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| COURT FILE NUMBER | 2201-08920 |
| COURT | COURT OF KING'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<br><br>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 | **SEVENTH REPORT OF ERNST & YOUNG INC. IN ITS CAPACITY AS THE MONITOR OF THE NALCO GROUP**<br><br>**APRIL 22, 2024** |
| ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT | **MONITOR**<br><br>Ernst & Young Inc.<br>Calgary City Centre<br>2200, 215 - 2nd Street SW<br>Calgary, Alberta T2P 1M4<br>Attention: Neil Narfason / Matt Hanrahan<br>Telephone: 403-206-5067 / 403-206-5307<br>Fax: 403-206-5075<br>Email: neil.narfason@parthenon.ey.com<br>matt.hanrahan@parthenon.ey.com<br><br>**MONITOR'S COUNSEL**<br><br>Norton Rose Fulbright Canada LLP<br>400 3rd Avenue SW, Suite 3700<br>Calgary, Alberta, T2P 4H2<br>Attn: Howard Gorman, KC / Erin Colwell<br>Telephone: 403-267-8144 / 403-267-8143<br>Email: howard.gorman@nortonrosefulbright.com<br>erin.colwell@nortonrosefullbright.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**") 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;

   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 to ensure that they could continue to operate during the course of the CCAA proceedings and to ensure that a restructuring could be pursued.

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:

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 Procedures**"); 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 extension of the Stay of Proceedings until March 4, 2023;

B. Sale Approval and Vesting Orders in accordance with the SISP Purchase and Sale Agreements ("**SISP 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.

8. On May 25, 2023, this Honourable Court issued an extension of the Stay of Proceedings until September 30, 2023.

9. On October 6, 2023, this Honourable Court issued an extension of the Stay of Proceedings until January 31, 2024.

10. On January 23, 2024, this Honourable Court issued an extension of the Stay of Proceedings until April 27, 2024.

**PURPOSE**

11. The purpose of this Seventh 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 Sixth Report of the Monitor, dated January 16, 2024;

    B. a forecast-to-actual analysis comparing the Company's forecasted cash flow statement filed for the 13-week period ending April 13, 2024 ("**CFS#7**") to actual results;

    C. the request for approval of the professional fees incurred by the Monitor and its legal counsel;

    D. the request for approval of the activities and conduct of the Monitor in relation to these CCAA Proceedings;

    E. the request for discharge of the Monitor subject to the completion of certain outstanding matters (described herein); and

    F. the Monitor's recommendations.

**BACKGROUND**

12. The NALCO Group was 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.

13. 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**

14. In preparing this Seventh Report, the Monitor has been provided with, and has relied upon, certain information, including unaudited financial information of the Company and books and records

(collectively, the "**Information**").

15. Except as described in this Seventh 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.

16. Future oriented information referred to in this Seventh 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.

17. All references to dollars are in Canadian dollars.

18. Capitalized terms not defined herein are as defined in the ARIO, the Pre-filing Report of the Monitor, the First Report, Second Report, Third Report, Fourth Report, Fifth Report or Sixth Report.

**ACTIVITIES SINCE THE FILING OF THE SIXTH REPORT OF THE MONITOR**

19. Since the filing of the Sixth Report of the Monitor, the activities of the Monitor include:

    A. winding up the Company's financial affairs;

    B. compiling information and responding to various inquiries from creditors and interested parties;

    C. collected certain government refunds including GST refunds and a Farm Support Payment; and

    D. after calculation of a provision contained within one of the SISP PSAs, concluded that no additional amounts were owing to the NALCO Group. Details of this provision were included within the Confidential Supplement to the Sixth Report of the Monitor, dated January 16, 2024.

