

**IN THE COURT OF QUEEN'S BENCH FOR SASKATCHEWAN
JUDICIAL CENTRE OF SASKATOON
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*,
*R.S.C 1985, C.B-3, AS AMENDED***

**AND IN THE MATTER OF THE PROPOSAL OF
CANADIAN EXOTIC GRAINS LTD.**

**SECOND REPORT OF DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE
UNDER THE NOTICE OF INTENTION TO MAKE A PROPOSAL**

SEPTEMBER 24, 2018

DELOITTE RESTRUCTURING INC.

360 Main Street, Suite 2300
Winnipeg, MB R3C 3Z3
Brent Warga
Telephone (204)942-0051
Fax (204)947-2689

TABLE OF CONTENTS

INTRODUCTION	1
PURPOSE	1
TERMS OF REFERENCE	2
BACKGROUND	3
ACTIVITIES OF THE COMPANY SINCE THE FILING OF THE FIRST REPORT	4
ACTIVITIES OF THE PROPOSAL TRUSTEE SINCE THE FILING OF THE FIRST REPORT.....	5
CASH FLOW FORECAST AND LIQUIDITY	5
SECTION 12 TRANSACTION.....	8
REQUEST FOR AN EXTENSION OF THE PROCEEDINGS AND RECOMMENDATIONS	8

EXHIBITS

- Exhibit A – Forecast to Actual Results for the Period July 30, 2018 to September 23, 2018
- Exhibit B – Cash Flow Forecast for the Period September 24, 2018 to November 18, 2018
- Exhibit C – August 8, 2018 Sale Approval and Vesting Order

INTRODUCTION

1. On July 17, 2018 (the “**NOI Filing Date**”), Canadian Exotic Grains Ltd. (“**CEG**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to Part III, Division I of the *Bankruptcy and Insolvency Act*, R.S.C 1985, C. B-3, as amended (the “**BIA**”). Deloitte Restructuring Inc. consented to act as the trustee under the proposal proceedings (the “**Proposal Trustee**”).
2. Notice of the NOI filing, as prescribed by the BIA, was sent to all known creditors by the Proposal Trustee on July 18, 2018 (the “**Notice to Creditors**”), along with a copy of the Certificate of Filing a Notice of Intention to Make a Proposal (the “**NOI Certificate**”).
3. The Proposal Trustee has made the NOI Certificate, the Notice to Creditors, and the first report of the Proposal Trustee dated August 3, 2018 (the “**First Report**”) available on its website at www.insolvencies.deloitte.ca/en-ca/canadianexotic (the “**Proposal Trustee’s Website**”). The Proposal Trustee will continue to post documents pertaining to the proposal proceedings on the Proposal Trustee’s Website.

PURPOSE

4. The purpose of this second report (the “**Second Report**”) is to provide information in respect of the following:
 - a. The business activities of the Company since the filing of the First Report, including operations and restructuring efforts to date;
 - b. The activities of the Proposal Trustee since the filing of the First Report; and
 - c. The Proposal Trustee’s recommendations related to the Company’s notice of motion to be heard on September 27, 2018, seeking the granting of an Order for, among other things, an extension of time within which the Proposal Trustee may file a proposal on behalf of the Company to November 12, 2018.

TERMS OF REFERENCE

5. In preparing this Second Report, the Proposal Trustee has relied upon unaudited interim financial information, the Company's books and records, the Affidavit of Jocelyn Hartsook ("**Ms. Hartsook**") sworn on August 3, 2018 (the "**First Hartsook Affidavit**"), the Affidavit of Ms. Hartsook sworn on September 20, 2018 (the "**Supplemental Hartsook Affidavit**"), and discussions with management ("**Management**") and other employees of the Company, and their financial and legal advisors.
6. The financial information of the Company has not been audited, reviewed or otherwise verified by the Proposal Trustee as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this Second Report may not disclose all significant matters about the Company. Additionally, none of the Proposal Trustee's procedures were intended to detect defalcations or other irregularities. If the Proposal Trustee were to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to the Proposal Trustee's attention. Accordingly, the Proposal Trustee does not express an opinion nor does it provide any other form of assurance on the financial or other information presented herein. The Proposal Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this Second Report.
7. The financial projections attached to this Second Report were prepared by Management. Although the Proposal Trustee has reviewed the assumptions underlying the projections for reasonableness, financial projections, by their nature, are dependent upon future events, which are not susceptible to verification. Actual results will vary from the information presented and the variations may be material. The Proposal Trustee has not prepared a compilation as contemplated by Section 4250 of the Chartered Professional Accountants of Canada Handbook.
8. The Proposal Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of

this Second Report. Any use which any party makes of this Second Report, or any reliance or decision to be made based on this Second Report, is the sole responsibility of such party.

9. Unless otherwise stated, all monetary amounts contained in this Second Report are expressed in Canadian dollars.

BACKGROUND

10. As detailed in the First Report, CEG is a corporation incorporated pursuant to the laws of the province of Saskatchewan. CEG began operations on January 1, 2011, subsequent to its acquisition of the assets of G.H. Schweitzer Enterprises Ltd., a company that was engaged in growing and marketing specialty grains, spices, and pulse crops in and around Eston, Saskatchewan. In July 2013, CEG's General Manager, who held primary responsibility for managing the farming (i.e. growing) operations, left the Company. With limited support to retrain an individual in the farming aspect of the operations, Management decided to focus exclusively on the marketing side of CEG's business, and accordingly, the farmland was sold.
11. CEG operates out of owned premises located at Blk/Par A Plan No 101077208 Extension 7 in the Rural Municipality of Snipe Lake, Saskatchewan and employed approximately six (6) staff, inclusive of Management, as at the NOI Filing Date.
12. Details of the background to the Company's current financial situation are included in the First Hartsook Affidavit. As described therein, the Company's current financial difficulties primarily resulted from poor crop years experienced by their contracted suppliers in 2016 and 2017, which forced CEG to source alternate crops at record high commodity prices to fulfill its sales contracts. Although the Company's suppliers were covered by "Act of God" clauses detailed in the agreements with CEG, the Company's contracts with its end customers had no such flow through protections.
13. In addition to the poor crop years experienced in 2016 and 2017 which resulted in shrinking margins, the Company was also saddled with significant debt as a result of an approximate \$1.2 million seed cleaning plant expansion completed in July 2017.

