

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**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  
NFC ACQUISITION GP INC., NFC ACQUISITION CORP. AND  
NFC LAND HOLDINGS CORP.**

**SECOND REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR**

February 13, 2012

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**SECOND REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR**

1. On January 17, 2012, pursuant to an application brought before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) by NFC Acquisition GP Inc., NFC Acquisition Corp. and NFC Land Holdings Corp. (collectively, the “**Applicants**” and together with NFC Acquisition L.P., and New Food Classics, “**NFC**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), the Honourable Mr. Justice Morawetz made an initial order (the “**Initial Order**”) in respect of NFC, which, *inter alia*, appointed FTI Consulting Canada Inc. as monitor (the “**Monitor**”), with the powers and obligations set out in the Initial Order and as set forth in the CCAA. A copy of the Initial Order is contained in the **NFC Compendium of Orders**, filed herein, at Tab 1.

2. NFC is in the business of manufacturing value-added meat and meatless protein consumer products in Canada. NFC operates out of two certified (by the Canadian Food

Inspection Agency, U.S. Department of Agriculture, and Hazard Analysis Critical Control Points) production facilities in Canada, located in St. Catharines, Ontario and Saskatoon, Saskatchewan. The Applicants have experienced financial losses principally as a result of entering into fixed wholesale pricing contracts with its customers in 2011 and prior years, which did not allow the Applicants to pass along the substantial increases in the costs of manufacturing inputs including energy and raw materials to its customers during that time. Consequently, NFC became unable to meet their various financial obligations and filed for protection under the CCAA on January 17, 2012, with the consent of Bank of Montreal (“**BMO**”), as agent and senior secured pre-filing lender to NFC (“**Pre-filing Lender**”) and as lender under the debtor-in-possession credit facility (“**DIP Lender**” and “**DIP Credit Facility**”, respectively), approved in the Initial Order.

3. As part of the CCAA filing, the Applicants and the Monitor, in consultation with BMO, prepared a sale transaction process (the “**Transaction Process**”) for the sale of the business and assets of NFC. Paragraphs 36 to 37 of the proposed Monitor’s Pre-Filing Report, a copy of which can be found at Tab 1 of the **NFC Compendium of Monitor’s Reports**, describes the steps and timelines associated with the Transaction Process.

4. Paragraph 44 of the Initial Order, in conjunction with the endorsements of Justice Morawetz made January 17, 2012 (the “**January 17 Endorsement**”), a copy of which can be found at Tab 2 of the **NFC Compendium of Orders**, and January 20, 2012 (the “**January 20 Endorsement**”), a copy of which can be found at Tab 3 of the **NFC Compendium of Orders**, authorized the Applicants and the Monitor to implement the Transaction Process.

## PURPOSE OF THIS REPORT

5. The purpose of this report is to update and inform the Court on the following:
- (a) The activities of NFC and the Monitor in respect of the day to day operations of the NFC business since the commencement of the CCAA Proceedings;
  - (b) Payments by NFC of Pre-Filing Liens;
  - (c) NFC's request for the granting of a court ordered charge in favour of Westco MultiTemp Distribution Centres Inc. ("**Westco**"), a provider of storage and transportation services to NFC, to secure such amounts as Westco is determined to be entitled to in respect of accrued and unpaid statutory pre-filing lien claims against NFC products in Westco's possession on January 17, 2012, and the Monitor's recommendation thereon;
  - (d) The opinion of counsel to the Monitor in respect of the validity and enforceability of the security held by BMO as Pre-filing Lender over the assets of NFC in Ontario, Saskatchewan and Alberta;
  - (e) The status of the Transaction Process;
  - (f) The receipts and disbursements of NFC for the period from the start of the CCAA Proceedings to the week ending February 3, 2012;
  - (g) NFC's Cash Flow Projections for the period from the start of the CCAA Proceedings to April 13, 2012; and

- (h) The Applicants' request for an extension of the Stay Period (as defined below) until March 30, 2012, and the Monitor's recommendation thereon;

#### **TERMS OF REFERENCE**

6. In preparing this report, the Monitor has relied upon unaudited financial information of NFC, NFC's books and records, certain financial information prepared by NFC and discussions with NFC's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.

7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the affidavit of Brian Cram, President and Chief Executive Officer of NFC, sworn January 16, 2012 (the "**Cram Affidavit**") filed in support of the application for the Initial Order, the Pre-Filing Report, the Initial Order, or the first report of the Monitor dated January 20, 2012 (the "**First Report of the Monitor**"), a copy of which can be found at Tab 2 of the **NFC Compendium of Monitor's Reports** herein.

#### **THE ACTIVITIES OF NFC AND THE MONITOR**

8. Since the commencement of the CCAA Proceedings, NFC, its management and staff have provided the Monitor with their full co-operation as well as unfettered access to NFC's premises, personnel, books, computer systems and other records. The Monitor has implemented

various procedures for the monitoring of the company's operations and is assisting NFC in their dealings with interested stakeholders, suppliers, customers and employees.

*Interested Stakeholders*

9. Pursuant to the January 17 Endorsement, and as outlined in the First Report of the Monitor, the Monitor assisted NFC in notifying parties with significant interest in the CCAA Proceedings of the Sales Process Hearing returnable January 20, 2012. Four interested stakeholders attended the courthouse immediately prior to the commencement of the Sales Process Hearing. The Monitor, together with counsel to the Monitor and NFC, spoke and answered the questions of all stakeholders that appeared the morning of January 20. As at the time the Sales Process Hearing formally commenced before Justice Morawetz, no submissions were made before the court by any interested stakeholder.

