Clerk's Stamp

COURT FILE NUMBER	
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANTS	IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C. C-36, AS AMENDED AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF NORTH AMERICAN LAMB COMPANY LTD., CANADA SHEEP AND LAMB FARMS LTD., CANADA SHEEP HOLDINGS LTD., LAMB CLUB MARKETING LIMITED, CANADA LAMB GROWERS LTD., CANADA LAMB PROCESSORS LTD. and CANINE FARE LTD.
DOCUMENT	**PRE-FILING REPORT OF ERNST & YOUNG INC. IN ITS CAPACITY AS THE PROPOSED MONITOR OF THE APPLICANTS** **August 5, 2022**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**PROPOSED MONITOR** ERNST & YOUNG INC. Calgary City Centre 2200, 215 - 2nd Street SW Calgary, Alberta T2P 1M4 Attention: Neil Narfason / Christopher Keliher Telephone: 403-206-5067 / 403-206-5661 Fax: 403-206-5075 Email: neil.narfason@parthenon.ey.com christopher.keliher@parthenon.ey.com **PROPOSED MONITOR'S COUNSEL** Norton Rose Fulbright Canada LLP 400 3rd Avenue SW, Suite 3700 Calgary, Alberta, T2P 4H2 Attn: Howard Gorman, QC Telephone: 403-267-8144 Email: howard.gorman@nortonrosefulbright.com

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INTRODUCTION

1. On August 8, 2022, North American Lamb Company Ltd. ("**NALCO**") and its subsidiaries, Canada Sheep and Lamb Farms Ltd., Canada Sheep Holdings Ltd., Lamb Club Marketing Limited, Canada Lamb Growers Ltd., Canada Lamb Processors Ltd., and Canine Fare Ltd. (collectively, the "**Subsidiaries**" and together with NALCO, the "**NALCO Group**" or the **"Company**") is scheduled for an application (the "**Initial Application**") before this Honourable Court to seek relief pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C-36 (the "**CCAA**") including an initial stay of proceedings (the "**Initial Stay of Proceedings**") in favour of the Company.

2. The Initial Application is being brought by Fresh Canada Meats Ltd. ("**FCM**"), a creditor and majority shareholder of the members of the NALCO Group.

3. A comeback hearing (the "**Comeback Hearing**") is scheduled for August 15, 2022 with this Honourable Court to seek an Amended and Restated Initial Order ("**ARIO**").

4. Ernst & Young Inc. ("**EYI**", or the "**Proposed Monitor"**) would accept its proposed appointment as Monitor of the Company as part of the Initial Application, if ordered by this Honourable Court.

PURPOSE

5. The purpose of this report (the "**Pre-filing Report**") is to provide this Honourable Court and the Company's stakeholders with information and the Proposed Monitor's comments with respect to the following:

    a. An overview of the Company's business, the cause of insolvency, and the commencement of these CCAA Proceedings;

    b. The qualifications of EYI to act as Monitor in the CCAA proceedings;

    c. The request to provide the Proposed Monitor with enhanced powers over the Company;

    d. Background information on a Key Employee Incentive Plan ("**KEIP**");

    e. A cash flow statement ("**CFS#1**") for the 2-week period ending on August 20, 2022 and the key assumptions on which CFS#1 is based;

    f. The amount and priority of proposed court-ordered charges for:

        i. An Administration Charge for the Monitor, counsel to the Monitor, counsel to the NALCO Group, and counsel to FCM;

ii. An Interim Lender Charge (defined below); and

iii. A KEIP Charge (defined below); and

g. The Proposed Monitor's conclusions with respect to same.

TERMS OF REFERENCE AND DISCLAIMER

6. In preparing this Pre-filing Report, the Proposed Monitor has been provided with, and has relied upon certain information, including unaudited financial information of the Company, books and records, and discussions with the NALCO Group management and FCM management (collectively, the "**Information**").

7. Except as described in this report, the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Canadian auditing standards pursuant to the Chartered Processional Accountants of Canada Handbook.

8. Future oriented information referred to in this Pre-filing Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable; the actual results may vary from the projections and the variances may be material.

9. All references to dollars are in Canadian dollars.

10. Capitalized terms not defined herein are as defined in the Initial Order, Originating Application or the Alexander Affidavit (defined below).

OVERVIEW OF THE COMPANY'S BUSINESS AND THE CAUSES OF INSOLVENCY

11. NALCO is a privately held lamb producer and processor. FCM owns 58.6% of the shares of NALCO and 2079468 Alberta Ltd. ("**207 AB Ltd**") owns 41.4% of the shares.

12. The NALCO Group carries on its business operations at seven separate facilities located in Alberta and Manitoba. The NALCO Group's operations are vertically integrated, and include the operation of accelerated sheep breeding facilities, lamb growing facilities, a lamb feedlot, and a lamb processing plant. The NALCO Group has the capacity to finish approximately 200,000 lambs annually and processes lambs both from independent lamb producers throughout Western Canada and from its own breeding facilities.

13. It is estimated that approximately 70% of the total lambs produced in Alberta are processed by the

NALCO Group. A significant portion of lamb meat supplied to large grocery retailers – such as Sobeys, SaveOnFoods, Safeway, Co-op, and Metro – is supplied by the NALCO Group.

14. Notwithstanding the significant market share of the NALCO Group, the Company has incurred ongoing operating losses since its establishment in 2018. These operating losses have been addressed primarily through approved share capital raises and unsecured shareholder loans advanced by FCM. Over the past 18 months, the NALCO Group has been advanced approximately $10.1M from FCM for the purpose of meeting the liquidity needs of the Company, among other items.

15. By May of 2022, the NALCO Group faced a severe liquidity challenge and began delaying payments to non-essential creditors to preserve cash and to facilitate critical payments to feed producers and employees. This crisis created additional challenges for the Company and ultimately culminated in both of NALCO Group's primary secured creditors, the Bank of Nova Scotia ("**BNS**") and Farm Credit Canada ("**FCC**") (together, the "**Senior Secured Lenders**") serving the Company with notices of intent under the *Farm Debt Mediation Act* and notices of intention to enforce security under the *Bankruptcy and Insolvency Act (*"**BIA**"*)*.

16. As a consequence, and in consultation with the Senior Secured Lenders, FCM decided to commence proceedings under the CCAA for the purpose of providing the NALCO Group with stability and cash flow relief (via a requested stay of proceedings) for the purpose of developing a plan to either restructure its affairs or wind down the business in an orderly manner.

17. The business and affairs of the Company and the causes of its insolvency are described further in detail in the Affidavit of Gary Alexander, President and Chief Executive Officer of FCM, sworn on August 4, 2022 (the "**Alexander Affidavit**").

PROPOSED MONITOR

18. FCM has requested that EYI act as Monitor in these CCAA proceedings. The Senior Secured Lenders support this appointment.

19. EYI is a trustee within the meaning of section 2 of the BIA. EYI is not subject to any of the restrictions on who may be appointed as monitor as set out in section 11.7(2) of the CCAA. EYI has provided its consent to act as Monitor in the CCAA proceedings, a copy of which is attached to the Alexander Affidavit.

20. EYI is familiar with the business and operations of the Company and the key stakeholders in the CCAA proceedings. Senior EYI personnel in the matter are Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees who have acted in numerous restructuring matters of this nature and scale.

ENHANCED MONITOR POWERS

21. As is further described in the Alexander Affidavit, the sole remaining director of NALCO and the Subsidiaries is Alan Haronga. There are no remaining officers. Mr. Haronga has expressed his intention to resign his directorships on or around the commencement of these CCAA proceedings, leaving the NALCO Group without any directors or officers. As a result, FCM has requested that the Proposed Monitor be provided enhanced powers (the "**Enhanced Powers**") to ensure that the Company can continue to operate during the course of the CCAA proceedings and to ensure that a restructuring is successful.