14. Based on the Proposal Trustee’s review of the Company’s Draft Notice to Reader financial statements for the years ended December 31, 2016 and 2017, the Company’s financial performance deteriorated during this period with annual revenue declining from approximately \$7.6 million in 2016 (resulting in an approximate loss of \$52,000 from operations) to approximately \$6.0 million in 2017 (resulting in an approximate loss of \$0.4 million from operations). Based on the Company’s internally prepared financial statements for the six (6) months ending June 30, 2018, the Company’s revenues approximated \$2.3 million (resulting in an approximate loss of \$0.6 million from operations).

ACTIVITIES OF THE COMPANY SINCE THE FILING OF THE FIRST REPORT

15. Since the filing of the First Report, the Company has:
- a. Continued to collect its outstanding customer accounts;
 - b. Continued to liquidate certain of its inventories;
 - c. Continued to work with Section 12 Foods Inc. (“**Section 12**”) in an attempt to close the Asset Purchase Agreement (“**APA**”) approved by the Court on August 8, 2018 (the “**Section 12 Transaction**”);
 - d. Held various discussions and meetings with the Company’s legal counsel, McDougall Gauley LLP (“**McDougall Gauley**”), and the Proposal Trustee in an attempt to close the Section 12 Transaction; and
 - e. Prepared a revised cash flow forecast (the “**Extension Forecast**”) and reviewed same with the Proposal Trustee.
16. As at the date of this Second Report, Management has advised that the remaining assets of the Company (the “**Residual Assets**”), and the estimated net book value of same, are as follows:
- a. Cash on hand - \$107,000;
 - b. Accounts Receivable - \$46,000;

- c. Inventory - \$73,000; and
 - d. Capital Assets - \$1,177,000.
17. Management further advised that since the NOI Filing Date, the Company has not incurred any additional liabilities that remain unpaid, and that all statutory remittances (i.e. employee source deductions, GST, and PST) have been made in the ordinary course.

ACTIVITIES OF THE PROPOSAL TRUSTEE SINCE THE FILING OF THE FIRST REPORT

18. Since the filing of the First Report, the Proposal Trustee's activities have included the following:
- a. Held various discussions with Management and participated in discussions with the Company and McDougall Gauley with respect to closing of the Section 12 Transaction;
 - b. Monitored the Company's business and financial affairs, including monitoring of the actual cash flows versus the Revised Forecast (as defined in the First Report) for the period of July 30, 2018 to September 23, 2018, in accordance with subsection 50.4(7) of the BIA;
 - c. Posted documents pertaining to the proposal proceedings on the Proposal Trustee's Website;
 - d. Responded to creditor inquiries;
 - e. Assisted the Company with the preparation of the Extension Forecast for the period of September 24, 2018 to November 18, 2018; and
 - f. Prepared this Second Report.

CASH FLOW FORECAST AND LIQUIDITY

19. The Company's cash receipts and disbursements for the period July 30, 2018 to September 23, 2018 are attached as Exhibit A with a comparison to the Revised Forecast.

The Proposal Trustee has conducted a review of the Company's actual cash flows compared to the Revised Forecast and provides the following comments:

- a. Compared with the Revised Forecast, the Company experienced a favorable variance of approximately \$92,000 in respect of the net cash outflows, primarily attributable to the following:
 - i. \$68,000 favorable cash receipt variance compared to the forecast due to the Canadian Grain Commission cancelling the Company's grain trading license and refunding the performance bond (\$87,000), a GST refund (\$2,000), offset by a reduction in forecast grain sales (\$21,000);
 - ii. \$4,000 unfavorable payroll cost variance due to the quantum of wage payments and payroll source deduction remittances;
 - iii. \$27,000 favorable operating cost variance primarily due to a reduction in grain purchases and transportation costs (\$13,000), the timing of utility payments and acquisition costs related to the purchase of small tools (\$7,000), not having to draw on the full contingency reserve (\$9,000), offset by additional machinery repair costs (\$2,000); and
 - iv. \$1,000 favorable restructuring cost variance due to quantum of professional fee payments.
20. The Proposal Trustee has also assisted the Company in preparing the Extension Forecast attached hereto as Exhibit B. The Extension Forecast contemplates the Court granting the Company an extension during which time CEG will continue to try to close a transaction with Section 12, realize on the Residual Assets, and make a proposal to the Company's creditors.
21. The Extension Forecast includes the assumptions as set out in the notes and assumptions appended as notes 1 to 10 of the Extension Forecast (the "**Notes and Assumptions**").
22. The Proposal Trustee's comments on the Extension Forecast are as follows:

- a. For the period September 24, 2018 to November 18, 2018, the Company is expected to have gross receipts of approximately \$85,000 and disbursements of approximately \$129,000, representing a net cash outflow of approximately \$44,000.
- b. The Company is expected to have sufficient cash to fund ongoing operations, to attempt to close a transaction with Section 12, and to draft and file a proposal to its creditors.
- c. The Proposal Trustee's review of the Extension Forecast consisted of inquiries, analytical procedures, and discussions related to information supplied to the Proposal Trustee by Management. Since the Notes and Assumptions need not be supported, the Proposal Trustee's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Extension Forecast. The Proposal Trustee has also reviewed the support provided by Management for the Notes and Assumptions, and the preparation and presentation of the Extension Forecast.
- d. Based on the Proposal Trustee's review, nothing has come to its attention that causes it to believe that, in all material respects:
 - i. The Notes and Assumptions are not consistent with the purpose of the Extension Forecast;
 - ii. As at the date of this Second Report, the Notes and Assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Extension Forecast, given the Notes and Assumptions; or
 - iii. The Extension Forecast does not reflect the Notes and Assumptions.

