

**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 NORTH AMERICAN FUR PRODUCERS INC., NAFA PROPERTIES INC.,
3306319 NOVA SCOTIA LIMITED, NORTH AMERICAN FUR AUCTIONS
INC., NAFA PROPERTIES (US) INC., NAFA PROPERTIES STOUGHTON LLC,
NORTH AMERICAN FUR AUCTIONS (US) INC., NAFPRO LLC (WISCONSIN
LLC), NAFA EUROPE CO-OPERATIEF UA, NAFA EUROPE B.V., DAIKOKU
SP.Z OO and NAFA POLSKA SP. Z OO

(the "Applicants")

**MOTION RECORD OF THE APPLICANTS
(Re: Stay Extension Motion returnable July 26th, 2022)**

Date: July 21st, 2022

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**ONTARIO
SUPERIOR COURT OF JUSTICE
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INDEX

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(the “Applicants”)

I N D E X

Tabs	Document
1	Notice of Motion dated July 21 st , 2022
2	Affidavit of Doug Lawson July 21 st , 2022
A	Exhibit A – Email between NAFA’s counsel and Lloyd’s of London’s counsel confirming the agreement to mediate
3	Draft Stay Extension Order

TAB 1

Court File No. CV-19-00630241-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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SP.Z OO and NAFA POLSKA SP. Z OO

(the “**Applicants**”)

**NOTICE OF MOTION
(Returnable July 26, 2022)**

The Applicants (“**NAFA**” or the “**Applicants**”) will make a motion for an Order seeking the relief set out herein to Justice McEwen of the Ontario Superior Court of Justice (Commercial List), on Tuesday, July 26, 2022, at 10:00 a.m. or as soon after that time as the motion can be heard by Zoom video conference.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An Order, substantially in the form attached at **Tab 3** hereto (the “**Order**”):
 - (a) to extend the stay of proceedings (“**Stay Period**”) from July 29, 2022, to and including November 30, 2022;
 - (b) to further extend the Stay Period from November 30, 2022, up to and including January 27, 2023 (the “**Extended Stay Period**”) upon the filing of a Monitor’s

certificate (the “**Monitor’s Certificate**”) certifying that the Monitor has reviewed the Applicants’ cash flow forecast and that it projects that the Applicants have sufficient funds for the Extended Stay Period and the Applicants have obtained the consent of the Monitor, the Agent and Farm Credit Canada (“**FCC**”) to the Extended Stay Period;

(c) to approve the activities and conduct of the Monitor, and its counsel, Miller Thomson LLP, as set out in its Ninth Report to the Court dated April 23, 2022 (the “**Ninth Report**”) and its Tenth Report; and,

(d) to seal certain confidential exhibits and appendices to the Tenth Report.

THE GROUNDS FOR THE MOTION ARE:

2. Capitalized terms not defined herein shall have the meanings ascribed to them in the Amended and Restated Initial Order.

3. The Applicants require more time to continue their restructuring efforts.

NAFA’s Continued Operations

4. NAFA has continued to operate its business with the goal of reducing expenses, maximizing collections and considering its strategic options.

5. NAFA has proceeded to implement a phased asset purchase agreement with an arm’s length party, Sinobec Group Ltd. (“**Sinobec Asset Sale**”), which has been approved by this Court, which contemplated the sale of the majority of the remaining NAFA operational assets and real estate, excluding the existing mink inventory or other existing account receivable, litigation or insurance assets otherwise being actively pursued in this proceeding by NAFA.

6. The first phase of the Sinobec Asset Sale has closed, being the sale of NAFA’s intellectual property. The remaining two phases (being the sale of NAFA’s Polish real estate and its Wisconsin

real estate) is set to close on July 26, 2022, and August 31, 2022, respectively. The net proceeds from the Sinobec Asset Sale will significantly reduce debt owed to the Agent.

7. Sinobec is leasing both the Polish and Wisconsin properties pending the closing of both phases. Sinobec's monthly lease payments cover NAFA's carrying costs for the real estate.

8. During the last stay extension, NAFA's operational efforts, with the assistance of the Monitor, include the sale of fur inventory, pursuing foreign litigation, collection of long-term debts, and advancing NAFA's insurance claims.

9. NAFA also continued to reduce its operational costs.

Cash Flow Variance

10. The greatest negative variance versus the cash flow last reported to this court arises as a result of the general failure of the international fur auctions in both March and June of 2022.

11. The overall price of mink has stayed relatively stable, but the volume of mink offered and sold at auction has been substantially less than forecasted. This has resulted in a negative timing variance, not value variance, from the last cash flow forecast.

12. The major reasons for the reduced sales volume are the continued effect of the war in Ukraine, the continued strict lockdowns in China, and NAFA's lack of visibility and control over Saga's policies and procedures in the pelts it offers for sale. All factors outside the control of NAFA (or the Monitor).

13. Moreover, the Polish real estate phase of the Sinobec Asset Sale was scheduled to close during the last cash flow forecast period, but it has been moved to July 26, 2022. This has resulted, again, in a timing variance, not a value variance.

Cash Flow Forecast and Future Auctions

14. NAFA, in consultation with the Monitor, has prepared a cash flow forecast for the current proposed Stay Period.

15. The cash flow forecast demonstrates that NAFA will have sufficient funds to maintain operations through the proposed extension of the Stay Period.

16. Saga and KF will be holding in person auctions in September 2022; Saga and KF have a substantial amount of NAFA pledged fur. There is also good reason to believe that Saga will be holding an in-person auction in December 2022. NAFA expects to obtain the auction results and proceeds from the September and December auctions.

17. The remainder of the Sinobec Asset Sale is expected to close during the Stay Period.

18. It is expected that NAFA will also hold a mediation during the Stay Period with its credit policy insurer to resolve its numerous insurance claims.

