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COURT ADMINISTRATION

SUPREME COURT OF NOVA SCOTIA

IN THE MATTER OF:

Application by Hefler Forest Products Limited (the "Applicant") for relief under the *Companies' Creditors Arrangement Act*

AFFIDAVIT

I, Floyd Gaetz. of Halifax, in the Province of Nova Scotia, make oath and say as follows:

1. I am the President of Hefler Forest Products Limited ("HFPL"), the applicant herein.
2. I have personal knowledge of the evidence sworn in this affidavit except where otherwise stated to be based on information or belief.
3. I state, in this affidavit, the source of any information that is not based on my own personal knowledge, and I state my belief of the source.

Background

4. Hefler Forest Products Limited carries on an integrated saw mill and biomass power generating business on approximately 15 acres of land at Beaverbank Nova Scotia. It has 59 employees.
5. Hefler Forest Products Limited had carried on business at the same site as a sawmill for approximately 150 years until it was purchased by the current owners in December 2013. At the time of purchase it was producing approximately 14,000 board feet per day of finished product.
6. The new owners set out to make improvements to the sawmill by investing in, upgrading, rebuilding, or replacing most of the sawmill's components to the point where it now produces 60-65,000 board feet a day. The Applicants plan has been to further increase production to 70-75,000 board feet a day resulting in a lower cost per thousand board feet produced. As to obtain the increased production a capital investment is required of an additional \$750,000 – 900,000 these plans are currently on hold.
7. The new owners also set out to construct on its property a biomass power generator. The power generator is fueled by waste biomass created in the sawmill operation, (approximately 80%) the balance of required biomass is purchased from third parties. The Applicant has entered into a 20

year "Power Purchase Agreement for Renewable Energy" with Nova Scotia Power Inc. ("NSPI") under the COMFIT (Community Feed-In Tariff) Program at rates as approved for such projects by the Nova Scotia Utility and Review Board.

8. The Power Generator was commissioned on July 1, 2015 (it had been intended to be commissioned on April 1) and since its commissioning has been selling power to NSPI pursuant to the terms of the Power Purchase Agreement.
9. The Applicant believes that with some improvements the power generator could generate and sell even more power to NSPI but current cash flow restraints limit its ability to make the required improvements.
10. The sawmill and power plant are now fully operational notwithstanding delays and the need to deal with the approximately \$3,000,000 of uninsured losses from a fire and roof collapse.
11. As of June 30th, 2016 a total of \$30,064,544 had been loaned to or invested in the Applicant, by the Royal Bank ("RBC"), the Business Development Bank ("BDC"), and by the Applicant's current shareholders.
12. Balances of amounts lent or invested are approximately:
 - (a) RBC - \$11,315,344
 - (b) BDC - \$ 3,000,000
 - (c) Applicant's Shareholders - \$15,608,131

13. The funds lent or invested in the Applicant have been largely used as follows:

Construction – new 3.7 MW biomass power	\$18,221,294.00
Sawmill investment and refurbishment	\$ 7,028,366.00
Accumulated losses since December 2013	\$ 4,911,894.00
	<hr/>
	\$30,161,544.00
Difference – from unsecured creditors	\$ (97,010.00)
	<hr/>
	\$30,064,544.00

14. On August 2, 2016, this Honourable Court saw fit issue an Order providing for a stay of proceeding against HFPL up to and including September 22, 2016 and approving DIP Financing in the amount of \$1,000,000.00.
15. The Stay of Proceedings and DIP financing had been sought to provide HFPL with time to seek out qualified persons with an interest in acquiring or investing in HFPL to enable HFPL to bring forth a Plan of Arrangement in the best interest of all of its creditors and to provide the funds required by HFPL to continue to operate its sawmill and power generator business

while it pursued the steps required to identify a purchaser/investor and develop a Plan of Arrangement.

16. As intended HFPL has continued, since August 2, 2016, to operate its sawmill and power generator business and to pursue a sale/investment which will enable it to put forward a Plan of Creditors Arrangement which is in the best interest of its creditors.
17. This affidavit is provided in support of an application by HFPL for orders to permit it to continue the process undertaken by :
 - (a) Extending the stay of proceeding to December 31, 2016;and
 - (b) Establishing a process for identification and determination of claims against HFPL and its present and former directors and officers; (a time consuming procedure required in the CCAA process)

Sawmill and Power Generator Operations

18. HFPL's sawmill and power generator operations to September 10, 2016 have been positive. HFPL's cash flow is \$356,457.00 better than the cash flow projected in the Cash Flow Forecast attached to and forming part of the Proposed Monitor's Report of July 20, 2016. DIP of \$650,000.00 has been drawn to September 10, 2016 versus the \$800,000.00 projected in the Proposed Monitor's cash flow projections of July 20, 2016. It is perhaps of note that HFPL's expenses include \$276,636.00 of Professional Fees which have been \$133,364.00 less than projected. Attached and marked as Exhibit "A" to this my affidavit is a true copy of the Monitor's Cash Flow Variance Analysis for the period from July 23, 2016 to September 10, 2016.
19. The value of HFPL's current assets have increased between June 30, 2016 and August 31, 2016. There has been no change in the book value of its fixed assets. Attached and marked as Exhibit "B" to this my affidavit are true copies of the HFPL's unaudited Financial Statements to June 30, 2016 and as Exhibit "C" is an internally prepared balance sheet, and income statements for the Mill and Power Plant to August 31, 2016 both of which show the value of HFPL's current and fixed assets as at the end of the period reported on.
20. It is not expected that there will be a material change in the value of HFPL's current or fixed asset values between September 22, 2016 and December 31, 2016. No additional DIP financing is being requested during the extended Stay Period. Attached and marked as Exhibit "D" to this my affidavit is a true copy of a Cash Flow Forecast for the period from September 12, 2012 to December 31, 2016 attached and marked as Exhibit "E" to this my affidavit is a " Summary of Changes to Working Capital over Forecast Period" as of September 12, 2016 prepared by HFPL's financial advisors Grant Thornton in which they

project that the change in HFPL's working Capital Assets between September 10 and December 31, 2016 is estimated to be a decrease of \$62,613. Grant Thornton opines, with which I agree, that the continued use of HFPL's capital assets will serve to maintain their value.

