ACTION NO. 0801-14675

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY

BETWEEN:

NATIONAL BANK OF CANADA

Plaintiff

- and -

McGILLIVRAY & SERA FARMS LTD., 626625 ALBERTA LTD., 626626 ALBERTA LTD., BASTIAANSEN HOLDING COMPANY LTD., JOS BASTIAANSEN, CORIEN BASTIAANSEN, and BASSEM FARM CORPORATION,

Collectively, the "DEFENDANTS"

Defendants

FIRST REPORT OF THE INTERIM RECEIVER ERNST & YOUNG INC.

FEBRUARY 27, 2009

INTRODUCTION

1. Ernst & Young Inc. was appointed Interim Receiver (the “Interim Receiver”) over certain of the assets of McGillivray & Sera Farms Ltd. ("MSF"), 626625 Alberta Ltd., 626626 Alberta Ltd., Bastiaansen Holding Company Ltd., Jos Bastiaansen and Corien Bastiaansen (collectively, the "MSF Defendants") and in respect of certain assets of Bassem Farm Corporation ("Bassem"), collectively Bassem and MSF are referred to as the “Defendants”.

2. The Receiver understands that the intended terms of the Appointment Order (while subject to final comments and approval from this Honourable Court) authorized the Interim Receiver, among other things, to:

   a) Monitor all accounts generated from any sales of inventory;

   b) Take possession and control of the Defendants’ bank accounts;

   c) Monitor the Defendants’ assets including land, buildings, fixtures and rolling stock;

   d) Initiate preparations for the marketing and sale of the lands, buildings, business and undertaking of the Defendants’ assets ; and

   e) Make payments from the funds on hand to unsecured creditors of the Defendants and Mr. Walter Semkuley, for the express purpose of preserving and maintaining the assets.

3. The purpose of this first report (the “First Report”) of the Receiver is to advise this Honourable Court with respect to:

   a) the initial activities of the Receiver since February 23, 2009;

   b) The list of critical payments identified by Mr. Walter Semkuley and Mr. Jos Bastiaansen;

   c) The estimated cash flow for the Defendants for the period from February 23, 2009 to March 16, 2009; and

d) Seek advice and directions from this Honourable Court with respect to the critical payments of certain amounts owed to suppliers.

ACTIVITIES OF THE INTERIM RECEIVER

Meetings with the principals

4. The Interim Receiver met with Mr. Semkuley and Mr. Bastiaansen, and their respective legal counsel, on February 24, 2009 and February 25, 2009 to discuss the process to implement the terms and conditions of the Appointment Order, including:

   a) Obtaining an updated list of assets and liabilities;

   b) Developing a short-term cash flow forecast (the "Cash Flow Forecast") for the period from February 16, 2009 to March 16, 2009 (the "Forecast Period") to determine the estimated cash requirements of the Defendants; and

   c) To determine the list of critical payments required to be made to unsecured creditors that are immediately required to preserve the Defendants' assets or are required by either Mr. Bastiaansen or Mr. Semkuley to avoid the bankruptcy of Bassem ("Critical Payment(s)").

5. On February 26, 2009, the Interim Receiver attended the Defendants' farm located in Bow Island, Alberta to meet with Mr. Bastiaansen in order to further review the listing of Critical Payments, develop the Cash Flow Forecast, obtain copies of required books and records and commence an inventory of the assets. At this meeting, the Interim Receiver also discussed the process for ensuring all cash receipts are received by the Interim Receiver, commencing an inventory of the assets and ensuring controls over the Bassem bank account (obtaining bank statements, cheque books, etc.).

6. The Interim Receiver in the process of advising the Toronto-Dominion Bank of its appointment and to freeze Bassem's account such it remain on a deposit only basis and to transfer the funds to the Interim Receiver's bank account. The Interim Receiver is also in the process of opening its required bank accounts. Completion of these tasks will be completed immediately upon receiving the entered Court Order.

Estimated Assets

7. On February 24, 2009, Mr. Bastiaansen provided the Interim Receiver with a listing of accounts receivable and inventories and a listing of accounts payable owed by Bassem as at February 11, 2009. The table below was prepared to determine the potential value of the Defendant's current assets as compared to the current liabilities, to assist in the development of the Cash Flow Forecast and to determine the availability of funds to pay any required Critical Payments.

