

Clerk's Stamp

COURT FILE NUMBER

2201-08920

COURT

COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE

Edmonton

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

**FOURTH REPORT OF ERNST & YOUNG INC. IN ITS
CAPACITY AS THE MONITOR OF THE NALCO GROUP**

May 15, 2023

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

MONITOR

Ernst & Young Inc.
Calgary City Centre
2200, 215 - 2nd Street SW
Calgary, Alberta T2P 1M4
Attention: Neil Narfason / Serena Daniels
Telephone: 403-206-5067 / 204-933-0227
Fax: 403-206-5075
Email: neil.narfason@parthenon.ey.com
serena.daniels@parthenon.ey.com

MONITOR'S COUNSEL

Norton Rose Fulbright Canada LLP
400 3rd Avenue SW, Suite 3700
Calgary, Alberta, T2P 4H2
Attn: Howard Gorman, KC / Meghan Parker
Telephone: 403-267-8144 / 613-780-1530
Email: howard.gorman@nortonrosefulbright.com
meghan.parker@nortonrosefulbright.com

TABLE OF CONTENTS OF THE FOURTH REPORT OF THE MONITOR

INTRODUCTION.....	2
PURPOSE.....	4
BACKGORUND	5
TERMS OF REFERENCE AND DISCLAIMER	5
ACTIVITIES SINCE THE FILING OF THE THIRD REPORT OF THE MONITOR	6
FORECAST-TO-ACTUAL ANALYSIS.....	6
REVISED CASH FLOW STATEMENT	8
STAY EXTENSION.....	11
RECOMMENDATION	11

APPENDICES

APPENDIX A	CASH FLOW STATEMENT OF THE NALCO GROUP FOR THE 21-WEEK PERIOD ENDING ON SEPTEMBER 30, 2023
------------	---

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**") were granted protection and permission to commence proceedings pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C-36, as amended (the "**CCAA**") pursuant to an Order of this Honourable Court (the "**Initial Order**").
2. The Initial Order appointed Ernst & Young Inc. as Monitor ("**EYI**" or the "**Monitor**") in the CCAA Proceedings and established an initial stay of proceedings (the "**Initial Stay of Proceedings**") in favour of the NALCO Group from August 8, 2022 (the "**Filing Date**") until August 18, 2022. Pursuant to the Initial Order, the Monitor was granted enhanced powers (the "**Enhanced Powers**") to ensure that the Company could continue to operate during the course of the CCAA proceedings and to ensure that a restructuring could be pursued.
3. The Enhanced Powers include the ability to, among other items:
 - A. exercise such rights, powers and obligations of the NALCO Group as the 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 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 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.
- 4. Following the issuance of the Initial Order and a temporary stay of proceedings, the Monitor, pursuant to its Enhanced Powers, made an application to Court seeking various relief on the NALCO Group's behalf, which included requests to make certain amendments to the Initial Order as well as a request to have the Court authorize a sales process for the sale of certain Company assets.
- 5. On August 17, 2022, this Honourable Court issued, among other things:
 - A. An amended and restated initial order ("**ARIO**") which, among other things,
 - i. granted an extension to the Initial Stay of Proceedings until December 9, 2022;
 - ii. removed the obligation to seek Court authorization before the NALCO Group completed a transaction for the sale of livestock, meat form processed livestock, or livestock feed (the "**Livestock Assets**") to third parties, subject to the Monitor taking into account certain key considerations regarding the sale of Livestock Assets;
 - iii. created a Selling Agent's Charge to secure the fees and expenses of a selling agent responsible for facilitating a sale and investment solicitation process ("**SISP**") on behalf of the NALCO Group;
 - iv. enabled the Monitor to enter into a First Amended and Restated Interim Financing Facility for \$1.5 million (the "**Amended Financing Facility**") provided by the Bank of Nova Scotia ("**BNS**" or "**Interim Lender**"); and
 - v. increased the Interim Lender Charge to facilitate increased borrowings under the Amended Financing Facility initially authorized under the Initial Order; and
 - B. A Sales and Investment Solicitation Process Approval Order:
 - i. facilitating the sale of the business and property of the NALCO Group excluding the Livestock Assets (the "**SISP Assets**"), including through a share purchase or reverse vesting order if proposed by a successful bidder;
 - ii. establishing a process to market the properties of the NALCO Group on behalf of the Monitor in accordance with the terms of a sales and investment solicitation process (the "**SISP**"); and