The Sales/Investment Process

21. By Letter dated August 1, 2016, HFPL engaged Grant Thornton Corporate Finance Inc. ("GTCFI") to assist it in connection with the potential sale of or investment in HFPL.
22. The plan proposed by GTCFI and accepted by HFPL was as follows:
 - (a) Develop a list of potential purchasers/investors, prepare a confidential information memorandum ("CIM") outlining the opportunity and prepare a non-confidential "teaser" document for distribution to potential purchasers/investors. The target date for completing this phase was August 9, 2016;
 - (b) Distribute the teaser to potential purchasers/investors, distribute the CIM to potential purchasers/investors after their signing a non-disclosure agreement, interact and respond to potential purchasers/investors queries and their due diligence requests (this included providing access to a data room to those who had signed non-disclosure agreements and arranging and conducting site visits) receive and evaluate non-binding letters of interest. The soft target date for completing the process was set as September 15, 2016;
 - (c) The next phase in GTCFI's process is to meet with prospective purchasers/investors and working with HFPL and its legal advisors to negotiate a purchase agreement. The soft target date for completing this process is October 15, 2016; and
 - (d) The final phase is the finalization of agreements and closure with a soft target date of November 30, 2016.
23. GTCFI advises me, and I verily believe that it:
 - (a) Sent out 57 teasers;
 - (b) Sent out 13 CIM's after potential purchasers signed non-disclosure agreements.
24. I am aware that to date ten interested parties have entered the data room, eight parties have conducted site tours, and four parties have provided letters of interest/intent.

25. There have been other persons who have expressed an interest some of whom have been granted access to the data room. To date these persons have not pursued their expressed interest further.
26. One of the letters of interest referred to in paragraph 24 is in for a proposed investment, one is for purchase of all of the shares or assets of HFPL for a price well in excess of the amount required to pay out RBC, BDC, and the DIP Lender the third is at a price insufficient to pay the first ranking secured and is unlikely to be given consideration and the fourth is a third party workout proposal.
27. Additional time is required to continue the process intended to lead to an agreement with an interested purchaser or investor which will enable HFPL to file a Plan of Arrangement.
28. I am advised by counsel that notwithstanding GTCFI's soft target date of November 30, 2016 for closing because of the steps required in the CCAA process, one of which is the identification and determination of claims, it is highly unlikely that a Sanction Order could be applied for or obtained which would enable a closing by the November 30, 2016.

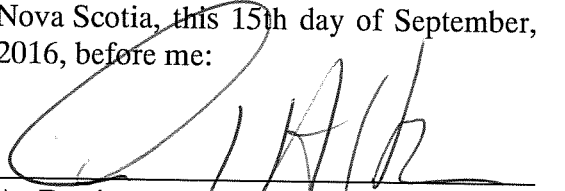
Claims Procedure Order

29. HFPL seeks authorization to undertake a process (the "**Claims Procedure**") to identify and determine all effective claims against the Company and its present and former directors and officers.
30. HFPL is seeking the requested order (the "**Claims Procedure Order**") at this time in order to advance toward the formulation and implementation of a plan of compromise or arrangement (the "**Plan**") between the Company and its creditors. Given the length of time necessary to complete a Claims Procedure, the Applicant believes it is prudent to initiate the process now so that it can be run concurrently with other steps being taken under the provisions of the CCAA.
31. The proposed Claims Procedure Order provides for the following:
 - (a) The publication of a Notice to Creditors in The Chronicle Herald (Provincial Edition);
 - (b) The mailing by the Monitor of a proof of claim document package to the Company's known creditors;
 - (c) The filing with the Monitor of a proof of claim form;

- (d) A claims bar date of 5:00 p.m. (Atlantic Time) on October 31, 2016, after which date, creditors who have failed to deliver a proof of claim in respect of a claim shall be barred from making of enforcing such claim;
- (e) The review of all submitted proofs of claim and the determination by the Monitor, with the assistance of the Company, whether to allow or disallow, in whole or in part, the validity and/or quantum of each claim for voting and/or distribution purposes;
- (f) The determination of the claim for voting purposes does not in any way affect and is without prejudice to determine such claim for distribution purposes (i.e. to insure that a dispute over the quantum of an otherwise allowable claim does not prevent the applicable creditor from voting on a Plan);
- (g) The ability of any person whose claim has been disallowed, in whole or in part, for voting and/or distribution purposes, as applicable, to dispute the decision by delivering a dispute notice to the Monitor in the manner described in the Claims Procedure Order; and
- (h) The hearing of such dispute and the determination of any such disputed claim by Augustus (Gus) Richardson, Q.C. as claims officer.

32. I am advised by counsel to HFPL and verily believe that the terms of the Claims Procedure Order are consistent with similar court orders granted in other recent CCAA proceedings. I believe the Claims Procedure provides a fair and efficient way to determine claims against the Company and its directors and officers.

