

RICHTER

CANADA
PROVINCE OF QUEBEC
DISTRICT OF: QUEBEC
DIVISION NO.:01-BEAUHARNOIS
COURT NO.: 760-11-005445-123
ESTATE NO.: 41-1698291

SUPERIOR COURT
In Bankruptcy and Insolvency

IN THE MATTER OF THE PROPOSAL OF:

**Les Aliments Newland North America Inc./
Newland North America Foods Inc.**

a body politic and corporate, duly
incorporated according to law and having its
head office at 1000 Saint-Charles Avenue,
Suite 901, Vaudreuil-Dorion, Quebec J7V
8P5

Debtor

- and -

**Richter Advisory Group Inc.
(formerly RSM Richter Inc.)**

Trustee

**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION
OF THE DEBTOR AND ON THE PROPOSAL
(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 January 17, 2013 (hereinafter referred to as the "Proposal") by Les Aliments Newland North America Inc. (hereinafter referred to as the "Debtor", "Newland", "NNA" 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, Richter Advisory Group Inc. (formerly RSM Richter Inc. – Trustee), ("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 of the information contained herein.

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I. INTRODUCTION

On December 18, 2012, the Debtor filed a Notice of Intention to make a Proposal to its creditors. On January 17, 2013, the Debtor filed with Richter and the Official Receiver, a Proposal to its creditors. On January 23, 2013, Richter proceeded to a mailing to all known creditors wherein we enclosed 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. A Notice of hearing of application for court approval of proposal was also included in the mailing.

The following summarizes the relevant information and key elements that may assist the creditors in analyzing the Debtor's affairs and the terms of the Proposal.

Capitalized terms used herein and not otherwise defined have the meaning ascribed to them in the Proposal.

II. BACKGROUND OF THE DEBTOR

Newland is a trader of frozen fruits and vegetables operating out of Vaudreuil-Dorion, Québec. The Company was created in December 2009.

Since its inception, the Debtor has suffered significant financial losses. These losses can be mainly attributed to:

- i) Significant bad debt expenses;
- ii) Various quality issues with its inventory; and
- iii) Insufficient gross margin (less than 5%).

Since the filing of the Notice of Intention on December 18, 2012, the Company has slowed down its operations by suspending any further purchase of inventory and has concentrated its efforts on selling its inventory on hand and collecting its accounts receivable.

III. FINANCIAL INFORMATION

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

The Trustee makes no representation or warranty as to the accuracy of the said financial information.

A) Historical Operating Results

The Company's operating results are summarized below:

Operating Results			
(in 000's - Unaudited)			
	For the period ended		
	Sept. 2012	Dec. 2011	Dec. 2010
	(9 months)	(12 months)	(12 months)
	Preliminary	Audited	Audited
Sales	\$ 30,274	\$ 37,103	\$ 16,168
Gross Margin	\$ 957	\$ 1,432	\$ 831
% Gross Margin	3%	4%	5%
Net profit / (loss) (before any adjustment to inventory)	\$ (500)	\$ (218)	\$ 15

B) Assets

The Company's books and records indicated that as at January 17, 2013, its assets were as follows:

Assets	
As at January 17, 2013	
(in 000's - Unaudited)	
	<u>Book value</u>
Short-term assets	
Cash	\$ 1,085
Accounts receivable	1,926
Loan to shareholder	254
Inventory	1,699
	<u>4,964</u>
Fixed Assets	35
Total Assets	\$ <u>4,999</u>

Accounts receivable (\$1,926K)

The outstanding accounts receivable relate mostly to inventory sold recently or slow-paying customers / doubtful accounts and can be summarized as follows:

Accounts receivable as at January 17, 2013	
(In 000's)	
Good	\$ 1,022
Doubtfull	723
Bad (to be written-off)	181
	\$ 1,926

Management is in the process of collecting these amounts. Collection of the doubtful accounts receivable is uncertain and formal legal procedures will likely be required to collect most of them. Per our discussions with management, the accounts categorized as "Bad" have no potential of being collected. Please refer to our liquidation analysis in **section V** for the estimated realization value of the accounts receivable.

Inventory (\$1,699K)

Most of the inventory on hand as at January 17, 2013 is located in various third party warehouses in the US.

It should be noted that a significant part of the inventory on hand results from rejections of the inventory by Newland's customers for various reasons including: presence of pesticides, worms, mislabeling, over shipment and other quality issues. As such, the current market value could be significantly less than the reported book value (\$1,699K).

In addition, significant amounts are due to the third party warehouses (estimated at over \$830K) and most of them are claiming right of retention / security over this inventory. **Consequently, the net realization value from the inventory is expected to be limited.**

Shareholder loan (\$254K)

A loan of \$254K was made to one of the two shareholders of the Company in 2012. This shareholder informed us that he was not in a position to reimburse the loan.

Fixed assets (\$35K)

Fixed assets consist of office furniture, computers and leasehold improvements with limited realization value.