22. The enhanced powers of the Proposed Monitor are described in draft order filed as part of the NALCO Group's CCAA originating application and include the ability to, among other items:

    a. exercise such rights, powers and obligations of the NALCO Group as the Proposed Monitor deems necessary or advisable;

    b. exercise any power which may be properly exercised by an officer or the board of directors of the NALCO Group;

    c. take any steps in order to direct or cause the NALCO Group to exercise any rights or fulfill any of their duties under the draft Initial Order;

    d. take any and all steps in order to direct or cause the NALCO Group to manage the business, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, cease to perform any contracts of the NALCO Group and/or disclaim any leases on behalf of the NALCO Group;

    e. take any and all steps in order to direct or cause the NALCO Group to administer the NALCO Group's property or to perform such other functions or duties as the Proposed Monitor considers necessary or desirable to deal with the NALCO Group's property;

    f. execute, assign, issue, and endorse documents of whatever nature in respect of the NALCO Group property and/or the business in the name and on behalf of the NALCO Group;

    g. cause the NALCO Group to retain the service of any person as an employee, consultant, or other similar capacity; and

    h. prepare, negotiate, and file with this Court a Plan in respect of the NALCO Group.

23. The proposed Enhanced Powers are consistent with various prior orders of the Court.

24. Given the anticipated resignation of the last remaining NALCO Group director, the Enhanced Powers will allow the CCAA proceedings to continue in a cost effective and efficient manner. Accordingly, the Proposed Monitor considers the granting of the Enhanced Powers as appropriate within the context of these CCAA proceedings and consents to the Enhanced Powers if so ordered by this Honourable Court.

KEY EMPLOYEE INCENTIVE PLAN

25. In consultation with existing management of the NALCO Group, FCM has prepared a proposed Key Employee Incentive Plan ("**KEIP**") for management and personnel identified as critical (the "**Key Employees**") to the continued operation of the NALCO Group during the CCAA proceedings.

26. A copy of the KEIP is attached as a confidential exhibit to the Alexander Affidavit. As described in the Alexander Affidavit, FCM had proposed implementing a KEIP providing for an aggregate maximum payment of up to $500,000 to Key Employees.

27. Following the execution of the Alexander Affidavit, the Proposed Monitor consulted with FCM and the Senior Secured Lenders regarding the nature and quantum of the KEIP. Based on those consultations, the Proposed Monitor has been advised that FCM and the Senior Secured Lenders support a KEIP and a KEIP Charge (described in further detail below) with a total aggregate maximum payment of $478,500.

28. The Proposed Monitor has reviewed the KEIP. Based on the Proposed Monitor's review of the KEIP, the Proposed Monitor is of the view that its terms are reasonable as:

   a. having the KEIP in place as soon as possible will enhance Key Employee support during the CCAA proceedings and while the NALCO Group continues its operations, which includes maintaining live animals such as sheep and lamb flocks;

   b. the KEIP will reduce the possibility of interruption to operations as a result of turnover and will increase the likelihood that the NALCO Group will successfully implement a plan; and

   c. The Proposed Monitor considers the quantum and extent of the KEIP to be reasonable in the circumstances.

CASH FLOW STATEMENTS

29. FCM, in consultation with financial staff at the NALCO Group and the Proposed Monitor, has prepared CFS#1 for anticipated receipts and disbursements for the two-week period ending on August 20, 2022. (the "**Forecast Period**"). The Forecast Period extends beyond the date of the Initial

Stay of Proceedings and the Comeback Hearing and the Proposed Monitor anticipates filing a revised cash flow with the Court before the comeback application, assuming the Initial Order is granted and EYI is appointed as Monitor in these proceedings.

30. The table below summarizes the cash flows during the Forecast Period:

The NALCO Group
Consolidated Cash Flow Statement #1
For the period of August 7, 2022 to August 20, 2022 (the "Forecast Period")

$000's		**2-week total**
Week ending:	***Notes***	
Operating receipts		
Processing sales	**A**	1,500
Net operating receipts		**1,500**
Operating disbursements		
Feed	**B**	(530)
Labour	**C**	(493)
Insurance	**D**	(350)
Restructuring/professional fees	**E**	(150)
Contingency	**F**	(150)
Miscellaneous disbursements	**G**	(149)
Freight and storage		(138)
Packaging and supplies		(109)
Vet services and vet supplies	**H**	(78)
Consulting fees	**I**	(30)
Total operating disbursements		**(2,177)**
Net change in cash from operations		**(677)**
Financing		
Interim Financing - Principal Draw / (Repayment)	**J**	677
Interim Financing - Interest / Fees		-
Net change in cash from financing		**677**
Net Change in Cash		
Net change in cash from operations		**(677)**
Net change in cash from financing		**677**
Ending Cash		**-**
Interim Financing Balance		
Available balance - Opening	**J**	1,000
Interim Financing - Principal Draw / (Repayment)		(677)
Available balance - Closing		**323**

31. A copy of the signed CFS#1 and accompanying notes are included in the Alexander Affidavit.

32. The CFS#1 is based on the following key assumptions:

Operating Receipts

a) The NALCO Group will continue to sell meat generated from livestock processed during the Initial Stay of Proceedings;

Disbursements

b) Animal feed is required to sustain operations and maintain the health and welfare of livestock on hand. Feed expenses assume operations continue as a going concern;

c) Labour costs will continue in the ordinary cost and include all NALCO Group salaries and wages, including insurance and benefits;

d) Insurance disbursements relate to a contractually obligated annual payment for insurance;

e) Restructuring/professional fees are estimates of the cost of the Proposed Monitor and the Proposed Monitor's Counsel;

f) CFS#1 incorporates a 10% contingency calculated on net operating receipts to account for unascertained expenditures or lower revenues during the two week forecast period;

g) Miscellaneous disbursements are based on ordinary course payments and includes disbursements related to internet services, fuel, repairs and maintenance, utilities, equipment rentals, rendering, external livestock purchases, and CFIA inspector fees;

h) Vet services and supplies relate to the cost of veterinarians to ensure animal welfare and are assumed to continue in the ordinary course;

i) Consulting fees are payable to FCM under an Interim Management Agreement; and

j) The CFS#1 in the Alexander Affidavit contemplated a $1,000,000 Interim Lender Charge to support a $1,000,000 interim lending facility (described in further detail below). It has been assumed that this facility will be in place and will only be drawn upon as required to address the cash obligations of the Company. Without access to the interim lending facility, the NALCO Group has no initial cash on hand to pay operating expenses during the CCAA proceedings.

33. Following the execution of CFS#1, the Proposed Monitor, in consultation with the Senior Secured Lenders and the NALCO Group, discussed the possibility that certain critical payments initially planned to be paid prior to the initial application date may actually be paid during the Forecast Period. Based on these conversations, the Interim Lender (defined below) was willing to increase the interim lending facility to $1,250,000 to accommodate any additional payments, if required.

34. Pursuant to subsection 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 9. “Cash-Flow Statement”, the Proposed Monitor hereby reports as follows:

a) The CFS#1 has been prepared by FCM and NALCO Group management for the purpose described in the notes to the Cash Flow Statement, using the probable assumptions and the hypothetical assumptions set out in the accompanying notes;

b) The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by FCM and Management and employees of the NALCO Group. The Proposed Monitor's procedures with respect to the hypothetical assumptions were limited to evaluating whether they were consistent with the purpose of the CFS#1. The Proposed Monitor has also reviewed the support provided by FCM and management for the probable assumptions, and the preparation and presentation of the CFS#1; and

c) Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:

   i. The hypothetical assumptions are not consistent with the purpose of the CFS#1;

   ii. As at the date of this Pre-Filing Report, the probable assumptions developed by FCM and management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the CFS#1, given the hypothetical assumptions; or

   iii. CFS#1 does not reflect the probable and hypothetical assumptions.

35. Since the CFS#1 is based on assumptions regarding future events, actual results may vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the projections outlined in the CFS#1 will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report or relied upon in preparing this report.

