

RSM Richter Inc.

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CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01 - Beauharnois
COURT NO.: 760-11-005122-110
ESTATE NO.: 41-1549119

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

Jirah Milling Inc. / Moulage Jirah Inc.

a body politic and corporate, duly incorporated
according to law and having its head office at:

2780 North River Road, Ormstown, Québec
Debtor

- and -

RSM Richter Inc.

Trustee

**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION
OF THE DEBTOR AND ON THE PROPOSAL ("Trustee's Report")
(Sections 50(10) (b) and 50(5) of the *Bankruptcy and Insolvency Act*)**

The purpose of the First Meeting of Creditors is to consider the proposal filed on October 12, 2011 (hereinafter referred to as the "Proposal") by Jirah Milling Inc. / Moulage Jirah Inc. (hereinafter referred to as the "Debtor", "Jirah Milling" or the "Company").

Pursuant to Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act* (hereinafter referred to as the "Act" or "BIA") and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Debtor and on the Proposal.

We caution the reader that the information discussed herein emanates from the books and records of the Debtor. However, we have not conducted an audit of these books and records. Consequently, we cannot render an opinion as to the accuracy or completeness of the information contained herein.

I) INTRODUCTION

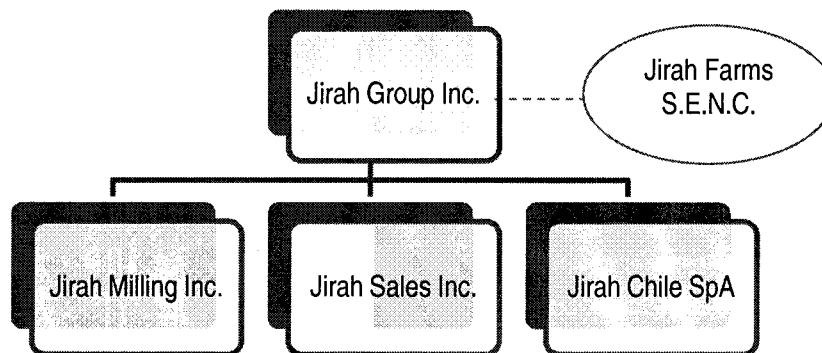
On October 12, 2011, the Debtor filed with the Trustee, RSM Richter Inc. ("Richter") a Proposal to its creditors. On October 14, 2011, Richter proceeded to mail to all known creditors (those declared by the Debtor) the Proposal, a proof of claim form, a voting form, a proxy and a notice indicating the place and time of the First Meeting of the Creditors to consider the Proposal as well as the Trustee's Report.

Trustee's Report discusses the relevant information and key elements that may assist the creditors in analyzing the Debtor's affairs and the terms of the Proposal.

II) AFFAIRS OF THE DEBTOR

A. Corporate Structure

Jirah Milling is part of a group of companies ("Group") described as follows:



The principal activities of each company are :

- Jirah Group Inc.: Holding company of the Group, no activity.
- Jirah Sales Inc.: Sale and distribution arm of the Group, owner of customer contracts.
- Jirah Milling Inc.: Purchase and import of organic products, essentially soya beans.
- Jirah Chile SpA: Start-up of a farming operation in Chile.
- Jirah Farms S.E.N.C.: Farming operations and transformation of cereals and other grains/beans.

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B. Status of Operations

Jirah Milling's operations have not been profitable in 2011, it has suffered substantial financial losses in the past months. These losses can be mainly attributed to:

- Non profitable sale contracts: due to market conditions, the selling price fixed in the contracts was almost the same as the costs of purchases; therefore, no margin was generated to cover overhead expenses and financing costs; and
- Loss of certification: the cancellation, in July 2011, by the Canadian Regulatory Agency (i.e. CFIA) of Jirah Milling's licence to sell organic products which represented approximately 95% of Jirah Milling's activities.

The cancellation of the licence in July 2011 from the Canadian Regulatory Agency had a disastrous effect on the Company. As a direct consequence, in August 2011, the American Regulatory Agency withdrew from Jirah Milling the right to sell organic products in the USA. Since a significant proportion of Jirah Milling's sales were to customers located in the USA, its operations were virtually shut down. Furthermore, in view of the Group's inability to satisfy its commitments under the sales contracts with its customers, it incurred significant additional claims/liabilities.

As a consequence, Jirah Milling was forced to significantly reduce its operations in September 2011, and proceeded to liquidate its inventory. With no other alternative available, Jirah Milling decided to cease the majority of its activities at the end of September 2011.

III) FINANCIAL INFORMATION

The following financial information was gathered from the books and records of the Debtor and from discussions with Management. It is submitted solely to assist the reader in assessing the current financial situation of the Debtor.

