4. The purpose of this fourth report (the "**Fourth Report**") is to report to this Honourable Court on the results of the Tender Process (as defined below) conducted by the Receiver with respect to certain Tender Assets (as defined below) and request that this Honourable Court grant an Order authorizing

and empowering the Receiver to sell certain estate assets to the parties having submitted tenders within the Tender Process that have been accepted by the Receiver. The Receiver has organized its comments within the Fourth Report as follows:

- a. Terms of Reference;
- b. Sale by Tender Process;
- c. Tender Results; and
- d. Interim Statement of Receipts and Disbursements

TERMS OF REFERENCE

- 5. In preparing the Fourth Report, the Receiver has been provided with, and has relied upon unaudited historical financial statements, other unaudited financial information and projections prepared by the Respondent, the books and records of the Respondent, discussions with the management and employees of the Respondent and other information from various sources. The Receiver has assumed that the information it has been provided is accurate and complete. The Receiver did not audit, review or otherwise attempt to verify the accuracy or completeness of the information. Accordingly, the Receiver expresses no opinion or other form of assurance with respect to the information presented in the Fourth Report or relied upon by the Receiver in preparing the Fourth Report. Further, the nature of the Receiver's work completed in these proceedings will not necessarily disclose errors, misstatements, irregularities or illegal acts, if such exist, on the part of the Respondents, or its officers or employees or in the information.
- 6. All references to monetary amounts in the Fourth Report are in Canadian dollars unless otherwise noted.
- 7. Capitalized terms not defined in the Fourth Report are as defined in the Receivership Order.

SALE BY TENDER PROCESS

- 8. The Receiver contemplated various marketing alternatives as it considered the most fair and effective method to solicit offers for the Property. Sales options considered by the Receiver included an auction sale, a tender sale and private sale negotiations.
- 9. Based upon its experiences conducting sales of similar assets in insolvency proceedings in Atlantic

Canada the Receiver determined the best method to solicit offers for the Property was to conduct a tender process (the “**Tender Process**”). In coming to this conclusion, the Receiver considered the potential for en bloc bids for both real and personal property enabling a turn-key going concern business opportunity utilizing the operating platform established by the Company.

10. Furthermore, a tender process does not foreclose the ability of the Receiver to:

- a. Entertain en bloc tender offers in the Tender Process from an auctioneer or liquidator in the event that such offers were in the best interests of the stakeholders of the Company with an interest in the Property;
- b. Accept tender bids for one or more individual parcels of assets thereby making the Tender Process attractive to prospective purchasers who are not interested in the Property en bloc but who are interested in one or more individual parcels; or
- c. Conduct a public auction or entertain private sale negotiations for all or any portion of the Property after completion of the Tender Process should the Tender Process not produce offers determined by the Receiver to be acceptable.

11. On 15 January 2018, the Receiver finalized a tender information package (the “**Tender Information Package**”) a copy of which is attached as **Appendix “A”**. The Tender Information Package included all real and personal property of the Company remaining in the control of the Receiver with the exception of two land parcels located in Cape Wolfe, Prince Edward Island identified as PID’s 49221 and 767574 (collectively the “**Cape Wolfe Property**”).

12. The Cape Wolfe Property was excluded from the Tender Information Package at the request of Finance PEI being the senior secured lender holding first charge security interest in these lands. Finance PEI expressed concern that depressed market conditions within the mink industry may adversely affect tender submissions for assets subject to their security including but not limited to potential en bloc tender submissions.

13. The Receiver in consultation with representatives from the Bank concluded that it would be inappropriate to defer marketing efforts for the remaining estate assets notwithstanding current market conditions as timing for an industry rebound is uncertain/unknown and asset holding costs continue to accrue. Accordingly, the Tender Process was advanced in relation to all Company owned assets excluding the Cape Wolfe Property (the “**Tender Assets**”).

14. To broadly market the Tender Assets and inform potentially interested parties about the Tender Process the Receiver:

- a. posted an electronic copy of the Tender Information Package to the Receiver’s website at

www.ey.com/ca/shff. The Receiver is unable to confirm the number of interested parties who viewed or downloaded the Tender Information Package during the Tender Process because the Receiver's website does not provide that information;

- b. placed advertisements within a series of regional newspapers describing the Tender Assets being sold, key timelines of the Tender Process, and the Receiver's contact information should interested parties wish to obtain additional details. The Receiver placed advertisements as follows:
 - i) The Journal Pioneer (a newspaper published in Prince Edward Island), once per week for (4) weeks with the advertisements being placed in the 24 and 31 January 2018 and 7 and 14 February 2018 editions;
 - ii) The Guardian (a newspaper published in Prince Edward Island), once per week for four (4) weeks with the advertisements being placed in the 24 and 31 January 2018 and 7 and 14 February 2018 editions;
 - iii) The Chronicle Herald (a newspaper publishing in Nova Scotia), once per week for four (4) weeks, with the advertisements being placed in the 24 and 31 January 2018 and 7 and 14 February 2018 editions;
 - iv) The Insolvency Insider (an email based newsletter focused on Canadian Insolvency News), with the advertisements being placed on 22 and 29 January 2018, and 5, 12, and 20 February 2018.

Copies of the advertising notices are attached as **Appendix "B"**.

- c. developed a target list of prospective buyers comprising mink industry participants, potato farmers, and equipment auctioneers who the Receiver believed might have an interest in the Tender Assets. The Receiver contacted each prospective buyer and advised them of the Tender Process. In total the Receiver contacted eighty-seven (87) parties in relation to the Tender Process. Two (2) prospective buyer groups visited the Company premises to inspect the Tender Assets.