36. The CFS#1 has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

AMOUNT AND PRIORITY OF COURT ORDERED CHARGES

37. The draft Initial Order provides for three Court-ordered charges that rank in priority to all other charges and security interests of the NALCO Group. The proposed charges and the rank in priority of those charges are as follows:

   a. First – an Administration Charge (the "**Administration Charge**");

b. Second – Interim Lender Charge (the “**Interim Lender Charge**”); and,

c. Third – A KEIP Charge (“the “**KEIP Charge**”).

Administration Charge

38. The draft Initial Order proposes an Administration Charge in an amount not to exceed $700,000 charging the property and assets of the NALCO Group to secure the professional fees and disbursements incurred both before and after the granting of the Initial Order, in connection with services rendered by the Proposed Monitor, counsel to the Proposed Monitor, counsel to the NALCO Group, and counsel to FCM (collectively the “**Administration Charge Beneficiaries**”).

39. Given the complexity of these proceedings and given that all officers and directors of the NALCO Group either already have or will shortly be resigning, the Proposed Monitor believes it is appropriate for the Administration Charge Beneficiaries to be afforded the Administration Charge as they will be undertaking a necessary and integral role in the CCAA proceedings and in preserving the NALCO Group assets and operations.

Interim Lender Charge

40. As discussed above, the Alexander Affidavit proposed an Interim Lender Charge in the amount of $1,000,000 to facilitate access to debtor-in-possession financing (the “**Interim Lender Facility**”). In consultation with the Senior Secured Lenders and the NALCO Group, the Interim Lender Facility was increased to $1,250,000 to accommodate certain additional critical payments during the Forecast Period and the proposed Interim Lender Charge increased to $1,500,000.

41. CFS#1 filed in support of the initial application shows that the NALCO Group has no initial cash on hand to pay operating expenses during the CCAA proceedings. Accordingly, an immediate cash injection is required to meet the obligations of the Company over the initial two-week period described in CFS#1. These obligations include, among other items, $530K for animal feed, $498K for labour, and $350K for insurance.

42. For the purpose of facilitating a restructuring, the interim (debtor-in possession) financing has been negotiated with BNS. A copy of the Interim Lender Facility Term sheet is attached as **Appendix “A”** to this report. The key commercial terms of the Interim Lender Facility are as follows:

a. The lender is BNS (the “**Interim Lender**”). The borrower is the NALCO Group;

b. The Interim Lender Facility is a $1,250,000 revolving super-priority interim financing facility;

c. Interest on the Interim Lender Facility is equal to the Interim Lender's Prime Lending Rate plus 4% calculated daily and payable monthly;

d. A commitment fee of $7,500 is earned upon execution of the term sheet and will be capitalized and form part of the principal amounts owing on the facility. Reasonable professional fees of the Interim Lender are also payable under the Interim Lender Facility;

e. The Interim Lender Facility is available until the earlier of August 15, 2022, the occurrence of an event of default, or the termination of the CCAA Proceedings or the commencement of any other insolvency or restructuring proceedings in respect of the NALCO Group; and

f. The NALCO Group has various reporting obligations under the Interim Lender Facility, which include, among other items, providing the Interim Lender with weekly updates regarding revised cash flow forecasts and weekly variance reports, as well as reports on the health and welfare of the NALCO Group's livestock.

43. It is the Proposed Monitor's view that the financing contemplated by the Interim Lender Facility is appropriate and sufficient to allow the NALCO Group to fund operations and restructuring costs during the Stay Period. Further, the terms of the Interim Lender Facility are commercially reasonable and are consistent with rates and fees charged in other CCAA proceedings.

KEIP Charge

44. FCM, in consultation with the Senior Secured Lenders, has prepared a proposed KEIP for Key Employees with an aggregate maximum payment of $478,500.To facilitate the implementation of the KEIP, the draft Initial Order contemplates a KEIP Charge to secure payments that become due to the Key Employees under the KEIP.

45. For the same reasons provided in support of the KEIP, the Proposed Monitor believes that implementing the KEIP Charge is reasonable within the context of these CCAA proceedings. These reasons include enhancing Key Employee support to continue the NALCO Group operations and reducing any possible interruption to the NALCO Group's operations (which includes maintaining live animals that are susceptible to risk with even a temporary loss of support or oversite). Further, the KEIP Charge will provide additional certainty to Key Employees that amounts owing to them under the KEIP will be paid.

CONCLUSIONS

46. The Initial Order and the Initial Stay of Proceedings will provide the NALCO Group, including the appointment of the Proposed Monitor acting with the Enhanced Powers, with the stability required to

preserve or liquidate its assets, the ability to maintain the welfare of animals under its control, and the time required to formulates a plan to restructure its affairs.

Dated at Calgary, this 5th day of August, 2022.

ERNST & YOUNG INC.
Licensed Insolvency Trustee
acting solely in its capacity as the Proposed Monitor of the NALCO Group
and not in its personal or corporate capacity

per:

Neil Narfason, CPA, CA, CIRP, LIT, CBV
President, Ernst & Young Inc.

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

– Appendix “A” –

Interim Lending Facility Term Sheet

$ 1,250,000
INTERIM FINANCING FACILITY
(Debtor-in-Possession)

WHEREAS the Borrowers (as defined below) have requested that the Interim Lender (as defined below) provide financing to the Borrowers during the pendency of the Borrowers' proceedings (the "**CCAA Proceedings**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") to be commenced before the Alberta Court of Queen's Bench (Commercial List) (the "**Court**") on or about August 8, 2022 (the "**Filing Date**") and in accordance with the terms and conditions set out herein;

AND WHEREAS, the Borrowers lack access to any liquidity and urgently require critical funding in order to protect the health and welfare of their livestock while they wind down their business and The Bank of Nova Scotia (the "**Interim Lender**") has agreed to provide interim financing during the CCAA Proceedings in order to provide such critical funding in accordance with the terms set out in this term sheet (which, together with the Schedules, is referred to as this "**Term Sheet**") and the Interim Lender has agreed to do so on the terms and subject to the conditions set out in this Term Sheet, which upon execution by the Borrowers (or the Monitor on their behalf) shall become an enforceable agreement, subject to the satisfaction of the conditions precedent herein and the approval of the Court.

NOW THEREFORE, the parties, in consideration of the foregoing and the mutual agreements contained herein (the receipt and sufficiency of which are hereby acknowledged), agree as follows:

1.	**Borrowers:**	Canada Sheep and Lamb Farms Ltd., Lamb Club Marketing Limited, Canada Lamb Processors Ltd., Canine Fare Ltd., North American Lamb Company Ltd., Canada Sheep Holdings Ltd. and Canada Lamb Growers Ltd. (each a "**Borrower**" and together, the "**Borrowers**").
2.	**Interim Lender:**	The Bank of Nova Scotia.
3.	**Defined Terms and Currency:**	Unless otherwise defined herein, capitalized words and phrases used in this Term Sheet have the meanings given herein. Unless otherwise noted, all references to currency, "dollars" or "$" shall refer to Canadian dollars.
4.	**DIP Facility:**	Up to $1,250,000 (the "**Commitment**") provided by way of a revolving super-priority interim financing facility (collectively with Interest (as defined below), the "**DIP Facility**") in favour of the Borrowers for the purposes set out in Section 10.
5.	**Interest:**	Interest payable under this Term Sheet (the "**Interest**") shall, subject to Section 6, be at the Interim Lender's Prime Lending Rate from time to time plus four percent (4.00%) calculated daily and payable monthly as set out below until the indebtedness, obligations, covenants or liabilities owing by the Borrowers to the Interim Lender under the DIP Facility, this Term Sheet, the Security Documents (as defined below), and all other instruments, agreements and documents from time to time executed and delivered to the Interim Lender in connection with this Term Sheet (collectively, the "**Definitive Documents**"), including without limitation all principal, Interest, fees, indemnities and expenses owing to the Interim Lender hereunder (collectively, the "**Obligations**") are repaid in full and the DIP Facility is terminated. All accrued Interest shall be capitalized monthly to form part of the principal amounts owing

under this Term Sheet and shall be payable to the Interim Lender in cash monthly.

