

**IN THE MATTER OF THE BANKRUPTCY OF  
FERONIA INC.  
OF THE CITY OF VANCOUVER,  
IN THE PROVINCE OF BRITISH COLUMBIA**

**REPORT OF THE TRUSTEE'S PRELIMINARY ADMINISTRATION  
OF THE ESTATE OF  
FERONIA INC.**

**INTRODUCTION**

1. On July 23, 2020, (“**Feronia**” or the “**Company**”) filed a Notice of Intention to File a Proposal (“**NOI**”) under Part III, Division I of the *Bankruptcy and Insolvency Act* (the “**BIA**”). Ernst & Young Inc. consented to act and was appointed as proposal trustee (the “**Proposal Trustee**”).
2. The principal purpose of the NOI proceedings was to create a stabilized environment to enable Feronia and its subsidiaries to pursue a restructuring through an asset sale transaction (the “**Sale Transaction**”) contemplated in a purchase agreement dated July 17, 2020 (as amended, the “**Purchase Agreement**”) between Feronia, as vendor, and Feronia KNM (an affiliate of KKM (defined below)), as purchaser (the “**Purchaser**”).
3. In accordance with paragraph 62(1) of the BIA, Feronia had until August 24, 2020 to file a Proposal, unless it obtained an extension of that deadline from the Supreme Court of British Columbia in Bankruptcy and Insolvency (the “**Court**”).
4. On August 24, 2020, the Court granted an extension of the deadline to file a Proposal to October 6, 2020.
5. On September 3, 2020, the Court issued an Order approving, among other things, the Sale Transaction.
6. On October 5, 2020, the Court granted a further extension to the period for filing a proposal to

November 20, 2020.

7. On November 19, 2020, Feronia completed the Sale Transaction to sell the Purchased Assets (defined and discussed below) to the Purchaser.
8. On November 21, 2020 the Proposal Trustee filed Form 34 in which it confirmed that a Proposal was not filed within the permitted time, and that on that day the Company was deemed to have made an assignment in bankruptcy. Ernst & Young Inc. was appointed by the Official Receiver as the trustee of the bankrupt estate (the “**Trustee**”).
9. We present hereunder our Report on the Trustee’s Preliminary Administration of the Estate of Feronia (the “**Report**”).
10. In preparing this Report, we have relied upon unaudited financial information, Company records and discussions with former management and consultants of the Company. We have not performed an audit or other verification of such information, and accordingly we express no opinion thereon.
11. This Report has been prepared solely for the use of the Company’s creditors, as general information on the state of affairs of the Company. Given the nature of the Trustee’s mandate, this information is preliminary only and is subject to change as the mandate progresses. In light of the foregoing, the Report should not be circulated or used for other purposes or reproduced without our knowledge and prior written permission. We will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of the Report contrary to the provisions of this paragraph.
12. This Report, previous reports of the Proposal Trustee and other materials filed in the NOI and bankruptcy proceedings are available on the Trustee’s case website at [www.ey.com/ca/feronia](http://www.ey.com/ca/feronia).

## **SECTION A - Background**

13. Set out below is a summary of the background of Feronia and its subsidiaries, as well as events leading to the NOI proceedings, which were discussed in greater detail in the Proposal Trustee’s reports.

14. Feronia, a corporation registered in Vancouver, British Columbia, Canada, was previously listed on the TSX Venture Exchange under the ticker symbol “FRN”. Approximately 84% of Feronia’s shares are owned by CDC Group PLC (“**CDC**”) (42%) and Straight KKM 2 Limited (“**KKM**”) (42%), while the rest is owned by minority shareholders including public shareholders.
15. Together with its 99.9999% owned subsidiary, Feronia Maia Sprl (“**FM**”), Feronia owned a 76.16% equity interest (the “**PHC Shares**”) in Plantations et Huileries du Congo SA (“**PHC**”) and together with Feronia and FM, the “**Feronia Group**”). An organizational chart of the Feronia Group as of May 7, 2020 is attached hereto as **Appendix “A”**.
16. The PHC Shares and certain intercompany receivables (the “**Intercompany Claims**”) represented substantially all of Feronia’s assets. Similarly, FM did not have any material assets other than a portion of the PHC Shares (i.e., a 54.73% interest in PHC) it owned and certain intercompany receivables.
17. The Feronia Group engaged in the agribusiness through three palm oil plantations owned and operated by PHC in the Democratic Republic of the Congo.
18. Feronia did not have any employees. Its former management consisted of contractors who are paid directly by FM and/or PHC.
19. The Feronia Group’s operations were challenged by a variety of factors, including depressed market prices, unfavourable operating conditions and delays in certain capital projects. As a result, the Feronia Group experienced significant operating losses, relying on debt financing and equity investments to carry on the operations for multiple years.
20. By early 2020, the Feronia Group had depleted its liquidity and was unable to service its debt without additional financing or investment. In order to address its financial challenges and immediate liquidity needs, the Feronia Group had no choice but to pursue a restructuring transaction with the support of KKM and CDC.
21. In or about June 2020, Feronia, with the assistance of Ernst & Young Corporate Finance (Canada) Inc. and Ernst & Young Orenda Corporate Finance Inc. as independent financial

advisor, conducted a sale process in respect of the PHC Shares and the Intercompany Claims (the “**Sale Process**”).

22. The only bid emerged in the Sale Process was an offer from KKM largely consistent with the terms of a back-stop agreement previously entered into between Feronia and KKM.
23. On July 17, 2020, Feronia entered into the Purchase Agreement with KKM (on behalf of the Purchaser) to sell the PHC Shares, the Intercompany Claims, and relevant books and records under the terms of the agreement (collective, the “**Purchased Assets**”).