19. NAFA will also endeavor to sell its remaining real estate.

20. Assuming the Sinobec Asset Sale closes in its entirety, NAFA will have far fewer assets to maintain and manage, and there will be correspondingly less monthly expenditures to hold the assets.

Other Stakeholders Interested in these CCAA Proceeding

21. Despite the timing variances noted above, the Applicants believe that there likely are sufficient remaining assets and opportunities for NAFA such that there will be funds available to provide some recovery to creditors after repayment of the Agent. Nonetheless, it is projected that repayment of the Agent will not happen within the proposed extension of the Stay Period.

22. There are a number of other stakeholders that are owed a substantial amount of money from the Applicants that would benefit from a recovery in this CCAA proceeding.

Extension

23. NAFA has been acting in good faith and with due diligence and continues to act in this manner in its relationships with its stakeholders.

24. The Monitor is supportive of NAFA seeking an extension of the Stay Period to and including November 30, 2022.

25. In an effort to minimize costs, NAFA has prepared the draft Order to include the ability of a further stay extension to January 27, 2023, or an earlier date as agreed by the Monitor, the Agent, FCC and the Applicants (defined above as the “**Extended Stay Period**”), without attendance or further Order of this Court, upon the filing of the Monitor’s Certificate certifying that the Monitor has reviewed the Applicants’ cash flow forecast and that it projects that the Applicants have sufficient funds for the Extended Stay Period and has obtained the consent of the Agent and FCC to the Extended Stay Period.

Sealing Order

26. The cash flow forecast contains commercially sensitive information that is required to be kept confidential and sealed as they contain sensitive confidential business information, and has been done with other cash flow forecasts in these proceedings.

27. The salutary effects to seal the cash flow forecast appended to the Tenth Report of the Monitor outweigh any deleterious effects to NAFA in the event that it is not sealed.

Other Grounds

28. The other grounds set out in the Affidavit of Douglas Lawson affirmed July 21, 2022;

29. The provisions of the CCAA, including section 11 thereof, and the inherent and equitable jurisdiction of this Honourable Court;
30. Rules 2.03, 3.02, 16, and 37 of the Ontario *Rules of Civil Procedure*, R.R.O 1990, Reg. 194, as amended;
31. Section 106 of the *Courts of Justice Act*, R.S.O., c. C. 43, as amended; and,
32. Such further and other grounds as counsel may advise and this Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

33. The Affidavit of Doug Lawson affirmed July 21st, 2022;
34. The Ninth Report of the Monitor, filed;
35. The Tenth Report of the Monitor, to be filed; and,
36. Such further and other evidence as counsel may advise and this Honourable Court may permit.

Date: July 21st, 2022

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Counsel for the Applicants

To: The Service List

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(the “**Applicants**”)

Email of the recipients: See the Service List

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Proceeding commenced at Toronto

NOTICE OF MOTION OF THE APPLICANTS
(Re: Stay Extension Motion returnable July 26, 2022)

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TAB 2

Court File No. CV-19-00630241-00CL

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B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO

(the “**Applicants**”)

AFFIDAVIT OF DOUGLAS LAWSON
(Affirmed July 21, 2022)

I, **DOUGLAS LAWSON**, of the City of Toronto, in the Province of Ontario,
AFFIRMAND SAY:

1. I am the President and Chief Executive Officer of North American Fur Auctions Inc. and, as such, have knowledge as to the matters which I hereinafter depose. To the extent I am recounting information provided to me by others, I have stated the source of that information and do verily believe it to be true.
2. I use the term “NAFA” or the “**Company**” to refer to the Applicants throughout this affidavit. Further, all currency stated herein is stated in U.S. dollars unless otherwise noted.
3. On October 31, 2019, NAFA commenced proceedings under the *Companies' Creditors Arrangement Act* (the “**CCAA**”) pursuant to the Order of Justice McEwen (as

amended and restated, the “**Initial Order**”). Background information about NAFA’s business is set out in the affidavit I affirmed in support of the initial CCAA application (“**Initial Affidavit**”). Capitalized terms used herein and not defined are as defined in my Initial Affidavit.

4. I affirm this affidavit in support of a motion by NAFA for an Order seeking, *inter alia*:

(a) an extension of the stay of proceedings (the “**Stay Period**”) from July 29, 2022 to and including November 30, 2022;

(b) a further extension of the Stay Period from November 30, 2022 up to and including January 27, 2023 (the “**Extended Stay Period**”) upon the filing of a Monitor’s certificate (the “**Monitor’s Certificate**”) certifying that the Monitor has reviewed the Applicants’ cash flow forecast and that it projects that the Applicants have sufficient funds for the Extended Stay Period and the Applicants have obtained the consent of the Monitor, the Agent and Farm Credit Canada (“**FCC**”) to the Extended Stay Period;

(c) Approval of the conduct of Deloitte Restructuring Inc. in its capacity as Monitor of the Applicants (the “**Monitor**”) and its counsel, Miller Thomson LLP, as set out in its Ninth Report to the Court dated April 23, 2022 and its Tenth Report to the Court, to be filed (the “**Tenth Report**”); and,

(d) To seal certain confidential exhibits and appendices appended to the Tenth Report.

Background

5. On October 31, 2019, NAFA commenced proceedings under the CCAA pursuant to the Initial Order, which was amended and restated on November 8, 2019. These CCAA proceedings have been extended several times. The last Order extending the Stay Period was granted on January 31, 2022, which initially extended the Stay Period to April 29, 2022 and then, upon the filing of a Monitor's Certificate with the consent of the Monitor, the Agent and FCC, further extended the Stay Period to July 29, 2022.

6. To date, no creditor has objected to any stay extension and there have been no contested hearings or notices of objection filed in respect of the relief obtained by the Applicants.

