Court File No:

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT,* R.S.C. 1985, c. B-3, AS AMENDED, AND SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C.43, AS AMENDED

B E T W E E N:

TEMISKAMING DEVELOPMENT FUND CORPORATION,

Applicant

\- and -

1793082 ONTARIO LTD., o/a K.D. QUALITY PELLETS

Respondent

REPORT OF GRANT THORNTON LIMITED, THE PROPOSED RECEIVER

January 7, 2019

GrantThornton

Grant Thornton Limited
200 King Street West, 11th Floor
Toronto, Ontario
M5H 3T4

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REPORT OF GRANT THORNTON LIMITED,
THE PROPOSED RECEIVER

January 7, 2018

INTRODUCTION AND PURPOSE OF THIS REPORT

1. This report (the "**Proposed Receiver's Report**") is filed in connection with an application made to the Ontario Superior Court of Justice (Commercial List) (the "**Court**") by Temiskaming Development Fund Corporation. ("**Temfund**") seeking an order pursuant to section 243(1) of the *Bankruptcy and Insolvency Act (Canada)* (the "**BIA**") and section 101 of the *Courts of Justice Act (Ontario)* (the "**CJA**") appointing Grant Thornton Limited ("**GTL**") as the receiver (the "**Proposed Receiver**") over all of the assets, property and

undertaking of 1793082 Ontario Ltd., o/a K.D. Quality Pellets ("**KD Pellets**" or the "**Company**"), substantially in the form included in Temfund's application record (the "**Appointment Order**").

2. The purpose of this Proposed Receiver's Report is to seek the approval of a sale process should the Appointment Order be granted.

SCOPE AND TERMS OF REFERENCE

3. Certain information contained in this Proposed Receiver's Report has been obtained from the records of the Company, publicly available information, and/or is based upon discussions with, and representations made by, other creditors of the Company and professional advisors retained in this matter. The information has not been audited by the Proposed Receiver as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally acceptable accounting principles and the reader is therefore cautioned that this Proposed Receiver's Report may not disclose all significant matters about the Company.

4. This Proposed Receiver's Report has been prepared for the use of this Court and the Companies' stakeholders as general information relating to the Company and to assist the Court in making a determination of whether to approve the relief sought. Accordingly, the reader is cautioned that this Proposed Receiver's Report may not be appropriate for any other purpose. The Proposed Receiver assumes no responsibility or liability for any loss or damage occasioned by any party because of the circulation, publication, reproduction or use of this Proposed Receiver's Report. Any use that a party makes of this Proposed Receiver's Report, or any reliance on or decisions to be made based on it, is the responsibility of such party.

5. A copy of this Proposed Receiver's Report and other relevant documents with respect to these proceedings will be made available on the Proposed Receiver's website at: www.GrantThornton.ca/kdqp, if appointed.

6. Capitalized terms not defined in this Proposed Receiver's Report have the meanings ascribed to them in the application record filed by Temfund.

7. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

8. The Company's business is in the manufacture and wholesale of wood pellets, which are sold to commercial and residential customers for heat and power generation. The Company operated from a Company-owned facility in New Liskeard, Ontario. The Proposed Receiver understands that the Company has not been operating for some time, has little to no active employees and significant debts relative to the size of the business and asset values.

9. The Proposed Receiver, if appointed, would seek to implement an immediate sale process so as to reduce the amount of time before a sale transaction could be completed and in order to make distributions to creditors with proven claims pursuant to the legal priority of claims. In addition, the Proposed Receiver understands that there may be challenges with respect to current insurance coverage and utility services. A further reason to consider approving a sale process would be to take advantage of any Court appearances and reduce the overall administrative costs of a receivership proceeding.

PROPOSED SALE PROCESS

10. Pursuant to the Appointment Order, the Proposed Receiver (if appointed, the "**Receiver**") would be authorized to, among other things, market and sell the Property (as defined

herein) of the Company. In an effort to manage time and costs, the Proposed Receiver is seeking approval of its proposed sale process ("**Sale Process**") at the same time as the Appointment Order, if granted.

11. The proposed Sale Process has been designed to market the Company's right, title and interest, if any, in the inventory, manufacturing equipment, warehouse equipment, real property, books and records, and intellectual property including any Company owned patents, web site, and customer lists, among other things (collectively, the "**Property**"). The Receiver's objective would be to seek a buyer who will consider operating the business as a turnkey investment opportunity as opposed to a liquidation of the equipment assets, where possible. In the Proposed Receiver's view, this would provide for the highest value and recovery to the Company's creditors.