## **SECTION B – Preliminary Evaluation of Assets**

24. Feronia sold substantially all of its assets, property and undertakings under the Sale Transaction.
25. The Trustee holds approximately \$120,000, which represents the remaining balance of the cash purchase price for the Sale Transaction (the “**Remaining Cash Proceeds**”). The Purchase Agreement provides that the Remaining Cash Proceeds shall be utilized to fund professional fees and disbursements relating to the Sale Transaction and the Company’s insolvency proceedings, and certain priority obligations, if any, and that any residual amount would be distributed to unsecured creditors.
26. The unpaid accounts of the Proposal Trustee, Dentons Canada LLP (counsel to the Proposal Trustee) and Aird and Berlis LLP (counsel to Feronia) relating to the NOI proceedings (the “**Unpaid Restructuring Costs**”) total approximately \$155,000 as of November 25, 2020. Pursuant to an Order of the Court made August 21, 2020, the Unpaid Restructuring Costs are secured by a first ranking charge (the “**Administration Charge**”) not exceeding \$400,000 on all of the assets, property and undertakings of Feronia, including the Remaining Cash Proceeds. The Unpaid Restructuring Costs are summarized in the table below:

Feronia NOI Proceedings - Unpaid Restructuring Costs

	Amount (inclusive of HST)	
Proposal Trustee	\$	59,074
Dentons Canada LLP		26,273
Aird & Berlis LLP		69,611
Total	\$	154,958

27. The Unpaid Restructuring Costs are approximately \$35,000 higher than the Remaining Cash Proceeds, even before considering the administration of the bankrupt estate.
28. Feronia files HST returns on a quarterly basis. The Company's financial records reflect an HST refund position of approximately \$78,000 for the period July 2020 to September 2020. However, the quantum and timing of potential HST refunds remain highly uncertain at the time of this Report. The Trustee has taken steps with respect to this matter, including contacting the Canada Revenue Agency and discussing with Feronia's former consultant.

**SECTION C – Books and Records**

29. The Purchaser acquired Feronia's books and records as part of the Purchased Assets.
30. Pursuant to the Purchase Agreement, the Trustee has access to the books and records for the administration of the estate.

**SECTION D – Conservatory and Protective Measures**

31. The Trustee did not take possession of any assets other than the Remaining Cash Proceeds, since substantially all of the Company's assets were sold prior to the bankruptcy. Accordingly, the Trustee does not believe any additional conservatory and protective measures are required given the circumstances.

**SECTION E – Provable Claims**

32. The Trustee is in the process of accepting and reviewing proofs of claim with the assistance of the Company. As of December 11, 2020, a total of three unsecured claims totalling \$6,041,402 have been filed with the Trustee.

33. Pursuant to the Purchase Agreement, the Purchaser has assumed certain guarantee obligations of Feronia secured by the PHC Shares.

#### **SECTION F – Legal Proceedings**

34. At the time of this Report, the Trustee is not aware of any active legal proceedings involving the Company and has not initiated any legal proceedings during its administration of the estate.
35. The Trustee has not conducted a review of the books and records of the Company to determine the extent, if any, of any preferences or transactions at undervalue; however, at this time, the Trustee is not aware of any irregularities to report to creditors.

#### **SECTION G – Third-party Deposits or Guarantees**

36. On July 23, 2020, KKM provided a fee guarantee to Ernst & Young Inc. and Aird & Berlis LLP in order to administer the NOI proceedings and enable the implementation of the Sale Transaction. At the time of this Report, the guarantee has not been called upon pending the availability of funds to be distributed from the estate.

#### **SECTION H – Anticipated Realizations and Projected Distribution**

37. As described earlier, the estate has a shortfall of approximately \$35,000 in satisfying the Unpaid Restructuring Costs, which are secured by the Administration Charge. After factoring into the additional cost required for the estate administration, the Trustee is of the view that a potential recovery to unsecured creditors appears less likely, even if part or all of Feronia's HST refunds would become available.
38. Subject to maintaining a reserve for the estate administration, the Trustee plans to seek the approval of subsequently appointed inspectors or the Court (as required) to release excess funds as a partial payment of the Unpaid Restructuring Costs.

## **SECTION I – Other Matters**

39. On November 25, 2020, packages were mailed to the creditors listed on the Company's Statement of Affairs. The packages included a notice of the bankruptcy and first meeting of creditors, a list of creditors, a proof of claim and a proxy.
40. On December 2, 2020, a newspaper advertisement was placed in the national edition of the Globe and Mail newspaper informing creditors of the bankruptcy and the date and time of the meeting of creditors.
41. The Statement of Affairs has been sworn by Mr. Gilles Marit, the Chief Financial Officer of Feronia.
42. At the request of Office of the Superintendent of Bankruptcy, the Trustee obtained a bond No. TM5252370 in the amount of \$90,000 issued by The Guarantee Company of North America in favor of the creditors of the estate.
43. Copies of the documents related to the Company's bankruptcy are available on the Trustee's case website at [www.ey.com/ca/feronia](http://www.ey.com/ca/feronia).

Dated at Vancouver, British Columbia this 11<sup>th</sup> day of December, 2020.

**ERNST & YOUNG INC.**  
**Trustee of the Bankrupt Estate of**  
**Feronia Inc.**

Per:



Mike Bell, CPA, CA, CIRP  
Senior Vice-President

Per:



Alex Morrison, CPA, CA, CIRP  
Senior Vice-President

## **Appendix “A”**