7. The Applicants are acting in good faith and with due diligence. I believe that the continued orderly liquidation of certain of NAFA's assets by NAFA with the Monitor's oversight, including but not limited to its remaining consignment fur inventory, and real estate assets, will likely allow for the repayment of the indebtedness owing to the Agent and thereafter there may be money available for other secured creditors and unsecured creditors, which could result in the Applicants making a plan of arrangement in these CCAA proceedings at a future date.

Operations since the January 29, 2022 Stay Extension Order

8. In accordance with the plans set out in my affidavit affirmed January 25, 2022 (my "**Last Affidavit**"), NAFA has continued to operate its business with the goal of reducing expenses, maximizing collections, and considering its strategic options. In particular, NAFA, with the assistance of the Monitor, has attended to the following (as further described hereafter):

- (a) continued to prosecute litigation against various significant borrowers that have not fully repaid NAFA for loans NAFA advanced to them in 2019 or earlier;
- (b) settled and collected certain long-term debts and pursued the settlement and collection of others;
- (c) attended to the collection of proceeds from auction houses who have been tasked with selling furs that have been pledged to NAFA as security for loans it made;
- (d) advanced its insurance claims with NAFA's insurer;
- (e) engaged in the process of finding buyers and sellers for certain fur pelts and earning a commission thereon (the "**Brokerage Business**") and continued to raise awareness of NAFA's continued presence in the international fur industry;
- (f) proceeded to implement the asset purchase agreement NAFA entered into with the Sinobec Group Inc. ("**Sinobec**"), which has been approved by this Court, which contemplated the sale of NAFA's intellectual property, software, computers and other soft assets necessary to operate the NAFA fur auction business ("**Intellectual Property**"), NAFA's Polish real estate, and NAFA's Wisconsin real estate (collectively, the "**Sinobec Asset Sale**"); and,
- (g) closed the Intellectual Property phase of the Sinobec Asset Sale. The scheduled closing date of the Polish real estate phase of the Sinobec Asset Sale is July 26, 2022, and the Wisconsin real estate phase is scheduled to close on August 31, 2022.

Cash Flow Variance and Cash Flow Going Forward

9. Throughout the period of the last stay extension, NAFA managed its cash flow and maintained sufficient liquidity notwithstanding the auction proceeds in June being significantly less than was projected and the Polish real estate phase of the Sinobec Asset Sale being scheduled to close later than originally forecast.

10. The Monitor, the Agent and FCC were sufficiently satisfied with the cash flow projections prepared by NAFA, with the assistance of the Monitor, in April 2022 to consent to the extension of the Stay Period to July 29, 2022 by the Monitor filing a certificate with the Court without necessitating a return to Court in April 2022, which would otherwise have been necessary. I understand the Monitor will report further on this in its Tenth Report.

11. I am not aware of any expenses in the last cash flow period that were materially higher than projected. The Company operated within its cash resources without borrowing further funds, notwithstanding lower than expected sale volumes at the most recent fur auction at Saga.

12. As described below, the greatest negative variance versus the cash flow last reported to this Court arises as a result of the general failure of the international fur auctions in both March and June of 2022 to achieve any significant sale levels of goods versus those offered. In both cases, the receipts received by NAFA were in the range of only 10% of what was projected in the cash flow forecast. As a result, materially less has been repaid to the Agent than was forecast. In discussions with other industry participants, NAFA has been advised that these lower sale levels have been broadly realized within the fur industry.

13. Since actual receipts and disbursements were last reported by the Monitor to the Court, the Company repaid approximately \$856,000 of the debt owing to the Agent. This amount was lower than projected. The reason for the lower repayment to the Agent is further explained in greater detail in this affidavit, but is primarily the result of the weak auction results noted above.

14. The Applicants, with the Monitor's assistance, have developed a cash flow forecast (the "**Cash Flow Forecast**") to December 2, 2022, being the proposed Stay Period. An initial draft of the Cash Flow Forecast was provided to the Agent on July 12, 2022 and a further draft of the Cash Flow Forecast was provided to the Agent on July 19, 2022 for its review and comment.

15. I reviewed the Cash Flow Forecast before affirming this affidavit and it demonstrates that the Applicants are forecast to have sufficient funds to maintain operations through the proposed Stay Period. The Cash Flow Forecast is to be appended to the Tenth Report as Confidential Appendix "1".

The Sale of NAFA's Major Operating Assets

16. As reported in my Last Affidavit, and my Affidavit sworn April 19, 2022, filed in support of the motion seeking an Approval and Vesting Order for the Sinobec Asset Sale, NAFA completed a rigorous sale process to sell its remaining major operating assets.

17. In or around April 18, 2022, NAFA entered into a phased asset purchase agreement with Sinobec to sell the Intellectual Property, its Polish real estate, and its Wisconsin real estate. The Polish real estate was NAFA's former European headquarters and the Wisconsin real estate was NAFA's former U.S. headquarters.

18. The Intellectual Property phase closed on April 29, 2022, with all net proceeds being paid to the Agent (save and except for a \$200,000 reserve as described below) immediately following closing.

19. The Polish property phase had an original closing date of July 15, 2022. In late May 2022, Sinobec indicated an intention to close the sale in June rather than July, but ultimately, despite active negotiations led by the Monitor (who has control of the sale of real estate pursuant to its expanded powers granted by the Court), the sale has not yet closed and is now scheduled to close on July 26, 2022.

20. The movement of the closing date is one of the reasons that the Agent's debt repayment was lower than was forecast during the last stay extension period, as a significant portion of the net proceeds from the sale will be paid to the Agent. These proceeds will significantly pay down NAFA's debt to the Agent, with one tranche of the indebtedness being repaid in full.

