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

Defendants

FIRST REPORT OF THE RECEIVER ERNST & YOUNG INC.

April 3, 2009

INTRODUCTION

1. Ernst & Young Inc. was appointed Interim Receiver (the "Interim Receiver") over McGillivray & Sera Farms Ltd., 626625 Alberta Ltd., 626626 Alberta Ltd., Bastiaansen Holding Company Ltd., Jos Bastiaansen and Corien Bastiaansen and in respect of certain assets of Bassem Farm Corporation pursuant to an Order of this Honourable Court Dated February 23, 2009. The "Interim Receivership Period" is defined as the period of February 23, 2009 to March 15, 2009.

2. Pursuant to an Order (the "Appointment Order") of this Honourable Court dated March 16, 2009, Ernst & Young Inc. was appointed Receiver Manager (the "Receiver") of the property, assets and undertaking of McGillivray & Sera farms Ltd. ("MSF"), 622625 Alberta Ltd., Bastiaansen Holdings Company Ltd., Jos Bastiaansen ("Mr. Bastiaansen"), and Corien Bastiaansen ("Mrs. Bastiaansen") (collectively the "MSF Defendants") and in respect of certain assets (including the Inventory, Proceeds and Bank Accounts as defined in the Appointment Order) of Bassem Farm Corporation ("Bassem"), collectively Bassem and the MSF Defendants are referred to as the "Defendants". The Appointment Order was entered by this Honourable Court on March 23, 2008.

3. The Appointment Order authorized the Receiver, among other things, to carry on the business of the Defendants, to solicit offers to purchase the assets of the MSF Defendants (the "MSF Assets"), to continue to realize on the Bassem assets covered by this Order (the "Bassem Assets"), and make such arrangements or agreements as deemed necessary by the Receiver. The MSF Assets and Bassem Assets are collectively referred to as the "Assets".

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

    a. The activities of the Receiver for the period of March 16, 2009 to April 3, 2009 (the "Reporting Period");

    b. The Receiver's Statement of Receipts and Disbursements for the Reporting Period;

c. The Receiver's findings based on its preliminary review of the books and records of the Defendants (the "Records");

d. The results of the Receiver's efforts to prepare a report to the Court on the claims against the Defendants (the "Receivers' Claim Listing");

e. The status and estimate timing of the Receiver's efforts to prepare a report to the Court on the beneficial ownership of the crop inventory grown in 2008 (the "Inventory Investigation Report"); and

f. A summary of next steps and recommendations of the Receiver.

5. The Receiver has prepared this First Report based on its preliminary review of the Records, which, as discussed in further detail below, are incomplete and not up to date. The Receiver continues to review the Records and is in the process of analyzing the Records. The Receiver cautions the information summarized below may be subject to revision as the Receiver continues its analysis of the Records and as the financial information is updated by the accountants for the MSF Defendants.

BACKGROUND

MSF Defendants

6. The MSF Defendants have operated a commercial potato and other cash crop venture in and around the Town of Bow Island, in the Province of Alberta, since approximately April, 2006. The MSF Defendant's operations consist of approximately 876 acres of agricultural farm land (6 quarter sections of land which are registered in the name of MSF, and which shall hereinafter be referred to as the "MSF Lands"), including two large potato bins used to store potatoes (the "MSF Land and Buildings"). Mr. and Mrs. Bastiaansen's personal residence is also located on the MSF Lands. In addition to the MSF Land and Buildings, the MSF Defendant's currently own certain machinery and equipment used in its farming operations (the "MSF Machinery and Equipment") as well as certain canola inventories (the "MSF Canola"). The MSF Machinery and Equipment includes both owned equipment and leased equipment.

7. In the spring of 2007, the MSF Defendants restructured their farming business. A partnership was registered, Bassem Joint Venture ("Bassem Joint Venture"), with Mr. Bastiaansen and Mr. Walter Semkuley ("Mr. Semkuley") acting as partners. The Receiver's understanding, based on discussions with Mr. Bastiaansen, that the Bassem Joint Venture and MSF operated concurrently during 2007. Both the Bassem Joint Venture and MSF cultivated sections of the MSF Lands and certain other rented lands using the MSF Machinery and Equipment to grow the 2007 crop inventories.

8. In summary, the Receiver understands that the MSF Defendants' assets comprise:

   a. The MSF Land and Buildings;

   b. The MSF Machinery and Equipment;

   c. The MSF Canola; and

   d. An ownership interest in the Bassem Joint Venture and Bassem (through Mr. Bastiaansen).

9. The MSF Land and Buildings and the MSF Machinery and Equipment were subject to a series of security agreements and/or charges.

10. The MSF Land and Buildings have the following charges registered against them:

    a. A mortgage in favour of the National Bank of Canada (the "Bank") as against the MSF Land and Buildings (registered in July 2007);

    b. A mortgage in favour of Friesland Farms Ltd. (registered in August 2006). The Friesland Farms Ltd. Mortgage has been subordinated to the Bank's mortgage; and

    c. Several writs and other various charges filed by various creditors during 2008.

11. The MSF Defendants have granted the following security against the MSF Machinery and Equipment and / or its remaining assets:

a. A general security agreement in favour the Bank as against the MSF assets, including its receivables and inventories and specific charges against certain of the MSF Machinery and Equipment;

b. Farm Credit Canada ("FCC") as against certain pieces of equipment; and

c. Certain leasing companies and other creditors have registered security against specific assets of MSF and/or the MSF Defendants.