Since the Extension Forecast is based on assumptions regarding future events, actual results will vary from the information presented, even if the events described in the Notes and Assumptions occur, and the variations may be

material. Accordingly, the Proposal Trustee expresses no assurance as to whether the Extension Forecast will be achieved. The Proposal Trustee expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Second Report, or relied upon by the Proposal Trustee in its preparation.

SECTION 12 TRANSACTION

23. In accordance with section 5.1(1)(a) of the APA, one of the Conditions for the Benefit of the Purchaser stated that Section 12's obligation to complete the transaction was premised on Section 12 being able to obtain satisfactory financing.
24. As detailed in the Supplemental Hartsook Affidavit, despite the best efforts of both CEG and Section 12, Section 12 has not been able to obtain satisfactory financing to close the Section 12 Transaction in the form contemplated by the Sale Approval and Vesting Order dated August 8, 2018, attached hereto as Exhibit C. As such, CEG is requesting a 45-day extension of the stay of proceedings in order to provide additional time to determine whether some iteration of the Section 12 Transaction can be completed.
25. As further detailed in the Supplemental Hartsook Affidavit, Management continues its discussions with Section 12, and the Company is optimistic that a transaction with Section 12 can still be completed which will benefit CEG's creditors, employees, and its other non-financial stakeholders.
26. On September 24, 2018, McDougall Gauley advised that CEG had received a further offer from Section 12 and that the Company was reviewing same. As at the date of this Second Report, the Proposal Trustee has not reviewed the amended Section 12 offer.

REQUEST FOR AN EXTENSION OF THE PROCEEDINGS AND RECOMMENDATIONS

27. As a result of the foregoing, and as further detailed in the confidential report of the Proposal Trustee dated August 3, 2018 (the "**Confidential Report**"), the Proposal Trustee remains of the view that completing a going concern sale with Section 12 will

likely result in an amount that exceeds the estimated realizations that could be expected in a bankruptcy scenario.

28. In order to allow the Company time to attempt to close a transaction with Section 12, exhaust all other available options to maximize the realizable value of its Residual Assets, and formulate a viable proposal, the Company is seeking an extension of time within which the Proposal Trustee may file a proposal on behalf of the Company, extending the time from September 28, 2018 to November 12, 2018 (the “**Extension Period**”).
29. The Proposal Trustee is of the opinion that the Company’s request for an extension of time to make a proposal is reasonable given the following:
 - a. The Company has acted, and is acting, in good faith and with due diligence;
 - b. The Extension Period will provide CEG additional time to attempt to close a sale transaction with Section 12 which provides an opportunity for the Company to be able to make a viable proposal to its creditors;
 - c. To date, no creditors have been materially prejudiced by the stay of proceedings currently in place, and creditors will not suffer any additional losses as compared to the situation at the NOI Filing Date;
 - d. The Proposal Trustee has not identified and is not aware of any creditor that would be materially prejudiced if the extension being requested was granted; and
 - e. The Company has consulted with its primary secured creditor, Farm Credit Canada (“**FCC**”) in connection with the requested Extension Period, and FCC has advised the Company that it is supportive of the requested extension.
30. As a result of the foregoing, the Proposal Trustee respectfully requests from this Honourable Court an extension of time to November 12, 2018 within which the Proposal Trustee may file a proposal on behalf of the Company.

All of which is respectfully submitted at Saskatoon, Saskatchewan, this 24th day of September, 2018.

DELOITTE RESTRUCTURING INC.

In its capacity as Proposal Trustee under the
Notice of Intention to Make a Proposal by Canadian Exotic Grains Ltd.
and not in its personal capacity.



Per: Brent Warga, CPA, CA, CIRP, LIT
Senior Vice-President

Exhibit A – Forecast to Actual Results for the Period July 30, 2018 to September 23, 2018