21. The Wisconsin Property sale is scheduled to close on August 31, 2022. It remains subject to a financing condition, which Sinobec has until July 29, 2022 to waive. Again, the Cash Flow Forecast contemplates that a significant amount of the net sale proceeds will be used to paydown the Agent's debt.

22. NAFA has leased both the Polish real estate and the Wisconsin real estate to Sinobec in the interim of the respective closing dates. The lease payments are set at amounts to cover NAFA's holding costs (inclusive of interest payments to the Agent). Therefore, the prolonged closing periods have had minimal direct financial impact on NAFA.

23. As a result of the reduced receipts, NAFA's professional fees have been accrued rather than being paid pending the closing of the Polish real estate phase. In addition, the Agent provided a deferral of two months of interest, totaling approximately \$200,000 which ensured the Company had sufficient funds for operations.

24. Further, a reserve in the amount of \$200,000, from the net proceeds of the Intellectual Property phase of the sale, was held, with the consent of the Agent, to provide NAFA with a cash reserve. Some of these funds were used on a temporary basis but have since been replenished.

Auction Receipts and Future Auctions

25. During the last stay extension period, Saga and KF each held two auctions: one in March 2022 and the other in June 2022. Saga also held a smaller online auction in April 2022. The vast majority of NAFA's pelts are with Saga for auction.

26. Traditionally, Saga's March auction has one of the largest proportion of goods offered for sale of the current year's offerings. However, the March 2022 auction was relatively disappointing in the volume of pelts offered, and sold only approximately of 10-20% of the total furs offered. Saga's April 2022 online auction, again, sold only about 10% of the total offering.

27. The June 2022 Saga auction had higher sales volumes than the March 2022 auction, but such volumes were still significantly lower than historical June auctions. Saga reported selling as high as 50% of its offering for some varieties of mink, but had lower volume sales for other varieties.

28. Saga's June mink auctions, like the March auctions, have traditionally been larger auctions with more pelt offerings and higher sales than other auctions during the year.

29. As noted above, these lower than expected sale volumes resulted in NAFA materially missing its projected cash receipt targets under its cash flow in both April and July 2022.

30. However, although sale volumes were down, the mink prices remained relatively stable from the previous year's levels.

31. My overall impression of these auction results is that it is difficult to determine a clear trend in both the sales volume and pricing of mink. If anything, the lack of a clear trend in mink pricing and sale volumes has been the trend for the past 2-3 years (i.e., since the start of the pandemic). Nonetheless, mink prices are higher than their lows established at the beginning of the pandemic in 2020, and likewise, the volume of sales are also much higher than the beginning of the pandemic in 2020. Still, the annual volume of mink sold at any international auction remains below what would have been considered "normal" in pre-pandemic times.

32. I also note that only a year ago, in June of 2021, at a time when the pandemic gave what proved to be a false impression that it was ended, mink prices rose significantly from 2020 price levels. It is entirely possible that such price increases could return again in 2023 as the supply of mink worldwide continues to fall dramatically, but this is not certain.

33. It is also worth noting that NAFA has very little visibility into or control of Saga's practices and procedures for which lots of pelts will be offered for sale at its auctions making it difficult to predict the volume of NAFA owned (or mink consigned to NAFA) that will be sold at a particular auction.

34. I understand the Monitor has attempted to continue to consult with Saga to satisfy itself that material quantities of NAFA mink still exist to be sold in the next auctions that Saga will be holding in September 2022. However, I understand that Saga has not provided any representations of the quantum of NAFA's mink that will be sold at its next auctions, which is consistent with its usual practice.

35. Macro political and economic factors including the war in Ukraine and the COVID-19 lockdowns in China continue to influence and affect pelt prices and volume of all fur sales.

36. The war in Ukraine has had an impact as Russians are a major buyer of pelts and the war has resulted in sanctions against Russia, including its banking systems, which has materially affected its economy. Furthermore, as reported by Saga, it has created disruptions in supply and production chains, including shipping across all parts of the world.

37. The Chinese are by far the largest purchasers of mink in the world. Although much of the world is loosening COVID-19 travel and other restrictions, China has experienced COVID-19 outbreaks that have resulted in well-publicized city-wide lockdowns and increased restrictions. This has reduced travel to the auctions and depressed buying power, interest, and logistics. I believe that these lockdowns are starting to be loosened in China, and am hopeful that it will have a positive impact on future auctions.

38. During the last stay extension period, the American Mink Exchange has also held two small auctions and continued with private treaty sales of mink. NAFA received a relatively minor amount of proceeds from these sales.

39. Overall, during the period since the last stay extension in January 2022, NAFA received approximately \$580,000 in auction proceeds. NAFA is, however, expecting to receive further proceeds from Saga in August 2022 from a post-June auction private treaty sale of mink.

Future Auctions and Sales During the Extension Period

40. During the proposed stay extension period, there will be auctions held at each of Saga and KF in September. We also anticipate that there may be a smaller Saga sponsored December auction, as was the case last year, but no such auction has been announced yet. There may also be private treaty sales conducted by Saga during the extension period.

41. Historically, these fall auctions have been smaller than the June and March auctions (due to the cyclical nature of the mink industry) and have sold lower quality goods. However, there is industry speculation that Saga intends to make the September auction larger than usual as it too needs to sell goods, both for the sake of its consignors but also in order to generate income for its own business. Nonetheless, the Cash Flow Forecast has factored in these traditionally smaller auctions in its projections at a level which more closely reflects the volumes sold at the March and June auctions.

42. The Cash Flow Forecast contains confidential business information and assumptions about the Applicants which, if disclosed, could hamper or interfere with the restructuring of the Applicants or the maximization of value. Accordingly, the Cash Flow Forecast is being filed as a confidential appendix to the Monitor's Tenth Report and a sealing Order is being sought as has been granted by the Court for previous cash flow forecasts.