SWORN TO at Halifax, Province of)
 Nova Scotia, this 15th day of September,)
 2016, before me:)

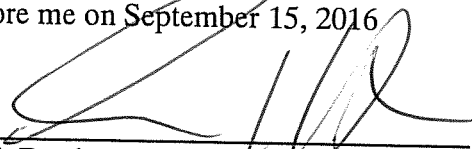

 _____)
 A Barrister of the Supreme Court of)
 Nova Scotia)

Carl A. Halk



 FLOYD GAETZ

This is Exhibit "A" referred to in the
Affidavit of Floyd Gaetz sworn
before me on September 15, 2016



A Barrister of the Supreme Court
of Nova Scotia

Carl Aitken

HEFLER FOREST PRODUCTS LIMITED
 CASH FLOW - VARIANCE ANALYSIS
 July 23, 2016 to September 10, 2016

CASH RECEIPTS

Lumber - Eacan	737,020	854,724	164,706	144,633	20,073
External Bio mass	5,733	24,260	25	3,450	(3,425)
A/R Collections - Dexter	15,837	-	-	-	-
Other sales	1,487	-	-	-	-
Power Plant - NSP	747,992	765,829	17,270	-	-
HST collected	144,062	-	-	-	17,270
(post CCAA sales)	-	-	-	-	-
	<u>1,622,121</u>	<u>1,644,813</u>	<u>182,001</u>	<u>148,083</u>	<u>33,918</u>

CASH DISBURSEMENTS

Logs/Biomass	812,100	841,919	86,461	129,906	43,455
Payroll & benefits	342,454	344,300	71,160	122,000	50,840
Professional fees	260,753	370,000	15,883	40,000	24,117
Insurance	43,658	39,264	-	-	-
Electricity	34,021	35,000	-	-	-
Gas/Diesel	18,071	33,279	7,500	-	(7,500)
Water Supply	36,000	39,044	-	-	-
Crown land - silviculture	-	30,000	-	-	-
Repairs & Maintenance	96,468	95,000	24,785	10,000	(14,785)
General Expenses	77,964	195,000	22,391	40,000	17,609
HST input credits on professional fees	25,580	-	2,382	-	(2,382)
HST input credits on other expenses	152,138	-	19,722	-	(19,722)
HST paid to CRA (post CCAA)	-	30,000	-	-	-
	<u>1,899,207</u>	<u>2,152,806</u>	<u>250,274</u>	<u>341,906</u>	<u>91,632</u>

Total Disbursements

NET CASH FLOW	(277,086)	(507,993)	(68,273)	(193,823)	125,550
OPENING CASH	650,000	600,000	372,914	92,007	280,907
DIP Financing Received	-	-	-	290,000	(200,000)
CLOSING CASH	<u>372,914</u>	<u>92,007</u>	<u>304,641</u>	<u>98,184</u>	<u>206,457</u>

Cheques Included above
 Not Cash'd yet

AF MacPhee Holdings	4,748
Trevor Hillz	1,861
George Bergman Electric	6,020
Revolution Automotive	3,045
D&M Trucking	7,375
Several less than \$1,500	5,619
	<u>28,668</u>

CUMULATIVE 6 WEEKS

Ending September 3, 2016

Actual Forecast

Week Ending Sept. 10, 2016

Actual Forecast Variance

(Unfavourable)

CUMULATIVE TOTAL 7 WEEKS

July 23 to Sept 10, 2016

Actual Forecast Variance

(Unfavourable)

901,726	999,357	(97,631)	901,726	999,357	(97,631)
5,758	27,710	(21,952)	5,758	27,710	(21,952)
15,837	-	15,837	15,837	-	15,837
1,487	-	1,487	1,487	-	1,487
747,992	765,829	(17,837)	747,992	765,829	(17,837)
131,322	-	131,322	131,322	-	131,322
<u>1,804,122</u>	<u>1,792,896</u>	<u>11,226</u>	<u>1,804,122</u>	<u>1,792,896</u>	<u>11,226</u>

898,551	1,071,825	173,274	898,551	1,071,825	173,274
413,614	456,300	52,686	413,614	456,300	52,686
276,636	410,000	133,364	276,636	410,000	133,364
43,658	39,264	(4,394)	43,658	39,264	(4,394)
34,021	35,000	979	34,021	35,000	979
25,571	33,279	7,708	25,571	33,279	7,708
36,000	39,044	3,044	36,000	39,044	3,044
-	30,000	30,000	-	30,000	30,000
121,253	105,000	(16,253)	121,253	105,000	(16,253)
100,355	235,000	134,645	100,355	235,000	134,645
27,962	-	(27,962)	27,962	-	(27,962)
171,860	-	(171,860)	171,860	-	(171,860)
-	30,000	30,000	-	30,000	30,000
<u>2,149,481</u>	<u>2,494,712</u>	<u>345,231</u>	<u>2,149,481</u>	<u>2,494,712</u>	<u>345,231</u>

(345,359)	(701,816)	356,457	(345,359)	(701,816)	356,457
650,000	800,000	(150,000)	650,000	800,000	(150,000)
-	-	-	-	-	-
<u>304,641</u>	<u>98,184</u>	<u>206,457</u>	<u>304,641</u>	<u>98,184</u>	<u>206,457</u>

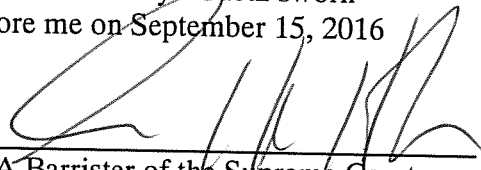
Explanations

Timing difference

\$\$ Permanent difference

^^ Estimated Permanent difference of at least \$100,000

This is Exhibit "B" referred to in the
Affidavit of Floyd Gaetz sworn
before me on September 15, 2016



A Barrister of the Supreme Court
of Nova Scotia

Carl A Holm

Financial statements

(Unaudited – Prepared by Management)

Hefler Forest Products Ltd.

June 30, 2016

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Hefler Forest Products Ltd.