12. The Receiver is completing its security analysis, including evaluating the validity and enforceability of the secured charges and will report further to Court upon its completion.

Bassem

13. During 2008, the Receiver understands that the operations of the Bassem Joint Venture and MSF were transferred to Bassem. The directors of Bassem are Mr. Semkuley and Mr. Bastiaansen. Bassem continued to conduct a commercial potato venture, cultivating a potato crop grown in 2008. It is the Receiver's understanding that Bassem's operations consisted of:

a. The use of the MSF Land and Buildings;

b. The use of the MSF Machinery and Equipment;

c. Renting approximately 5 sections of land from PBJS Farms Inc. ("PBJS"); and

d. The use of 10 quarter sections of land controlled by Mr. Semkuley.

14. The Receiver has been advised that Bassem also purchased and owns certain pieces of machinery and equipment and also leased equipment (collectively the "Bassem Machinery and Equipment").

15. The Receiver is continuing to analyze the alleged transfer of operations and assets between the MSF Defendants, the Bassem Joint Venture and Bassem, including the timing of the registration of security relative to these transfers, and this analysis will be included in the Inventory Investigation Report. However, as discussed in further detail below, it appears that the books and

records of the respective individual entities have not been accounting for the operating activities consistent with the alleged transfers between MSF, Bassem Joint Venture and Bassem.

16. The Receiver understands that Bassem Assets currently comprise:

    a. Cash on hand;

    b. Potato inventory that remains from the 2008 growing season (the "Potato Inventory");

    c. Receivables relating to the sale of the Potato Inventory; and

    d. The Bassem Machinery and Equipment.

17. Bassem has granted certain security including charges in favour of the FCC over certain of the Bassem Machinery and Equipment and certain of the equipment has been leased.

Dispute over the Potato Inventory

18. There is a dispute over the beneficial ownership of the Potato Inventory that was grown in 2008 as between MSF, the MSF Defendants and/or Bassem and whether the security agreements granted by MSF in favour of the Bank and potentially other creditors attaches to the Potato Inventory. The Receiver advises that there are no potato inventories remaining from the 2007 growing season. Given this dispute, the Honourable Court has requested that the Receiver prepare the Inventory Investigation Report in an attempt to:

    a. Identify the beneficial owner(s) of the Potato Inventory grown in 2008;

    b. Determine, if a party other then the MSF Defendants are identified as a beneficial owner of the Potato Inventory, whether the party identified has a right to recover proceeds collected via the sale of the Potato Inventory; and

    c. Disclose all additional facts relevant to the dispute over the Potato Inventory.

Preliminary comments on the books and records

19. As discussed in further detail below, based on a preliminary review of the available information and discussions with Mr. Bastiaansen and MSF's external accountant, the Receiver notes that the books and records of MSF, the Bassem Joint Venture and Bassem do not appear to be complete, accurate or up to date and have not reflected the alleged transfer of operations as between MSF, the Bassem Joint Venture and Bassem. For example:

    a. MSF's draft financial statements for the eleven months ended November 30, 2008 include a $2,320,185 loss described as inventory decrease and Bassem's financial statements for the same period include a $2,383,785 gain described as inventory increase. There is no further explanation of the loss or gain;

    b. The MSF general ledger appears to contain the records of inventory, sale transactions and expenses throughout 2008, which appears to relate to the 2008 growing season, despite the Receiver being advised that this activity should have been recorded within Bassem;

    c. The 2008 general ledger includes a high volume of inter-company transactions between MSF and Bassem with little or no description provided and include the transfer of accounts receivable from MSF to Bassem;

    d. The creditor listing appears to include a variety of creditors who have contracted services to MSF, the MSF Defendants and/or Bassem; and

    e. The Defendants' external accountant has advised that the internal financial statements have been completed up to November 30, 2008 and these statements need to be adjusted to account for certain additional information including credit cards used to purchase expenses and for the alleged transfer of inventories and receivables between MSF and Bassem.

20. The Receiver continues its analysis of the books and records of the Defendants and has been in communication with the external accountant. The Receiver understands from these discussions with the accountant that considerable work is still required to complete the accounts for both Bassem and MSF for the 2007 and 2008 year ends. The Receiver requires this work to be

completed in order to complete its Inventory Investigation Report, as discussed in further detail below.

INITIAL ACTIVITIES OF THE RECEIVER SINCE MARCH 16, 2009

Custody & Control

21. Upon arrival at the MSF Lands and prior to meeting with the employees, the Receiver went to the personal residence of Mr. and Mrs. Bastiaansen. The Receiver met with Mrs. Bastiaansen and she informed the Receiver that she was neither involved in the operations of MSF nor aware of the Receivership.

22. The Receiver understands that Mr. and Mrs. Bastiaansen's personal residence was the primary location of the Records. The Receiver enquired of Mrs. Bastiaansen as to the location of the Defendants' Records; Mrs. Bastiaansen indicated that she did not have knowledge of the location of the Records in the home and she was only aware that all accounting information was held on Mr. Bastiaansen's personal laptop, which he had with him on vacation and that he would not be back to Canada until late March 2009. Mrs. Bastiaansen did provide the Receiver with certain source documents including scale tickets detailing the weight of the potatoes delivered to the purchasers for the period of March 12, 2009 to March 18, 2009.