TENDER RESULTS

- 15. Pursuant to the terms and conditions incorporated within the Tender Information Package, sealed tenders were to be received by the Receiver no later than noon Atlantic Standard Time on 20 February 2018 for the purchase on an "as-is, where-is" basis of all or part of the Tender Assets, subject to terms

and conditions of sale commonly used in receivership proceedings.

16. Seven (7) tenders were submitted in response to the Tender Process. The Receiver examined all tenders submitted to identify which tender or combination of tenders would maximize the net recovery to the Estate. To assist the Receiver with its assessment of the bids, the Receiver commissioned various appraisals in relation to the Property. Separate appraisals were commissioned for:
 - a. Real property situated in Cape Wolfe and Christopher Cross, Prince Edward Island;
 - b. Real property situated in Tignish, Prince Edward Island; and
 - c. The equipment
17. Copies of the real property appraisals will be filed with this Honourable Court in a Supplement to the Fourth Report (the “**Supplemental Report**”), which will be made available to this Honourable Court prior to the hearing of the motion in respect of this Fourth Report.
18. The Receiver will be seeking a sealing order from this Honourable Court with respect to the Supplemental Report, on the basis that the Supplemental Report contains sensitive commercial information, the dissemination of which could be prejudicial to the best interests of the Respondents’ stakeholders and to the successful completion of any future sales transactions in the event that any of the accepted tenders do not close.
19. The Receiver compared all tender submissions against the appraisal reports commissioned by the Receiver. The Receiver determined that it has achieved acceptable bids from Royal Star Foods Ltd. in relation to Parcel 1.2 (Land and Buildings (PID 642140) located at Tignish, Prince Edward Island) and Martin Rd Farms Ltd. for Parcel 1.3 (Land (PID 780338) located at Christopher Cross, Prince Edward Island) (collectively the “**Accepted Tenders**”).
20. The Tender Process failed to produce acceptable tender bids in relation to Parcel 1.1 (Land and Buildings (PID 1054402) located at Tignish, Prince Edward Island) or the equipment parcels (Parcels 2.1 – 2.4). The Receiver is exploring various opportunities potentially available to the Receiver to liquidate the equipment through an auction process or scrap metal sale. PID 1054402 is currently listed for sale at \$259,900 with a qualified local realtor.
21. The Receiver reviewed the tender submissions, the appraisal details and the Receivers acceptance recommendations with representatives from the Bank prior to responding to any of the tenders. The Receiver understands that the Bank holds a first charge security interest over PID 642140 and the Bank supports the Receivers tender acceptance recommendations. The Receiver understands that PID 780338 is an unencumbered parcel of real property. The Receiver has advised PwC acting in its capacity as Trustee in Bankruptcy of Silver Hill Fur Farms Ltd. (the “**Trustee**”) of the bid and appraisal

details associated with PID 780338. The Trustee supports the Receivers tender acceptance recommendation. The bids for the Accepted Tenders have been accepted, subject to obtaining the approval of this Honourable Court.

21. Attached hereto as **Appendix C** are redacted copies of the Accepted Tenders which remain subject to the approval of this Honourable Court. Unredacted copies of the Accepted Tenders will be attached to the Supplemental Report. All other tender submissions received through the Tender Process have been formally rejected by the Receiver and all bid deposits returned.
22. The Receiver is in a position to report that the Accepted Tenders provide the highest net recovery to the Respondents' Estate in comparison to the other tenders submitted in the Tender Process.
23. The Receiver believes it has conducted an appropriate market test for the Tender Assets and the Accepted Tenders represent an acceptable recovery to the Respondents' receivership Estate. The Receiver recommends this Honourable Court approve the sale of Parcel 1.2 (Land and Buildings (PID 642140) located at Tignish, Prince Edward Island) to Royal Star Foods Ltd. and Parcel 1.3 (Land (PID 780338) located at Christopher Cross, Prince Edward Island) to Martin Rd Farms Ltd. pursuant to the Conditions of Sale which form part of the Tender Information Package.

INTERIM STATEMENT OF RECEIPTS AND DISBURSEMENTS

24. Attached as **Appendix D** is the Interim Statement of Receipts and Disbursements (the "**SRD**") for the period 29 March 2017 to 28 March 2018 reporting financial transactions of the Receiver during its administration. The excess of receipts over disbursements shown on the SRD is largely required by the Receiver to satisfy ongoing obligations of the Receiver required to care for and protect the residual property.

RELIEF SOUGHT BY THE RECEIVER

25. The Receiver respectfully requests that this Honourable Court grant an Order:
 - a. Approving the sale of Parcel 1.2 (Land and Buildings (PID 642140) located at Tignish, Prince Edward Island) to Royal Star Foods Ltd. pursuant to the terms and conditions of sale incorporated within the Tender Information Package;

- b. Approving the sale of Parcel 1.3 (Land (PID 780338) located at Christopher Cross, Prince Edward Island) to Martin Rd Farms Ltd. pursuant to the terms and conditions of sale incorporated within the Tender Information Package; and
- c. Approving the activities of the Receiver, as reported herein, to the extent not previously approved.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 2nd day of April 2018.

**ERNST & YOUNG INC.
LICENSED INSOLVENCY TRUSTEE**

Acting solely in its capacity as the Court Appointed Receiver and Receiver-Manager of Silver Hill Fur Farm Ltd. and not in its personal capacity

Per:



George Kinsman, CPA, CA, CIRP, LIT
Senior Vice President