Statements of Loss and Deficit

Year ended June 30

(Unaudited – Prepared by Management)

	2016	2015
Revenue		
Mill	\$ 7,049,592	\$ 4,467,041
Power Plant	<u>3,663,128</u>	<u>-</u>
	10,712,720	4,467,041
Cost of sales and direct costs	<u>9,176,353</u>	<u>5,178,669</u>
Gross profit (loss)	<u>1,536,367</u>	<u>(711,628)</u>
Operating costs and expenses		
Amortization	1,147,952	257,432
Business, property taxes and licenses	72,836	46,892
Donations	486	3,513
Electricity – PP	207,009	-
Insurance	197,165	84,603
Interest	49,127	41,922
Interest on long-term debt	596,180	350,311
Marketing fees	227,714	13,941
Miscellaneous	41,690	29,203
Office	57,512	75,393
Payroll and benefits	1,005,937	241,130
Professional fees	429,173	137,574
Repairs and maintenance	257,219	78,209
Silviculture	41,708	33,539
Telephone	11,472	14,416
Travel and meals	32,509	53,846
Water - PP	<u>162,851</u>	<u>-</u>
	4,538,540	1,461,924
Loss before other income	<u>(3,002,173)</u>	<u>(2,173,552)</u>
Other income (Note 12)	<u>101,359</u>	<u>417,868</u>
Net loss	<u>\$ (2,900,814)</u>	<u>\$ (1,755,684)</u>
Deficit, beginning of year	\$ (2,367,517)	\$ (611,833)
Net loss	<u>(2,900,814)</u>	<u>(1,755,684)</u>
Deficit, end of year	<u>\$ (5,268,331)</u>	<u>\$ (2,367,517)</u>

Hefler Forest Products Ltd.

Balance Sheet

June 30

(Unaudited – Prepared by Management)

2016

2015

Assets

Current

Cash and cash equivalents	\$ 519	\$ 301,058
Receivables (Note 4)	697,509	690,589
Inventory (Note 5)	1,197,787	1,367,025
Prepays	102,373	178,172
Investment tax credit receivable	10,794	183,429
	<u>2,008,982</u>	<u>2,720,273</u>
Property, plant and equipment (Note 3)	25,223,379	21,826,613
Intangible	25,347	28,772
Investment, at cost	1,000	1,000
Investment tax credit receivable	319,454	302,262
Property held for resale	-	97,273
	<u>\$ 27,578,162</u>	<u>\$ 24,976,193</u>

Liabilities

Current

Bank indebtedness (Note 6)	\$ 668,965	\$ -
Payables and accruals	2,113,014	5,547,013
Harmonized sales tax payable	18,261	-
Government source deductions payable	96,559	57,795
Current portion of long term debt (Note 8)	14,245,169	9,526,341
	<u>17,141,968</u>	<u>15,131,149</u>
Payable to related parties (Note 7)	15,608,131	12,108,131
Long term debt (Note 8)	96,244	104,280
	<u>32,846,343</u>	<u>27,343,560</u>
Shareholders' deficiency		
Share capital (Note 9)	150	150
Deficiency	(5,268,331)	(2,367,517)
	<u>(5,268,181)</u>	<u>(2,367,367)</u>
	<u>\$ 27,578,162</u>	<u>\$ 24,976,193</u>

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Statement of Cash Flows

Year ended June 30

(Unaudited – Prepared by Management)

2016

2015

Increase (decrease) in cash and cash equivalents		
Operating		
Net loss	\$ (2,900,814)	\$ (1,755,684)
Items not affecting cash		
Amortization	1,147,952	257,432
Gain on disposition of capital assets	<u>(7,440)</u>	<u>(377,845)</u>
	<u>(1,760,302)</u>	<u>(1,876,097)</u>
Change in non-cash working capital items		
Receivables	(6,920)	(339,907)
Inventory	169,238	(348,418)
Prepays	75,799	(95,694)
Investment tax credits receivable	155,443	(164,683)
Payables and accruals	<u>(3,376,974)</u>	<u>5,266,314</u>
	<u>(4,743,716)</u>	<u>2,441,515</u>
Financing		
Advances (to) from related parties, net	3,500,000	6,956,662
Proceeds from long term debt	5,418,098	7,625,000
Repayment of long term debt	<u>(707,306)</u>	<u>(166,382)</u>
	<u>8,210,792</u>	<u>14,415,280</u>
Investing		
Proceeds from capital dispositions	91,500	1,531,659
Proceeds from property held for resale	115,000	-
Purchase of property, plant and equipment	(4,643,080)	(17,756,150)
Property held for resale addition	-	(97,273)
Investment tax credits	-	<u>(275,144)</u>
	<u>(4,436,580)</u>	<u>(16,596,908)</u>
(Decrease) increase in cash and cash equivalents	(969,504)	259,887
Cash and cash equivalents (net of bank indebtedness)		
Beginning of year	<u>301,058</u>	<u>41,171</u>
End of year	<u>\$ (668,446)</u>	<u>\$ 301,058</u>

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Notes to the Financial Statements

June 30, 2016

(Unaudited – Prepared by Management)

1. Nature of operations

The Company, Hefler Forest Products Ltd. is incorporated under laws of Nova Scotia. Its principal business activities include the operation of a sawmill and the sale of building supplies. In addition, commencing in fiscal 2016 the Company will generate and resale energy under a purchaser power agreement with Nova Scotia Power Inc.

2. Going concern

The financial statements have been prepared on a going concern basis. The going concern basis assumes that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

During the year ended June 30, 2016 the company had a net loss of approximately \$2.9 million, an accumulated deficiency of \$5.26 million and a working capital deficiency of \$15 million.

On July 22, 2016 the company applied to the court and received protection under the Companies Creditor Arrangement Act (CCAA) to allow the company to restructure its affairs over a period of time. The company's options will include seeking additional debt financing, equity financing, asset sale and possible sale of the company to address its capital requirements. The outcome of these matters cannot be predicted at this time. If the going concern assumption was not appropriate, then material adjustments might be necessary to the accounts and financial statements of the company.