23. Prior to the Appointment Order, certain information was obtained by the Interim Receiver from Mr. Bastiaansen, including:

    a. An accounts payable listing as at February 11, 2009 indicating the creditors of Bassem (the "February 11th Creditor Listing"). The February 11th Creditor Listing as discussed in further detail below;

    b. A listing of equipment located on the MSF property; however, the listing included equipment that was owned and leased by both the MSF Defendants and Bassem and the listing did not identify ownership;

    c. A listing of accounts receivables and inventory as at February 23, 2009; and

d. Records of potato deliveries during the Interim Receivership Period including scale tickets and updated potato inventory balances.

24. The Receiver has requested that all mail in the name of the MSF and Bassem be forwarded to the Receiver to ensure that any future cash receipts and related information is received in a timely manner.

Employees

25. On March 16, 2008, the Receiver believed due to the information available to the Receiver at the time that the Defendants employed six employees. The Receiver immediately terminated the employment of these employees as set out in the Appointment Order and instructed the employees as to their rights under the Wage Earner Protections Program Act. The Receiver subsequently retained the individuals as contract employees to assist the Receiver in shipping the remaining potato inventory, assisting with securing the assets and performing various other tasks as required. These employees continue to be retained by the Receiver as at April 3, 2009, on an hourly and as needed basis.

Retention of Consultant

26. At commencement of the Receivership, the Receiver retained the services of an agriculture consultant (the "Consultant") to assist the Receiver in overseeing the daily operations of the farm, schedule shipments of inventory, provide advice as to running the operations of MSF in an efficient manner and assist in other matters as instructed by the Receiver.

27. The Receiver believed that the retention of the Consultant was required given the following:

a. Mr. Bastiaansen was out of the country and there was no person with the qualifications from MSF to assist the Receiver to oversee the daily operations of MSF;

b. The Consultant resides in the local area and therefore has the ability to monitor the property of the Defendants on a daily basis on a cost effective basis;

c. The Consultant has experience in the agriculture industry and the knowledge required to oversee the daily operations of MSF; and

d. The efficiencies gained through the Consultant's relationships with local agricultural professionals.

Securing Assets

28. As discussed above, the assets covered the Appointment Order comprise both assets owned by the MSF Defendants and Bassem, as summarized below:

a. Cash on hand;

b. Inventories of Potatoes of approximately 4,439 tons and receivables related to the prior sale of the Potato Inventory;

c. The MSF Canola;

d. Farm machinery and equipment; and

e. Land and buildings.

Cash on hand

29. As previously reported by the Interim Receiver, in accordance with the Interim Receivership Order, the Receiver froze the bank account of Bassem located at the Toronto-Dominion Bank, Bow Island branch, bearing account no. 5224974 (the "TD Account") and transferred the funds to a trust account set up for the Receivership. On appointment as Receiver, the Receiver transferred the balance within the trust account set up for the Interim Receivership to a trust account set up for the Receivership. The Receiver understands that the TD Account was the only active account used by the MSF Defendants and/or Bassem.

30. Pursuant to the Appointment Order, the Receiver has segregated the portion of the proceeds received from the sale of the potato inventory as no funds have been received from other sources at this point.

31. Pursuant to the Appointment Order, the Receiver has continued to segregate the portion of the proceeds received from the sale of the potato inventory and the only disbursement from these proceeds are the operational costs described in the Statement of Receipts and Disbursements discussed below.

Potato Inventories

32. The Receiver reviewed the status of the inventories of potatoes with its Consultant to determine both the estimated quantity of potatoes on hand and the quality of the potatoes.

33. The Receiver estimates based on information provided by the Consultant, at March 16, 2008 there was approximately 4,400 tones of Potato Inventory comprising:

    a. 1,700 tones of Potato Inventory considered in good condition (the "Good Potatoes");

    b. 1,700 tones of Potato Inventory considered in poor condition with significant sprouting (the "Sprouting Potatoes"). The Receiver understands that cause of the Sprouting Potatoes was that, normally, potato inventories are gassed with a chemical known as "Sprout Nip" in later November or early December, to prevent the potatoes from sprouting. Per Mr. Bastiaansen, the gassing is only done if the producer believes the potato inventory will held past February. Mr. Bastiaansen believed the inventory in question, would be sold prior to the end of February and made the decision not to gas the potatoes, a process which would cost approximately $25,000. Due to high inventory levels being held by the Purchasers (as defined below), the Sprouting Potato inventory was not sold prior to the end of February and as a result are now sprouting; and

    c. 1,000 tones of Potato Inventory stored off site consisting of potatoes in extremely poor condition resulting from being damaged from inclement weather (the "Damaged Potatoes").

34. During the Reporting Period, the Receiver has shipped the following quantity of Potato Inventory:

    a. 450 tones of Sprouting Potatoes; and

    b. All of the Damaged Potatoes.

35. The Receiver anticipates the remaining Potato Inventory will be shipped by May 15, 2009.

Canola Inventory

36. The Receiver estimated the quantity of the MSF Canola on hand with the assistance of the Consultant and based on discussion with Pioneer Seed, the purchaser of the canola which Mr. Bastiaansen entered into a sales agreement with. The Receiver has scheduled shipments of the remaining MSF Canola to Pioneer Seed and estimates that the inventories will be sold by April 15, 2009 at an estimated value of approximately $400,000.

MSF Land and Buildings

37. The Receiver arranged for the changing the locks on all doors providing access to the potato bins, grain bins and the equipment shop. The Receiver did not change the locks on the personal residence of Mr. and Mrs. Bastiaansen.