10. The Monitor has made various materials relating to the CCAA proceedings available on its website <http://cfcanada.fticonsulting.com/nfc> (the "**Monitor's Website**"), including, *inter alia*, the Monitor's Pre-Filing Report, the First Report of the Monitor, the Company's Application Material, the Initial Order, a list of creditors as of January 17, 2012, (with the exception of individual creditors), and the service list. The Monitor will continue to update the website by posting, *inter alia*, the Monitor's Reports, motion materials and Orders granted in these CCAA Proceedings.

11. In addition, the Monitor has established a toll-free number, a hotline (416-649-8097 and 1-855-344-1825) and an email address ([nfc@fticonsulting.com](mailto:nfc@fticonsulting.com)) to allow stakeholders to communicate directly with the Monitor in order to address any questions or concerns in

respect of the CCAA Proceedings. To date, the Monitor has received over eighty-five calls and emails and continues to respond to these inquiries in a timely manner.

12. Pursuant to paragraph 44 of the Initial Order, and as amended by the January 20 Endorsement, on Friday January 20, 2012 and Monday January 23, 2012, the Monitor published in the Globe and Mail (National Edition) an advertisement of the acquisition opportunity for NFC's business and assets;

13. Pursuant to paragraph 45 of the Initial Order and section 23(1) of the CCAA, the Monitor:

- (a) On Friday January 20, 2012 and Monday January 23, 2012, published in the Globe and Mail (National Edition) Notice of the CCAA Proceedings in accordance with section 23(1) of the CCAA;
- (b) On January 17, 2012, with the assistance of NFC, sent a notice in the prescribed manner to every known creditor with a claim against NFC of more than \$1,000.00; and
- (c) On January 17, 2012, posted a list of creditors, other than the names or addresses of individuals, on the Monitor's Website.

#### *Customers*

14. Immediately following commencement of the CCAA Proceedings, NFC's senior management contacted key customers to discuss the implications of the CCAA Proceedings on NFC's business, ensure continued supply of goods and services as well as to facilitate potential sales opportunities. On a weekly basis, meetings are held with NFC's largest customer to ensure

that the customer remains informed as to the Transaction Process as well as to the state of affairs of the going business while in CCAA Proceedings. In addition, senior management regularly communicates with other key customers to provide information and respond to various questions.

*Employees*

15. NFC and the Monitor have facilitated open and ongoing communication with the Company's unions as well as all non-union employees. Following the granting of the Initial Order, an employee meeting was held in Burlington for all Burlington employees and at the same meeting, a conference was call set up for Calgary employees to dial in. During this meeting, Brian Cram, Executive Officer of NFC, explained the CCAA Proceedings and the Transaction Process as well as answered any questions raised. Employees were also informed of the Monitor's website, hotline and email-box should they wish to obtain any additional information.

16. In addition to the foregoing, the General Manager in Saskatoon as well as the Vice President of Product Development and Quality Assurance in St. Catharine's also conducted employees meetings at their respective plants to discuss the CCAA Proceedings and the Transaction Process.

17. With exception to the resignation of four non-unionized employees since the commencement of the CCAA Proceedings, there have been no changes to the number or scope of NFC's workforce.

*Suppliers*

18. As described in more detail below, since the start of the CCAA Proceedings, the Applicant and the Monitor have had numerous discussions with NFC's suppliers to ensure the



continued post-filing supply of goods and services to NFC. As at the time of the CCAA filing, many of NFC's suppliers of raw materials were already operating on a COD basis and continue to do so post-filing.

19. NFC uses numerous warehouse service suppliers including Millard Refrigerated Services Inc., ("**Millard**") Westco Multi Temp Distribution Centres Inc., ("**Westco**") and Confederated Freezers ("**Confederated**") in order to assist in the operations and logistics of transporting its product:

- (a) Millard is a Brampton, Ontario freezer warehouse that provides storage services to NFC;
- (b) Westco is a Saskatoon, Saskatchewan freezer warehouse that provides storage and transportation services to NFC;
- (c) Confederated is a freezer warehouse that provides storage of raw material for the St. Catharines facility.

20. As of January 17, 2012, Westco and Millard were in possession of product valued at approximately \$6.5 million and \$4.5 million respectively (the "**On Hand Goods**"). Both Westco and Millard claimed to be entitled to statutory possessory liens for amounts owed on account of services supplied to NFC in respect of such On Hand Goods prior to the making of the Initial Order.

21. With the consent of BMO and Toronto Dominion Bank ("**TD**", and together with BMO, the "**Secured Creditors**"), NFC and the Monitor entered into arrangements with Millard and Westco in order to obtain the release of the On Hand Goods. NFC, the Monitor, and the

Secured Creditors acknowledged and agreed to preserve the treatment, including validity, perfection and priority, of any unpaid and accrued statutory lien claims asserted by Millard and Westco over the On Hand Goods as they ranked as of the date of the Initial Order and to extend such lien claims to the sale proceeds of On Hand Goods, notwithstanding the release of possession thereof.

22. Given the magnitude of its asserted pre-filing statutory lien claim amount, Westco also required, as a condition of releasing On Hand Goods, that NFC request the Court on February 16 for a Court ordered super priority charge over the Property as security for the amount which Westco is ultimately determined to be owed. This proposed charge is discussed in further detail below.