6. **Default Interest:** Interest rate shall be automatically increased by two percent (2%) per annum upon the occurrence and during the continuance of an Event of Default. Interest at this higher rate, shall be capitalized to form part of the principal amounts owing under this Term Sheet, and shall be payable to the Interim Lender in cash monthly.

7. **Commitment Fee:** $7,500 (the "**Commitment Fee**") and which Commitment Fee is fully earned by the Interim Lender upon execution of this Term Sheet. The Commitment Fee shall be capitalized upon execution of this Term Sheet to form part of the principal amounts owing under this Term Sheet and payable to the Interim Lender in cash on the Maturity Date.

8. **Withholding Tax:** All payments by a Borrower (or the Monitor on their behalf) to the Interim Lender under the Definitive Documents, including any payments required to be made from and after the exercise of any remedies available to the Interim Lender upon an Event of Default (as defined below), shall be made free and clear of, and without reduction for or on account of, any present or future taxes, levies, imposts, duties, charges, fees, deductions or withholdings of any kind or nature whatsoever or any interest or penalties payable with respect thereto now or in the future imposed, levied, collected, withheld or assessed by any country or any political subdivision of any country (collectively "**Taxes**"); provided, however, that if any Taxes are required by Applicable Law to be withheld ("**Withholding Taxes**") from any amount payable to the Interim Lender under the Definitive Documents, the amount so payable to the Interim Lender shall be increased to the extent necessary so that after making all required deductions, including deductions applicable to amounts payable under this section, the Interim Lender will receive an amount equal to the amount it would have received had no such deductions in respect of such Taxes been made, and the relevant Borrower (or the Monitor on its behalf) shall provide evidence satisfactory to the Interim Lender that the Taxes have been so withheld and remitted.

9. **Expenses:** All of the reasonable professional fees, expenses and out-of-pocket costs incurred by the Interim Lender shall be paid in full to the Interim Lender in cash on the third Business Day of each Month.

In this Term Sheet, "**Business Day**" means any day other than a Saturday, Sunday or any other day in which banks in Calgary, Alberta or Toronto, Ontario are not open for business.

10. **Availability & Permitted Payments:** The Borrowers (or the Monitor on their behalf) shall use advances under the DIP Facility (each an "**Advance**") solely for the following purposes, in each case in accordance with the CCAA Orders and the cash flow budget approved by the Interim Lender that is attached hereto as Schedule A or such amended cash flow budget as may be approved by the Interim Lender in writing and in its sole discretion from time to time (the "**Approved Cash Flow Budget**"):

(a) to pay costs relating to the operation of the Borrower's processing plant, the wind down of the Borrowers' other business, and the feeding, health and welfare of the Borrowers' livestock, in each case in a manner that is consistent with the Approved Cash Flow Budget and this Term Sheet;

(b) to pay the reasonable and documented legal fees and expenses of the Borrowers and Fresh Canada Meats Ltd., being the Applicant in the CCAA Proceedings, in each case to the extent incurred in connection with the advancement of the CCAA Proceedings, and, for greater certainty, not in connection with any litigation as among the Borrowers or any affiliate or direct or indirect shareholder of any Borrower, or otherwise adverse to the Interim Lender;

(c) to pay the reasonable and documented fees and expenses of the Monitor and its legal counsel incurred in connection with the CCAA Proceedings; and

(d) to pay the fees owing to the Interim Lender and its legal counsel and its financial advisor under this Term Sheet and the other Definitive Documents.

A Cash Flow Budget shall only constitute the "**Approved Cash Flow Budget**" when it is approved in writing by the Interim Lender. For the avoidance of doubt, the Approved Cash Flow Budget in force at any time shall be the most recent Cash Flow Budget approved in writing by the Interim Lender.

11. **Revolving Advances:**

Subject to the other terms and conditions of this Term Sheet, the Borrowers (or the Monitor on their behalf) may avail the DIP Facility to the amount of the Commitment set forth above by way of direct advances. So long as the Funding Conditions have been satisfied or waived, the Borrowers (or the Monitor on their behalf) shall be permitted to obtain one or more Advances provided that:

(a) any Advance(s) made from time to time shall be in a multiple of $250,000 such that the sum of all Advances shall not exceed the Commitment; and

(b) the Borrowers (or the Monitor on their behalf) shall provide the Interim Lender with not less than one (1) Business Day prior written notice requesting an Advance, substantially in the form of the advance request set out on Schedule B (an "**Advance Request**"), setting out the amount of the Advance being requested, the proposed date of the Advance and certifying that (i) no Event of Default then exists and is continuing or would result therefrom and (ii) that the use of proceeds of such Advance will comply with the Approved Cash Flow Budget or was approved in writing by the Interim Lender.

Prior to cancellation of the availability of the DIP Facility or the Interim Lender having issued to any one or more Borrowers a demand for payment, the DIP Facility shall be a revolving credit facility; that is, the Borrowers may increase or decrease loans under the DIP Facility up to the Commitment by requesting Advances or making repayments and requesting further Advances.

12. **Initial Conditions:** The Commitment and the DIP Facility shall become effective on the satisfaction of each of the following conditions precedent (collectively, the "**Initial Conditions**"):

(c) the Borrowers (or the Monitor on their behalf) shall have fully executed and delivered this Term Sheet and all other Definitive Documents; and

(d) the Court shall have granted an Initial Order pursuant to the CCAA (the "**Initial CCAA Order"**), which Initial Order shall be in form and substance satisfactory to the Interim Lender acting reasonably, and pursuant to which the Court shall have granted a super priority court-ordered charge (subject only to the Permitted Priority Lien) over all of the Property (as defined below) in favour of the Interim Lender (the "**Interim Lender's Charge**") in an amount up to $1,500,000, which amount shall secure the principal amount of the DIP Facility together with all unpaid Interest, fees, costs and expenses payable under this Term Sheet on terms and conditions satisfactory to the Interim Lender, acting reasonably.

13. **Funding conditions:** The Interim Lender's obligation to make Advances under the DIP Facility is subject to the satisfaction of the conditions precedent set out below (collectively, the "**Funding Conditions**"):

(e) the Initial Conditions shall have been satisfied or waived by the Interim Lender and shall continue to be satisfied or waived by the Interim Lender at the time of the relevant Advance;

(f) the Initial CCAA Order shall not have been vacated or appealed and shall not have been varied except with the consent of the Interim Lender and any other Orders made by the Court in the CCAA Proceedings (together with the Initial CCAA Orders, the "**CCAA Orders**") shall be in form and substance satisfactory to the Interim Lender; and

(g) no Event of Default then exists and is continuing or would result from the Advance.

The Funding Conditions are for the sole benefit of the Interim Lender and may be waived by the Interim Lender in whole or in part with or without terms or conditions, in respect of all or any portion of an Advance, without affecting the right of the Interim Lender to assert such terms and conditions in whole or in part in respect of any other Advance.

14. **Maturity Date/Repayment:** The DIP Facility shall become effective upon the satisfaction or waiver of the Initial Conditions and shall be available, subject to the satisfaction or waiver of the Funding Conditions, until the earliest to occur of: (a) August 15, 2022; (b) the occurrence of an Event of Default, and (c) the termination of the CCAA Proceedings or the commencement of any

other insolvency or restructuring proceedings in respect of any of the Borrowers (such earliest date being the "**Maturity Date**" and the period between the DIP Facility becoming effective and the Maturity Date, being the "**Term**"). Effective on the Maturity Date, the DIP Facility and the Commitment shall terminate and all of the Obligations shall become immediately due and payable to the Interim Lender in cash without any further notice or action by the Interim Lender.