3. Property, plant and equipment

Property, plant and equipment are recorded at cost. The company provides for amortization using the following methods at rates designed to amortize the cost of the property and equipment over their estimated useful lives. The annual amortization and methods are as follows:

Power Plant	30 years Straight line
Buildings	20 years Straight line
Office, yard & power equipment	30% Declining balance
Vehicles	30% Declining balance
Forklifts and loaders	15% Declining balance
Mill machinery	10% Declining balance
Paving	8% Declining balance

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Notes to the Financial Statements

June 30, 2016

(Unaudited – Prepared by Management)

3. Property, plant and equipment (continued)

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2016 Net Book Value</u>	<u>2015 Net Book Value</u>
Land and land improvements	\$ 2,008,479	\$ -	\$ 2,008,479	\$ 1,888,798
Power plant	18,826,499	605,040	18,221,459	14,877,989
Buildings	1,706,957	188,119	1,518,838	1,463,025
Office, yard and power equipment	145,605	73,371	72,234	27,501
Vehicles	188,775	67,004	121,771	146,666
Forklifts and loaders	635,256	181,422	453,834	316,171
Mill equipment	4,243,306	1,421,027	2,822,279	3,101,588
Paving	6,000	1,515	4,485	4,875
	<u>\$ 27,760,877</u>	<u>\$ 2,537,498</u>	<u>\$ 25,223,379</u>	<u>\$ 21,826,613</u>

During the year, investment tax credits totaling \$26,984 (2015 - \$46,864) were deducted from the cost of the related property, plant and equipment.

4. Receivables

	<u>2016</u>	<u>2015</u>
Trade receivables	\$ 705,620	\$ 84,073
Harmonized sales tax	-	395,725
Other	<u>3,000</u>	<u>221,791</u>
	708,620	701,589
Less: Allowance for doubtful accounts	<u>11,111</u>	<u>11,000</u>
	<u>\$ 697,509</u>	<u>\$ 690,589</u>

5. Inventory

	<u>2016</u>	<u>2015</u>
Lumber	\$ 649,216	\$ 390,407
Logs	136,140	569,584
Machine part and supplies	170,937	292,115
Fuel and oil	2,979	4,929
Biomass material	<u>238,515</u>	<u>109,990</u>
	<u>\$ 1,197,787</u>	<u>\$ 1,367,025</u>

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Notes to the Financial Statements

June 30, 2016

(Unaudited – Prepared by Management)

6. Bank indebtedness

The Company has an operating line of credit of \$750,000 of which \$135,000 was unused at June 30, 2016. The Company has provided security on the line of credit and on the Royal Bank of Canada long term debt (see Note 8) as follows:

- General security agreement for all the personal property of the Company.
- Joint and several guarantee and postponement claim in the amount of \$2.5 million, signed by three directors of the Company.
- Guarantee and postponement of claim in an unlimited amount signed by a related shareholder, AML Communications Inc. (AML) supported by a general security agreement signed by AML and an assignment of investments in the amount of \$2.5 million.
- Postponement and assignment of claim on Bank's Form 918 signed by related company shareholders and minority shareholders disclosed in Note 8 to these financial statements.
- Collateral mortgage in the amount of \$12.5 million on the Company's property located in Middle Sackville, Nova Scotia.
- Joint and several letters of understanding signed by the Company and guarantor to fund any debt servicing shortfall, construction cost overrun or extras relating to the Generator plant.
- Assignment of the Company's COMFIT agreement.

Intercreditor Agreement in place for asymmetric lending outlining the lenders share enforced proceeds and costs between the Royal Bank of Canada 80% and Business Development Bank Corporation (BDC) 20%.

7. Due to related parties	<u>2016</u>	<u>2015</u>
Loan due to a company under common control, AML Communications Inc.	\$ 9,800,000	\$ 6,500,000
Loan due to a minority shareholder, Petpsewick Holdings Limited	250,000	250,000
Loan due to a company, Auto Wheels in Motion Ltd, controlled by a minority shareholder	51,431	51,431
Loan due to a minority shareholder, Atbin Holdings Inc.	306,700	306,700
Loan due to a minority shareholder company, 3263403 Nova Scotia Limited	4,000,000	4,000,000
Loan due to a minority shareholder	<u>1,200,000</u>	<u>1,000,000</u>
	<u>\$ 15,608,131</u>	<u>\$ 12,108,131</u>

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Notes to the Financial Statements

June 30, 2016

(Unaudited – Prepared by Management)

7. Due to related parties (continued)

An annual interest rate of 6% will be payable on all related party loans at the time the Company achieves positive cash flow from the Power plant operations. All related party loans have no set terms of repayment.

As security on the AML Communications Inc. loan, the Company has provided a general assignment of all personal property of the Company and collateral mortgage on property, all of which is second to the security held by the Royal Bank of Canada and the Business Development Corporation.

8. Long-term debt	<u>2016</u>	<u>2015</u>
Non revolving term facility with the Royal Bank of Canada, bearing interest at the bank's prime rate plus 1.25%, payable in equal monthly instalments of principal and interest of \$11,111 (security - see Note 6).	\$ 1,754,501	\$ 1,866,667
Non revolving term loan with the Royal Bank of Canada, bearing interest at the bank's prime rate plus 1.25%, maturing in 2020 and repayable in equal monthly instalments of principal and interest of \$62,500 (security – see Note 6).	7,062,500	5,625,000
Non revolving term facility with the Royal Bank of Canada, bearing interest at the bank's prime rate plus 1.25%, payable in equal monthly instalments of principal and interest of \$16,667 (security – see Note 6).	1,883,333	2,000,000
4.75% Volvo Financial Services loan repayable in equal monthly instalments of \$3,377 including interest, maturing in February 2019. As security, the Company has pledged a vehicle with a net book value of \$99,375.	104,280	138,954
Bank of Nova Scotia vehicle loan repayment in equal monthly instalments of \$718 maturing September 2020, secured by motor vehicle	36,799	-
Business Development Bank of Canada (BDC) loan with interest calculated on the BDC floating base rate plus 1.75% paid on a monthly basis. Payments commence July 31, 2016 with one principal payment of \$23,680 and the remaining monthly principal payments of \$22,720 until the date of maturity, June 2017. Security noted below.	3,000,000	-

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Notes to the Financial Statements

June 30, 2016

(Unaudited – Prepared by Management)

8. Long-term debt (continued)	<u>2016</u>	<u>2015</u>
Atlantic Canada Opportunities Agency (ACOA), non-interest bearing and unsecured loan, payable in monthly principal instalments of \$5,200 commencing October 1, 2016 and maturing on September 1, 2024	500,000 14,341,413	- 9,630,621
Less current portion:	<u>14,245,169</u>	<u>9,526,341</u>
	<u>\$ 96,244</u>	<u>\$ 104,280</u>

At June 30, 2016 the company is in breach of its financial covenants with the Royal Bank of Canada, the Business Development Corporation loan and ACOA. As a result, all of the long term debt with these lenders has been classified as current.