Farms in Litigation - Status Update

43. My April 2021 Affidavit provided a more complete description of the litigation NAFA has commenced against several debtor farmers. I will provide a brief overview and update of the two most active of those claims, being farms known as Kestutis and Grobina, located in Lithuania and Latvia, respectively.

44. Kestutis was financed by NAFA to provide in excess of 360,000 pelts to NAFA in 2019. Grobina was financed by NAFA to provide in excess of 160,000 pelts to NAFA in 2019. Neither delivered any pelts to NAFA in 2019.

Grobina

45. Grobina is subject to its own insolvency administration proceedings in Latvia. That insolvency process began immediately prior to NAFA's own in October 2019. An administrator currently oversees Grobina's assets.

46. As reported in my Last Affidavit, NAFA has had to engage in material litigation proceedings in Latvia to attempt to recover amounts due to NAFA. The matter is still not resolved at this time.

47. As reported in my Last Affidavit, NAFA was finally successful in getting the Latvian insolvency administrator to deliver the Grobina pelts to KF, where some were sold at auction in 2021, resulting in the proceeds of \$465,000.

48. Since the last stay extension, NAFA has received a further \$15,000 in Grobina pelt proceeds from the KF auctions (with a further \$3,000 expected to be paid shortly). NAFA still has a material amount of Grobina pelts to be sold at KF.

49. KF has been more rigorous than Saga in holding a higher level of price for its remaining mink. It is my understanding that KF is motivated to ensure the mink price remains high as it may impact the compensation yet to be settled with the Danish farmers who were forced to suddenly cull their entire herds and permanently abandon mink farming as a result of Danish government imposed COVID-19 related mandates. Further, as a cooperative, KF has a responsibility to its members to protect the intrinsic value of their mink pelts held in storage and yet to be sold. KF has also announced that it may now take until 2025 to fully liquidate its holdings notwithstanding prior disclosures that it would be ceasing operations prior to that time.

50. In addition, NAFA is holding 50,047 pelts in storage in Latvia, which NAFA had seized from the entity known as “CR7”. As described in my previous affidavits in this matter, immediately before the insolvency of Grobina in 2019, Grobina allegedly “sold” a material number of the Grobina pelts to CR7, which were subject to NAFA’s security without NAFA’s permission. This has led to litigation with CR7. One of the interim outcomes of that litigation was that NAFA was able to seize the aforementioned pelts in 2021 which if NAFA is ultimately successful in its litigation against CR7 NAFA will be able to sell to offset, in part, the harm NAFA asserts was done to it by CR7.

51. Unfortunately, NAFA requires either a court order in Latvia or a resolution with CR7 in order to proceed with the sale of these pelts. As such, the pelts remain in storage and are in danger of missing another auction season if NAFA cannot reach a resolution that allows for the sale of these pelts soon.

52. Based on an update from NAFA's Latvian counsel and reflecting their efforts, I understand that the administrator of the Grobina estate has now made a finding that the contract between CR7 and Grobina was invalid, and that, in the administrator's view, it should be set aside. If this outcome is confirmed by the Latvian courts, this would mean that the 50,000 pelts being held could be released for sale through its administrator. A court hearing is scheduled in this regard on August 25, 2022.

53. Due to the timing of the mink auction cycle, the earliest these pelts could be turned into proceeds would be March or April 2023. as neither Saga nor KF would take any new pelts at this time for sale in 2022.

54. At an average price of \$15, the 50,000 Grobina seized pelts would produce \$750,000 of gross proceeds. If sold, a portion of the proceeds will likely need to be paid to Grobina's administrator on account of its costs.

Kestutis

55. NAFA commenced litigation in Lithuania against Kestutis as detailed in my previous affidavits in these proceedings.

56. On or about November 16, 2020, the Klaipėda District Court for the Republic of Lithuania issued judgment in favour of NAFA against Kestutis in the amount of €11,949,845 plus €28,752 in costs ("**Kestutis Judgment**").

57. NAFA's enforcement efforts against Kestutis were outlined in my Last Affidavit.

58. On November 16, 2021, NAFA engaged in a court supervised mediation of the Kestutis dispute in Lithuania. Canadian counsel and the Monitor attended remotely.

59. As reported in my last affidavit, NAFA has entered into a protracted mediation with Kestutis being held virtually in Lithuania. NAFA and Kestutis have had several mediation sessions that have not resulted in a signed agreement to date, but I am hopeful that a resolution can still be reached through this process. The next mediation session is scheduled for August 8, 2022. I do not want to comment any further given the negotiations are ongoing and I do not want to prejudice NAFA's position in these negotiations.

60. In the interim, NAFA is reserving all of its rights to enforce the Kestutis Judgment against any assets of Kestutis at any time, when such assets are located.

61. In this regard, Kestutis has confirmed that approximately 70,000 pelts were transferred by Kestutis to an entity known as E-Fur in Hong Kong. Kestutis has provided NAFA written authority to pursue and collect those furs or their proceeds from E-Fur.

62. NAFA has corresponded with E-Fur to seek confirmation about the status of these furs or their proceeds, but to date no response has been received from E-Fur. NAFA and/or the Monitor may seek the assistance of the Court here and in Hong Kong in the event E-Fur continues to resist NAFA's inquiries.

Insurance Claims

63. My August 2020 affidavit sets out a more detailed background regarding the insurance claims.

64. NAFA's employees, with oversight from the Monitor, prepared and filed 26 insurance claims pursuant to the policy.

65. NAFA, in consultation with the Monitor and the Agent, has agreed with NAFA's credit policy insurer, Red Rock Insurance (and its underwriter Lloyd's of London) to enter into a pre-litigation mediation to attempt to resolve these claims. Attached hereto and marked as **Exhibit "A"** is a copy of an email between NAFA's counsel and Lloyd's of London's counsel confirming the agreement to mediate.