23. In addition to the foregoing, to facilitate continuous and uninterrupted post-filing supply of products and services, NFC, and the Monitor entered into deposit arrangements with certain suppliers, including *inter alia* Westco and Millard. Such deposit arrangements enables NFC to make payment for post-filing goods and services in weekly arrears thereby avoiding the administrative burden and costs of having to calculate and issue COD cheques on a daily basis. In order to protect the position of such post-filing suppliers, prescribed amounts have been deposited by NFC into a post-filing supplier trust account established and maintained by the Monitor to stand as security for the payment for such post-filing goods and services in the event that NFC fails to make payment to the supplier in a timely manner.

### *Repudiations*

24. Since the date of the Initial Order, NFC has not issued any repudiation notices. NFC continues to evaluate contracts in order to determine which, if any, are going to be repudiated in accordance with the Initial Order.

### **PRE-FILING LIEN PAYMENTS**

25. Confederated claimed to be entitled to assert statutory possessory liens for the approximate amount of \$11,000 (the “**Confederated Lien**”) owed on account of services supplied to NFC in respect of on hand goods prior to the making of the Initial Order.

26. With the consent of BMO, NFC agreed to make full payment of the Confederated Lien. Confederated subsequently released existing product to NFC for delivery to the St. Catharines Plant.

### **GRANTING OF A PRE-FILING LIEN CHARGE IN FAVOUR OF WESTCO**

27. After numerous discussions, Westco, NFC, the Monitor and the Secured Creditors entered into a letter agreement dated as of February 7, 2012 (a copy of which is attached hereto as **Appendix “A”**) pursuant to which, *inter alia*, NFC agreed to seek a Court ordered charge on the Property to secure Westco’s pre-filing statutory lien amount, up to the maximum amount of \$450,000, (the “**Pre-Filing Lien Charge**”) and ranking immediately behind the Administration Charge under the Initial Order.

28. NFC’s business is entirely dependent on the ability to store and provide uninterrupted flow of its product from its storage facilities to meet customer demand on a timely basis. Westco is a major supplier of both storage and transportation services and therefore any interruption of supply has an adverse impact upon NFC’s relationships with customers; which if

compromised, would likely diminish the value of NFC's business as a going concern during the Transaction Process.

29. The implementation of a Pre-Filing Lien Charge over all of the Property will alleviate the administrative burden, upon NFC and the Monitor, of having to trace and segregate the specific proceeds of sale of the On Hand Products released by Westco and sold by NFC to its customers. The proposed ranking of the Pre-filing Lien Charge does not prejudice any party economically. Westco's pre-filing lien over On Hand Goods ranks in priority to all Court ordered charges pursuant to section 40 of the Initial Order, and therefore, ranks ahead of the Director's Charge, the DIP Charge and the existing secured claims of the Secured Creditors. It is therefore only the scope of the proposed Pre-filing Lien Charge that has broadened from a limited charge over the Proceeds of On Hand Goods to a charge that encompasses all of the Property of NFC.

30. In the Westco Agreement, the Secured Parties have consented to the granting of the Pre-filing Lien Charge and its priority. Further, the Monitor has reviewed the basis upon which NFC and Westco have agreed to the quantum of the proposed Pre-Filing Lien Charge, and is of belief that the amount no greater than \$450,000 is reasonable in the circumstances and that the appropriate mechanisms are in place to determine the actual amount to which Westco is entitled under the Pre-filing Lien Charge.

#### **REVIEW OF THE BMO SECURITY**

31. As reported in the Pre-filing Report, the Monitor's counsel, Fasken Martineau DuMoulin LLP ("**Fasken**") was asked to conduct a review of security held by the Bank of Montreal ("**BMO**"). Fasken has now rendered an opinion to the Monitor with respect to the

validity and perfection thereof in respect of NFC's property located in the Provinces of Ontario and Alberta (the "**Fasken's Opinion**").

32. A similar opinion was also obtained by the Monitor with respect to the validity and perfection of BMO's personal property security in respect of NFC's property located in the Provinces of Saskatchewan by McDougall Gauley LLP (the "**McDougall Opinion**").

33. The opinions of McDougall and Fasken state that (subject to the assumptions and qualifications contained therein) BMO's personal and real property security is valid and enforceable as against a trustee in bankruptcy of the NFC entities over the assets of NFC located in the Provinces of Ontario, Saskatchewan and Alberta. The Applicants have advised that Ontario, Saskatchewan and Alberta are the only Canadian jurisdictions in which the Applicants own material assets.

#### **THE TRANSACTION PROCESS**

34. Since the commencement of the CCAA Proceedings, NFC and the Monitor have taken steps to implement and carry out the Transaction Process as described in the Pre-Filing Report and approved in paragraph 44 of the Initial Order, including the following:

- (i) Immediately following the making of Initial Order, the Monitor contacted 11 parties which had been identified by the Applicants as possible qualified purchasers of the Applicants' businesses on a going-concern and that were likely to be acceptable to NFC's major customers. The Monitor also promptly contacted NFC's largest customers to identify additional possible qualified purchasers;

- (ii) On Friday January 20, 2012 and Monday January 23, 2012, the Monitor published the Sales Ad. As a result of the foregoing, forty-one prospective purchasers (the “**Prospective Purchasers**”) were identified and in contact with the Monitor. Of those forty-one parties, twenty-two parties executed Confidentiality Agreements and received the Confidential Information Memorandum.
  