15. **Mandatory Payments**

The Borrowers shall forthwith pay to the Interim Lender from time to time all of the following amounts, which payments shall be applied to the Obligations then outstanding:

(a) net proceeds of any sale or other disposition of any livestock of the Borrowers (other than in the ordinary course of business);

(b) subject to exceptions for repairs and replacements, all net insurance proceeds or other awards payable in connection with the loss, destruction or condemnation of any assets of any of the Borrowers; and

(c) all refunds of Goods and Services or Harmonized Sales Tax Received by any of the Borrowers from time to time.

16. **Security:**

The Borrowers (or the Monitor on their behalf) shall provide to the Interim Lender:

(h) the Interim Lender's Charge over all of the present and after acquired property, assets, and undertaking, wherever located, of the Borrowers (collectively, the "**Property**");

(i) mortgages over all of the Borrowers' real property; (collectively, the "**Mortgages**" and together with the Interim Lender's Charge, the "**Security**").

(j) a guarantee and indemnity executed by Farm Credit Canada ("**FCC**") in favour of the Interim Lender in form and substance satisfactory to the Interim Lender pursuant to which FCC agrees to guarantee and indemnify the Interim Lender for (i) all Obligations, and (ii) use of the The Bank of Nova Scotia's first lien collateral (whether existing on or after the Filing Date), to the extent that (i) and (ii) arise from, or are attributable to, the operation of the Borrowers' processing business from and after the Filing Date;

(k) at the reasonable request of the Interim Lender from time to time:

   (i) certificates or other evidence satisfactory to the Interim Lender evidencing that the Borrowers (or the Monitor on their behalf) continue to maintain policies of insurance issued by insurers of recognized standing insuring the Property and operations of the Borrowers and providing such coverage as would be maintained by similar businesses in the localities where the Property and operations are located, and shall add the Interim

Lender as loss payees, additional insured and mortgagees, as its interests may appear;

(ii) debentures and other security agreements granting mortgages, charges, liens, encumbrances and security interests (collectively, the "**Security Interests**" and each a "**Security Interest**") in favour of the Interim Lender in all of the Borrowers' present and after acquired property as security for the Obligations, in form and substance acceptable to the Interim Lender; and

(iii) all such instruments, agreements, and certificates and provide such further assurances as the Interim Lender may reasonably request from time to time to ensure that the priority of such Security is duly protected and perfected by registration, filing or recordation of such security or a caution, caveat, security notice or other appropriate instrument at all offices where necessary or of advantage to the protection or perfection thereof and to cooperate with the Interim Lender and the Interim Lender's counsel in renewing or refiling any registration, filing or recordation required hereby in order to preserve, protect and maintain the priority of such Security and the Security Interests, from time to time;

(all such security documents being collectively referred to as the "**Security Documents**").

17. **Priority and Permitted Liens:** The Interim Lender's Charge shall constitute a first ranking super priority court ordered charge over all of the Property subordinate only to an Administration Charge in the amount of not more than $700,000 to secure the unpaid fees and expenses of (i) the legal counsel for the Borrowers, (ii) legal counsel for the Applicant in the CCAA Proceedings, Fresh Canada Meats Ltd., and (iii) the Monitor (as defined below) and the Monitor's legal counsel ("**Permitted Priority Lien**").

"**Permitted Liens**" mean the: (i) the Permitted Priority Lien, (ii) the Interim Lender's Charge and other Security, (iii) a key employee incentive plan charge in the maximum amount of $480,000 granted pursuant to the Initial CCAA Order, (iv) validly perfected liens existing as of the date hereof; and (iv) statutory (including, without limitation, construction liens and builders liens) or inchoate liens arising in the ordinary course of business of the Borrowers.

18. **Covenants:** During the Term and so long as the Obligations remain outstanding, the Borrowers (or the Monitor on their behalf) covenant and agree in favour of the Interim Lender to comply with the affirmative and negative covenants listed in Schedule C hereto.

19. **Events of Default:** The occurrence of any one or more of the events listed in Schedule D hereto shall constitute an event of default (each an "**Event of Default**") under this Term Sheet.

20. **Remedies:** Upon the occurrence and during the continuance of an Event of Default, the Interim Lender may (i) immediately terminate the Commitment and the DIP Facility; and (ii) on notice to the Borrowers and the Monitor:

(l) apply to the Court for leave to exercise any and all of the rights and remedies of the Interim Lender against the Borrowers or the Property under or pursuant to this Term Sheet, the other Definitive Documents and the Interim Lender's Charge, including without limitation for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against one or more of the Borrowers and for the appointment of a trustee in bankruptcy of one or more of the Borrowers;

(m) subject to approval of the Court, set-off or consolidate any amounts then owing by the Interim Lender to a Borrower against the Obligations; and

(n) exercise all such other rights and remedies as are available under Applicable Law.

The rights, powers and remedies under this Term Sheet, the other Definitive Documents and the Interim Lender's Charge are cumulative and are in addition to and not in substitution for any other rights, powers and remedies available at law or in equity or otherwise. No single or partial exercise by the Interim Lender of any right, power or remedy precludes or otherwise affects the exercise of any other right, power or remedy to which the Interim Lender may be entitled.

21. **Indemnity & Release:** Each of the Borrowers agrees to indemnify and hold harmless each of the Interim Lender and its directors, officers, employees, advisors and agents (all such persons and entities being referred to hereafter as "**Indemnified Persons**") from and against any and all actions, suits, proceedings, claims, losses, damages and liabilities of any kind or nature whatsoever (excluding indirect or consequential damages and claims for lost profits) which may be incurred by or asserted against any Indemnified Person as a result of or arising out of or in any way related to the DIP Facility or any Definitive Document and, upon demand, to pay and reimburse any Indemnified Person for any reasonable legal or other out-of-pocket expenses incurred in connection with investigating, defending or preparing to defend any such action, suit, proceeding or claim; provided, however, none of the Borrowers shall be obligated to indemnify any Indemnified Person against any loss, claim, damage, expense or liability (x) to the extent it resulted from the gross negligence, wilful misconduct or intentional breach of such Indemnified Person as finally determined by a court of competent jurisdiction, or (y) to the extent arising from any dispute solely among Indemnified Persons other than any claims arising out of any act or omission on the part of any of the Borrowers. The Borrowers shall not be responsible or

liable to any Indemnified Person or any other person for loss of profits or punitive damages.

22. **Interim Lender's Approvals:**

Any consent, agreement, amendment, approval, waiver or instruction of the Interim Lender to be delivered hereunder, may be delivered by any written instrument, including by way of electronic mail, by the Interim Lender or by counsel on behalf of the Interim Lender.

23. **Further Assurances:**

The Borrowers (or the Monitor on their behalf) shall, at the expense of the Borrowers from time to time do, execute and deliver, or will cause to be done, executed and delivered, all such further acts, registrations, filings, recordings, documents and things as the Interim Lender may reasonably request for the purpose of giving effect to this Term Sheet, any other Definitive Document and the Interim Lender's Charge.

24. **Interest Compliance:**

All interest and fees payable under this Term Sheet or in connection with the DIP Facility shall be computed on the basis of a year of 365 days, provided that whenever a rate of interest or fee hereunder is calculated on the basis of a year (the "**deemed year**") that contains fewer days than the actual number of days in the calendar year of calculation, such rate of interest or fee rate shall be expressed as a yearly rate by multiplying such rate of interest or fee by the actual number of days in the calendar year of calculation and dividing it by the number of days in the deemed year.