The Royal Bank of Canada and BDC have entered into an Intercreditor Agreement for asymmetric lending that provide that these lenders will share enforcement proceeds and costs with 20% for BDC and 80% for The Royal Bank of Canada. Specific security provided by the company to BDC include the following:

- Shared collateral mortgage in the amount of \$12.5M on land and buildings located in Middle Sackville, NS with the Royal Bank of Canada with a percentage of 80% and BDC with a percentage of 20%;
- Shared General Security Agreement providing a first shared security interest between the Royal Bank of Canada with a percentage of 80% and BDC with a percentage of 20% covering all equipment and personal property of the company subject only to priority on inventory and receivables to the Royal Bank of Canada extending line of credit;
- Assignment of Purchase power agreement between the company and Nova Scotia Power Inc. shared with Royal Bank of Canada having a 80% security interest and BDC having a 20% interest;
- Joint and several guarantee of three shareholders for the amount of \$500,000; and postponement of related party debt totalling approximately \$12.1 Million.

9. Share capital	<u>2016</u>	<u>2015</u>
Authorized 40,000 common shares		
Issued 150 common shares	<u>\$ 150</u>	<u>\$ 150</u>

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Notes to the Financial Statements

June 30, 2016

(Unaudited – Prepared by Management)

10. Income taxes

For income tax purposes, the Company has non-capital losses which can be applied to reduce future years' taxable income. The income tax benefits related to these non-capital losses have not been recognized in the accounts of the Company. These losses expire as follows:

2031	\$	206,912
2032	\$	99,487
2033	\$	199,236
2034	\$	594,021
2035	\$	2,459,067

11. Direct overhead – Mill

	<u>2016</u>	<u>2015</u>
Freight	\$ 1,764	\$ 8,182
Gas, diesel, fuel & vehicle	322,074	265,818
Electricity	207,009	169,081
Repairs and maintenance	<u>247,211</u>	<u>178,599</u>
	<u>\$ 778,058</u>	<u>\$ 621,680</u>

12. Other income

	<u>2016</u>	<u>2015</u>
Rental	\$ 7,500	\$ 7,500
Miscellaneous	86,419	32,523
Gain on disposition of capital assets	<u>7,440</u>	<u>377,845</u>
	<u>\$ 101,359</u>	<u>\$ 417,868</u>

13. Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted for the 2016 fiscal year.

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.

Statements of Loss and Deficit - Mill Operations

Year ended June 30

(Unaudited – Prepared by Management)

	2016	2015
Revenue		
Lumber	\$ 5,290,398	\$ 3,542,335
Chips	865,335	469,039
Sawdust/Bark/Shavings	585,083	284,288
Logs	308,776	136,940
Other	-	34,439
	<u>\$ 7,049,592</u>	<u>\$ 4,467,041</u>
Cost of sales		
Inventory, beginning of year	959,991	886,081
Purchases	<u>4,678,451</u>	<u>2,956,633</u>
	5,638,442	3,842,714
Less inventory, end of year	<u>785,356</u>	<u>959,991</u>
	4,853,086	2,882,723
Gross profit before direct labour and overhead	<u>2,196,506</u>	<u>1,584,318</u>
Direct labour	1,834,458	1,674,266
Direct overhead (Note 11)	<u>778,058</u>	<u>621,680</u>
	2,612,516	2,295,946
Gross Profit	(416,000)	(711,628)
Operating and administrative		
Amortization	529,049	257,432
Business, property taxes and licenses	64,773	46,892
Donations	400	3,513
Insurance	125,158	84,603
Interest	24,026	41,922
Interest on long-term debt	178,856	350,311
Marketing fees	227,714	13,941
Miscellaneous	28,548	29,203
Office	46,640	75,393
Payroll and benefits	361,000	241,130
Professional fees	158,881	137,574
Repairs and maintenance	123,385	78,209
Silviculture	41,708	33,539
Telephone	10,528	14,416
Vehicle, travel and meals	24,649	53,846
	<u>1,945,315</u>	<u>1,461,924</u>
Loss before other income	<u>(2,361,325)</u>	<u>(2,173,552)</u>
Other income (Note 12)	<u>101,359</u>	<u>417,868</u>
Net loss	<u>\$ (2,259,966)</u>	<u>\$ (1,755,684)</u>

See accompanying notes to the financial statements.

Hefler Forest Products Ltd.
Statements of Loss and Deficit - Power Plant

Year ended June 30

(Unaudited – Prepared by Management)

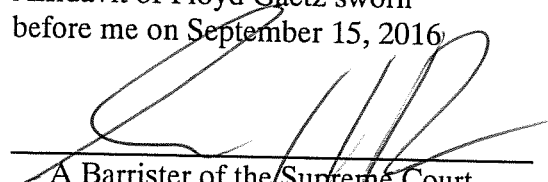
2016

2015

Revenue		
Power	\$ 3,560,779	\$ -
Steam	<u>102,349</u>	-
	3,663,128	-
Cost of sales		
Inventory, beginning of year	109,990	-
Fuel purchases	<u>1,839,276</u>	<u>109,990</u>
	1,949,266	109,990
Less inventory, end of year	<u>238,515</u>	<u>109,990</u>
	<u>1,710,751</u>	-
Gross Profit	<u>1,952,377</u>	-
Operating costs and expenses		
Amortization	618,903	-
Business, property taxes and licenses	8,063	-
Donations	86	-
Electricity	207,009	-
Insurance	72,007	-
Interest	25,101	-
Interest on long-term debt	417,324	-
Miscellaneous	13,142	-
Office	10,872	-
Payroll and benefits	644,937	-
Professional fees	270,292	-
Repairs and maintenance	133,834	-
Telephone	944	-
Travel and meals	7,860	-
Water	<u>162,851</u>	-
	<u>2,593,225</u>	-
Net loss	\$ <u>(640,848)</u>	\$ -

See accompanying notes to the financial statements.