66. It is expected that the mediation will be held in the fall of 2022. NAFA remains of the view that there will ultimately be material recovery from these insurance claims.

Long Term Debts

67. NAFA continues to have some material debts owing to it from various farms in different jurisdictions. The largest of these is the Gasiorek farm in Poland.

68. As previously reported in my last affidavit, the Gasiorek farm owed NAFA in excess of \$10,500,000 after the 2019 mink breeding year notwithstanding delivering their mink to Saga, at NAFA's direction given the circumstances of the Company at that time, in accordance with their contract. Then, in September 2021, an agreement was reached with Gasiorek in which they agreed to provide NAFA with 200,000 fresh pelts in January 2022 which were then directed and delivered to Saga for sale in NAFA's name.

69. NAFA is expecting to enter into renewed negotiations with Gasiorek in September, 2022, after the next auction to work out a settlement plan which sees further payments or mink pelts supplied in lieu of payment.

70. NAFA holds security in Poland from Gasiorek, including over certain real property, which has been reviewed by local counsel and is capable of being enforced. NAFA has agreed to forbear from enforcing that security for so long as Gasiorek remains in compliance with the

terms of the debt settlement agreement.

71. Beyond Gasiorek, NAFA is owed other amounts from other farmers in various jurisdictions. NAFA, along with the Monitor, has taken steps to renew demands against these farmers and has the support of the Agent to take further steps to enforce against some of these farms. In this regard, the Monitor recently issued new demand letters to these farmers.

Current Location and Operations

72. NAFA continues to operate out of its former Carlingview office in North America and is charged modest rent. Its lease expired at the end of 2021 and NAFA has continued to extend its lease on the same terms on a month to month basis.

Remaining Real Estate

73. NAFA owns two properties (comprising one farm) in Nova Scotia known as NAFA Farms. This farm has been under care of maintenance of a farmer who historically has supplied mink to NAFA. The properties are pledged to FCC, who maintains a first mortgage on the property. In consultation with the Monitor, FCC and the Agent, NAFA is looking at taking steps to sell these properties. NAFA has received interest in both of these properties, but no agreement has been entered into as of yet.

74. In addition, NAFA holds security over a farm in Poland owned by a farmer known as Piatak. Piatak has a long outstanding debt to NAFA which pre-dates these proceedings. NAFA holds a mortgage over that farm.

75. NAFA, in cooperation with Piatak, has found a buyer for his farm and a form of agreement has been provided to NAFA for review and for the review of the Monitor. NAFA is going to continue to explore the possible sale of this farm to the interested party.

76. Further, NAFA holds a farm in Latvia known as the Tartaks farm which was delivered to NAFA as a result of a settlement of a long term debt which pre-dates these CCAA proceedings. That farm is, unfortunately, located very close to the Belarussian border and the war in Ukraine. Nonetheless, there has been interest from at least one party in purchasing that farm. NAFA is going to continue to explore the possible sale of this farm to the interested party.

Repayment of Agent and Other Creditors

77. The Applicants continue to believe there are sufficient remaining assets and opportunities for NAFA that if realized in a timely manner may result in funds being available to provide some recovery to creditors after repayment of the Agent.

78. NAFA still has in excess of 300,000 pelts at the auction houses awaiting sale (excluding the 50,000 Grobina pelts mentioned above that are tied up in litigation). Were those pelts to all sell for an average of \$15, which is a reasonable minimum average value in my view, the proceeds from those pelts (if sold all at once at this average price) plus the projected net proceeds from the Wisconsin and Polish properties, would be sufficient to repay the Agent's remaining debt in full today. However, the pelts are not expected to be sold all at once, rather they will be sold in the fall auctions as stated above and it is expected that a significant number of these pelts will not be sold until the 2023 auction season.

79. In addition to this, I continue to expect material recovery from the litigation, the insurance claims and the long term debts, as described above. However, as I have consistently reported in the past, the timing of the receipts from those assets has proven to be uncertain and NAFA continues to incur professional fees and other costs as it seeks to realize upon them.

Funds and Expenses during the Extension Period

80. As is normal in the NAFA business cycle, following the September auction, the only projected proceeds for NAFA until the normal March 2023 international auction season kicks-off, is the possible December auction receipts and any proceeds from the sale of capital assets or settlements of litigation, etc. During this period NAFA must be careful with expenditures.

81. Assuming the Sinobec Asset Sale closes in its entirety, NAFA will have far fewer assets to manage and maintain. Indeed, it will also result in materially less monthly expenditures to hold those assets.

82. NAFA's costs will primarily be attributable to professional fees, modest salaries for its few remaining employees, and interest payments to the Agent.

83. NAFA will continue to pursue its foreign litigation, the insurance claims, and other long-term debts owing to the company during the proposed stay extension period. These tasks, all of which may generate material amounts, require attention from NAFA's remaining employees who have important background knowledge and relationships with various parties that are material to realize on each of these buckets of revenue.

84. NAFA may also during this period give further consideration to proposing a plan of arrangement to its creditors, but it is premature for it to do so or expend material professional fees in connection with doing so until at least the two remaining real estate transactions have closed and the results of the September auction are known.

Extension

85. The current Stay Period under the Stay Extension Order will expire on July 29, 2022.

This is Exhibit "A" referred to in the Affidavit of Douglas
Lawson sworn remotely on this 21st day of July 2022.

A handwritten signature in black ink that reads "Stephen Gaudreau". The signature is written in a cursive style with a large initial 'S'.