38. The Receiver has registered the Appointment Order against the land title of the MSF Land and Buildings.

Machinery and equipment

39. The Receiver instructed the contracted employees to move the majority of the farm equipment including transport trucks, to a central location beside the two potato bins. The keys, registration, insurance and license plates were removed from each vehicle and the doors to the vehicles were locked. A floodlight is placed on the equipment at night for added security. The Receiver also completed a fixed asset count of the equipment on site.

40. As discussed above, the machinery and equipment onsite includes both assets owned and leased by MSF, the MSF Defendants and Bassem. It was not apparent as to the asset ownership at the time of taking possession; accordingly, the Receiver secured all assets for safekeeping as they were on the MSF property. The Receiver has received personal property registration searches on the equipment on site (where possible) and is in the process of determining the ownership of the equipment as between the Defendants, any security registered against the equipment and whether it is leased or owned.

Insurance

41. The Receiver contacted the MSF Defendant's insurance broker and was added as the loss payee on the MSF Defendant's insurance policy including dwelling, liability and farm property insurance. During the Interim Receivership Period, the Receiver had the Insurance Policy renewed until November 24, 2009. The Receiver has reviewed the insurance policy and concluded that the coverage is adequate.

Statutory Mailing by Receiver

42. Due to the lack of information available concerning the creditors and the uncertainty as whether creditors were that of the MSF Defendants or Bassem, as discussed below, the Court issued an Order dated March 26, 2009 extending the time period to send the notices required by Section 245 of the *Bankruptcy and Insolvency Act* to April 14, 2009. The Receiver is in the process of compiling the information for the notices and will mail the notices prior to April 14, 2009.

OPERATIONAL UPDATE

General

43. Upon its appointment, the Receiver contacted all parties who purchased crop from the Defendants (the "Purchasers") and informed the Purchasers of the Receivership. The Receiver, since its appointment, has continued with the operations of the MSF Defendants by continuing to deliver the inventories as required to the Purchasers. The potato inventories are sold to the Purchasers at delivery times primarily determined by the Purchasers based on their individual processing needs.

44. The Receiver sent each of the Purchasers a copy of the Appointment Order as well as a letter informing the Purchasers that any further payments to the Defendant's via direct deposit are to be deposited in the Receiver's bank account, as per the banking instructions in the letter, and all payments to the Defendants via cheque are to be sent to the Receiver's mailing address. The letter also informed the Purchasers that all future orders for the Defendant's Inventory are to be pre-arranged with the Consultant.

45. The Receiver contracted the services of a local trucking company specializing in the shipment of potatoes. Historically, the Defendant's have shipped their potato inventory using the employees and transport trucks owned by the Defendants. To avoid the associated liability, the cost of repairs, ensuring an adequate number of employees were available to ship the potatoes, and the uncertainty as to the ownership of the equipment on site, the Receiver elected to contract the transportation of the potatoes to the local trucking company as oppose to using equipment on site.

46. The Receiver is coordinating the shipping of the Good Potatoes with the Purchasers, and to date no shipments of the Good Potatoes have been requested by the Purchasers during the Reporting Period. However, the Receiver estimates that the remaining inventories of Good Potatoes will be shipped to the Purchasers by May 15, 2009, with shipments expected to commence immediately.

47. To date, approximately 450 tones of Sprouting Potatoes have been shipped to the Purchasers during the Receivership Period and the Receiver has scheduled future shipments of the potato inventory to the Purchasers.

48. The Receiver is anticipating shipping the Sprouting Potatoes to Agristar Inc. over the next couple of weeks. It is essential that the Sprouting Potatoes be shipped as quickly as possible as their condition is rapidly declining; however, deliveries are dependant on Agristar's ability to accept the shipments.

49. The Receiver understands that the Damaged Potatoes related to potatoes grown in 2008 that were damaged as a result of a tornado. The Receiver understands that the damage to the Damaged Potatoes is covered under crop insurance provided by the Agricultural Financial Services Corporation ("AFSC"). Per discussions with Mr. Bastiaansen during the Interim Receivership Period, the Receiver was aware that the damaged potatoes were being stored off-site in a storage facility and that the AFSC was unable to calculate the insurance payment until the entire inventory from potato crop grown in 2008 was sold. Approximately 1,000 tones of damaged potatoes were stored at an off-site location.

50. The Receiver contacted the AFSC regarding the crop insurance and met with a representative of the AFSC at the off-site storage facility to view the Damaged Potatoes. Based on the observation of the Damaged Potatoes by the AFSC and a representative of the storage facility, it was

determined that the Damaged Potatoes were in such a deteriorated condition, that they could only be used as cattle feed. The Receiver understands that it was originally the intention to sell the Damaged Potatoes to Agristar for use in dehydrated potatoes.

51. To prevent the environmental liability associated with decayed potatoes, the Damaged Potatoes in storage were shipped to a local cattle farm. The purchaser of the Damaged Potatoes agreed to cover the shipping costs of the Damaged Potatoes. The AFSC representative agreed that the potatoes were not salvageable and it was imperative that the potatoes were disposed of in a timely manner as further decay would result in an environmental liability and the Receivership would incur expenses to dispose of the decayed potatoes. The plant manager of the storage facility requested that the Receiver immediately remove the decaying potatoes.

52. The AFSC is awaiting sales figures pertaining to the sale of the Defendant's 2008 crop prior to making the payment related to the damaged crop. The Receiver is in the process of compiling this data information and will submit the information to the AFSC as soon as it is available.