- iii. approving Ernst & Young Orenda Corporate Finance Inc. and Ernst & Young Real Estate Services Inc. to act as the exclusive selling agent (the “**Selling Agent**”) for the NALCO Group’s SISP Assets.
6. On December 6, 2022, this Honourable Court issued:
- A. An Order extending the Stay of Proceedings until March 4, 2023;
 - B. Sale Approval and Vesting Orders in accordance with the SISP Purchase and Sale Agreements (“**PSAs**”);
 - i. WestFine Meats Inc. and West Excelamb Inc. (the “**West Group**”) for the purchase of the Processing Plant and the Iron Springs Property. A single PSA was negotiated with the West Group for the purchase of both properties.
 - ii. ABAS Girls Ranch Ltd. (“**ABAS**”) for the purchase of the Lundar Property, the Rockwood Property, and the Stony Property. Three separate PSAs were negotiated with ABAS, one for each of the properties;
 - iii. Sheldon Harms (“**Harms**”) for the purchase of select portions of the Sarto Property. The PSA negotiated with Harms would result in a carveout of the Sarto Property such that a central land parcel would be transferred to Harms; and
 - iv. 2 Flag Farms Ltd. (“**2Flag**”) for the purchase of select portions of the Sarto Property. The PSA negotiated with 2Flag would result in a carveout of the Sarto Property such that the outer land parcels and buildings would be transferred to 2Flag;
 - C. Sealing Order with respect to the Confidential Supplement; and
 - D. Interim Distribution Order, authorizing the Monitor to make Interim Distributions to the Senior Secured Lenders;
7. On March 2, 2023, this Honourable Court issued an extension of the Stay of Proceedings until May 27, 2023.

PURPOSE

8. The purpose of this Fourth Report is to provide this Honourable Court and the NALCO Group’s stakeholders with information and the Monitor’s comments with respect to the following:
- A. an update on the activities of the Monitor since the Third Report of the Monitor, dated February

24, 2023;

- B. a forecast-to-actual analysis comparing the Company's forecasted cash flow statement filed for the 15-week period ending on May 27, 2023 ("**CFS#4**") to actual results;
- C. a revised Cash Flow Statement ("**CFS#5**") for the 21-week period ending on September 30, 2023 (the "**Revised Forecast Period**") and the key assumptions upon which CFS#5 is based;
- D. the NALCO Group's request for a stay extension to September 30, 2023; and
- E. the Monitor's recommendations.

BACKGROUND

- 9. The NALCO Group is a privately held lamb producer and processor. Prior to the disposition of a substantial portion of the NALCO Group's assets upon close of the SISP PSAs, the NALCO Group carried on its business operations at six separate facilities located in Alberta and Manitoba. The NALCO Group's operations were vertically integrated, and included the operation of accelerated sheep breeding facilities, lamb growing facilities, a lamb feedlot, and a lamb processing plant.
- 10. Additional background information on the NALCO Group and the CCAA Proceedings is available on the Monitor's website, located at: www.ey.com/ca/NALCO (the "**Monitor's Website**").

TERMS OF REFERENCE AND DISCLAIMER

- 11. In preparing this Fourth Report, the 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 (collectively, the "**Information**").
- 12. Except as described in this report, the 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 Professional Accountants of Canada Handbook.
- 13. Future oriented information referred to in this Fourth 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.
- 14. All references to dollars are in Canadian dollars.
- 15. Capitalized terms not defined herein are as defined in the ARIO, the Pre-filing Report of the Monitor,

the First Report or the Second Report.