This is Exhibit "C" referred to in the
Affidavit of Floyd Gaetz sworn
before me on September 15, 2016



A Barrister of the Supreme Court
of Nova Scotia

Hefler Forest Products Ltd.
Balance Sheet
Aug 31/16

ASSET

Current Assets

Current Account - Royal Bank		515,813
RBC US Account		519
Accounts Receivable	617,088	
Allowance For Doubtful Accounts	(11,111)	
B Saulnier Loan	3,000	
Acct Receivable Clearing	58,373	
Deficiencies	6,225	
Total Receivables		<u>673,575</u>
Prepaid Miscellaneous		82,690
Investment Tax Credit - Current		10,794
Total Current Assets		<u>1,283,391</u>

Inventory Assets

Yard Lumber		574,186
Pine Warehouse		26,819
Stickers and Pile Bottoms		27,862
Logs		257,991
Parts Inventory		138,075
Gas, Deisel, Furnace Oil		2,979
Biomass Inventory		201,321
Total Inventory Assets		<u>1,229,233</u>

Other Assets

WestFor Management Inc. Shares		1,000
Investment Tax Receivable		319,454
Retainer - Green Lander		60,000
Retainer - Wickwire Holm		30,000
Total Other Assets		<u>410,454</u>

Fixed Assets

Net - Power Plant Equipment		16,938
Net- Forklifts and Loaders		444,945
Net - Vehicle		117,855
Net - Signs		862
Net - Mill Machinery		2,780,000
Net Office and Yard Equipment		57,606
Net - Buildings		1,241,025
Net - Biomass Storage Building		268,432
Net - Paving		4,425
Net Land Improvements		644,185
Land		1,364,294
Net Power Plant		18,272,806
Total Fixed Assets		<u>25,213,372</u>

Other Fixed Assets

Net - Intangibles		24,662
		<u>24,662</u>

TOTAL ASSET		<u><u>28,161,112</u></u>
--------------------	--	--------------------------

LIABILITY**Current Liabilities**

Accounts Payable	2,143,136	
Accruals	272,137	
Line of Credit	694,636	
Sivilculture Accruals	<u>42,615</u>	
Total Accounts Payable		3,152,524
A.F. MacPhee Holding Limited		650,000
Employee Vacation Pay Payable		29,275
Payroll Remittance		50,406
Gift Certificates		100
Net HST		(20,198)
Current Portion of Long Term Debt		<u>1,459,407</u>
Total Current Liabilities		<u>5,321,514</u>

Long Term Liabilities

RBC Mortgage \$2m	1,754,501	
2013 Volvo	101,316	
RBC Biomass Facility	7,062,500	
RBC Property Facility	1,883,333	
BDC Loan	3,000,000	
2015 Dodge Ram	36,081	
ACOA Loan	500,000	
Current Portion of Long Term Debt	<u>(1,459,407)</u>	
Total Loans		12,878,324
Due to AML Communications Inc		9,800,000
Due to Petpesick Holdings Inc.		250,000
Due to Auto Wheels in Motion		51,431
Due to Atbin Holdings		306,700
Due to 3263403 Limited		4,000,000
Due to D Barrett		<u>1,200,000</u>
Total Long Term Liabilities		<u>28,486,455</u>

TOTAL LIABILITY 33,807,969

EQUITY**Share Capital**

Common Shares	<u>150</u>
Total Share Capital	<u>150</u>

Retained Earnings

Retained Earnings - Previous Years	(5,268,331)
Current Earnings	<u>(378,677)</u>
Total Retained Earnings	<u>(5,647,008)</u>

TOTAL EQUITY (5,646,858)

LIABILITIES AND EQUITY **28,161,112**

Heffler Forest Products Ltd.
Mill
Aug 31/16

REVENUE	July	Aug	YTD
Sales Revenue			
Total Lumber Sales			1,241,525
Sawdust/Bark/Shavings	644,084	597,441	93,033
Chips	44,798	48,235	159,744
Sales Discounts	73,728	86,016	(10,667)
Net Sales	<u>(6,243)</u>	<u>(4,425)</u>	<u>1,483,635</u>
	<u>756,367</u>	<u>727,268</u>	
EXPENSE			
Cost of Goods Sold			
Net Inventory Change	136,440	(210,962)	(74,522)
Net Log Purchases	317,460	626,187	943,646
Kiln drying - External	-	538	538
Total Cost of Goods Sold	<u>453,899</u>	<u>415,763</u>	<u>869,662</u>
GP	<u>302,468</u> 40%	<u>311,505</u> 43%	<u>613,973</u> 41%
Total Other Revenue	-	-	-
Payroll Expenses			
Wages & Salaries	155,388	150,522	305,911
Bonus	3,607	8,095	11,702
EI Expense	4,384	3,995	8,379
CPP Expenses	7,776	6,649	14,425
WBC Expenses	13,204	7,617	20,822
Employee Bene. Expenses	5,079	5,231	10,310
Total Payroll Expenses	<u>189,439</u>	<u>182,110</u>	<u>371,549</u>
Administrative Expenses			
Depreciation	41,290	41,135	82,425
Office Supplies	2,667	480	3,146
Accounting, Legal, Professional Fee	-	-	-
Professional fees for Financing/Acquisitions	68,906	52,128	121,034
Computer Support	1,681	230	1,910
Advertising & Promotions	-	1,028	1,028
Eacan Marketing Fee	27,565	25,646	53,211
Courier	135	33	167
Postage	244	317	561
Insurance	10,329	10,347	20,675
Photocopier Lease	1,000	1,000	2,000
Property Taxes	2,016	2,016	4,032
Miscellaneous	135	932	1,067
Internet Charges	163	163	325
Telephone	308	330	638
Cellular Phones	360	484	844
Electricity	17,026	17,902	34,928
Membership/Subscriptions/Licenses	986	955	1,941
Meals	51	205	256
Interest - RBC	10,800	11,263	22,063
Bank fees	907	462	1,369
Interest - BDC	4,950	4,838	9,788
Interest - Miscellaneous	124	1,593	1,717
Total Administrative Expenses	<u>191,640</u>	<u>173,486</u>	<u>365,126</u>
General Expenses			
Diesel	3,153	2,347	5,499
Furnace Oil - Kiln	2,231	-	2,231
Steam	16,000	16,000	32,000
Vehicle Expenses	6,085	1,353	7,438
Safety Supplies/Expenses	1,308	312	1,619
Silviculture - Administrative	320	-	320
Silviculture - Wood Sustainability	15,000	15,000	30,000
Fed Excise Tax	354	146	500
Prov. Road Tax	1,364	562	1,926
Total General Expenses	<u>45,814</u>	<u>35,719</u>	<u>81,534</u>
Maintenance Expenses			
Office	2,060	1,358	3,418
Lower Mill	13,461	11,634	25,095
Planer Mill	3,455	2,771	6,226
Warehouse/Yard	5,786	9,232	15,018
Kiln	435	435	871
Garage	98	53	150
Total Maintenance Expenses	<u>25,295</u>	<u>25,482</u>	<u>50,777</u>
TOTAL EXPENSE	<u>452,188</u>	<u>416,797</u>	<u>868,985</u>
NET INCOME	<u>(149,720)</u>	<u>(105,292)</u>	<u>(255,012)</u>