Statement of Receipts and Disbursements - Interim Receivership

53. The statement of receipts and disbursements for the Interim Receivership Period provided below:

Statement of Receipts and Disbursements - Interim Receivership Period of February 23, 2009 to March 15, 2009	
Opening Cash	$ 101,991
Receipts	
Collection of Potato Receivables	$ 227,591
Disbursements	
National Bank of Canada (per Court Order)	$ (46,652)
Insurance	(32,000)
Salaries & Wages	(27,778)
Operating Costs	(39,050)
	$ (145,480)
Closing Available Cash	$ 184,102

Receipts

54. Receipts during the period represent the collection of potato receivables. These receivables represent potato sales transacted prior to the Interim Receivership Period.

Disbursements

55. Disbursements during the Interim Receivership period included payment of $46,652 to the National Bank of Canada as required by the Interim Receivership Court Order dated February 23, 2009, renewal of MSF's liability insurance and operating costs incurred during the Interim Receivership Period.

56. The Interim Receiver has incurred approx $48,000, excluding legal fees in its duties as set out in the Interim Receivership Order. The Interim Receiver's fees form a first charge on the property that is subject to the Bank's security interests including any portion of the inventory that is ultimately determined to be subject to the banks security.

Statement of Receipts and Disbursements - Receivership

57. The statement of receipts and disbursements for the Reporting Period provided below:

Statement of Receipts and Disbursements - Receivership Period of March 16, 2009 to April 3, 2009	
Opening Cash	$ 184,102
Receipts	
Collection of Potato Receivables	$ 116,395
Disbursements	
Bond Issued to County of 40 Mile #8	$ (21,000)
Accounting - Retainer and Fees	(12,861)
	$ (33,861)
Closing Available Cash	$ 266,636

Receipts

58. Receipts during the Reporting Period represent the collection of potato receivables. These receivables represent potato sales transacted prior to and during the Interim Receivership Period.

59. The receipts from the Potato Inventory are maintained in a segregated trust account by the Receiver.

Disbursements

60. During the Reporting Period, the Receiver has disbursed $33,861 relating to the direct operations of the Defendants as set out below.

61. The Receiver was notified by the Consultant that the County of 40 Mile #8 required a bond to be placed with the county in order to ship potatoes on roads within the county. The Receiver issued a $21,000 cheque to the County of 40 Mile #8, however the cheque is only to be cashed in the event of damage to a county road as a result of shipping the Defendant's potatoes.

62. The Receiver engaged the services of Burns, Valkenburg and Associates ("BVA") to complete the outstanding bookkeeping and preparation of the Defendant's 2008 financial statements. The Receiver issued a $10,000 retainer and paid $2,861 of the Defendant's arrears to BVA.

63. The Receiver notes that certain operating costs have been incurred by the Receiver during the Reporting Period, but have not been paid as the Receiver is waiting on the invoices to be received and processed (trucking costs, payroll, etc.). Accordingly, these accrued expenses are not included in the above Statement of Receipts and Disbursements.

64. To date the Receiver's fees, excluding legal counsel total approximately $53,000. As set out in the Appointment Order, the fees of the Receiver form a first charge on all of MSF and the MSF Defendant's assets

ANALYSIS OF DEFEDANTS' ASSETS

Current Assets

65. The Receiver has estimated the Defendant's current assets as follows:

Estimated Current Assets as at April 3, 2009	
Cash	266,636
Accounts Receivables - Potatoes	45,500
Accounts Receivables - Other	400,000
Receivable - AFSC Crop Insurance	unknown
Bond Held by County of 40 Mile #8	21,000
Inventory - Potatoes	406,500
TOTAL	1,139,636

66. Cash on hand comprises the balance as at April 3, 2009. The Receiver advises that certain operations expenses have been incurred, but not yet paid (awaiting invoices, etc.) including employee compensation for the period ended March 31, 2009, trucking costs, fuel and other miscellaneous costs.

67. Accounts receivable relates to potatoes shipped to the Purchasers, but payment has not yet been received.

68. Accounts receivable other primarily relates to the sale of the MSF Canola to Pioneer, with the funds expected to be received in mid April 2009.

69. The AFSC crop insurance receivable is described above and at this time the amount is unknown.

70. The Potato Inventory relates to the potatoes remaining on site. As discussed above, the Receiver estimates that this inventory will be shipped by mid May 2009.

Other Assets

MSF Land and Buildings

71. The Receiver engaged a local appraisal firm to perform an appraisal on the MSF Land and Buildings. The appraisal has been completed and includes an appraised value of both the fair market value and the forced liquidation value. The appraisal assisted the Receiver in determining the amount to list the MSF Land and Buildings as well as determine whether offers received are reasonable.

72. The Receiver obtained proposals from two reputable listing agents and upon reviewing the proposals has selected InfoMarket Group GMAC Real Estate ("GMAC") to list the MSF Land and Buildings for sale. The Receiver understands that the timing of the sale is imperative, as potential buyers are interested in the MSF Lands to cultivate a crop during the summer of 2009 and in order to do so require seeding to be completed by late May. If a sale cannot be completed prior to this period, potential buyers will not likely be interested in the MSF Lands until November 2009. The Receiver has therefore investigated the possibility of renting the MSF Land and Buildings during the summer and has been in contact with interested parties.

73. The Receiver established the listing price of the MSF Land and Buildings after review of the appraisal and discussions with the realtor. The Receiver also discussed the listing price of the MSF Land and Buildings with Mr. Bastiaansen and advised as to how the listing price was established (i.e. based on the appraisal commissioned by the Receiver and from discussions with the realtor).