C) LIABILITIES

As at January 17, 2013, the Company's Statement of Affairs indicates the following:

Liabilities	
As at January 17, 2013	
<small>(in 000's - Unaudited)</small>	
Secured creditors	\$ -
Preferred creditors	2
Unsecured creditors	5,835
Total Liabilities	\$ 5,837

(i) Preferred Creditors (\$2K)

The preferred creditors consist of amounts due to two employees of the Company. Based upon the terms and conditions of the Proposal, all employees' claims that qualify under section 136 1)(d) of the BIA shall be paid in their entirety immediately after the approval of the Proposal, while all preferred claims will be paid in full in priority of all unsecured claims.

At this time, it is expected that the claims of these two employees will be paid in the normal course of business.

(ii) Unsecured Creditors (\$5,835K)

As at January 17, 2013, the records of the Company showed that the amount owed to unsecured creditors totals approximately \$5,835K. The amount consists mainly of amounts due to suppliers (frozen fruits and vegetables) as well as third party services (warehousing, transport and duties brokerage).

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. **It will be validated upon the filing by creditors of their proofs of claim. Variances will occur and may be material.**

IV. PROPOSAL TO CREDITORS

As previously mentioned, on January 17, 2013, the Company filed a Proposal to its creditors.

Creditors are advised to read the text of the Proposal as well as associated definitions.

In summary, the Proposal provides for:

- The payment to the unsecured creditors of an amount of \$1,600K (the "Gross Amount"), net of all proposal costs, post filing obligations, secured claims, priority claims and all other amounts to be paid in priority to the unsecured claims (the "Net Amount"). The Trustee shall pay the dividend within ninety (90) days of the approval of the Proposal.

V. ESTIMATED DISTRIBUTION TO UNSECURED CREDITORS

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.

The analysis below was prepared with a view to compare the distribution to unsecured creditors in a Proposal versus the distribution in a Bankruptcy scenario.

Newland North America					
Estimated realization analysis					
(In 000's)					
	Book value	Estimated realization value			
		Bankruptcy		Proposal	
Cash on hand as at January 17, 2013	\$ 1,085	100%	\$ 1,085	100%	\$ 1,085
Plus:					
Projected collection of AR (to Feb 15, 2013)	530	75%	397	75%	397
Less: General expenses (to Feb. 15, 2013)	(293)		(293)		(293)
Projected gross realization as at Feb.15, 2013			1,189		1,189
Plus additional realization after Feb.15, 2013					
Potential collection of accounts receivable					
Good	493	50%	246	75%	370
Doubtful (realization net of legal costs)	723	5%	36	25%	181
Bad	181	0%	-	0%	-
Shareholder loan	254	0%	-	0%	-
Realization from inventory (net of priority / withholding claims)	1,699 - 830=869	10%	87	25%	217
Realization from sale of fixed assets	35		2		-
Less: estimated realization expenses			(600)		(350)
Net available realization available to creditors			\$ 960		\$ 1,607
					A
Total unsecured creditors (estimated)			\$ 5,835		\$ 5,835
Realization percentage to creditors			16%		28%
					B
					C=A/B

It should be noted that the estimated net proceeds for distribution to unsecured creditors in a Bankruptcy scenario are highly dependent on the collection of the remaining accounts receivable as well as the liquidation of the inventory on hand and the related realization costs, which cannot be projected with certainty.

Other considerations

The following are additional elements to be considered in the event of a Bankruptcy:

(i) Inopposability of some transactions

By the Approval of the Proposal, all creditors waive their remedies provided by sections 38 and 95 to 101 of the Act (and any similar provisions of any applicable laws). These remedies relate to the recovery of certain amounts under preferences and transfer at undervalue.

Since these remedies would be available in the event of a Bankruptcy of the Debtor, we will perform a summary analysis of various transactions involving the Debtor, non-related third parties and related parties over the 3 months and 12 months respectively prior to the filing of the Notice of Intention to make a Proposal and will report at the first meeting of creditors.

(ii) **Resuming of Newland's activities**

Acceptance of the Proposal would avoid a Bankruptcy and, in the event of the Company resuming its operations, would benefit the following constituents:

- Suppliers and service providers will have a going concern entity with which to continue doing business;
- A number of employees will retain their jobs.

(iii) **Distribution to the creditors**

As indicated in the table above, the realization value in the Proposal scenario is estimated to be higher than in a Bankruptcy scenario (before consideration for the remedies provided by sections 95 to 101 of the BIA). Moreover, acceptance of the Proposal will most likely result in an earlier distribution to creditors than in a Bankruptcy.

VI. CONCLUSION

As mentioned in this report, the Proposal should result in a more favorable distribution for the unsecured creditors than would a Bankruptcy. Moreover, keeping the Company active will have a favorable impact on its suppliers. In addition, certain employees of Newland will have an opportunity to keep their job. For these reasons, we are of the opinion that the Proposal represents the most advantageous option for its creditors.

Dated at Montréal, Province of Quebec, this 23rd day of January 2013.

Richter Advisory Group Inc.
(formerly RSM Richter Inc. – Trustee)

A handwritten signature in blue ink, appearing to read 'P. Lafrenière', with a long horizontal flourish extending to the right.

Paul Lafrenière, CPA, CA, CIRP
Administrator