ACTIVITIES SINCE THE FILING OF THE THIRD REPORT OF THE MONITOR

16. Since the filing of the Third Report of the Monitor, the activities of the Monitor have included:
- A. monitoring the Company's operations and financial affairs and establishing enhanced financial controls over Company disbursements;
 - B. assisting the Company with the preparation of monthly: (a) forecast-to-actual variance reports (which compare actual financial performance of the Company relative to prepared forecasts), and (b) revised cash flow statements;
 - C. assisting the Company with the wind down of all farming and plant operations in Manitoba and Alberta;
 - D. compiling information and responding to various inquiries from creditors and interested parties;
 - E. working with the Company's existing insurers to recover pre-paid insurance funds;
 - F. continuing to work with the Company to collect outstanding accounts receivable owing to the Company, which primarily relate to meat sales from processed livestock;
 - G. attending to certain taxation matters with the Canada Revenue Agency on the Company's behalf;
 - H. developing a revised cash flow, i.e., CFS#5, in consultation with the NALCO Group's operations and finance departments, which is described in further detail below; and
 - I. updating and providing information to BNS and Farm Credit Canada ("**FCC**"), the senior secured lenders of the NALCO Group (together the "**Senior Secured Lenders**") with respect to the status of the CCAA proceedings generally and other matters of interest.
17. As of the date of this Fourth Report, the Monitor has not identified any material or adverse changes to the Company's operations and has obtained the full cooperation and assistance of the Company and its employees to advance these CCAA proceedings.

FORECAST-TO-ACTUAL ANALYSIS

18. The Monitor has continuously reviewed the operations and cash flows of the Company since the Filing Date. In addition to holding regular meetings with the NALCO Group's operations and finance staff, the Monitor has actively worked with the Company to manage and track the Company's receipts

and disbursements.

19. As described in further detail below, the NALCO Group had \$4.6M cash on hand as at May 6, 2023, and has fully repaid all borrowings under the Amended Financing Facility, which compares to CFS#4, which forecast the NALCO Group having \$4.1M cash on hand as at May 6, 2023.
20. The actual cash flow results for the Company from the Filing Date through to May 6, 2023 (the "Reporting Period") is presented in Exhibit 1.0. These actual results have been compared to the forecasts outlined in CFS#2 for the period of August 8, 2022 to November 19, 2022, the forecasts outlined in CFS#3 for the period of November 20, 2022 to February 11, 2023, and the forecasts outlined in CFS#4 for the period of February 12, 2023 to May 6, 2023.

The NALCO Group Consolidated Forecast to Actual For the period of August 8, 2022 to May 6, 2023 (the "Reporting Period")				Exhibit 1.0	
\$000's		Forecast	Actual	Variance (\$)	Variance (%)
Week ending:	Notes	Period total	Period total	Period total	Period total
Operating receipts					
Receipts	A	23,853	27,395	3,542	14.8%
Net operating receipts		23,853	27,395	3,542	14.8%
Operating disbursements					
Labour	B	(4,700)	(4,174)	526	-11.2%
Feed	C	(3,676)	(3,393)	284	-7.7%
Miscellaneous operating disbursements	D	(11,336)	(12,044)	(708)	6.2%
Restructuring/professional fees	E	(1,917)	(2,483)	(566)	29.5%
Contingency		(1,088)	-	1,088	-100.0%
Total operating disbursements		(22,717)	(22,094)	623	-2.7%
Net change in cash from operations		1,136	5,301	4,164	366.4%
Financing					
Interim Financing - principal draw / (repayment)	F	1,000	-	(1,000)	-100.0%
Interim Financing - interest / fees		(26)	(21)	5	-20.7%
Net change in cash from financing		974	(21)	(995)	-102.1%
Other receipts / disbursements					
Proceeds from asset sales	G	-	16,295	16,295	-
Distribution to Senior Secured Lenders		-	(17,225)	(17,225)	-
Total other receipts / disbursements		-	(930)	(930)	-
Net change in cash					
Opening cash	H	-	252	252	0.0%
Net change in cash from operations		1,136	5,301	4,164	366.4%
Net change in cash from financing		974	(21)	(995)	-102.1%
Net change in cash from asset sales		-	16,295	16,295	0.0%
Distribution to Senior Secured Lenders		-	(17,225)	(17,225)	0.0%
Ending cash		2,110	4,602	2,492	118.1%