MSF Machinery and Equipment

74. The Receiver is considering the disposition of the MSF Machinery and Equipment through an auction. The Receiver requested four auction companies to provide proposals including a net minimum guarantee, a straight-purchase and an auction commission scenario. The Receiver understands that certain assets located on the MSF Property are owned and leased by parties other than the MSF Defendants including Bassem and Mr. Semkuley and is in the process of identifying the parties that own each asset. Mr. Bastiaansen provided a listing of assets and identified the

party owning the equipment, and the Receiver is verifying this through a review of personal property registry searches. The lack of definitive fixed asset listing that sets out the ownership of the asset and whether any security is registered against the asset has delayed the process of retaining an auction company.

75. It is not the Receiver's intention to dispose of any assets that are not owned by the MSF Defendants. Mr. Bastiaansen has a 50% ownership in Bassem and therefore the Receiver will continue to investigate and analyze the economic interest that the MSF Defendants may have in Bassem and will report further on this matter as more analysis is completed.

ANALYSIS OF THE RECORDS BY THE RECEIVER

Missing and incomplete information

76. Pursuant to the Appointment Order, the Court has requested the Receiver prepare two reports to the Court: the first being a report on all unsecured claims against the Defendants (the "Receiver Claim Listing") and the second being a report on the beneficial owner of the crop inventory grown in 2008 (the "Inventory Investigation Report"). Both reports require the Receiver to perform analysis of the Records of the Defendants. The Receiver has completed its preliminary analysis of the unsecured creditors and has provided it analysis below.

77. As described in this report, the Receiver has encountered significant difficulties in obtaining the required Records and information required to complete the Inventory Investigation Report. Accordingly, the Receiver is only in the preliminary stages of preparing the Inventory Investigation Report. The delay in obtaining the needed information and explanations was compounded in part due to Mr. Bastiaansen being out of the country at the time of the Receivership, and only returned to the Country one week before this Report was due.

78. Further compounding the issues in assembling the books and records of the MSF Defendants is that it appears that there is no central office location for the Defendants. Certain of the financial information is apparently located on Mr. Bastiaansen's laptop computer, some information was located in his personal residence while other information was kept by the Defendant's external accountant.

Retention of Burns, Valkenburg and Associates

79. Through discussions with Mr. Bastiaansen during the Interim Receivership Period, it was identified that the Defendants historically retained BVA to perform accounting services. The Receiver has corresponded with representatives of BVA and BVA advised of the following:

   a. The Defendants have been using BVA's services to perform bookkeeping, prepare GST returns, financial statements, corporate tax returns and personal tax returns. BVA has been providing these services to the MSF Defendant's since August 1, 2005;

   b. BVA had been completing the 2008 bookkeeping for the Defendants, however stopped when the Defendants were not paying their outstanding invoices to BVA in a timely manner. As at this date, the bookkeeping is completed up to November 30, 2008;

   c. BVA indicated that the preparation of the Defendant's financial statements is primarily based on bank statements and review of other source documents. The preparation of the financial statements is time consuming due to transactions occurring within multiple corporate and personal bank accounts and a high volume of related party transactions between the Defendants;

   d. BVA was recently informed by Mr. Semkuley of an additional bank account BVA was not aware of when preparing the financial statements of the Bassem Joint Venture for the year ended December 31, 2007. As a result, additional bookkeeping will be required and the financial statements of the Bassem for the year ended December 31, 2007 will have to be restated; and

   e. BVA informed the Receiver that certain expenditures of MSF and Bassem occur on multiple credit cards held by the Defendants. Transactions occurring on multiple personal and corporate credit cards increases the effort required to identify all transactions entered into by MSF and Bassem.

80. The Receiver has engaged BVA to complete MSF and Bassem's financial statements for the year ended December 31, 2008. The Receiver has paid approximately $2,800 in arrears as well as issued a $10,000 retainer to BVA for their continued services.

Financial information obtained by the Receiver

81. The Receiver has collected the following financial information relating the Defendants:

a. On March 31, 2009, the Receiver received certain relevant Records that were located on Mr. Bastiaansen's personal laptop. The Receiver has completed a preliminary analysis of this information, but due to the timing of the receipt of the Records, the Receiver has not been able to completely analyze the information as at the time of the report;

b. On March 31, 2009, the Receiver received from BVA certain Records of the Defendants including bank statements and the Receiver continues to analyze this information;

c. The Interim Receiver has received copies of the internal financial statements for MSF and Bassem as at November 30, 2008 including a trial balance;

d. Financial statements for the year ended December 31, 2007 for MSF and certain supporting documentation; and

e. Certain bank and credit card statements of the Defendants (however, not a complete listing).

82. To date, the Receiver has not received certain information it would expect to be available and would be of assistance, including:

a. MSF and Bassem financial statements for the year ended December 31, 2008, or for any months in 2009;

b. Source documents such as invoices, statement of accounts, etc;

c. Documentation regarding the establishment of Bassem Joint Venture and Bassem including the alleged transfer of inventories and other assets and the consideration paid and/or received for the transfers;

d. 2008 Fixed asset ledger;

e. Current accounts payable ledger by entity;

f. Employee source deduction and GST information;

g. Listing of all individuals employed by the Defendants; and

h. Bank deposit books.