- (iii) Additional details regarding the number of Expressions of Interest received by the Monitor as of the January 30, 2012, Transaction Process deadline, as well as the parties participating in Phase 2 of the Transaction Process will be set out in the Confidential Supplement to the Monitor’s Second Report, to be filed after the February 13, 2012 Transaction Process deadline.

#### **RECEIPTS AND DISBURSEMENTS OF NFC**

35. The Applicants’ actual cash flow on a consolidated basis for the period from the start of the CCAA Proceedings to the week ending February 3, 2012 (the “**Current Period**”), together with an explanation of key variances as compared to the Cash Flow Projection is attached hereto as **Appendix “B”**. Actual net cash flows for the Current Period were approximately \$1.25 million better than the Cash Flow Projections, as summarized below:

<b>Week Ending</b>	<b>Forecast</b>	<b>Actual</b>	<b>Difference</b>
	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>
<b>Cash Inflows</b>			
AR Collections	3,166	3,536	370
<b>Total Cash Inflows</b>	<b>3,166</b>	<b>3,536</b>	<b>370</b>
<b>Cash Outflows</b>			
AP Trade	3,952	3,339	613
Payroll & Benefits	1,157	1,120	37
Rent & Utilities	327	78	249
Other	340	561	(221)
Contingency	80	-	80
<b>Total Cash Outflows</b>	<b>5,856</b>	<b>5,098</b>	<b>759</b>
<b>Net Operating Cashflow</b>	<b>(2,690)</b>	<b>(1,562)</b>	<b>1,128</b>
<b>Restructuring Costs</b>			
Professional Fees	495	373	122
<b>Total Restructuring Costs</b>	<b>495</b>	<b>373</b>	<b>122</b>
<b>Net Cash Flow</b>	<b>(3,185)</b>	<b>(1,934)</b>	<b>1,250</b>
<b>Opening Revolver Balance</b>	<b>16,511</b>	<b>16,402</b>	<b>(108)</b>
Net Cashflow	3,185	1,934	(1,251)
DIP Funding	(2,495)	(1,700)	795
<b>Ending Revolver Balance</b>	<b>17,200</b>	<b>16,636</b>	<b>(564)</b>

## REVISED CASH FLOW PROJECTIONS

36. Management of NFC has advised the Monitor that sales in January 2012 were approximately \$700,000 lower than forecast, primarily as a result of events surrounding the CCAA Proceedings and the Transaction Process. Management expects this timing difference to reverse over the coming weeks as customers continue to place sales orders in February that were originally forecast for January.

37. NFC has not prepared a revised cash flow forecast for the period as:

- (a) the Cash Flow Projections currently extends to April 13, 2012, and therefore covers the period including the proposed revised extension of the stay period date (as described in greater detail below); and

- (b) the assumptions underlying the Cash Flow Projections have not materially changed.

38. The Cash Flow Projections, submitted with the Proposed Monitor's Pre-Filing Report, commencing from the start of the CCAA Proceedings and ending April 13, 2012 have not changed and are re- attached hereto as **Appendix "C"**.

#### **NFC'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD**

39. The stay period currently expires on February 16, 2012 (the "**Stay Period**"). Continuation of the stay proceedings is required for NFC to complete the Transaction Process and implement a process to distribute proceeds from the sale of the NFC assets. Accordingly, NFC now seeks an extension of the stay period to March 30, 2012. While it is expected that NFC will be appearing before the Court on one or more occasions before March 30, 2012, NFC and the Monitor believe a longer extension to the Stay Period is advantageous to all NFC stakeholders given that the current Transaction Process, if implemented in an orderly fashion, is expected to yield an amount substantially in excess of the amount likely realizable from a liquidation of NFC's assets on a shut-down basis. An extension of the Stay Period also further diminishes uncertainty amongst employees, suppliers, customers and other interested parties.

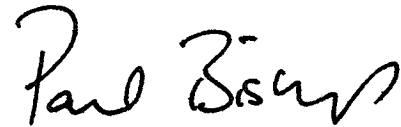
40. Pursuant to the DIP Agreement, NFC's currently authorized DIP Financing requires the approval of BMO to be extended beyond February 21, 2012, following the receipt and review of Final Offers by BMO.

41. The Monitor believes that the various stakeholders and creditors of NFC would not be materially prejudiced by an extension of the Stay Period to March 30, 2012. The Monitor is also of the belief that NFC has acted, and is acting, in good faith and with due diligence and



that circumstances exist that make an extension of the Stay Period to March 30, 2012 appropriate.

FTI Consulting Canada Inc.  
Monitor of New Food Classics

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive style with a large initial "P" and a stylized "B".

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Name: Paul Bishop  
Title: Senior Managing Director,  
FTI Consulting Canada Inc.

**APPENDIX A**



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February 7, 2012

VIA email

Erla Glesby  
President/CEO  
Westco MultiTemp Distribution Centres Inc.  
1555 Chevrier Blvd.  
Winnipeg, Manitoba  
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**Re: In the Matter of a Plan of Compromise or Arrangement of NFC Acquisition GP Inc., NFC Acquisition L.P., NFC Acquisition Corp., New Food Classics and NFC Land Holdings Corp. (collectively, "NFC"), Court File No. CV12-955400CL**

On January 17, 2012, NFC sought and obtained protection under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to an Order (the "Initial Order") of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice. Pursuant to the Initial Order, FTI Consulting Canada Inc. was appointed as the monitor of NFC (the "Monitor"). A copy of the Initial Order can be found on the Monitor's website at <http://cfcanada.fticonsulting.com/nfc>.