Canadian Exotic Grains Ltd. (the "Company")
8-Week Cash Flow Forecast

	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance	
	Week 1	Week 1	Week 2	Week 2	Week 3	Week 3	Week 4	Week 4	Week 5	Week 5	Week 6	Week 6	Week 7	Week 7	Week 8	Week 8	Weeks 1-8	Weeks 1-8	Weeks 1-8	Weeks 1-8		
	30-Jul-18	30-Jul-18	6-Aug-18	6-Aug-18	13-Aug-18	13-Aug-18	20-Aug-18	20-Aug-18	27-Aug-18	27-Aug-18	3-Sep-18	3-Sep-18	10-Sep-18	10-Sep-18	17-Sep-18	17-Sep-18	Cumulative	Cumulative	Cumulative	Cumulative		
	Notes	5-Aug-18	5-Aug-18	12-Aug-18	12-Aug-18	19-Aug-18	19-Aug-18	26-Aug-18	26-Aug-18	2-Sep-18	2-Sep-18	9-Sep-18	9-Sep-18	16-Sep-18	16-Sep-18	23-Sep-18	23-Sep-18	23-Sep-18	23-Sep-18	Total	Total	
Receipts																						
Cash receipts from grain sales	1	\$ 22,550	\$ -	\$ 22,550	\$ 46,673	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,010	\$ 50,692	\$ -	\$ 22,550	\$ -	\$ -	\$ 23,942	\$ 118,342	\$ 97,625	\$ (20,717)		
Foreign exchange gain (loss)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Grain Commission Returned Bond		-	-	-	-	-	-	-	-	-	-	87,396	-	-	-	-	-	-	-	87,396	87,396	
GST Refund		-	-	-	-	-	-	-	1,540	-	-	-	-	-	-	-	-	-	-	-	1,540	
Total Receipts		22,550	-	22,550	46,673	-	-	-	1,540	-	27,010	50,692	87,396	22,550	-	-	23,942	118,342	186,561	68,219		
Disbursements																						
Payroll																						
Wages	2	2,846	2,846	11,000	4,051	-	450	11,000	8,800	-	133	5,000	7,408	-	-	-	6,288	29,846	29,976	130		
Source deduction remittances		-	-	3,000	3,266	-	-	3,000	3,537	-	-	2,000	2,712	-	-	-	2,798	8,000	12,312	4,312		
		2,846	2,846	14,000	7,317	-	450	14,000	12,336	-	133	7,000	10,119	-	-	-	9,085	37,846	42,288	4,441		
Operating Costs																						
Grain purchases	3	80,476	43,579	-	34,476	10,000	-	-	-	3,137	-	-	-	-	-	-	-	90,476	81,192	(9,284)		
Insurance	4	250	-	-	-	-	-	-	-	250	-	-	-	-	-	-	-	500	-	(500)		
Freight	5	-	-	-	-	-	-	-	-	-	-	9,000	-	5,000	4,500	4,500	4,500	13,500	9,500	(4,000)		
Machinery fuel and repairs	6	200	-	200	1,120	200	-	200	-	200	2,321	200	-	100	22	100	247	1,400	3,711	2,311		
Office and miscellaneous	6	179	94	500	312	305	-	-	55	-	236	1,407	1,013	305	144	-	922	2,696	2,775	79		
Rent	6	1,050	1,050	-	-	-	-	-	-	1,050	-	-	1,050	-	-	-	-	2,100	2,100	-		
Small tools and hardware	6	3,300	-	-	-	-	-	-	37	100	-	-	-	-	-	-	-	3,400	37	(3,363)		
Utilities	6	-	-	-	-	-	-	2,700	-	3,947	1,640	-	-	-	-	-	1,345	6,647	2,985	(3,662)		
Contingency	7	2,000	-	2,000	-	2,000	2,970	2,000	-	2,000	3,947	2,000	-	2,000	-	2,000	-	16,000	6,917	(9,083)		
		87,454	44,722	2,700	35,908	12,505	2,970	4,900	92	7,547	11,280	12,607	2,063	2,405	5,167	6,600	7,015	136,718	109,216	(27,502)		
Restructuring costs																						
Professional fees	8	23,935	23,031	20,000	19,929	15,000	-	5,000	-	-	-	20,000	-	-	45,692	25,000	19,517	108,935	108,169	(766)		
		23,935	23,031	20,000	19,929	15,000	-	5,000	-	-	-	20,000	-	-	45,692	25,000	19,517	108,935	108,169	(766)		
Total Disbursements		114,236	70,600	36,700	63,153	27,505	3,421	23,900	12,428	7,547	11,413	39,607	12,183	2,405	50,859	31,600	35,617	283,499	259,673	(23,826)		
Net cash flow		\$ (91,686)	\$ (70,600)	\$ (14,150)	\$ (16,480)	\$ (27,505)	\$ (3,421)	\$ (23,900)	\$ (10,888)	\$ (7,547)	\$ 15,597	\$ 11,085	\$ 75,213	\$ 20,145	\$ (50,859)	\$ (31,600)	\$ (11,675)	\$ (165,157)	\$ (73,112)	\$ 92,045		
Opening cash balance (indebtedness)	9	\$ 180,011	\$ 180,011	\$ 88,325	\$ 109,412	\$ 74,175	\$ 92,932	\$ 46,670	\$ 89,511	\$ 22,770	\$ 78,623	\$ 15,224	\$ 94,220	\$ 26,309	\$ 169,434	\$ 46,454	\$ 118,574	\$ 180,011	\$ 180,011			
Net cash flow		(91,686)	(70,600)	(14,150)	(16,480)	(27,505)	(3,421)	(23,900)	(10,888)	(7,547)	15,597	11,085	75,213	20,145	(50,859)	(31,600)	(11,675)	(165,157)	(73,112)			
Closing cash balance (indebtedness)		\$ 88,325	\$ 109,412	\$ 74,175	\$ 92,932	\$ 46,670	\$ 89,511	\$ 22,770	\$ 78,623	\$ 15,224	\$ 94,220	\$ 26,309	\$ 169,434	\$ 46,454	\$ 118,574	\$ 14,854	\$ 106,899	\$ 14,854	\$ 106,899			

Notes and Assumptions

- 1 Estimated collection of accounts receivable based on current and future sales.
- 2 Estimated wage expense and payroll source deduction remittances with a reduction in Week 6 concurrent with the expected asset sale closure.
- 3 Estimated grain purchases in accordance with long-term contracts.
- 4 Estimated monthly insurance premiums for coverage on all assets.
- 5 Estimated transportation costs based on forecast sales and shipping schedules.
- 6 Estimated expenses based on prior period operating costs.
- 7 Contingency reserve for unbudgeted costs.
- 8 Estimated professional fees in connection with the filing of the NOI, ongoing monitoring, an extension and vesting application, and the costs to prepare and file a proposal to the Company's creditors prior to the expiration of the stay.
- 9 Bank balance as at July 30, 2018.