83. The Records the Receiver has received to date are inadequate to prepare the Inventory Investigation Report. However, the Receiver is optimistic the required information will be obtained through continued discussions with BVA and Mr. Bastiaansen, requesting certain information from the TD Bank (such as returned cheques and missing bank statements) and through BVA updating and restated the Defendants' financial statements as discussed above.

84. BVA has indicated that the bookkeeping, preparation of the 2008 financial statements for MSF and Bassem and the restatement of Bassem's 2007 financial statement will be completed by approximately April 30, 2009. The Receiver requires these items to complete the Inventory Investigation Report, accordingly, it is expected that the report can be completed within a two weeks of receiving the updated financial information, assuming other source documentation can be obtained.

CLAIMS REPORT

85. This Honourable Court has requested that the Receiver prepare a report on all the unsecured claims against MSF, the MSF Defendants and Bassem.

86. The Receiver received the February 11th Creditor Listing from Mr. Bastiaansen which listed the creditors of Bassem outstanding as at February 11, 2009. The Receiver also received a creditor

listing from BVA as at November 30, 2008 (the "BVA Creditor Listing"). As there were no other listings, the Receiver used these two listings as a basis for developing the Receiver Claim Listing indicating the creditors of MSF, Bassem and the MSF Defendants. The listing was supplemented from discussions with Mr. Bastiaansen, discussions with BVA and through a review of the various corporate searches and personal property registrations.

87. Based on discussions with Mr. Bastiaansen and BVA, the Receiver understands that both the February 11th Creditor Listing and the BVA Creditor Listing, included creditors relating to both Bassem, MSF and the MSF Defendants.

88. The Receiver completed Receiver's Claim Listing based on the February 11th Creditor Listing, the BVA Creditor Listing and review of various corporate and property searches. The Receiver asked Mr. Bastiaansen to review the Receiver's Claim Listing to identify which creditors related to MSF, Bassem or the MSF Defendants. While the Appointment Order, requested only a listing of unsecured claims, the Receiver has included in the Receiver's Claim Listing the secured claims that were identified by the Receiver, to provide a complete list of potential creditors.

89. The Receiver understands that classification of creditors' claims as between companies was determined by Mr. Bastiaansen based on an analysis as to who the service or supply benefited, rather than who actually retained the supplier. For example, suppliers and services relating to 2007 and prior years, were classified as MSF creditors as these expenses were incurred for the benefit of MSF's operations. The majority of expenses incurred in 2008 were classified as creditors of Bassem as these expenses were incurred for the benefit of Bassem.

90. However, upon review of certain source documentation, agreements and property registrations, it is apparent that while Bassem allegedly operated in 2008, many of the expenses incurred, and classified as Bassem creditors, have agreements and/or invoices in the name of MSF. For example, approximately $65,000 is owed to PBJS relating to land rented in 2008 and which was used to grow the 2008 Potato Inventory. Mr. Bastiaansen has classified this creditor as a Bassem creditor supported by the fact that this expense related to the Bassem operations. However, the agreement with PBJS is with certain of the MSF Defendants and not Bassem. Accordingly, it is possible that PBJS is a creditor of the MSF Defendants and not Bassem. The Receiver is aware

of numerous creditors who have been classified as Bassem creditors who have an agreement and/or invoice in the name of MSF or the MSF Defendants. Another example is the source deduction account for employee source deductions which are to be remitted to the Canada Revenue Agency (the "CRA"). The Receiver's Claim Listing indicates approximately $100,000 owed to the CRA for unremitted source deductions owed by Bassem; however, the Receiver understands the account remains in the name of MSF. Therefore CRA would believe it is a creditor of MSF and not Bassem, even though the employees essentially worked for the benefit of Bassem during the 2008 growing season.

91. The Receiver discussed the above issue with Mr. Bastiaansen who advised that while the operations were apparently commenced in 2008 by Bassem, a significant portion of the supplier accounts and other agreements were not changed to the name of Bassem from MSF or the MSF Defendant's name, accordingly, the supplier or service provider continued to bill in the name of the company they provided services to the year before.

92. The Receiver discussed the creditor classification issue with BVA who indicated that it would be very time consuming to manually review the invoices and determine which expenses relate to MSF or Bassem.

93. Based on the information available, the Receiver's Claim Listing is attached as Appendix A which indicates the creditors classified as between MSF, the MSF Defendants or Bassem. The Receiver cautions that the listing is based on an estimate by Mr. Bastiaansen as to which Defendant the creditor provided services and/or product to and not who the supplier invoiced or had a contract/agreement with. Accordingly, this Claim Listing certainly contains inaccuracies and is necessarily incomplete, and ensuring the accuracy and completeness of this listing will be a time consuming process of going through all source documents for each payable and determining who the creditor is.

94. The Receiver believes it is prudent to notify all creditors on the attached Receiver's Claim Listing given the following:

a. Many of the creditors may not be aware that Bassem considers them creditors and may believe they are creditors of MSF or the MSF Defendants based on the agreements in place or the name of the respective account;

b. The accounting, including the classification of creditors, has not been completed on a basis consistent with the operations resulting in a commingling of transactions and creditors between MSF and Bassem;

c. Many of the supplier accounts were not transferred from MSF and/or the MSF Defendants to Bassem when the operations were apparently transferred; and

d. The Receiver believes that notification of all potential creditors would ensure that all relevant parties are aware of the proceedings and able to assess their respective positions.