The parties shall comply with the following provisions to ensure that no receipt by the Interim Lender of any payments under this Term Sheet would result in a breach of section 347 of the *Criminal Code* (Canada):

(o) if any provision of this Term Sheet would obligate any Borrower (or the Monitor on their behalf) to make any payment to the Interim Lender of an amount that constitutes "interest", as such term is defined in the *Criminal Code* (Canada) and referred to in this section as "**Criminal Code Interest**", which would result in the receipt by the Interim Lender of Criminal Code Interest at a criminal rate (as defined in the *Criminal Code* (Canada) and referred to in this section as a "**Criminal Rate**"), then, notwithstanding such provision, that amount or rate shall be deemed to have been adjusted with retroactive effect to the maximum amount or rate of interest, as the case may be, as would not result in the receipt by the Interim Lender of Criminal Code Interest at a Criminal Rate, and the adjustment shall be effected, to the extent necessary, as follows:

  (i) *first*, by reducing the amount or rate of interest required to be paid to the DIP Facility; and

  (ii) *thereafter*, by reducing any other amounts (other than costs and expenses) (if any) required to be paid to the Interim Lender which would constitute Criminal Code Interest.

any amount or rate of Criminal Code Interest referred to in this section shall be calculated and determined in accordance with generally accepted actuarial practices and principles as an effective annual rate of interest over the term that any portion of the Advances remain outstanding on the assumption that any charges, fees or expenses that constitute Criminal Code Interest shall be *pro-rated* over the period commencing on the date of an Advance and ending on the Maturity Date.

25. **Entire Agreement:** This Term Sheet and the other Definitive Documents constitute the entire agreement between the parties pertaining to the subject matter thereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no representations, warranties or other agreements between the parties in connection with the subject matter thereof except as specifically set out herein and therein. None of the Borrowers (or the Monitor on their behalf) has been induced to enter into this Term Sheet or any other Definitive Document in reliance on, and there will be no liability assessed, either in tort or contract, with respect to, any warranty, representation, opinion, advice or assertion of fact, except to the extent it has been reduced to writing and included as a term in this Term Sheet or in any of the other Definitive Document.

26. **Amendments, Waivers & Consents:** No amendment, discharge, modification, restatement, supplement, termination or waiver of this Term Sheet or any provision hereof is binding unless it is in writing and executed by the Interim Lender. No waiver of, failure to exercise, or delay in exercising, any provision of this Term Sheet constitutes a waiver of any other provision (whether or not similar) nor does any waiver constitute a continuing waiver unless otherwise expressly provided. No approval, consent or permission on the part of the Interim Lender in exercising any right or privilege under any Definitive Document will operate as an approval, consent or permission hereof or thereof unless made in writing by the Interim Lender and delivered in accordance with the terms of this Term Sheet, and then such approval, consent or permission shall be effective only in the specific instance and for the specific purpose given. Unless otherwise stated in this Term Sheet, the granting of any approval, consent or permission by the Interim Lender shall be in the Interim Lender's sole and absolute discretion.

27. **Assignment:** The Interim Lender may, without notice to or consent of the Borrowers, assign all or part of its interest in this Term Sheet, the Definitive Documents, the Obligations and the Interim Lender's Charge in whole or in part to any individual, partnership, corporation, business trust, joint stock company, limited liability company, unlimited liability company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature (each a "**Person**"). Neither this Term Sheet, any other Definitive Document nor any right or obligation hereunder or thereunder may be assigned by any Borrower. Notwithstanding the foregoing, no assignment or grant of participation interests by the Interim Lender shall include any right of the Interim Lender to provide its approval or consent hereunder.

28. **Severability:** Any provision in this Term Sheet which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the

remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

29. **No Third Party Beneficiary:**

No Person, other than the Borrowers (or the Monitor on their behalf), the Interim Lender and the Indemnified Parties, is entitled to rely upon this Term Sheet or the other Definitive Documents and the parties expressly agree that this Term Sheet and the other Definitive Documents do not confer rights upon any other party.

30. **Counterparts and Electronic Signatures:**

This Term Sheet may be executed in any number of counterparts and by email or other electronic transmission including "pdf email", each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same instrument.

31. **Notices:**

Any notice, request or other communication hereunder to any of the parties shall be in writing and be well and sufficiently given if delivered personally or sent by electronic mail to the such Person at its address set out on its signature page hereof.

Any such notice shall be deemed to be given and received when received, unless received after 5:00 Mountain Time or on a day other than a Business Day, in which case the notice shall be deemed to be received the next Business Day.

32. **CCAA Monitor**:

Ernst & Young Inc. shall be appointed Monitor (the "**Monitor**") by the Court.

33. **Currency:**

If any payment is received by the Interim Lender in a currency other than dollars, or, if for the purposes of obtaining judgment in any court it is necessary to convert a sum due in one currency (the "**Original Currency**") into another currency (the "**Other Currency**"), the Borrowers agree that the rate of exchange used shall be the rate at which the Interim Lender is able to purchase the Original Currency with the Other Currency after any premium and costs of exchange on the Business Day preceding that on which such payment is to be made or final judgment is given.

34. **Joint & Several Liability:**

Each of the Borrowers (or the Monitor on their behalf) acknowledges and agrees that its obligations and liabilities under this Term Sheet and each other Definitive Document are joint and several with the other Borrowers.

35. **Rules of Interpretation:**

(p) References in this Term Sheet to Sections and Schedules mean to sections of and schedules to this Term Sheet;

(q) In this Term Sheet, words signifying the singular number include the plural and vice versa, and words signifying gender include all genders. Every use of the words "including" or "includes" in this Term Sheet is to be construed as meaning "including, without limitation" or "includes, without limitation", respectively;

(r) The division of this Term Sheet into Sections and the insertion of headings are for convenience of reference only and do not affect the construction or interpretation of this Term Sheet;

(s) Unless otherwise specified in this Term Sheet, a time period within which or following which any calculation or payment is to be made, or action is to be taken, will be calculated by excluding the day on which the period begins and including the day on which the period ends. If the last day of a time period is not a Business Day, the time period will end on the next Business Day;

(t) Wherever reference is made in this Term Sheet to a calculation to be made in accordance with IFRS, the reference is to the generally accepted accounting principles in Canada, applied on a consistent basis, and statements and interpretations (if applicable) issued by the Canadian Institute of Chartered Accountants or any successor body from time to time, including International Financial Reporting Standards;

(u) Time is of the essence in all respects in this Term Sheet;

(v) Unless otherwise specified in this Term Sheet, any reference to any statute includes all regulations and subordinate legislation made under or in connection with that statute at any time, and is to be construed as a reference to that statute as amended, modified, restated, supplemented, extended, re-enacted, replaced or superseded at any time; and

This Term Sheet enures to the benefit of and is binding upon the parties and their respective successors and permitted assigns.

36.	**Governing Law & Jurisdiction:**	This Term Sheet shall be governed by, and construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable therein, and the parties irrevocably attorn to the non-exclusive jurisdiction of the courts of the Province of Alberta.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Term Sheet to be duly executed by their respective authorized officers as of ____ day of August, 2022.

Interim Lender:

THE BANK OF NOVA SCOTIA

By: ____________________________
Name:
Title:

By: ____________________________
Name:
Title:

Borrowers:

CANADA SHEEP and LAMB FARMS LTD.,
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ______________________________
Name:
Title:

LAMB CLUB MARKETING LIMITED,
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ___________________________
Name:
Title:

By: ________________________________
Name:
Title:

CANADA LAMB PROCESSORS LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ___________________________
Name:
Title:

By: ________________________________
Name:
Title:

CANINE FARE LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ___________________________
Name:
Title:

By: ________________________________
Name:
Title:

NORTH AMERICAN LAMB COMPANY LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ____________________________
Name:
Title:

By: ________________________________
Name:
Title:

CANADA SHEEP HOLDING LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ____________________________
Name:
Title:

By: ________________________________
Name:
Title:

CANADA LAMB GROWERS LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ____________________________
Name:
Title:

By: _________________________________
Name:
Title:

Schedule A

APPROVED CASH FLOW BUDGET

See attached.

Schedule B – Advance Request

FORM OF ADVANCE REQUEST

TO: The Bank of Nova Scotia as Interim Lender

Reference is made to that certain Term Sheet among Canada Sheep and Lamb Farms Ltd., Lamb Club Marketing Limited, Canada Lamb Processors Ltd., Canine Fare Ltd., North American Lamb Company Ltd., Canada Sheep Holdings Ltd. and Canada Lamb Growers Ltd. (each a "**Borrower**" and together, the "**Borrowers**"). and The Bank of Nova Scotia as lender dated as of August **[_]**, 2022 (the "**Term Sheet**", with capitalized terms used herein and not otherwise defined have the meanings given to them in the Term Sheet).