Commissioner for Taking Affidavits (or as may be)

Stephen Gaudreau



From: Dominic T. Clarke
Sent: July 15, 2022 5:27 PM
To: 'Nicholl, John' <John.Nicholl@clydeco.ca>
Cc: Anthony Gatensby <agatensby@blaney.com>
Subject: NAFA

Good Afternoon John,

Attached is the promised correspondence, which I hope accurately reflects our discussion. My apologies for its formality but I thought that best if the CCAA Judge needs to see it as part of the CCAA process.

Best,

Dominic



Dominic T. Clarke
Partner

dclarke@blaney.com

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Dominic T. Clarke
 D: 416-593-3968 F: 416-594-2503
 dclarke@blaney.com

July 15, 2022

VIA EMAIL: john.nicholl@clydeco.ca

John Nicholl
 Clyde & Co Canada LLP
 401 Bay Street, Suite 2500
 P.O. Box 25
 Toronto, Ontario M5H2Y4

Dear Mr. Nicholl,

RE: NAFA re: Certain Lloyd's Underwriters / Red Rock Ins. Services Ltd.
Policy Nos.: XPTC4094 (June 30, 2018 to August 31, 2019)
XPTC4111 (August 31, 2019 to June 30, 2020)
Claim No.: TFG 8939597
Blaney File No.: 098623-0009

We write to briefly memorialize our discussions this week in relation to the above-noted matter. To the extent that the below does not accurately capture our discussions, please do not hesitate to let me know if there are any amendments or additions to the same.

In short, we have agreed, in the spirit of avoiding litigation and the expense associated with a proceeding in the Superior Court, that the coverage claim currently maintained by my client, North American Fur Auctions ("**NAFA**"), will proceed to a mediation process. Such agreement is premised on our clients reaching agreement on a number of preliminary matters, as discussed below.

First, the writer confirms that Blaney McMurtry LLP will draft a Mediation Agreement which, when agreed to by your client, should serve as one document to frame the issues in dispute between our respective clients. It is agreed that the intention of this document, paired together with an Agreed Statement of Fact ("**ASOF**"), discussed below, is to provide an adequate basis on which mediation can take place without full documentary production and oral examinations.

The writer also confirms that Blaney McMurtry LLP will draft an ASOF which, when agreed to by your client, will serve as another principal document framing our clients' coverage dispute and providing factual background for the mediation.

It is recognised that it may prove not to be possible to reach agreement on the content of the foregoing such that productions and examination may prove necessary. However, an attempt will be made to finalise a Mediation Agreement and ASOF in order to avoid the costs associated with production and examinations.

We have discussed potential mediators and will continue our discussions in this regard to finalise a mutually agreeable selection. Based on our discussions to date, we are in agreement on a number of possible mediators.

This correspondence also confirms your consent that the foregoing agreements can be conveyed to the the Superior Court of Justice, which is currently appointed to oversee the insolvency proceedings over NAFA initiated pursuant to the *Companies' Creditors Arrangement Act*.¹

Should you have any questions or revisions, please let me know at your earliest convenience.

Yours sincerely,
Blaney McMurtry LLP



Dominic T. Clarke
Partner

¹ *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36.

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 FUR PRODUCERS INC., NAFA PROPERTIES INC., 3306319 NOVA SCOTIA LIMITED, NORTH AMERICAN FUR AUCTIONS INC., NAFA PROPERTIES (US) INC., NAFA PROPERTIES STOUGHTON LLC, NORTH AMERICAN FUR AUCTIONS (US) INC., NAFPRO LLC (WISCONSIN LLC), NAFA EUROPE CO-OPERATIEF UA, NAFA EUROPE B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO (the “Applicants”)

Email of the recipients: See the Service List

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
 Proceeding commenced at Toronto

AFFIDAVIT OF DOUGLAS LAWSON
(Motion Returnable July 26, 2022)

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Counsel for the Applicants

TAB 3

Court File No. CV-19-00630241-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE)	TUESDAY, THE 26 TH
)	
MR. JUSTICE McEWEN)	DAY OF JULY 2022
)	

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 FUR PRODUCERS INC.,
NAFA PROPERTIES INC., 3306319 NOVA SCOTIA LIMITED,
NORTHAMERICAN FUR AUCTIONS INC., NAFA PROPERTIES
(US) INC., NAFA PROPERTIES STOUGHTON LLC, NORTH
AMERICAN FUR AUCTIONS (US) INC., NAFPRO LLC
(WISCONSIN LLC), NAFA EUROPE CO-OPERATIEF UA, NAFA
EUROPE B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO

(the "**Applicants**")

ORDER

**(Re: Stay Extension, Approval of Activities and Conduct of the Monitor and its
Counsel, and Sealing of Confidential Appendix)**

THIS MOTION, made by the Applicants for an Order for the relief set out in the Notice of Motion of the Applicants dated July 21, 2022, was heard this day by video conference.

ON READING the Motion Record of the Applicants, the Ninth Report of the Monitor dated April 23, 2022, the Tenth Report of the Monitor dated July *, 2022 (the “**Tenth Report**”), and related Confidential Appendix, and upon hearing the submissions of counsel for the Applicants, counsel to the Monitor, counsel to the Canadian Imperial Bank of Commerce, as agent for the lenders party to the Fourth and Restated Credit Agreement dated as of September 27, 2019, as may be amended or amended and restated from time to time (in such capacity, the “**Agent**”), and counsel for Farm Credit Canada (“**FCC**”) no one appearing for any other person on the Service List, although properly served as appears on the Affidavit of Service of Ariyana Botejue, sworn July 21, 2022, filed;

SERVICE AND DEFINITIONS

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.
2. **THIS COURT ORDERS** that terms not otherwise defined in this Order shall have the meaning set out in the Initial Order of the Honourable Justice McEwen dated October 31, 2019 (as amended and restated) (the “**Initial Order**”).