INVENTORY INVESTIGATION REPORT

95. As discussed above, the Receiver is reviewing the financial information received to date and has commenced its review in order to complete the Inventory Investigation Report. However, in order to complete a fulsome report on an efficient basis, the Receiver believes that the financial statements need to be updated and restated by BVA. As discussed above, BVA advised that the updated financial statements can be completed by the end of April 2009. The Receiver anticipates that it will be able to finalize its Inventory Investigation Report shortly thereafter, say by mid May 2009.

SUMMARY OF NEXT STEPS

96. The Receiver's next steps in include:

a. Shipping the remaining Potato Inventory and collecting the related receivables;

b. Continuing its efforts to gather the required information in order to complete the Inventory Investigation Report;

c. Completing an finalized listing of the MSF Machinery and Equipment and receiving the auction proposals; and

d. Evaluating offers on the MSF Land and Buildings received from the marketing efforts of GMAC.

RECOMMENDATIONS

97. The Receiver recommends the statutory receiver notices be sent to all creditors attached on the Receiver's Creditor Listing, including the creditors classified as Bassem creditors for the reasons discussed above.

All of which is respectfully submitted this 3rd day of April, 2009.

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

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

Deryck Helkaa, CA•CIRP
Vice-President

Receiver's Claim Listing

Creditor - Note 1	Claim type (see Note 2)	MSF	Bassem	MSF Defendants
AFSC	Unsecured	-	15,619	-
Agcom Petroleum	PPR	104,110	-	-
Agrifinance	PPR	-	-	unknown
AltaGas Utilities Inc.	Unsecured	-	10,892	-
Anmart Fuels	Unsecured	-	26,442	-
Bennen Farms	Unsecured	-	32,500	-
Bennet Jones	Unsecured	-	-	6,148
Ben Van Dijk - Water Rights	Unsecured	-	-	-
Bodkin Leasing Corporation	PPR	9,900	-	-
Brenntag Canada	Unsecured	52,926	-	-
C&H - Pivot	Unsecured	-	-	-
CIT Financial	PPR	unknown	-	-
CNH Capital	PPR	536,090	-	-
County of Forty Mile No. 8	Unsecured	10,000	-	-
CRA	Unsecured	100,000	-	-
Direct Energy	Unsecured	-	10,850	-
Drost Seed Potatoes	Unsecured	-	43,500	-
Dunlop Sterling - Oil	Unsecured	-	3,089	
Edmonton Potato Growers	Unsecured	unknown	-	-
Epcor	Unsecured	-	67,726	-
Farm Credit Corporation	PPR	-	-	unknown
Finning	PPR	-	5,566	-
GL Tires Bow Island	Unsecured	-	14,908	-
Green Power - Parts	Unsecured	1,539	-	-
Green Praire	Unsecured	-	119,888	-
Growers Supply Limited	PPR	unknown	Unknown	unknown
Hanlon Ag Centre	Unsecured	-	48,007	-
Hi-way Service	PPR	-	-	unknown
Henry Vandergaast	Unsecured	-	3,000	-
Houweling Farms	Unsecured	187,876	-	-
Jobe Sand & Gravel	Unsecured	-	4,175	-
KB Heating (Registered on MSF lands)	Unsecured	53,000	-	-
Kinniburgh Spray Services	Unsecured	-	1,806	-
Lakeside Feeders Ltd	PPR/Secured	-	-	827,846
McCarthy Tetrault	Unsecured	34,475	-	-
McNichol Brokers	Unsecured	-	31,937	-
MCAP Leasing Inc	PPR	unknown	-	-
Miles Davidson	Unsecured	4,325	-	-
Mike Van Dijk	PPR	-	-	178,424
Milliken Farm Supplies	PPR	17,576	-	-
Nakamura Farms Ltd (water rights)	Unsecured	4,852	-	-
National Bank of Canada	Secured/PPR	5,700,000	Unknown	unknown
Nappa - Bow Island Farm Centre	Unsecured	-	10,793	-
North & Co. LLP	Unsecured	47,217	-	-
Oldenhuis & Prinsen - Parts	Unsecured	-	4,757	-
Parrish & Heimbecker	Unsecured	-	12,840	-
Park Lake Dairy Farms Ltd / Friesland	Secured/PPR	1,098,016	-	1,098,016
PBJS Farms Inc.	Unsecured	-	-	63,665
Polaris Leasing - Leasing Bins	PPR	30,336	-	-
Prairie View Seed Potatoes Ltd.	Unsecured	-	58,194	-
Prime Capital - Lease Fortis	Unsecured	4,237	-	-
RTL Agri-Services Ltd.	PPR	69,793	-	-
SMRID - Water Rights	Unsecured	26,000	26,000	-

Receiver's Claim Listing

Creditor - Note 1	Claim type (see Note 2)	MSF	Bassem	MSF Defendants
South Alta REA	Unsecured	-	245	-
Taber Home Farm Centre	Unsecured	-	62,108	-
Transwest Financial Services	PPR	-	93,000	-
Vandenende Machinebouw Converyerbelts	Unsecured	178,953	-	-
Western Canada Welding Products	PPR	unknown	-	-
Westana Leasing Corporation	PPR	unknown	-	unknown
Walter Semkuley	PPR	-	-	unknown
Wayne Gilbertson	Unsecured	-	4,303	-
TOTAL		**8,271,221**	**712,145**	**2,174,099**

<u>**Notes**</u>

Note 1 - Defendants identified based on services provided and may differ from creditors records

Note 2 (type of claim)
PPR - security registered against asset per Personal Property Registry searces (validity of security is being reviewed by the Receiver.