The Borrowers (or the Monitor on their Behalf) hereby give irrevocable notice pursuant to the terms of the Term Sheet for the proposed Advance as follows:

The date of the proposed Advance is: ●, 2022.

The aggregate amount of the Advance is: $ ●

The Borrowers hereby jointly and severally certify that:

(i) all of the covenants of the Companies contained in the Term Sheet have been complied with;

(ii) all Funding Conditions have been satisfied;

(iii) no Event of Default then exists and is continuing or would result from the Advance; and

(iv) the proceeds of the Advance will be in compliance with Section 10 of the Term Sheet and will be consistent with the Approved Cash Flow Budget.

Dated this ● day of ●, 2022.

[SIGNATURE PAGE FOLLOWS]

Borrowers:

CANADA SHEEP and LAMB FARMS LTD.,
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ______________________________
Name:
Title:

LAMB CLUB MARKETING LIMITED,
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ___________________________	By: _______________________________
Name:	Name:
Title:	Title:

CANADA LAMB PROCESSORS LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ___________________________	By: _______________________________
Name:	Name:
Title:	Title:

CANINE FARE LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ___________________________	By: _______________________________
Name:	Name:
Title:	Title:

NORTH AMERICAN LAMB COMPANY LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ____________________________
Name:
Title:

By: ________________________________
Name:
Title:

CANADA SHEEP HOLDING LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ____________________________
Name:
Title:

By: ________________________________
Name:
Title:

CANADA LAMB GROWERS LTD.
By its court-appointed Monitor, Ernst & Young Inc.
(Ernst & Young Inc. is signing this Agreement in its representative capacity as court-appointed Monitor and not in its personal or corporate capacity)

By: ____________________________
Name:
Title:

By: ________________________________
Name:
Title:

Schedule C Covenants

Each of the Borrowers (or the Monitor on their behalf) hereby covenants and agrees that so long as the Interim Lender is committed to make loans under the DIP Facility and thereafter so long as any Obligations remain outstanding, each of the Borrowers (or the Monitor on their behalf) shall:

Affirmative Covenants

(1) comply with all laws, rules, regulations and orders, including, without limitation, animal welfare laws and regulations, laws and regulations governing or relating to the slaughter of livestock and processing of meat and all environmental laws and regulations (collectively "**Applicable Laws**") and shall promptly notify the Interim Lender of any action, claim, lawsuit, demand, investigation or proceeding pending, or to the knowledge of any of the Borrowers, threatened against any of the Borrowers, before any court, governmental authority, regulatory authority, arbitrator or tribunal;

(2) preserve, renew and keep in full force and good standing its corporate existence;

(3) maintain in good standing at all times all insurance coverage as is customarily carried by companies which are engaged in the same or similar business to the business of the Borrowers, or as may reasonably be required by the Interim Lender;

(4) maintain in good standing at all times, and comply in all material respects with, all real property leases and all material contracts;

(5) take all actions necessary or available to defend the CCAA Orders from any appeal, reversal, modifications, amendment, stay or vacating to the extent that it would materially negatively affect the rights and interests of the Interim Lender;

(6) comply, and conduct their business, operations and wind down and make disbursements materially consistent with the Approved Cash Flow Budget and subject to the limits contained therein;

(7) (i) provide representatives of the Interim Lender and the Interim Lender's counsel with reasonable access to the books, records, financial information and electronic data rooms of or maintained by the Borrowers, (ii) cause management and legal counsel to the Borrowers, to cooperate with reasonable requests for information by the Interim Lender and its advisors; and (iii) comply in all material respects with all CCAA Orders;

(8) keep the Interim Lender apprised on a timely basis of all material developments with respect to the business, wind down and affairs of the Borrowers and the CCAA Proceedings;

(9) deliver to the Interim Lender and the Interim Lender's counsel reporting and other information reasonably requested by them from time to time as set out in this Term Sheet including, without limitation, the Cash Flow Budgets at the times set out herein;

(10) provide the Interim Lender's counsel with draft copies of all material motions, applications for proposed CCAA Orders that any Borrower intends to file in the CCAA Proceedings as soon as is reasonably practicable in advance of the service of such materials to the service list in respect of the CCAA Proceedings, and all such material motions, applications and proposed CCAA Orders shall be in form and substance reasonably acceptable to the Interim Lender, acting reasonably;

(11) take all actions necessary or available to defend the CCAA Orders from any appeal, reversal, modifications, amendment, stay or vacating to the extent that it would materially affect the rights and interests of the Interim Lender;

(12) use the proceeds of Advances only in accordance with Section 10 and in accordance with the restrictions set out herein and in the manner contemplated by the Approved Cash Flow Budgets;

(13) pay when due all amounts accruing that (i) are secured by statutory liens or trusts including employee source deductions, goods and services taxes, municipal and linear taxes, workplace safety payments and employee salary, and (ii) arise under mineral and surface leases included in the Property;

(14) pay all costs and expenses of the Interim Lender no less frequently than every two weeks following the delivery of a redacted invoice to the Borrowers, provided that the Interim Lender shall provide reasonable estimates of such expenses for purposes of the Approved Cash Flow Budgets;

Reporting Covenants

(15) deliver to the Interim Lender each of the following reports:

- on Friday of each week, a weekly reporting package, including a rolling thirteen week cash flow forecast broken out by legal entity, a detailed report on the health and welfare of the Borrowers' livestock, the format and content of which reporting package shall otherwise be mutually agreed by the Borrowers and the Interim Lender, each acting reasonably;

- on Friday of each week, a weekly variance calculation against the Approved Cash Flow Budget setting forth (i) actual receipts and disbursements for the preceding week and (ii) actual receipts and disbursements on a cumulative basis since the beginning of the period covered by the then-current Approved Cash Flow Budget, in form and substance satisfactory to the Interim Lender acting reasonably, and provided to the Interim Lender no later than Thursday of each week;

- on Friday of each week, a weekly updated animal inventory update by location and classification consistent with past practice and projection of the following week's sales and movements using the same classification (the "**Livestock Projection**"); and

- any other financial, animal health, operational or wind down information as the Interim Lender may reasonably request from time to time.

(16) deliver to the Interim Lender copies of all pleadings, motions, applications, judicial information, financial information, and other documents filed by or on behalf of the Borrowers with the Court or distributed by or on behalf of the Borrowers and all reports prepared by the Monitor;

(17) deliver or cause to be delivered to the Interim Lender such other reports and information respecting the Borrowers' business, financial condition or prospects, on a confidential basis, as the Interim Lender may, from time to time, reasonably request;

(18) promptly upon becoming aware thereof, notify the Interim Lender and its counsel, keep them apprised, and provide details, of:

(v) the occurrence of any Event of Default and any other event or circumstance that may negatively impact the Approved Cash Flow Budgets, including any material change in its contractual arrangements or its relationships with third parties;

(vi) any material developments in respect of any material contract and of any material notices, orders, decisions, letters, or other documents, materials, information or correspondence received from any Governmental Authority having jurisdiction over the Borrowers;

(vii) any pending, or threatened claims, potential claims, litigation, actions, suits, arbitrations, other proceedings or notices received in respect of same, against a Borrower, by or before any court, tribunal, governmental authority, which would be reasonably likely to result, individually or in the aggregate, in a judgment in excess of $250,000, to the extent not stayed by the CCAA Initial Order (the "**CCAA Stay**"), and (ii) any default or dispute with respect to any of its material contracts, to the extent enforcement thereof is not stayed by the CCAA Stay;

<u>Negative Covenants</u>

(19) except as contemplated by this Agreement, the Approved Cash Flow Budget or the CCAA Orders, make any payment of any Indebtedness or obligations existing as at the Filing Date;

(20) not enter any restrictive covenants or agreements which might negatively affect the value or liquidity of any collateral;