We are writing to you in order to set out the terms of arrangements between Westco MultiTemp Distribution Centres Inc. ("Westco"), NFC and the Monitor, which have been agreed to by Bank of Montreal as DIP Lender and as senior secured lender to NFC ("BMO"), and by TD Capital Mezzanine Partners Management Ltd. ("TD", and together with BMO, the "Secured Creditors"). The arrangements deal with two related but distinct issues, namely (i) the treatment and preservation of Westco's accrued and unpaid statutory lien claims ("Pre-filing Lien Claim") under the applicable legislation in respect of NFC products on hand in Westco's warehouse on January 17, 2012 ("On Hand Products"); and (ii) to establish procedures to protect Westco as a post-CCAA filing supplier of storage (from January 17 onward), handling and shipping/transportation services on behalf of NFC (the "Post-filing Services") and to avoid costly and time consuming calculation and remittance of daily payments to Westco for Post-filing Services.

#### Post-filing Services

The Initial Order (and, in particular, paragraph 17) requires all persons having agreements or arrangements with NFC for the supply of goods and services to continue to supply in accordance with the normal payment practices previously in place with NFC or such other practices as may be agreed upon by the supplier, NFC and the Monitor. The Initial Order and the CCAA also provide that no party is required to extend credit to NFC.

It is not practicable for NFC to calculate and make payments to Westco for Post-filing Services rendered on a daily basis. As such, and further to our recent discussions, in order to protect the position of Westco as a supplier of Post-filing Services, NFC, the Monitor and Westco will enter into the following arrangements for

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the period effective January 17, 2012, until March 31, 2012, unless otherwise terminated or extended by agreement of Westco and the Monitor (the "Term").

1. NFC and Westco have together determined that the projected average weekly cost of Post-filing Services to be requested to be performed by Westco between the date hereof and March 30 is approximately \$100,000, inclusive of HST. Within 2 Business days of the execution of this agreement, NFC will transfer \$200,000 (the "Deposit Amount"), into a trust account (the "Monitor's Trust Account") which has been established and maintained by the Monitor (such deposited funds are hereinafter referred to as the "Westco Post-Filing Trust Amount"), as security for payment of the Post-filing Services provided by Westco. In the event that the Post-filing Services requested by NFC during a given week are reasonably anticipated to exceed the Deposit Amount, NFC shall make an interim payment to Westco on account of such requested Services during the week, such that Westco's remaining exposure for the week is fully covered by the Deposit Amount.

2. By 12:00 p.m. (all times Eastern) on Friday of each week during the Term, Westco shall render and deliver by email (with a copy to the Monitor at Jodi.Porepa@fticonsulting.com) an invoice to NFC for (i) the Post-filing Services which have been provided by Westco to NFC during the seven days commencing the previous Friday (ie: through to end of day Thursday) ("Post-Filing Weekly Invoice").

3. By 12:00 p.m. on each Monday during the Term, NFC shall pay (the "NFC Payment") to Westco by wire transfer the amount of the Post-Filing Weekly Invoice (or such greater or lesser amount agreed to by Westco and NFC in writing, i.e. corrected for any inaccuracies in the Post-Filing Weekly Invoice), and shall, by 5:00p.m., send Westco an email confirming that the wire payment has been initiated, containing the wire details as they are provided by BMO ("Confirming Email"). In the event of an unresolved *bona fide* dispute between NFC and Westco over any portion of the Post-Filing Weekly Invoice amount (a "Disputed Amount"), the Disputed Amount shall be paid by NFC to the Monitor and held in the Monitor's Trust Account pending resolution by agreement of NFC and Westco, or Court order. Westco shall be entitled to withhold providing Post-Filing Services to NFC after the close of business on any Monday during the Term that Westco has not received the Confirming Email by 5:00pm., until such time as Westco has received confirmation of the receipt of the NFC Payment into its bank account.

4. In the event that Westco has not received the NFC Payment for the Prior Week by 5:00p.m. on a Tuesday, it shall immediately notify the Monitor of such non-receipt by email at Jodi.Porepa@fticonsulting.com with a copy to NFC (a "Non Payment Notice"). Following Receipt of a Non Payment Notice, the Monitor shall, by 12:00 noon the following Business Day, remit to Westco, from the Deposit Amount, the amount of the Post-Filing Weekly Invoice (up to the Deposit Amount) by wire transfer to Westco.

5. Westco shall be entitled to continue to withhold providing Post-filing Services to NFC after the close of business on any Tuesday during the Term that Westco has not received the NFC Payment, until such time as NFC has replenished the Monitor's Trust Account back to the full Deposit Amount and evidence thereof has been provided to Westco. In the event that the Deposit Amount is not replenished by NFC within 3 business days, Westco may deliver an invoice addressed to NFC to the Monitor at Jodi.Porepa@fticonsulting.com for unbilled Post-filing services provided to NFC prior to the suspension thereof, and the Monitor shall pay that Invoice (subject to holding back any Disputed Amount) from funds in ~~the~~ the Monitor's Trust Account, up to the remaining portion of the Deposit Amount.

### No Set Off

In addition to the foregoing, the parties agree that any amounts received by Westco from NFC or the Monitor hereunder on account of Post-filing Services shall not be applied on account of, or set off against, any amounts owing by NFC to Westco prior to the date of the Initial Order.