Assets (excluding land, building and equipment)	**$**
Cash on hand (after payment to the National Bank)	55,000
Accounts receivable	774,095
Inventory (market value)	1,024,620
Sugarbeat contract	40,000
AFSC Crop Insurance receivable	200,000
Total current assets (excluding land, building and equipment)	2,093,715
Operating line owed to National Bank	1,450,000
Unsecured creditors (as at February 11, 2009)	1,207,162
Current liabilities (excluding term loan, etc)	2,657,162
Current assets less current liabilities	(563,447)

8. The table above illustrates that after payment to the National Bank of Canada (the "Bank") of $44,688.65 being the December payment as Ordered by this Honourable Court, that the Defendant's cash on hand totals approximately $55,000. The information supplied by Mr. Bastiaansen estimate the value of the Defendants' current assets (excluding land, building and equipment) at approximately $2.1 million. The Receiver notes that the inventories were valued by the Defendants at market value.

9. The current liabilities total approximately $2.7 million (comprising amounts owed to unsecured creditors of Bassem and the operating line owed to National Bank), which is approximately $560,000 greater than the estimated value of the current assets. Therefore, the recovery from the Defendants' current assets is anticipated to be less than the current liabilities.

10. In addition to the current assets and liabilities, the Interim Receiver understands that the Defendants own certain farmland, potato storage facilities and certain rolling stock. The Interim Receiver understands that the Bank has a first charge over the MSF Defendants' land and

building as well as general security agreement over the remaining assets. The Interim Receiver further understands that the Bank is owed an additional $4.2 million under its term loan. The Interim Receiver has not completed an analysis of the ownership of the various assets as between the Defendants and has not completed a property registration search, therefore additional secured parties could have charges as against the Defendants' assets.

11. The Interim Receiver has not completed an analysis of the value of the Defendant's land, building and equipment at the time of this report. However, these assets are not considered current assets and will not be converted to cash during the Forecast Period for purposes of funding any Critical Payments or other ongoing operating expenses.

Cash Flow Forecast

12. The Interim Receiver, in consultation with Mr. Bastiaansen, completed a Cash Flow Forecast. The primary objective of the Cash Flow Forecast was to:

    a) Determine the expected timing and collection of receivables and proceeds from the sale of inventories over the Forecast Period;

    b) Determine the anticipated ongoing operating disbursements required to continue with the operations of the Defendants (i.e. trucking expenses, payroll, power, fuel, etc); and

    c) Determine the amount of Critical Payments that are required to be paid and the availability of cash to fund such payments.

13. A copy of the Cash Flow Forecast is attached at Appendix A to this report. The Interim Receiver's comments with respect to the Cash Flow Forecast are summarized below:

    a) The Cash Flow Forecast is only in draft and is based on information supplied by Mr. Bastiaansen. The Interim Receiver has not audited or otherwise verified the Cash Flow Forecast;

    b) The Defendants expect to collect approximately $197,800 over the Forecast Period;

c) Disbursements of $184,769 have been identified by Mr. Bastiaasen as the most pressing payments required to be made over the Forecast Period including the payment of wages, payment of fuel, insurance premiums, equipment lease payments and other miscellaneous amounts. While Mr. Bastiaansen is in agreement with the Required Critical Payment Listing (defined and discussed below), the Cash Flow Forecast was developed based on analysis of the most pressing required payments and the expected available cash on hand;

d) The estimated disbursements comprise anticipated ongoing operating costs and includes $32,000 in insurance premiums which were deemed to be a Critical Payment. The Interim Receiver has not definitively agreed to the disbursements as set out in the Cash Flow Forecast as being reasonable, but has assembled the listing based on discussions with Mr. Bastiaansen to assist this Court in determining the best estimate of the most pressing disbursements required over the Forecast Period; and

e) Mr. Semkuley provided a Critical Payment listing to the Interim Receiver on February 25, 2009, that he derived in conjunction with Mr. Bastiaansen (the "Required Critical Payment Listing"). Mr. Semkuley also filed an affidavit dated February 26, 2009 (the "Semkuley Affidavit") summarizing the Required Critical Payment Listing and providing explanations as to why he believes the individual payments were required. The Cash Flow Forecast does not include the majority of the items on the Required Critical Payment Listing (with the exception of insurance and payroll) as the majority of the items included on the listing comprise arrears balance and the Cash Flow Forecast was prepared to include on going expenses expected to be incurred since February 23, 2009.