12. In summary, the proposed Sale Process would be a public sale and will be conducted in the following manner:

(a) The Property will be marketed for sale on an "as is, where is" basis.

(b) The Receiver shall be under no obligation to accept the highest or best offer and the acceptance of any offer shall be in the discretion of the Receiver however the Receiver may consult with the Company's senior secured creditors.

(c) The Receiver may, in its discretion, extend the deadline for offers if it considers it to be appropriate or necessary in the circumstances.

(d) Offers must be accompanied with a deposit equal to at least 10% of the offer price.

(e) If deemed appropriate, the Receiver may prepare a form of an agreement of purchase and sale (the "**APS**") to be used by all prospective bidders. Bidders will then be able to submit their offers in the form of the APS and be able to provide a blackline to the APS with any proposed changes or conditions.

(f) The final sale agreement will be subject to Court approval.

Phase 1: Preparation – Time Frame: 1-2 weeks

13. During Phase 1 the Receiver will:

(a) Finalize its review and assessment of the Company's Property for the purposes of preparing an information memorandum for prospective purchasers.

(b) Prepare a form of solicitation letter or email summarizing the Sale Process and soliciting parties to express their interest in same.

(c) Prepare a form of non-disclosure agreement (the "**NDA**") to be executed in order to obtain information that is not included in the information memorandum and to further participate in the Sale Process.

(d) Prepare a data room, if deemed appropriate, (the "**Data Room**") containing, among other things, financial information, any relevant agreements, customer information, real property information, and any other information to be shared with prospective purchasers subsequent to receiving an executed NDA.

(e) Identify and prepare a list of potential purchasers for the Company's Property ("**Potential Purchasers**").

Phase 2: Marketing – Time Frame: 4-6 weeks

14. During Phase 2 the Receiver will:

(a) Circulate the solicitation Letter/email and NDA to the Potential Purchasers where such Potential Purchasers will include both regional and national buyers. The solicitation letter may indicate that offers which provide for the continued operation of the Company's Property at its current premises will be viewed as a positive term within their offer.

(b) Directly communicate with industry participants who have expressed an interest in or who the Receiver believes may have an interest in the Company's Property/operations.

(c) Advertise the sale of the Company's Property in a Canadian national newspaper.

(d) Allow any Potential Purchasers who execute the NDA to access the Data Room.

(e) Coordinate site visits for Potential Purchasers to inspect the Property and facilitate Potential Purchaser's due diligence generally.

(f) Maintain the Data Room.

(g) Collect offers from Potential Purchasers by a bid deadline date (which will be set upon the completion of Phase I but will at a minimum provide for at least a 30 day due diligence period from when the first solicitation letters are sent to Prospective Purchasers.

<u>Phase 3: Entering into APA – Time Frame: 2-3 weeks</u>

15. During Phase 3 the Receiver will:

(a) Review all offers submitted in Phase 2 and, where appropriate, discuss the results of the initial sale process with the senior secured creditors of the Company.

(b) The Receiver may ask some or all of the offerors to re-submit offers for subsequent rounds of offers. In such a case, the Receiver will, where appropriate, discuss the results of the sale process with the senior secured creditors of the Company.

(c) The receiver will select the offer that represents the best offer and will negotiate the terms of a final sale agreement which will be subject to Court approval.

(d) Once a sale agreement is approved by the Court, the Receiver will work to efficiently close the transaction as soon as possible and based on the terms of the sale agreement.

16. It is likely that the Receiver will not be operating the Company's business and as a result, a longer sale process my not provide for any greater net recovery to the Company's creditors.

17. The Proposed Receiver has shared its proposed Sale Process with Temfund who is supportive of the Sale Process steps and timeline.

18. The Proposed Receiver has engaged Cassels Brock and Blackwell LLP ("**Cassels**") as its independent counsel, and if appointed as receiver, Cassels will provide an independent opinion on the validity of the security of any of the senior secured creditors who will receive a portion of the net sale proceeds.

CONCLUSION AND RECOMMENDATION

19. The Proposed Receiver respectively requests that this Court approve of the Sale Process as set out in this Proposed Receiver's Report.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 7th day of January, 2019.

GRANT THORNTON LIMITED,
solely as the proposed receiver of the Respondent and not in its personal or corporate capacity

Per: ______________________
Dan Wootton, CIRP, LIT
Senior Vice-President