21. The Monitor notes that there were material variances between the NALCO Group's actual cash flows

and CFS#2, CFS#3 and CFS#4 during the Reporting Period. Due to the Monitor's increased understanding of the NALCO Group's business following the commencement of the CCAA proceedings, the Monitor regularly prepared and circulated revised forecasts to the Senior Secured Lenders during the Forecast Period. These forecasts were most recently compiled on a divisional basis (i.e., the farming division, the processing division, and the corporate division) but, for the sake of consistency, have been presented in a format consistent with CFS#2 included in the First Report, CFS#3 included in the Second Report, and CFS#4 included in the Third Report.

22. The Monitor's comments on the material variances between the Company's actual cash flows and CFS#4 during the Reporting Period are as follows:

- A. receipts were higher than anticipated primarily due to the sale of Livestock Assets;
- B. labour costs were lower than anticipated due to staff attrition driven by flock depopulation and subsequent farm closures. Labour costs include payments under the Key Employee Incentive Plan ("KEIP");
- C. feed costs were lower than anticipated due to faster than anticipated flock depopulation;
- D. miscellaneous operating disbursements were higher than anticipated due to a larger than expected property insurance payment, as well as higher operating costs at the Processing Plant;
- E. professional fees were higher than initially forecast due to the complexity of the NALCO Group's operations and the CCAA proceedings generally;
- F. the Monitor initially drew \$1.0M under the Amended Financing Facility but was able to repay this amount in full during the Reporting Period;
- G. proceeds were received from the sale of NALCO Group assets pursuant to the SISP PSAs; and
- H. opening cash was agreed to bank statements provided by Management.

REVISED CASH FLOW STATEMENT

23. The NALCO Group, in consultation with the Monitor, has prepared CFS#5 for anticipated receipts and disbursements for the 21-week period ending on September 30, 2023 (i.e., the Revised Forecast Period). A copy of CFS#5 is included at **Appendix "A"**.

24. In accordance with the Canadian Association of Insolvency and Restructuring Professionals

Standard of Practice 9, "Cash-Flow Statement", the Monitor hereby reports as follows:

- a) CFS#5 has been prepared by the NALCO Group in consultation with the Monitor 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 Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by the NALCO Group. The Monitor's procedures with respect to the hypothetical assumptions were limited to evaluating whether they were consistent with the purpose of CFS#5. The Monitor has also reviewed the support provided by the NALCO Group for the probable assumptions, and the preparation and presentation of CFS#5; and
 - c) Based on its review, nothing has come to the attention of the Monitor that causes it to believe that, in all material respects:
 - i. the hypothetical assumptions are not consistent with the purpose of CFS#5;
 - ii. as at the date of this Fourth Report, the probable assumptions developed by the NALCO Group in consultation with the Monitor are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for CFS#5, given the hypothetical assumptions; or
 - iii. CFS#5 does not reflect the probable and hypothetical assumptions.
25. Since CFS#5 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 Monitor expresses no assurance as to whether the projections outlined in the CFS#5 will be achieved. The 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.
26. CFS#5 has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.
27. During the Revised Forecast Period, the NALCO Group anticipates receipts of \$332K and disbursements totalling \$4.9M, which primarily consist of Distributions to the Senior Secured Lenders (\$4.7M) (described further herein) and professional fees (\$0.1M).
28. Based on CFS#5, the Monitor anticipates that the NALCO Group's operations will continue to generate sufficient liquidity during the CCAA proceedings.