**FORECAST-TO-ACTUAL ANALYSIS**

20. The Monitor has continuously reviewed the operations and cash flows of the Company since the Filing Date.

21. As described in further detail below, the NALCO Group had $623,000 cash on hand as at April 13, 2024, and has fully repaid all borrowings under the Amended Financing Facility, which compares to CFS#7, which forecast the NALCO Group having $488,000 cash on hand as at April 13, 2024**.**

22. The actual cash flow results for the Company from the Filing Date through to April 13, 2024 (the

"**Reporting Period**") is presented in Table 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, the forecasts outlined in CFS#4 for the period of February 12, 2023 to May 6, 2023, the forecasts outlined in CFS#5 for the period of May 7, 2023 to September 16, 2023, the forecasts outlined in CFS#6 for the period of September 17, 2023 to January 13, 2024, and the forecasts outlined in CFS#7 for the period of January 14, 2024 to April 13, 2024 (collectively, the "**Forecasts**").

**The NALCO Group**
**Consolidated Forecast to Actual** — **Table 1.0**
**For the period of August 8, 2022 to April 13, 2024 (the "Reporting Period")**

| ***$000's*** **Week ending:** | ***Notes*** | **Forecast** Period total | **Actual** Period total | **Variance ($)** Period total | **Variance (%)** Period total |
|---|---|---|---|---|---|
| **Operating receipts** | | | | | |
| Receipts | ***A*** | 24,590 | 27,833 | 3,243 | 13.2% |
| **Net operating receipts** | | **24,590** | **27,833** | **3,243** | **13.2%** |
| **Operating disbursements** | | | | | |
| Labour | ***B*** | (4,700) | (4,166) | 533 | -11.3% |
| Feed | ***C*** | (3,676) | (3,393) | 284 | -7.7% |
| Miscellaneous operating disbursements | ***D*** | (11,399) | (11,937) | (538) | 4.7% |
| Government remittances | ***E*** | (90) | - | 90 | -100.0% |
| Restructuring/professional fees | ***F*** | (2,002) | (2,765) | (762) | 38.1% |
| Contingency | | (1,088) | - | 1,088 | -100.0% |
| **Total operating disbursements** | | **(22,955)** | **(22,261)** | **694** | **-3.0%** |
| **Net change in cash from operations** | | **1,635** | **5,572** | **3,936** | **240.7%** |
| **Financing** | | | | | |
| Interim Financing - principal draw / (repayment) | ***G*** | 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 | ***H*** | - | 16,295 | 16,295 | - |
| Distribution to Senior Secured Lenders | | (4,000) | (21,475) | (17,475) | 4 |
| **Total other receipts / disbursements** | | **(4,000)** | **(5,180)** | **(1,180)** | **0** |
| **Net change in cash** | | | | | |
| Opening cash | ***I*** | - | 252 | 252 | 0.0% |
| Net change in cash from operations | | (2,365) | 5,572 | 7,936 | -335.6% |
| 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 | | - | (21,475) | (21,475) | 0.0% |
| **Ending cash** | | **(1,391)** | **623** | **2,014** | **-144.8%** |

23. The Monitor notes that there were material variances between the NALCO Group's actual cash flows and CSF#2, CFS#3, CFS#4, CFS#5, CFS#6 and CFS#7 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, CFS#4 included in the Third Report, CFS#5 included in the Fourth Report, CFS#6 included in the Fifth Report, and CFS#7 included in the Sixth Report.

24. The Monitor's comments on the material variances between the Company's actual cash flows and the Forecasts 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. government remittances were lower than anticipated due to the Company being in a tax refund position, rather than a tax owing position as originally forecast;

F. professional fees were higher than initially forecast due to the complexity of the NALCO Group's operations and the CCAA proceedings generally;

G. the Monitor initially drew $1.0M under the Amended Financing Facility but was able to repay this amount in full during the Reporting Period;

H. proceeds were received from the sale of NALCO Group assets pursuant to the SISP PSAs; and

I. the NALCO Group held $252,000 as at the Filing Date. This cash balance was agreed to bank statements.

**APPROVAL OF PROFESSIONAL FEES**

25. Fees of the Monitor and its legal counsel, Norton Rose Fulbright Canada LLP ("**NRF**"), incurred throughout these CCAA Proceedings since the Filing Date, are as follows:

A. the Monitor's and NRF's fees and expenses are $1,732,986 (including applicable taxes); and

B. The Monitor has approximately $1,591 of unbilled time to date.

26. The Monitor notes that actual "Restructuring/professional fees" shown above at Table 1.0 totals approximately $2,765,000. In additional to the fees of the Monitor and its counsel, this amount also includes fees paid to the Senior Secured Lender's financial advisors and legal counsel, as well as fees paid to the Selling Agent.

27. The Monitor believes the foregoing fees are appropriate and reasonable in the circumstances given the length and complexity of the CCAA Proceedings. Through the Enhanced Powers granted by this Court, the Monitor has carried on the Business of the NALCO Group since the Filing Date. From the Filing Date to the closing of the PSA with the West Group in January 2023, the Monitor managed a significant number of employees and oversaw the care of a significant number of live animals.

28. It is the Monitor's opinion that its counsel's services were necessarily incurred, duly authorized and rendered, and that the hours and rates charged are in the Monitor's opinion fair and reasonable in the circumstances.

29. Copies of the invoices of the Monitor and NRF have not been appended to this Seventh Report; however, subject to redaction for privilege, the Monitor is prepared to make copies of such records available to the Court, if necessary.

30. The Monitor respectfully requests the approval by the Court of the fees and disbursements incurred by the Monitor and NRF (the "**Professional Fees**").

31. The Monitor estimates that additional fees to be incurred by the Monitor and its counsel to complete the administration of the CCAA proceedings will be less than $15,000 (the "**Anticipated Professional Fees**"). The Monitor respectfully requests the pre-approval by the Court of the Anticipated Professional Fees.

## MONITOR'S ACTIVITIES AND REPORTS

32. The Monitor respectfully requests that the Court approve of its conduct and activities described in the First Report, Second Report, Third Report, Fourth Report, Fifth Report, Sixth Report, and this Seventh Report (the "**Conduct**").

## REMAINING ACTIVITIES

33. To bring these CCAA proceedings to an end, the Monitor advises that the following actions/matters are required to be resolved and it is the intention of the Monitor to do so in short due course on approval by the Court of the matters noted in this report. These matters include:

A. the NALCO Group is the plaintiff in an action in the Brampton Small Claims Court with respect to a dispute over accounts receivables owing from a NALCO Group customer in the amount of approximately $32,000. The Monitor is seeking to resolve this matter; and

B. as identified in Table 1.0, the Monitor holds approximately $623,000. Pursuant to the Interim Distribution Order granted on December 6, 2022, the Monitor will distribute these funds to the Senior Secured Lenders, subject to the payment of any outstanding professional fees. Any distribution will be made in consultation with the Senior Secured Lenders

(together, the "**Remaining Activities**").

**DISCHARGE OF MONITOR AND TERMINATION OF THESE CCAA PROCEEDINGS**

34. After completion of the Remaining Activities, the NALCO Group's CCAA proceedings will be materially complete and no further administrative matters remain for the NALCO Group or the Monitor.

35. Accordingly, the role of the Monitor will be complete and as such, the Monitor is requesting its discharge and termination of the CCAA proceedings upon:

A. completion of the Remaining Activities; and

B. filing of a termination certificate by the Monitor (the "**Termination Certificate**")

(the "**Discharge**" and the "**Termination**").

36. The Monitor is not aware of any reason why it should not receive a Discharge and why the Termination should not be granted.

37. The proposed Termination Certificate is attached as Exhibit A to the Monitor's Application for a discharge and termination order (the "**Conditional Termination Order**").

**RECOMMENDATIONS**

38. The Monitor respectfully recommends and requests that this Honourable Court approve the proposed Conditional Termination Order.

Dated at Calgary, this 22nd day of April, 2024.

**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
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