### Pre-filing Lien Claims

NFC, the Secured Creditors and the Monitor each hereby acknowledge that the release by Westco of any of the On Hand Products held by Westco pursuant to the terms of its agreements with the Debtor shall be without prejudice to the perfection (including, without limitation, perfection by possession), quantification, allocation, scope or validity of Westco's Pre-Filing Lien Claims in respect of such On Hand Products. Westco has asserted that it has Pre-Filing Lien Claims over On Hand Products of up to a maximum amount of \$450,000 (the "Lien Cap"), which amount has not been agreed to by NFC or the Monitor. It is the intention of Westco, NFC and the Monitor to work together to agree, by March 31, 2012, upon the total amount properly payable to Westco in respect of its Pre-filing Lien Claim over On Hand Goods released from Westco's possession pursuant to this Agreement, failing which, the Monitor shall seek the advice and direction of the Court as to the amount so payable to Westco, to a maximum amount equal to the Lien Cap (the "Verified Lien Amount").

The Verified Lien Amount shall be due and payable to Westco on the earlier of: (i) termination of this Agreement; (ii) termination of the CCAA proceedings; or (iii) the Court approval of a distribution of the proceeds of sale or liquidation of all or substantially all of the assets of NFC.

The parties to this Agreement hereby consent and agree to the following:

- a) NFC and the Secured Creditors confirm and agree that the Prefiling Lien Claim of Westco up to the Verified Lien Amount, shall extend to, and form a lien over, the direct or indirect proceeds arising from any sale of the On Hand Products by NFC, or the sale of any Accounts Receivable arising in respect of the sale of On Hand Products (the "Proceeds"), with the same scope, validity and priority as the Pre-filing Lien Claim over On Hand Products;
- b) Any and all interests that the Secured Creditors may now have or hereafter acquire in and to the Proceeds be and are hereby postponed and subordinated to the security constituted by the Westco Prefiling Lien Claim over the Proceeds up to the Verified Lien Amount, to the same extent of the existing, scope, validity and priority of the Westco Pre-filing Lien Claim over On Hand Products;
- c) At the stay extension motion to be brought by February 16, 2012, NFC undertakes to request a Court ordered charge in favour of Westco in and to the the Property (as defined in the Initial Order) as security for the Verified Lien Amount (the "Westco Pre-filing Lien Charge"), ranking immediately behind the Administrative Charge (as such term is defined in the Initial Order). The Secured Creditors hereby consent to the creation and ranking of the Westco Pre-




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filing Lien Charge. In the event that the Court does not order the Westco Pre-filing Lien Charge on February 16, 2012, Westco may thereafter withhold the provision of Post-filing Services to NFC until such time as the parties (acting diligently and reasonably) negotiate the terms of a further agreement to secure, preserve and protect the Westco Pre-filing Lien Claim in respect of On Hand Products released to date and to be released by Westco under such further agreement, or failing such an agreement, pending further order of the Court.

If you agree with the foregoing, please sign and return a copy of this letter, which will constitute the agreement of Westco, NFC, the Secured Creditors and the Monitor with respect to the subject matter hereof.

Yours very truly,

**FTI Consulting Canada Inc., in its capacity as  
CCAA Monitor of NFC Acquisition GP Inc.,  
NFC Acquisition L.P., NFC Acquisition Corp.,  
New Food Classics and NFC Land Holdings Corp.**

  
\_\_\_\_\_  
Per: Jamie Engen, Managing Director

The Undersigned hereby acknowledge and agree to terms of this Letter Agreement as of the date first written above.

**NFC Acquisition GP Inc., NFC Acquisition L.P.,  
NFC Acquisition Corp., New Food Classics  
and NFC Land Holdings Corp.**

\_\_\_\_\_  
Per:

**Westco MultiTemp Distribution Centres Inc.**

\_\_\_\_\_  
Per:

**Bank of Montreal**



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---

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**NFC Acquisition GP Inc., NFC Acquisition L.P.,  
NFC Acquisition Corp., New Food Classics  
and NFC Land Holdings Corp.**



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Per: **BRIAN A. CRAM**  
**PRESIDENT & CEO**  
Westco MultiTemp Distribution Centres Inc.

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Per:

**Bank of Montreal**





**F T I**  
CONSULTING

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Yours very truly,

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NFC Acquisition L.P., NFC Acquisition Corp.,  
New Food Classics and NFC Land Holdings Corp.**

\_\_\_\_\_  
Per: Jamie Engen, Managing Director

The Undersigned hereby acknowledge and agree to terms of this Letter Agreement as of the date first written above.

**NFC Acquisition GP Inc., NFC Acquisition L.P.,  
NFC Acquisition Corp., New Food Classics  
and NFC Land Holdings Corp.**

\_\_\_\_\_  
Per:

**Westco MultiTemp Distribution Centres Inc.**

*Erla Glesby*  
\_\_\_\_\_  
Per: **ERLA GLESSBY, PRESIDENT + CEO**

**Bank of Montreal**



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If you agree with the foregoing, please sign and return a copy of this letter, which will constitute the agreement of Westco, NFC, the Secured Creditors and the Monitor with respect to the subject matter hereof.

Yours very truly,

**FTI Consulting Canada Inc., in its capacity as  
CCAA Monitor of NFC Acquisition GP Inc.,  
NFC Acquisition L.P., NFC Acquisition Corp.,  
New Food Classics and NFC Land Holdings Corp.**

---

Per: Jamie Engen, Managing Director

The Undersigned hereby acknowledge and agree to terms of this Letter Agreement as of the date first written above.