29. A summary of CFS#5 is provided in Exhibit 2.0 below:

The NALCO Group		Exhibit 2.0
Consolidated Cash Flow Statement #5		
For the period of May 7, 2023 to September 30, 2023 (the "Revised Forecast Period")		
\$ 000's		
Week ending:	Notes	21-week total
Receipts		
Accounts receivable collection	A	182
Insurance refund	B	150
Total receipts		332
Disbursements		
Distribution to Senior Secured Lenders	C	(4,674)
Miscellaneous operating disbursements	D	(70)
Government remittances	E	(90)
Restructuring / professional fees	F	(100)
Total disbursements		(4,934)
Net change in cash		(4,602)
Net change in cash		
Opening cash	G	4,602
Net change in cash		(4,602)
Ending cash		-

30. CFS#5 is based on the following key assumptions:

- A. accounts receivable collections relate to the sale of meat generated from livestock processed;
- B. the Monitor expects to receive a refund for an insurance premium that was pre-paid and subsequently cancelled;
- C. the Monitor expects to distribute the remaining estate funds to the Senior Secured Lenders prior to September 30, 2023;
- D. the Monitor anticipates \$70K of miscellaneous operating disbursements relating to outstanding invoices (e.g., utilities).
- E. the Monitor anticipates a net GST remittance of approximately \$90K.
- F. restructuring / professional fees are estimates of the cost of the Monitor, the Monitor's Counsel, and the Senior Secured Lenders' Counsel and Financial Advisors; and

G. opening cash includes proceeds received from the sale of NALCO Group properties and equipment pursuant to SISP PSAs and was agreed to bank statements.

STAY EXTENSION

31. Pursuant to the Stay Extension Order, the Stay of Proceedings expires on May 31, 2023. The NALCO Group is seeking a stay extension up to and including September 30, 2023 (the “**Proposed Stay Extension Date**”).
32. The Proposed Stay Extension Date is supported by CFS#5 and provides the Monitor with additional time to fully wind down the NALCO Group’s operations, address any further outstanding amounts owing to the Company and any residual taxation matters, coordinate with the Senior Secured Lenders on residual CCAA matters, and analyze final distributions, if any, to be made to creditors.
33. In the Monitor’s view, the NALCO Group has and continues to act in good faith and with due diligence. The Monitor does not believe that any creditor will be materially prejudiced if the stay of proceedings is extended to the Proposed Stay Extension Date.

RECOMMENDATION

34. The Monitor respectfully recommends that this Honourable Court approve the request for a stay extension through to September 30, 2023.

Dated at Calgary, this 15th day of May 2023.

ERNST & YOUNG INC.

Licensed Insolvency Trustee
acting solely in its capacity as the Monitor of the NALCO Group
and not in its personal or corporate capacity



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



Serena Daniels, CPA
Director, Ernst & Young Inc.

Appendix A –

Cash Flow Statement of The NALCO Group for the 21-Week Period Ending on September 30, 2023

The NALCO Group																							Appendix A
Consolidated Cash Flow Statement #5																							
For the period of May 7, 2023 to September 30, 2023 (the "Revised Forecast Period")																							
\$ 000's		Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17	Week 18	Week 19	Week 20	Week 21	21-week
Week ending:	Notes	May/13	May/20	May/27	Jun/03	Jun/10	Jun/17	Jun/24	Jul/01	Jul/08	Jul/15	Jul/22	Jul/29	Aug/05	Aug/12	Aug/19	Aug/26	Sep/02	Sep/09	Sep/16	Sep/23	Sep/30	total
Receipts																							
Accounts receivable collection	A	-	-	-	-	182	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	182
Insurance refund	B	-	-	-	150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150
Total receipts		-	-	-	150	182	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	332
Disbursements																							
Distribution to Senior Secured Lenders	C	-	-	(4,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(674)	(4,674)
Miscellaneous operating disbursements	D	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(70)
Government remittances	E	-	-	-	-	(90)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(90)
Restructuring / professional fees	F	-	-	-	-	(50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(50)	(100)
Total disbursements		(3)	(3)	(4,003)	(3)	(143)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(727)	(4,934)
Net change in cash		(3)	(3)	(4,003)	147	39	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(727)	(4,602)
Net change in cash																							
Opening cash	G	4,602	4,599	4,595	592	739	777	774	771	767	764	761	757	754	751	747	744	741	737	734	731	727	4,602
Net change in cash		(3)	(3)	(4,003)	147	39	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(727)	(4,602)
Ending cash		4,599	4,595	592	739	777	774	771	767	764	761	757	754	751	747	744	741	737	734	731	727	-	-