Exhibit B – Cash Flow Forecast for the Period September 24, 2018 to November 18, 2018

Canadian Exotic Grains Ltd. (the "Company")
8-Week Cash Flow Forecast

	Notes	Forecast Week 1 24-Sep-18 30-Sep-18	Forecast Week 2 1-Oct-18 7-Oct-18	Forecast Week 3 8-Oct-18 14-Oct-18	Forecast Week 4 15-Oct-18 21-Oct-18	Forecast Week 5 22-Oct-18 28-Oct-18	Forecast Week 6 29-Oct-18 4-Nov-18	Forecast Week 7 5-Nov-18 11-Nov-18	Forecast Week 8 12-Nov-18 18-Nov-18	Forecast Weeks 1-8 Cumulative Total
Receipts										
Cash receipts from grain sales	1	\$ 22,900	\$ -	\$ -	\$ 21,659	\$ 22,900	\$ 12,330	\$ -	\$ -	\$ 79,789
Foreign exchange gain (loss)		-	-	-	-	-	-	-	-	-
GST Refund		5,000	-	-	-	-	-	-	-	5,000
Total Receipts		27,900	-	-	21,659	22,900	12,330	-	-	84,789
Disbursements										
Payroll	2									
Wages		-	5,000	-	5,000	-	-	-	-	10,000
Source deduction remittances		-	2,000	-	2,000	-	-	-	-	4,000
		-	7,000	-	7,000	-	-	-	-	14,000
Operating Costs										
Freight	3	4,500	650	-	650	4,650	4,600	-	-	15,050
Grain purchases	4	9,397	-	-	-	-	-	-	-	9,397
GST Remittance	5	5,000	-	-	-	-	-	-	-	5,000
Insurance	6	250	-	-	-	-	250	-	-	500
Machinery fuel and repairs	7	347	100	100	100	100	100	100	100	1,047
Office and miscellaneous	7	400	250	250	250	250	1,620	250	250	3,520
Rent	7	-	1,050	-	-	-	-	1,050	-	2,100
Small tools and hardware	7	-	-	500	-	-	500	-	-	1,000
Utilities	7	2,700	-	-	-	2,700	-	-	-	5,400
Contingency	8	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	12,000
		24,094	3,550	2,350	2,500	9,200	8,570	2,900	1,850	55,014
Restructuring costs										
Professional fees	9	-	25,000	-	-	15,000	-	-	20,000	60,000
		-	25,000	-	-	15,000	-	-	20,000	60,000
Total Disbursements		24,094	35,550	2,350	9,500	24,200	8,570	2,900	21,850	129,014
Net cash flow		\$ 3,806	\$ (35,550)	\$ (2,350)	\$ 12,159	\$ (1,300)	\$ 3,760	\$ (2,900)	\$ (21,850)	\$ (44,225)
Opening cash balance (indebtedness)	10	\$ 106,899	\$ 110,705	\$ 75,155	\$ 72,805	\$ 84,964	\$ 83,664	\$ 87,424	\$ 84,524	\$ 106,899
Net cash flow		3,806	(35,550)	(2,350)	12,159	(1,300)	3,760	(2,900)	(21,850)	(44,225)
Closing cash balance (indebtedness)		\$ 110,705	\$ 75,155	\$ 72,805	\$ 84,964	\$ 83,664	\$ 87,424	\$ 84,524	\$ 62,674	\$ 62,674

Notes and Assumptions

- 1 Estimated collection of accounts receivable based on current and future sales.
- 2 Estimated wage expense and payroll source deduction remittances with a reduction in staff subsequent to October 21, 2018.
- 3 Estimated transportation costs based on forecast sales and shipping schedules, inclusive of transportation costs for disposing of certain residual inventories.
- 4 Estimated grain purchases in accordance with long-term contracts.
- 5 Estimated GST remittance resulting from a CRA trust audit.
- 6 Estimated monthly insurance premiums for coverage on all assets.
- 7 Estimated expenses based on prior period operating costs.
- 8 Contingency reserve for unbudgeted costs.
- 9 Estimated professional fees in connection with ongoing monitoring and the costs to prepare and file a proposal to the Company's creditors.
- 10 Bank balance as at September 24, 2018.

Exhibit C – August 8, 2018 Sale Approval and Vesting Order

CANADA) Court No.: 22-2400416
PROVINCE OF SASKATCHEWAN) Estate No.: 22-2400416

COURT FILE QB No. 1200 of 2018

COURT QUEEN'S BENCH FOR SASKATCHEWAN
IN BANKRUPTCY AND INSOLVENCY

JUDICIAL CENTRE SASKATOON

APPLICANT CANADIAN EXOTIC GRAINS LTD.

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
UNDER SECTION 50.4 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, RSC
1985, c. B-3, AS AMENDED, OF CANADIAN EXOTIC GRAINS LTD.

ORDER
(Sale Approval, Vesting, and Extension)

Before the Honourable Madame Justice Rothery in Chambers the 8th day of August, 2018.

On the application of Canadian Exotic Grains Ltd. (the "**Debtor**"), and on hearing from counsel for the Debtor and counsel present on behalf of any other interested parties, and on reading the Originating Application dated August 3, 2018, Brief of Law, the Affidavit of Jocelyn Hartsook sworn August 3, 2018 (the "**Hartsook Affidavit**"), the First Report of the Proposal Trustee (the "**First Report**"), Deloitte Restructuring Inc. (the "**Proposal Trustee**"), the Confidential Report of the Proposal Trustee (the "**Confidential Report**"), proof of compliance with General Application Practice Directive #3, and draft Order, all filed:

The Court Orders:

GENERAL

1. Capitalized terms not otherwise defined in this Order have the respective meanings given to them in the Hartsook Affidavit and First Report.

SERVICE

2. Service of the Originating Application and the materials filed in support thereof shall be and is hereby deemed to be good and sufficient.

EXTENSION OF STAY OF PROCEEDINGS

3. Pursuant to subsection 50.4(9) of the *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3 (the “**BIA**”), the period in which the Debtor is required to file a proposal to its creditors with the Official Receiver under subsection 62(1) of the BIA is hereby extended by 45 days from August 16, 2018 to 11:59 p.m. on September 28, 2018.