EXTENSION OF THE STAY PERIOD

3. **THIS COURT ORDERS** that the Stay Period is hereby extended from July 29, 2022 to and including November 30, 2022.
4. **THIS COURT ORDERS** that upon the filing of the Monitor’s certificate on or before November 30, 2022, substantially in the form set out in **Schedule “A”** hereto (the “**Monitor’s Certificate**”), certifying that:

a. The Applicants, the Agent and FCC have approved the cash flow forecast and consented to extend the Stay Period from November 30, 2022 to and including, January 27, 2023, or such other earlier date as each of the Agent and the Applicants consent (the “**Extended Stay Date**”); and,

b. The Monitor has confirmed that there are sufficient funds to support the Extended Stay Date based upon the cash flow forecast, which the Monitor will file with the Court on a confidential basis, the Stay Period shall immediately be extended to the Extended Stay Period set out in the Monitor’s Certificate without further order of this Court.

5. **THIS COURT ORDERS** that the Monitor may rely on written notice or correspondence from the Applicants, the Agent and FCC, or their respective counsel, with respect to the consent as set out in paragraph 4 of this Order and shall incur no liability, whatsoever, with respect to reliance upon such written notice or correspondence, or the filing of the Monitor’s Certificate, save and except for any gross negligence or willful misconduct on its part.

APPROVAL OF MONITOR REPORTS AND ACTIONS

6. **THIS COURT ORDERS** that the Ninth Report and the actions, decisions and conduct of the Monitor as set out in the Ninth Report are hereby authorized and approved.

7. **THIS COURT ORDERS** that the Tenth Report and the actions, decisions and conduct of the Monitor as set out in the Tenth Report are hereby authorized and approved.

SEALING OF CONFIDENTIAL APPENDIX

8. **THIS COURT ORDERS** that Confidential Appendix “1” to the Tenth Report shall

be and are hereby sealed, kept confidential and shall not form part of the public record pending further Order of this Court.

INTERNATIONAL RECOGNITION

9. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Monitor and the Applicants and their agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Monitor, as an officer of this Court, and the Applicants as may be necessary or desirable to give effect to this Order or to assist the Monitor and the Applicants and their agents in carrying out the terms of this Order.

Signature of Judge

Schedule A – Form of Monitor’s Certificate

Court File No. CV-19-00630241-00CL

**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 NORTH AMERICAN FUR PRODUCERS INC., NAFA PROPERTIES INC., 3306319 NOVA SCOTIA LIMITED, NORTH AMERICAN FUR AUCTIONS INC., NAFA PROPERTIES (US) INC., NAFA PROPERTIES STOUGHTON LLC, NORTH AMERICAN FUR AUCTIONS (US) INC., NAFPRO LLC (WISCONSIN LLC), NAFA EUROPE CO-OPERATIEF UA, NAFA EUROPE B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO

(the “**Applicants**”)**MONITOR’S CERTIFICATE****RECITALS**

A. Pursuant to an Order of the Honourable Mr. Justice McEwen of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) October 31, 2019 (as amended and restated, and as may be further amended and restated from time to time, the “**Initial Order**”), Deloitte Restructuring Inc. was appointed as monitor of the Applicants (in such capacity, the “**Monitor**”).

B. Pursuant to an Order of the Court dated July 26, 2022 (the “**Stay Extension Order**”), the Court granted an extension of the Stay Period to and including November 30, 2022.

C. Pursuant to the Stay Extension Order, the Stay Period is to be further extended without further order of the Court to the date set out in a Monitor’s Certificate, which Monitor’s Certificate is filed on or before November 30, 2022, and certifies that:

- (1) The Applicants, FCC and the Agent have approved the cash flow forecast and consented to extend the Stay Period from November 30, 2022 to and including January 27, 2023, or such other earlier date as each of the Agent and the Applicants consent (the “**Extended Stay Date**”); and,
- (2) The Monitor has confirmed that there are sufficient funds to support the Extended Stay Date, with the cash flow forecast demonstrating same to be filed with the Court on a confidential basis.

D. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the in the Initial Order.

THE MONITOR CERTIFIES the following:

1. The Applicants, FCC and the Agent have approved the cash flow forecast and consented to extend the Stay Period from November 30, 2022 to and including ●, 202● (the “**Extended Stay Date**”).
2. The Monitor has confirmed that there are sufficient funds to support the Extended Stay Date, with the cash flow forecast demonstrating same to be filed with the Court on a confidential basis.

This Certificate was executed by the Monitor at [Time] on [Date].

**Deloitte Restructuring Inc. in its capacity
as the Court Appointed Monitor to the
Applicants, and not in its personal
capacity**

Per:

Name:

Title:

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED
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 PROPERTIES STOUGHTON LLC, NORTH AMERICAN FUR AUCTIONS (US) INC., NAFPRO LLC (WISCONSIN LLC), NAFA EUROPE CO-
 OPERATIEF UA, NAFA EUROPE B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO

(the “Applicants”)

Email of the recipients: See the Service List

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
 Proceeding commenced at Toronto

ORDER
(Re: Stay Extension, Approval of Activities and Conduct of the
Monitor and its Counsel, and Sealing of Confidential Appendix)

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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 FUR PRODUCERS INC.,
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INC., NAFA PROPERTIES STOUGHTON LLC, NORTH AMERICAN FUR AUCTIONS (US) INC., NAFPRO LLC (WISCONSIN LLC),
NAFA EUROPE CO-OPERATIEF UA, NAFA EUROPE B.V., DAIKOKU SP.Z OO and NAFA POLSKA SP. Z OO

(the “**Applicants**”)

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ONTARIO
SUPERIOR COURT OF JUSTICE
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Proceeding commenced at Toronto

MOTION RECORD OF THE APPLICANTS
(Re: Stay Extension Motion returnable July 26th, 2022)

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