A) Operating Results

- The Group's more recent combined operating results are summarized below:

Combined Operating Results (in \$ millions - Unaudited)			
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
For the year	F/S	F/S	F/S
Sales	\$ 41.9	\$ 24.0	\$ 32.6
Net/ Income	\$ 1.3	\$ 0.5	\$ 0.3
EBITDA	\$ 2.0	\$ 1.2	\$ 1.1

- Jirah Milling's current operating results, as at September 30, 2011, are summarized as follows:

(in \$000's - Unaudited)	
	September 30, 2011 (9 months)
Sales	\$ 33,714
Gross profit	\$ 1,342
Expenses	\$ 2,597
Net loss	\$ (1,255)
EBITDA	\$ (766)

B) Balance Sheet

Jirah Milling's balance sheet as at September 30, 2011 is summarized as follows:

Balance Sheet as at September 30, 2011 (in \$000's - Unaudited)			
Assets		Liabilities	
Inventory	\$ 888	Bank indebtedness	\$ 564
Advances to Jirah Farms	3,724	Accounts payable	2,342
AR from Jirah Sales	1,384		
Advances to Jirah Chile S.P.A.	323		
G.S.T. & Q.S.T. refund	195		
	<u>6,514</u>		<u>2,906</u>
Fixed assets	436	Term debt	2,770
Other advances and intangibles	698	Retained earnings	1,972
	<u>\$ 7,648</u>		<u>\$ 7,648</u>

The Banque Nationale du Canada's (the "Secured Creditor" or "Bank") has advised the Trustee that, as at October 11, 2011, the combined outstanding indebtedness, including financial instruments, owed by the Group, totals \$4.2M.

It is important to note that Jirah Farms SENC, Jirah Sales and Jirah Group have guaranteed to the Bank the financial obligations of Jirah Milling. As such, they have pledged all of their assets to secure their undertaking to the Bank.

- **Inventory (\$888K)**

Inventory is comprised of Flax (\$700,000), corn (\$100,000) and other products (wheat, barley, lupines). These inventories have been on Jirah Milling's premises for over 6 months. One customer has shown interest in the Flax product, but no sale of the remaining inventory has materialized. The inventory is subject to the secured charge in favour of the Bank. The estimated realizable value of the inventory is approximately \$350,000 before costs of realization.

- **GST / QST (\$195K)**

The refund due from the tax authorities should have been collected by the Company in August 2011. Jirah Milling, however, owes the tax authorities amounts relating to income taxes and other liabilities. It is therefore assumed that the tax authorities will offset the amounts owed against this receivable. The refund, if any, is subject to the security of the Bank.

- **Fixed Assets (\$436K)**

The breakdown of fixed assets is as follows:

Fixed Assets As at September 30, 2011 Net book value (in 000's - Unaudited)	
Office equipment	\$ 20
Machinery and Equipment	30
Land, Building (Ranch)	386
Total Fixed Assets	\$ 436

All fixed assets are located in Ormstown, Québec and are pledged to the Bank. An independent evaluation performed by a professional appraisal firm indicates that there is likely no equity in the fixed assets which could be generated for the benefit of the unsecured creditors.

Notwithstanding the foregoing, a related party (Eastwood) has made a \$325,000 offer to purchase the Ranch provided that Jirah Milling's Proposal is accepted by the creditors and ratified by the Court. The Bank is prepared to give a release of its security on the Ranch in consideration for receiving \$225,000. The residual of the purchase price, approximately \$100,000, will be remitted to the Trustee to fund the Proposal of Jirah Milling.

In the event of a bankruptcy and ensuing forced liquidation, the Ranch and all other assets would be liquidated and the sale proceeds will be used to reduce the Bank's loans.

- **Accounts receivable from Jirah Sales (\$1,384K)**

The amount owed relates to inventory sold to Jirah Sales, the selling arm of the Group. The only assets of Jirah Sales are its accounts receivables, totalling \$989,000, which are pledged to the Bank. Our analysis of the remaining accounts receivable of Jirah Sales indicates that they are slow-paying, litigious and doubtful accounts. Collection of these accounts receivable is uncertain. The Company is of the opinion that it may be able to collect approximately \$350,000 to \$500,000, which will be used to reduce the Bank indebtedness of Jirah Milling. It is therefore highly improbable that Jirah Sales will be in a position to settle its accounts with Jirah Milling.

- **Advances to Jirah Farms (\$3,724K)**

Advances, including bank financing, were made by Jirah Milling to Jirah Farms to purchase the following assets (net):

As at September 30, 2011 (in 000's - Unaudited)	
Land	\$ 767
House	208
Farm building, silos and bins	1,475
Machinery equipments	788
Total Fixed Assets	\$ 3,238

Jirah Farms has guaranteed and given security in favor of the Bank for all loans made to Jirah Milling. Therefore, any indebtedness shortfall of Jirah Milling will require a payment from Jirah Farms. The independent evaluation performed by a professional appraiser reflects no equity/surplus value available to the unsecured creditors of either corporate entity. We are advised that Jirah Farms' assets have an orderly liquidation value of \$3.0M before the realization costs, and a forced liquidation value of \$2.7M before the realization costs. Thus, should Jirah Milling not be in a position to continue in business, the Group's assets would be liquidated, and the realization value will solely be used to reimburse the Bank.