APPROVAL OF TRANSACTION

4. Pursuant to subsection 65.13(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3, the sale transaction (the “**Transaction**”) contemplated by the agreement of purchase and sale (the “**Sale Agreement**”) between the Debtor and Section 12 Foods Inc. (the “**Purchaser**”) dated July 13, 2018 appended to the Confidential Report for the sale to the Purchaser of the Debtor’s right, title, and interest in and to the purchased assets described in the Sale Agreement (the “**Purchased Assets**”) is declared to be:
 - (a) commercially reasonable;
 - (b) in the best interests of the Debtor, its creditors, and other stakeholders; and
 - (c) is hereby authorized and approved, with such minor amendments as the Debtor and Purchaser may mutually agree to be necessary.
5. The Debtor, in consultation with and under the supervision of the Proposal Trustee, is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction, subject to such amendments as the Debtor and the Purchaser may agree upon, providing that any such amendments do not materially affect the Purchase Price.

VESTING OF PROPERTY

6. Upon the Proposal Trustee determining that the Transaction has closed to its satisfaction and on terms substantially as approved by this Honourable Court pursuant to this Order, the Proposal Trustee shall deliver to the Purchaser a certificate substantially in the form set out in **Schedule “A”** hereto (the “**Proposal Trustee’s Certificate**”).
7. The Proposal Trustee may rely on written notices from the Purchaser regarding fulfillment or, if applicable, waiver of conditions to closing of the Transaction under the Sale Agreement and shall have no liability with respect to the delivery of the Proposal Trustee’s Certificate.
8. Upon delivery of the Proposal Trustee’s Certificate, all of the Debtor’s right, title, and interest in and to the Purchased Assets described in the Sale Agreement and listed on **Schedule “B”** hereto shall, save and except for the encumbrances listed in **Schedule “C”** hereto (the “**Permitted Encumbrances**”), vest absolutely in the name of the Purchaser (or its nominee, if any) free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, interests, mortgages,

trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, judgments, enforcement charges, levies, charges, or other financial or monetary claims (collectively, “**Encumbrances**”) and all rights of others, whether or not they have attached or been perfected, registered, or filed and whether secured, unsecured, or otherwise (collectively, the “**Claims**”) including, without limiting the generality of the foregoing:

- (a) all charges, security interests or claims evidenced by registrations pursuant to *The Personal Property Security Act, 1993* SS 1993, c P-6.2, or any other personal property registry system; and
- (b) those Claims listed in **Schedule “D”** hereto;

and, for greater certainty, this Court orders that all of the Encumbrances (save and except for the Permitted Encumbrances and encumbrances noted in paragraph 9 of this Order) affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

9. Pursuant to section 109 of *The Land Titles Act, 2000*, SS 2000, c L-5.1, section 6.5 of *The Land Titles Conversion Facilitation Regulations*, RRS c L-5.1 Reg 2, and section 12 of *The Queen's Bench Act, 1998*, SS 1998, c Q-1.01, the Registrar of the Land Titles Office in Saskatchewan shall be and is hereby directed to accept an application (the “**LTO Application**”) to surrender the existing title to the real property legally described as:

Title #146165957
Surface Parcel #203033225
Referenced Land Description: Blk/Par A Plan No 101077208,
Extension 7

(the “**Real Property**”)

and to set up a new title to such Real Property in the name of the Purchaser as owner free and clear of any and all Encumbrances, save and except for the following:

Interest #169905404
Power Corporation Act Easement (s. 23)
Holder: Saskatchewan Power Corporation
2025 Victoria AVE, Regina, SK, Canada S4P 0S1
Client #100307618
Int. Register #: 120415979

Interest #182205244
Power Corporation Act Easement (s. 23)
Holder: Saskatchewan Power Corporation
2025 Victoria AVE, Regina, SK, Canada S4P 0S1
Client #100307618
Int. Register #: 122922345

Any and all registration charges and fees payable in regard to the LTO Application shall be to the account of the Purchaser.

10. For the purposes of determining the nature and priority of the Encumbrances:
 - (a) the net proceeds from the sale of the Purchased Assets (the “**Net Sale Proceeds**”) shall stand in the place and stead of the Purchased Assets; and
 - (b) from and after the delivery of the Proposal Trustee’s Certificate to the Purchaser, all Encumbrances and all rights of others shall attach to the Net Sale Proceeds from the sale of the Purchased Assets with the same priority as they had with respect to the Purchased Assets immediately prior to the sale, as if the Purchased Assets had not been sold and remained in the possession or control of the person having that possession or control immediately prior to closing of the Transaction.
11. The Purchaser (and its nominee, if any) shall, by virtue of the completion of the Transaction, have no liability of any kind whatsoever in respect of any Claims against the Debtor.
12. The Debtor and all persons who claim by, through or under the Debtor in respect of the Purchased Assets, save and except for the persons entitled to the benefit of the Permitted Encumbrances, shall stand absolutely barred and foreclosed from all estate, right, title, interest, royalty, rental and equity of redemption of the Purchased Assets and, to the extent that any such person remains in possession or control of any of the Purchased Assets, they shall forthwith deliver possession thereof to the Purchaser (or its nominee).
13. The Purchaser (or its nominee) shall be entitled to enter into and upon, hold and enjoy the Purchased Assets for its own use and benefit without any interference of or by the Debtor, or any person claiming by or through or against the Debtor.
14. Immediately after the closing of the Transaction, the holders of the Permitted Encumbrances shall have no claim whatsoever against the Proposal Trustee or the Debtor.
15. Forthwith after the delivery of the Proposal Trustee’s Certificate to the Purchaser (or its nominee), the Proposal Trustee shall file a copy of the Proposal Trustee’s Certificate with the Court.
16. Pursuant to clause 7(3)(c) of the *Personal Information Protection and Electronic Documents Act*, SC 2000, c 5, the Debtor is hereby authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the Debtor's records pertaining to the Debtor's past and current employees, including personal information of those employees listed in the Sale Agreement. The Purchaser shall maintain and protect the privacy of such information and shall be entitled to use the personal information provided to it in a manner which is in all material respects identical to the prior use of such information by the Debtor.

17. Notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) in respect of the Debtor and any bankruptcy order issued pursuant to such applications;
- (c) any assignment in bankruptcy made in respect of the Debtor; and
- (d) the provisions of any federal statute, provincial statute or any other law or rule of equity,

the vesting of any of the Purchased Assets in the Purchaser (or its nominee) pursuant to this Order and the obligations of the Debtor under the Sale Agreement, shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtor and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3 or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

18. The Transaction is exempt from any requirement under any applicable federal or provincial law to obtain shareholder approval and is exempt from the application of any bulk sales legislation in any Canadian province or territory.

SEALING OF THE CONFIDENTIAL REPORT

19. The Confidential Report, including the Exhibits thereto, shall be kept sealed and confidential, and shall not form part of the public record but shall be kept separate and apart from the other contents of the Court file in respect of this matter in a sealed envelope which sets out the style of cause of these proceedings and a statement that the contents thereof are subject to a Sealing Order, and shall not be opened except:
- (a) by the Honourable Madame Justice A.R. Rothery;
 - (b) pursuant to further Order of the Court; or
 - (c) three months following the filing of the Proposal Trustee's Certificate with this Honourable Court.
20. An application to unseal the Confidential Report may be made at any time upon 14 days' notice to legal counsel for the Debtor and to the Proposal Trustee.

MISCELLANEOUS MATTERS

21. The Proposal Trustee, the Purchaser (or its nominee) and any other interested party, shall be at liberty to apply for further advice, assistance and directions as may be necessary in order to give full force and effect to the terms of this Order and to assist and aid the parties in closing the Transaction.
22. This Court hereby requests the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Proposal Trustee and its agents in carrying out the terms of this Order. All courts, tribunals regulatory and administrative bodies are hereby respectfully requested to make such orders as to provide such assistance to the Proposal Trustee, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Proposal Trustee and its agents in carrying out the terms of this Order.
23. This Order must be served only upon those interested parties attending or represented at the within application and service may be effected by facsimile, electronic mail, personal delivery or courier. Service is deemed to be effected the next business day following the transmission or delivery of such documents.
24. Service of this Order on any party not attending this application is hereby dispensed with.

ISSUED at Saskatoon, Saskatchewan, this 8th day of August 2018.



(Deputy) Local Registrar

CONTACT INFORMATION AND ADDRESS FOR SERVICE

Name of firm:	McDougall Gauley LLP	Name of
lawyer in charge of file:	Ian A. Sutherland / Craig Frith	
Address of legal firm:	500-616 Main Street	
	Saskatoon, SK S7H 0J6	
Telephone / Fax number:	(306) 665-5417 / (306) 652-1323	
Email address:	isutherland@mcdougallgauley.com	
	cfrith@mcdougallgauley.com	

SCHEDULE "A"
FORM OF PROPOSAL TRUSTEE'S CERTIFICATE

CANADA) Court No.: 22-2400416
PROVINCE OF SASKATCHEWAN) Estate No.: 22-2400416

COURT FILE QB No. 1200 of 2018

COURT QUEEN'S BENCH FOR SASKATCHEWAN
IN BANKRUPTCY AND INSOLVENCY

JUDICIAL CENTRE SASKATOON

APPLICANT CANADIAN EXOTIC GRAINS LTD.

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
UNDER SECTION 50.4 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, RSC
1985, c. B-3, AS AMENDED, OF CANADIAN EXOTIC GRAINS LTD.

PROPOSAL TRUSTEE'S CERTIFICATE

RECITALS

- A. Pursuant to an Order of the Court dated [Date], the Court approved the agreement of purchase and sale made as of July 13, 2018 (the "**Sale Agreement**") between Canadian Exotic Grains Ltd. (the "**Debtor**") and Section 12 Foods Inc. (the "**Purchaser**") and provided for the vesting in the Purchaser of the Debtor's right, title and interest in and to the Purchased Assets, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Proposal Trustee to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Purchased Assets; (ii) that the conditions to Closing as set out in Article 6 of the Sale Agreement have been satisfied or waived by the Debtor and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Proposal Trustee.
- B. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE PROPOSAL TRUSTEE CERTIFIES the following:

1. The Purchaser (or its nominee) has paid and the Proposal Trustee has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the Sale Agreement;
2. The conditions to Closing as set out in Article 5 of the Sale Agreement have been satisfied or waived by the Debtor and the Purchaser (or its nominee); and

3. The Transaction has been completed to the satisfaction of the Proposal Trustee.

This Certificate was delivered by the Proposal Trustee at [Time] on [Date].

**Deloitte Restructuring Inc. in its capacity as
Proposal Trustee respecting Canadian
Exotic Grains Ltd. and not in its personal
capacity.**

Per; _____

Name:

Title:

SCHEDULE "B"
PURCHASED ASSETS

As particularized in the Asset Purchase Agreement dated July 13th, 2018 between the Debtor and the Purchaser:

All of the property and assets of every kind and description and wheresoever situate, owned by the Debtor and used or utilized by the Debtor in the business of the operation of a pulse and spice processing marketing business (the "**Business**") of the Debtor, including without limiting the generality of the foregoing, all of the assets of the Business shown or reflected in the Financial Statements as being owned by the Debtor and/or used in the Business, other than the assets which have been disposed of or consumed in the ordinary course of the Business since the date of the Financial Statements, and for greater certainty, the Purchased Assets shall include, but shall not be limited to:

- (a) the Real Property;
- (b) the Assigned Agreements, being:

Purchase Agreements

- (i) #1745 with KAST Farms Ltd.
- (ii) #1735 with Brian Kendall

Sales Agreement

- (ii) #1734 with McCormick Ingredients
- (iii) #1800 with Hensall District Co-operative, Incorporated
- (iv) #1808 with Phoenicia Group Inc.
- (v) #1809 with Unico Inc.
- (vi) #1885690 with Kalustyan Corporation
- (vii) #1785630 with Baldom USA Inc.