**NFC Acquisition GP Inc., NFC Acquisition L.P.,  
NFC Acquisition Corp., New Food Classics  
and NFC Land Holdings Corp.**

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Per:

**Westco MultiTemp Distribution Centres Inc.**

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Per:

**Bank of Montreal**

*L.M. Jean van der Broeck  
Senior Manager.*

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\_\_\_\_\_  
Per:

**TD Capital Mezzanine Partners Management Ltd.**

  
\_\_\_\_\_  
Per:

**APPENDIX B**  
**Variance in Actual Receipts and Disbursements**

The Applicants' actual cash flow on a consolidated basis for the period from the start of the CCAA Proceedings to the week ending February 3, 2012 (the "Current Period"), was approximately \$1.25 million better than the Cash Flow Projections, as summarized below:

<b>Week Ending</b>	<b>Forecast \$000s</b>	<b>Actual \$000s</b>	<b>Difference \$000s</b>
<b>Cash Inflows</b>			
AR Collections	3,166	3,536	370
<b>Total Cash Inflows</b>	<b>3,166</b>	<b>3,536</b>	<b>370</b>
<b>Cash Outflows</b>			
AP Trade	3,952	3,339	613
Payroll & Benefits	1,157	1,120	37
Rent & Utilities	327	78	249
Other	340	561	(221)
Contingency	80	-	80
<b>Total Cash Outflows</b>	<b>5,856</b>	<b>5,098</b>	<b>759</b>
<b>Net Operating Cashflow</b>	<b>(2,690)</b>	<b>(1,562)</b>	<b>1,128</b>
<b>Restructuring Costs</b>			
Professional Fees	495	373	122
<b>Total Restructuring Costs</b>	<b>495</b>	<b>373</b>	<b>122</b>
<b>Net Cash Flow</b>	<b>(3,185)</b>	<b>(1,934)</b>	<b>1,250</b>
<b>Opening Revolver Balance</b>	<b>16,511</b>	<b>16,402</b>	<b>(108)</b>
Net Cashflow	3,185	1,934	(1,251)
DIP Funding	(2,495)	(1,700)	795
<b>Ending Revolver Balance</b>	<b>17,200</b>	<b>16,636</b>	<b>(564)</b>

Explanations for the key variances in actual receipts and disbursements as compared to the Cash Flow Projections are as follows:

- (a) The favourable variance of \$0.4 million of AR Collections is attributable:
  - (i) \$0.3 million which relates to a permanent difference resulting from insurance proceeds received that were not forecast;

- (ii) \$0.3 million which relates to a permanent difference resulting from a HST refund received that was not forecast;
  - (iii) (\$0.10) million which relates to a difference in the timing of collections from various customers. Management expects this difference to correct itself in the coming weeks; and
  - (iv) (\$0.10) million which relates to a permanent difference resulting from lower than expected receipts.
- (b) The favourable variance of \$0.6 million of AP Trade is attributable to:
- (i) \$0.1 million which relates to timing difference resulting from a conscious effort to control costs regarding packaging supplies. Management expects this difference to reverse in the coming weeks as existing supplies are depleted;
  - (ii) \$0.1 million which relates to a timing difference resulting from the timing of receipt of invoices related to consumables. Management expects this difference to reverse in the coming weeks as invoices are received;
  - (iii) \$0.3 million which relates to a permanent difference resulting from a conscious effort to control costs regarding plant expenditures (including discretionary spending and discretionary maintenance work). Management expects that approximately \$0.1 million of the variance will be permanent with the remainder to reverse in the coming weeks; and

- (iv) \$0.1 million which relates to timing differences on various SG&A expenditures, storage and handling fees. Management expects these differences to reverse in the coming weeks.
  
- (c) The favourable variance of \$0.3 million of Rent & Utilities is attributable to:
  - (i) The timing of actual payment of rent (bi-weekly) as compared to the forecast timing of payment (on a monthly basis). Management expects this difference to reverse in the coming weeks as payment is made; and
  - (ii) The timing of receipt of invoices related to utilities and is expected to reverse in the upcoming weeks as invoices are received.
  
- (d) The unfavourable variance of \$0.2 million of Other is primarily attributable to:
  - (i) \$0.3 million related to an insurance premium payment. The Cash Flow Projections contemplated financing of the annual premiums in addition to monthly payments. Post filing, the financing option was no longer available, and BMO consented to using the DIP funds to make the payments to ensure continued insurance coverage; and
  - (ii) Offsetting timing differences that are expected to reverse in the upcoming weeks.
  
- (e) The favourable variance of \$0.1 million of Professional Fees is attributable to the timing of the receipt of invoices and is expected to reverse in the upcoming weeks as invoices are received.