14. In preparing the Cash Flow Forecast with the assistance of Mr. Bastiaansen, the Interim Receiver noted that the Defendants are in arrears with a significant portion of their suppliers. Mr. Bastiaansen further advised that several of the Defendants' suppliers have demanded payment of arrears and cash on delivery going forward or no further services will be provided. The Cash Flow Forecast does not contemplate any significant payment of arrears amounts owed to suppliers, but includes estimated on going operating costs for the Defendants' operations. The Cash Flow Forecast indicates that the Defendants' have insufficient anticipated cash flow to fund any significant payment of amounts owed to suppliers that are in arrears.

Critical Payable Listing

15. The Required Critical Payments Listing attached to the Semkuley Affidavit indicates total Critical Payments of $488,519. The Semkuley Affidavit provides explanations for approximately $300,000 of the payments. The Receiver cannot comment specifically on each explanation set out in the Semkuley Affidavit; however, provides the following general comments:

    a) The Defendants' do not have sufficient cash on hand to fund the payments as identified for payment in the Semkuley Affidavit and are experiencing a working capital deficit of approximately $563,000. The Defendants' cash on hand is approximately $53,000 with an additional $197,000 anticipated to be collected over the Forecast Period and a significant portion of the future receipts are required to fund on going payroll and other operating costs;

    b) The majority of the payments on the Required Critical Payments Listing relate to amounts in arrears and the Semkuley Affidavit does not address the source of funding for the payment of the proposed Critical Payments and the funding of the required on going operating costs;

    c) The suppliers who are included on the Required Critical Payments Listing are owed by a combination the MSF Defendants, Bassem, Mr. Semkuley and Mr. Bastiaanen. It appears to the Interim Receiver that the books and records of Defendants, and related supplier invoices and payments, have been commingled amongst the Defendants making it difficult for the Interim Receiver to fully assess the Required Critical Payments Listing; and

    d) Certain items appear to be, at most, indirectly related to the Defendants' operations such as a $50,000 payment to FCC and the payment of water rights in that are held in the name of Mr. Semkuley.

16. The Interim Receiver is also concerned that several suppliers are demanding full payment of arrears and have advised that they will not provide any further services to the Defendants unless they are paid their arrears and paid on a cash on delivery basis going forward. The Interim Receiver understands that certain of these suppliers are included on the Required Critical Payment Listing.

17. The Appointment Order may not include any stay of proceedings for the Defendant, accordingly, the Interim Receiver is concerned that certain suppliers, who are in the position to do so, can use their specific leverage to cause the Defendants to pay their arrears amount owed whereas, other suppliers, who may not have the same leverage, will not be paid.

18. Given the Cash Flow Forecast and that the current liabilities are less than the current assets (as provided for by Mr. Bastiaansen), unless there is sufficient equity in the other assets beyond the amounts owed to the secured creditors on those assets, the Interim Receiver is concerned that the unsecured creditors may not be paid in full. In addition, by paying certain arrears and not others (as would happen if payments were made as per the Required Critical Payment Listing), certain unsecured creditors are being preferred and the unsecured creditors, in whole, are not being treated evenly. For example, the accounts payable listing as at February 11, 2009 indicates approximately $1.2 million in unsecured creditors, however only a portion of such creditors could be paid from the cash on hand and the Cash Flow Forecast indicates insufficient funds to pay all the unsecured creditors.

19. In addition, if the payments are made as proposed in the Required Critical Payment Listing, the majority of all receivable collections will be used to pay a certain portion of the unsecured creditors, while making no payment to other unsecured creditors and not reducing the Bank's operating loan.

Profitability of Bassem

20. The Semkuley Affidavit states that Bassem will have a profit of between $1.5 million and $3million for 2008. The Interim Receiver has not yet reviewed the year end financial statements, however, given the current financial position of the Defendants' as discussed above (i.e. significant arrears owed to suppliers, current assets less than current liabilities), the Interim Receiver is uncertain as to how such profits were generated and/or used.

RECOMMENDATIONS

21. For the reasons set out above, the Interim Receiver cannot recommend making payments as per the critical Payment Listing attached to the Semkuley Affidavit. However, the Interim Receiver

recommends that any future payments be approved only if the payment is required in order to expressly preserve the Defendants' assets. The Interim Receiver would further recommend that payments for services be made for the period commencing February 23, 2009 and any payment of arrears amounts be delayed until a later date to ensure that all creditors will be treated evenly and fairly.

All of which is respectfully submitted this 27th day of February, 2009

ERNST & YOUNG INC.,
in its capacity as Interim Receiver
of certain of the assets of the Defendants

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Deryck Helkaa, CA•CIRP
Vice-President