- (c) the Goodwill, being:
 - (i) the right or interest of the Purchaser following Closing to represent itself as carrying on the Business in continuation of and in succession to the Debtor;
 - (ii) the rights to the telephone numbers, facsimile numbers, used by the Debtor in connection with the Business to the extent that the same may be assigned by the Debtor to the Purchaser;

- (iii) the operational standards or procedures of the Business (ISO 22:000); and
 - (iv) customer and producer lists for the Business;
- (d) the Books and Records; being:
- (i) means all sales and purchase records, employee records, ISO documentation, lists of suppliers and customers, credit and pricing information, files, ledgers, correspondence, lists, recipes, manuals, drawings, blueprints, reports, texts, notes, engineering designs or drawings or other information, environmental or feasibility studies, appraisals, memoranda, computer discs, tapes, back-up tapes or other means of electronic storage, and all other records or documents or information of any nature or kind whatsoever of or relating to the Business or the Purchased Assets, including all records and documents accessible through any computer system or electronically;
- (e) the Inventory, being:
- (i) all grain and product in the possession of the Debtor and allocated or acquired by the Vendor for the closing and completion of the Assigned Agreements; and
 - (ii) all packaging materials; and
- (f) the Machinery, Equipment, Vehicles, Furniture and Tools, being all of the machinery, equipment, furniture and tools normally utilized in the operation of the Business including, without limitation, the machinery, equipment, furniture and tools listed and described below:

Bin #5	Steel hopper	1600 bu.
Bin #6	Steel hopper	1600 bu.
Bin #7	Steel hopper	1900 bu.
Bin #8	Steel hopper	1900 bu.
Bin #68	Steel hopper	2300 bu.
Bin #69	Steel hopper	2300 bu.
Bin #79	Steel flatbottom	3500 bu.
Bin #81	Steel hopper	2000 bu.
Bin #82	Steel hopper	2000 bu.
Bin #83	Steel hopper	2000 bu.
Bin #84	Steel hopper	2300 bu.
Bin #85	Steel hopper	2300 bu.
Bin #86	Steel hopper	2300 bu.
Bin #87	Steel hopper	2300 bu.
Bin #88	Steel hopper	2300 bu.
Bin #89	Steel hopper	2300 bu.
Bin #90	Steel hopper	2300 bu.
Bin #91	Steel hopper	2300 bu.
Bin #92	Steel hopper	2300 bu.

Bin #93	Steel hopper	2300 bu.
Bin #94	Steel hopper	2300 bu.
Bin #95	Steel hopper	2300 bu.
Bin #96	Steel hopper	2300 bu.
Bin #97	Steel hopper	4000 bu.
Bin #98	Steel hopper	4000 bu.
Bin #99	Steel hopper	4000 bu.
Bin #100	Steel hopper	4000 bu.
Bin #101	Steel hopper	4000 bu.
Bin #102	Steel hopper	3500 bu.
RB1	Steel hopper	4500 bu.
RB2	Steel hopper	4500 bu.
SB2	Steel hopper	4500 bu.
<u>SB3</u>	<u>Steel hopper</u>	<u>3000 bu.</u>
Total storage capacity		91000 BU.

Shop Contents

- (a) tools, parts, misc shop items

Grain Handling System

- (a) all attached fixtures and equipment necessary to operate the system and bag product: Bagger, Bag Closers, Bag Handling Conveyors, scales, air compressor, Forklifts x 2 (with safety cage), etc.

Grain Cleaner

- (a) all attached fixtures and equipment necessary to operate cleaning equipment: Garratt PF 144 Air / Screen Machines x 2 3 Carter Indents (sn: C004367-5 2016, C004367-4 2016, C004367-3 2015) Model 2353 Garratt Destoner (sn:21518 2015) Bench Industries Debearder

Screens

Round Hole

- o 4 of 30R
- o 8 of 26R
- o 4 of 24R
- o 4 of 23R
- o 4 of 21.5R
- o 8 of 20R
- o 4 of 19R
- o 4 of 18 R
- o 4 of 14R
- o 4 of 12R
- o 4 of 10R

- o 4 of 6R
- Slotted Hole
- o 8 of 16S
- o 4 of 8S
- o 8 of 4S
- o 4 of 3.5S

Batco 1814 LP Conveyor

Other Equipment

- (a) 40 foot Sea-Can
- (b) 2000 Batco Grain Conveyor
- (c) Fuel Tanks - One Diesel, Two Gas
- (d) 2002 Blue Tandem 900 bu. box
- (e) 7" - 35' Brandt Electric Auger
- (f) 8" - 47' Brandt 2010 25 HP and Mover

Office Equipment

- (a) LG Computer with ViewSonic Screens - x 5
- (b) Complete Networking System
- (c) HP Printers x 2
- (d) Brother Photocopier & Fax Machine
- (e) Office Furniture and attached fixtures
- (f) Phone System
- (g) Office Supplies

Vehicles

- (a) 1998 GMC Extended Cab truck
- (b) Kenworth Semi & Trailer
- (c) GMC Tandem Truck
- (d) International Tandem Truck
- (e) Massey Tractor with Blade
- (f) Grain Vac
- (g) 2014 Massey Ferguson 1736 Light Tractor
- (h) 2014 Farm King Allied Tiller
- (i) 2014 Farm King Allied Mower

SCHEDULE "C"
PERMITTED ENCUMBRANCES

All encumbrances which are enumerated as permitted liens pursuant to the Asset Purchase Agreement dated July 13th, 2018 between the Debtor and the Purchaser

Nil

**SCHEDULE "D"
CLAIMS**

Nil