- **Advances to Jirah Chile (\$323K)**

All activities in Chile have ceased and the operations have been shut down. The realization of the Chilean assets should barely be enough to cover its liabilities. It is therefore highly improbable that Jirah Chile will be in a position to reimburse its loan to Jirah Milling.

- **Other Advances and Intangibles (\$698K)**

Other advances and intangibles relate to advances/transactions made over the years by Jirah Milling to subsidiaries that have ceased their activities. No realization values can be generated from same. These advances and assets should therefore be written-off.

C) Liabilities

- **Secured Creditors (\$4,176K)**

The combined Bank indebtedness as at October 11 is \$4.2M. The estimated forced liquidation realisation value of the Group's assets securing the Bank's position is estimated to be between \$3,600,000 and \$4,375,000 before realization costs. Consequently, in a bankruptcy/forced liquidation scenario, there would most probably be a realization shortfall to the Bank:

Realization Value		
	<u>Low</u>	<u>High</u>
Jirah Milling		
Inventory	\$ 250	\$ 400
Fixed assets	200	325
Jirah Sales - accounts receivables	350	500
Jirah Farms - Fixed assets	2,700	3,000
Others (general)	100	150
	<u>\$ 3,600</u>	<u>\$ 4,375</u>

- **Preferred Creditors (Nil)**

Based upon the terms and conditions of the Proposal, all employees' claims that qualify under section 60(1.3)(a) of the BIA and all preferred claims will be paid in full in priority of all unsecured claims.

Based on the Company's records no amounts are owed.

- **Unsecured Creditors (\$2,342K)**

The records of the Company showed that the amount owed to the unsecured creditors totals approximately \$2,342,000 mainly due to various trade suppliers.

The Debtor has not yet completed the updating of its records. Thus, at the present time, we cannot comment as to the accuracy of the quantum of the unsecured creditors' claims. Actual liabilities will be validated upon the filing by creditors of their proof of claim.

IV) PROPOSAL TO CREDITORS

As previously mentioned, on October 12, 2011, the Company filed a Proposal to its creditors. Creditors are advised to read the Proposal and its terms and conditions.

In summary, the salient elements of the Proposal are:

- The remittance of the \$100,000 (the "Basket Amount") required to fund the Proposal will be provided from the proceeds of the sale of the Ranch;
- The Trustee shall distribute the Basket Amount and the dividend distribution will be made to the creditors in accordance with the terms and conditions of the Proposal;

The settlement of the creditors' claims will be as follows:

- The amounts that the employees would be entitled to receive, under section 60(1.3)(a) of the BIA, shall be paid in priority of all unsecured claims;
- The Crown's Claims, if any, shall be paid in full, without interest, within 30 days of the granting of Court Approval of the Proposal;
- The Priority Claims (i.e. Preferred), if any, shall be paid, without interest in full, within 30 days of the granting of the Court Approval of the Proposal;
- In complete satisfaction and discharge of all Unsecured Claims, the unsecured creditors shall receive their pro-rata share of the Basket Amount, after payment of the Employees Claims, the Priority Claims and the Crown Claims, if any;
- It is anticipated that the dividend distribution will be made no later than 90 days from the granting of the Court Approval of the Proposal.

V) ELEMENTS TO BE CONSIDERED BY UNSECURED CREDITORS

A) Resuming of Jirah Milling's Activities

Acceptance of the Proposal would avoid a bankruptcy and benefit the following constituents:

- Merchandise suppliers and service providers will have a going concern entity with which they may wish to continue to do business with;

- A number of employees should be re-hired.

B) Distribution to the Creditors

In a Proposal scenario, an amount of approximately \$100,000 or approximately 4% of claim value should be available to unsecured creditors. This amount will not be available in a Bankruptcy scenario.

If the unsecured creditors reject the Proposal, the Company will automatically be deemed to have filed an assignment in Bankruptcy. Thereafter, the assets of the Company will be liquidated and the net proceeds will be distributed by the Trustee to the creditors based on the provisions of the BIA. It is not expected that the unsecured creditors will receive any dividend.

VI) CONCLUSION

As mentioned in this Report, an accepted Proposal should result in a more favourable distribution for the unsecured creditors than would a Bankruptcy scenario. Moreover, certain employees of Jirah Milling will have an opportunity to maintain their employment. Also, keeping the Company active should offer a favourable business opportunity to the suppliers and the economy of the region. For these reasons, we are in the opinion that the Proposal represents the most advantageous option for its creditors.

Dated at Montréal, Province of Quebec, this 14th day of October 2011.

RSM Richter Inc.
Trustee



Paul Lafrenière, CA, CIRP
Administrator