**APPENDIX C**

New Food Classics  
WEEKLY CASH FLOW FORECAST

Week Ending	Week 1 1/20/2012	Week 2 1/27/2012	Week 3 2/3/2012	Week 4 2/10/2012	Week 5 2/17/2012	Week 6 2/24/2012	Week 7 3/2/2012	Week 8 3/9/2012	Week 9 3/16/2012	Week 10 3/23/2012	Week 11 3/30/2012	Week 12 4/6/2012	Week 13 4/13/2012	13 Week Total
<b>Operating Cash Flows</b>														
<b>Cash Inflows</b>														
AR Collections	1,006,240	1,087,303	1,072,955	1,567,068	1,717,068	1,617,068	1,348,728	1,424,400	1,424,400	1,424,400	1,380,724	1,838,458	2,338,458	19,247,272
<b>Total Cash Inflows</b>	<b>1,006,240</b>	<b>1,087,303</b>	<b>1,072,955</b>	<b>1,567,068</b>	<b>1,717,068</b>	<b>1,617,068</b>	<b>1,348,728</b>	<b>1,424,400</b>	<b>1,424,400</b>	<b>1,424,400</b>	<b>1,380,724</b>	<b>1,838,458</b>	<b>2,338,458</b>	<b>19,247,272</b>
<b>Cash Outflows</b>														
AP Trade	1,201,480	1,339,704	1,410,575	1,499,564	1,588,143	2,007,792	2,112,287	2,335,318	2,450,172	2,464,501	2,168,664	2,020,641	1,993,241	24,592,080
Payroll & Benefits	587,350	-	509,812	-	542,869	-	594,771	-	640,610	-	674,858	-	668,224	4,248,305
Rent & Utilities	6,338	6,338	314,367	51,124	6,321	6,321	994,896	115,034	5,598	5,598	5,598	433,672	133,799	1,405,004
Other	201,874	71,159	87,130	67,319	69,838	76,321	84,087	81,699	85,816	88,949	94,134	81,877	78,627	1,148,739
Contingency	35,000	20,000	25,000	35,000	30,000	35,000	75,000	55,000	55,000	35,000	35,000	35,000	30,000	500,000
<b>Total Cash Outflows</b>	<b>2,032,042</b>	<b>1,437,201</b>	<b>2,386,684</b>	<b>1,663,008</b>	<b>2,237,170</b>	<b>2,128,433</b>	<b>3,231,051</b>	<b>2,586,951</b>	<b>3,237,197</b>	<b>2,594,048</b>	<b>2,978,064</b>	<b>2,571,189</b>	<b>2,993,890</b>	<b>31,984,128</b>
<b>Net Operating Cashflow</b>	<b>(1,025,802)</b>	<b>(349,897)</b>	<b>(1,313,729)</b>	<b>(95,940)</b>	<b>(520,102)</b>	<b>(506,365)</b>	<b>(1,882,323)</b>	<b>(1,162,551)</b>	<b>(1,812,796)</b>	<b>(1,169,648)</b>	<b>(1,597,340)</b>	<b>(732,730)</b>	<b>(665,432)</b>	<b>(12,736,856)</b>
<b>Restructuring Costs</b>														
Professional Fees	170,000	170,000	155,000	145,000	145,000	145,000	105,000	65,000	65,000	50,000	50,000	50,000	50,000	1,365,000
KERP	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Restructuring Costs</b>	<b>170,000</b>	<b>170,000</b>	<b>155,000</b>	<b>145,000</b>	<b>145,000</b>	<b>145,000</b>	<b>105,000</b>	<b>65,000</b>	<b>65,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>1,365,000</b>
<b>Net Cash Flow</b>	<b>(1,195,802)</b>	<b>(519,897)</b>	<b>(1,468,929)</b>	<b>(240,940)</b>	<b>(665,103)</b>	<b>(653,365)</b>	<b>(1,987,323)</b>	<b>(1,227,551)</b>	<b>(1,877,796)</b>	<b>(1,219,648)</b>	<b>(1,647,340)</b>	<b>(782,730)</b>	<b>(615,432)</b>	<b>(14,101,856)</b>
<b>Opening Revolver Balance</b>														
Net Cashflow	16,510,733	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000	16,510,733
DIP Funding	1,195,802	519,897	1,468,929	240,940	665,103	653,365	1,987,323	1,227,551	1,877,796	1,219,648	1,647,340	782,730	615,432	14,101,856
<b>Ending Revolver Balance</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>	<b>17,200,000</b>
<b>Cumulative DIP Funding</b>	<b>(506,534)</b>	<b>(1,026,431)</b>	<b>(2,495,360)</b>	<b>(2,738,300)</b>	<b>(3,401,403)</b>	<b>(4,054,768)</b>	<b>(6,042,091)</b>	<b>(7,269,642)</b>	<b>(9,147,438)</b>	<b>(10,367,086)</b>	<b>(12,014,426)</b>	<b>(12,797,158)</b>	<b>(13,412,589)</b>	

- Notes**
- 1 The purposes of this Cash Flow Forecast is to determine the liquidity requirements for New Food Classics during the CCAA Proceedings.
  - 2 Operating receipts have been forecast in the normal course of business based on management's historical analysis as well as an understanding of the Company's customer base under the current economic conditions and the present situation.
  - 3 AP Trade is based on management's best estimates.
  - 4 Payroll costs and benefit costs, rent, utilities and taxes, interest costs and other operating expenses are forecast based on historical analysis, current price levels and management forecast.
  - 5 Based on historical purchasing patterns and management forecast, management does not forecast any capital expenditures for the period during the CCAA Proceedings.
  - 6 Estimated restructuring costs are based on projected costs associated with legal and professional fees relating to the CCAA Proceedings.



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 NFC ACQUISITION GP INC., NFC  
ACQUISITION CORP. AND NFC LAND HOLDINGS CORP.

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**Proceedings commenced in Toronto**

**PRE-FILING REPORT TO THE COURT SUBMITTED BY FTI  
CONSULTING CANADA INC., IN ITS CAPACITY AS MONITOR**

**FASKEN MARTINEAU DUMOULIN LLP**

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Solicitors for FTI Consulting Canada Inc., Monitor of NFC ACQUISITION GP  
INC., NFC ACQUISITION CORP. AND NFC LAND HOLDINGS CORP.