**Hefler Forest Products Ltd.
Power Plant
Aug 31/16**

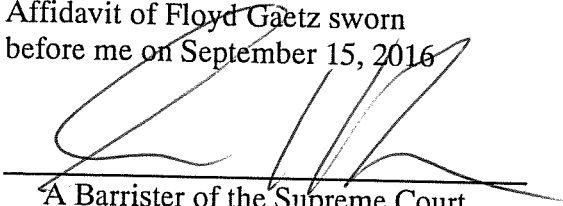
	July	Aug	YTD
REVENUE			
Power Sales	358,279	416,858	775,137
Steam	<u>16,000</u>	<u>16,000</u>	<u>32,000</u>
TOTAL REVENUE	<u>374,279</u>	<u>432,858</u>	<u>807,137</u>
EXPENSE			
Cost of Goods Sold			
Cost of Fuel	153,068	188,065	341,133
Cost of CoMate	<u>1,089</u>	<u>1,089</u>	<u>2,177</u>
Cost of Power	<u>154,156</u>	<u>189,154</u>	<u>343,310</u>
GP	220,123 59%	243,703 56%	463,826 57%
Payroll Expenses			
Wages & Salaries	46,569	52,560	99,129
EI Expense	1,195	1,417	2,612
CPP Expenses	2,130	2,478	4,608
WBC Expenses	2,550	4,047	6,596
Employee Bene. Expenses	<u>2,254</u>	<u>2,295</u>	<u>4,549</u>
Total Payroll Expenses	<u>54,697</u>	<u>62,797</u>	<u>117,494</u>
Administrative Expenses			
Depreciation	54,511	54,718	109,228
Office Supplies	621	599	1,220
Accounting, Legal, Professional Fee	240	-	240
Professional fees for Financing/Acquisitions	68,906	52,128	121,034
Computer Support	1,322	72	1,394
Advertising & Promotions	-	1,028	1,028
Courier	-	138	138
Insurance	8,236	8,236	16,472
Property Taxes	2,016	2,016	4,032
Miscellaneous	-	125	125
Internet Charges	76	76	152
Electricity	17,026	17,902	34,928
Phone	322	72	394
Travel	589	257	847
Meals	51	-	51
Interest - RBC	25,200	26,281	51,481
Bank fees	1,592	389	1,981
Interest - BDC	11,550	11,288	22,838
Interest - Misc.	<u>289</u>	<u>3,679</u>	<u>3,968</u>
Total Administrative Expenses	<u>192,545</u>	<u>179,005</u>	<u>371,550</u>
General Expenses			
Vehicle Expenses	748	1,355	2,103
Water Supply	32,268	31,448	63,716
Freight	<u>22</u>	<u>-</u>	<u>22</u>
Total General Expenses	<u>33,038</u>	<u>32,803</u>	<u>65,840</u>
Maintenance Expenses			
Generator	11,988	14,634	26,622
Ash Bins	<u>2,984</u>	<u>3,000</u>	<u>5,984</u>
Total Maintenance Expenses	<u>14,972</u>	<u>17,634</u>	<u>32,606</u>
TOTAL EXPENSE	<u>295,251</u>	<u>292,239</u>	<u>587,491</u>
NET INCOME	<u><u>(75,128)</u></u>	<u><u>(48,536)</u></u>	<u><u>(123,664)</u></u>

This is Exhibit "D" referred to in the
Affidavit of Floyd Gaetz sworn
before me on September 15, 2016

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

A Barrister of the Supreme Court
of Nova Scotia

This is Exhibit "E" referred to in the
Affidavit of Floyd Gaetz sworn
before me on September 15, 2016



A Barrister of the Supreme Court
of Nova Scotia

Hefler Forest Products Limited
Summary of Changes to Working Capital over Forecast Period
As of September 12, 2016

	Actual	Forecast	Change
	Sept. 10, 2016	Dec. 31, 2016	
Cash	304,641	331,608	26,967
Accounts Receivable	417,582	402,460	(15,122)
Inventory - Finished Product	730,380	881,370	150,990
Inventory - Unfinished Logs	273,530	373,082	99,552
Accounts Payable and Accruals (post CCAA)	(131,260)	(131,260)	-
DIP Financing	(650,000)	(975,000)	(325,000)
Net Working Capital	944,873	882,260	(62,613)