(21) not convey, sell, assign, lease, transfer or otherwise dispose of any assets of any of the Borrowers with an aggregate value in excess of $50,000, other than in the ordinary course of business, or as contemplated by the Approved Cash Flow Budget, without the consent of the Interim Lender or an any order, judgment, determination, declaration or similar relief of the Court;

(22) not declare or pay any dividends on, or make any other distributions (whether by reduction of capital or otherwise) with respect to any shares of any of the Borrowers, without the prior written consent of the Interim Lender;

(23) except as permitted, not to make (i) any purchase or other acquisition of shares or other securities of any Person, (ii) any form of financial assistance to or for the benefit of any Person, (iii) any capital contribution to any other Person, and (iv) any purchase or other acquisition of any assets, property or undertaking other than an acquisition in the ordinary course of business of the Borrowers;

(24) except as permitted, not incur, create, assume, permit or suffer to exist any: (i) indebtedness (including, without limitation, guarantees and contingent obligations) other than for the provision of goods and services or intercompany advances consistent with the Approved Cash Flow Budget, and (ii) any indebtedness acceptable to the Interim Lender in its sole discretion; other super priority claim which is pari passu with or senior to the claims of the Interim Lender against any or all of the Borrowers except for the Permitted Priority Lien;

(25) other than the Permitted Liens, not create, incur, assume or suffer to exist any liens upon any of its property or assets without the prior written consent of the Interim Lender;

(26) not enter into any merger, amalgamation, consolidation, reorganization or recapitalization or change ownership or control of any of the Borrowers without the prior written consent of the Interim Lender or Order of the Court;

(27) not seek or consent to, any modification, stay, vacation or amendment to any CCAA Order or any other order granted by the Court or seek approval of any other order of the Court or any modification, stay, vacation or amendment thereof that would reasonably be expected to adversely affect the Interim Lender's rights, remedies, liens, charges, priorities, benefits or protections under any or all of the CCAA Orders or any other order made by the Court, the Definitive Documents or the

Interim Lender's Charge, without the prior written consent of the Interim Lender, which consent shall be in the sole and absolute discretion of the Interim Lender;

(28) not seek or consent to any Plan of Compromise or Arrangement (a "**CCAA Plan**") other than a CCAA Plan approved or supported by the Interim Lender in writing unless: (i) all of the indebtedness of the Borrowers to the Interim Lender under the DIP Facility and the Borrowers' pre-filing credit facility are to be paid in full in cash or other immediately available funds and the commitments provided for herein terminated pursuant prior to or contemporaneously with the effectiveness of such plan, or (ii) otherwise agreed by the Interim Lender;

(29) not challenge or fail to support the Interim Lender's Charge or any other liens directly or indirectly in favour of the Interim Lender in any capacity, or challenge or fail to support a CCAA Plan approved or supported by the Interim Lender in writing, other than with the prior consent of the Interim Lender;

(30) not terminate any material contract or amend any material contract in any material manner except with the prior consent of the Interim Lender;

(31) not enter into any agreements, or apply for or support an application for any order, judgment, determination, declaration or similar relief or any material change, amendment or modification to any CCAA Order which has a material and adverse affect on the Interim Lender or its interests other than with the prior consent of the Interim Lender; and

(32) not enter into any material settlement agreement or agree to any material settlement arrangements with any governmental authority or in connection with any litigation, arbitration, other investigations, proceedings or disputes or other similar proceedings which are threatened or pending against any one of them without the prior consent of the Interim Lender, or make any payments or repayments to customers, outside the ordinary course of business, other than those set out in the Approved Cash Flow Budgets.

Schedule D – Events of Default

The occurrence of any one or more of the following events shall constitute an Event of Default under this Term Sheet:

(1) any order made varying, amending, supplementing, staying, reversing or otherwise modifying or affecting the Initial CCAA Order or any other order made by the Court by way of appeal, by way of variation or other relief, that, in the reasonable judgement of the Interim Lender, adversely affects the Interim Lender's rights, remedies, liens, charges, priorities, benefits or protections under any or all of the CCAA Orders, the Interim Lender's Charge or the Definitive Documents without the Interim Lender's prior written consent;

(2) the stay of creditors' remedies against the Borrowers provided for in the Initial CCAA Order shall, for any reason be lifted or otherwise terminated with respect to all, or a material part, of the assets of any of the Borrowers; or all, or any material part, of the assets of any Borrower shall, with the approval of the Court or otherwise be attached, seized, levied upon or subjected to execution, garnishment, distress or any other similar process; or any of the Borrowers;

(3) there shall exist a negative variance from the Approved Cash Flow Budget in excess of ten percent (10%) of projected receipts, disbursements or net cash flow for any one week period;

(4) the filing of an application for leave to appeal, a notice of appeal or an appeal in respect of the Initial CCAA Order and such application for leave to appeal, notice of appeal or appeal has not been withdrawn or otherwise resolved in a manner acceptable to the Interim Lender acting reasonably within 30 days of such filing;

(5) the appointment of a (i) receiver, interim receiver, receiver and manager, or trustee in bankruptcy or (ii) other official with powers to operate or manage the affairs of any or all of the Borrowers;

(6) failure by any of the Borrowers to pay any Interest on the DIP Facility or any fees, expenses, or other amounts payable under this Term Sheet or any other Definitive Document when the same shall become due and payable hereunder and any such failure remains unremedied for one (1) Business Day;

(7) except for Events of Default specifically referenced herein, failure by any of the Borrowers to perform or comply with any material term, condition, covenant or obligation contained herein or in any Definitive Document to be performed or complied with, where, if such failure to perform or comply is capable of being remedied, it is not remedied within three (3) Business Days of the occurrence of such failure;

(8) any material representation or warranty made under any of the documents executed in connection with the DIP Facility, or any information provided to the Interim Lender or, is untrue or incorrect in any material respect as of the date when made or deemed made;

(9) failure by any of the Borrowers to comply with the CCAA Orders which failure adversely affects the Interim Lender's rights, remedies, liens, charges, priorities, benefits or protections under any or all of the CCAA Orders or any other order made by the Court or the DIP Facility documentation;

(10) any of the Borrowers becomes subject to a proceeding under the *Bankruptcy and Insolvency Act* (Canada) or any of the Borrowers shall file a motion or other pleading seeking the dismissal of the CCAA Proceedings;

(11) the entry of an order after the date hereof of any court granting or approving the granting of any lien, charge or super-priority claim that is pari passu with or senior to the liens, charges and claims of the Interim Lender securing the DIP Facility;

(12) the payment of, or application for authority to pay, any pre-filing claim of any of the Borrowers without consent of the Interim Lender unless permitted hereunder or under any of the CCAA Orders, as applicable;

(13) the assertion of or joinder in any claim, counterclaim, action, proceeding, application, motion, objection, defense or other contested matter, the purpose of which is to seek or the result of which would be to obtain any order, judgment, determination, declaration or similar relief (i) invalidating, setting aside, avoiding or subordinating, in whole or in part, the obligations of any of the Borrowers under this Term Sheet, any Definitive Document, the Interim Lender's Charge, any Security Interest, or the Interim Lender's liens on its collateral, (ii) for monetary, injunctive or other affirmative relief against any or all of the Interim Lender or its collateral, or (iii) preventing, hindering or otherwise delaying the exercise by any or all of the Interim Lender of any of its rights and remedies under this Term Sheet or Applicable Law, or the enforcement or realization (whether by foreclosure, credit bid, further order of the Court or otherwise) by the Interim Lender upon any of its collateral;

(14) the entry of: (i) an order avoiding or requiring disgorgement of any portion of the payments made on account of the obligations owing to the Interim Lender hereunder; or (ii) any regulatory order as against any of the Borrowers or any of their assets which the Interim Lender determines, has, or could reasonably be expected to result in, a material and adverse change to, or impact on, the financial condition, prospects, operations or wind down of any Borrower or the Borrowers taken as a whole; or

(15) any Borrower becomes subject to a material environmental liability arising after the commencement of the CCAA Proceedings.