

Estate No. 31-1776414

**IN THE MATTER OF THE BANKRUPTCY OF
LA IDA FOODS LTD. FORMERLY KNOWN AS
LA IDA FOOD'S DISTRIBUTORS LTD.
OF THE CITY OF TORONTO
PROVINCE OF ONTARIO**

TRUSTEE'S PRELIMINARY REPORT TO THE FIRST MEETING OF CREDITORS
August 29, 2013

DISCLAIMER:

In preparing this report and making the comments herein, The Trustee has been provided with, and has relied upon certain unaudited, draft and/or internal financial information, the Bankrupt's books and records, discussion with management of the Bankrupt company, and information from third party sources, being the Bankrupt's Accountant and/or Book-keeper, collectively ("the Information").

Except as described in this Report:

- a) The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy of completeness of the Information in a matter that would wholly or partially comply with the generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook and accordingly, the Trustee expresses no opinion on or other form of assurance in respect of the Information;*
- b) Some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed;*
- c) The Trustee has prepared this Report in its capacity as Trustee of the Estate of the Bankrupt, and has made a copy available to all known creditors of the Bankrupt's Estate. Parties using this Report are cautioned that it may not be appropriate for their purposes.*
- d) Any financial information referred to in this Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based on assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize and the variations could be significant.*

La Ida Foods Ltd. (hereafter called "the **Bankrupt**") filed an assignment in bankruptcy on August 8, 2013 and Russo Corp., the undersigned was appointed as Trustee of the Estate of the Bankrupt by the Official Receiver. Joanne Russo, CIRP, is the Trustee responsible for the administration of the estate and Evelyn Bowles, Sr. Estate Administrator is assisting with the administration.

I.

II. BACKGROUND/ CAUSES OF INSOLVENCY

The Bankrupt is a privately held family run business. It is a wholesale bakery which supplies various packaged bakery products to retail chain stores such as No Frills. The Bankrupt was incorporated in Ontario in 1986. It has operated out of premises at 32 Goodmark Place, Unit 13, Toronto, Ontario for several years.

The Directors of the Corporation are Mr. Filippo Buzzania, Mario Falcone and Joe Falcone (deceased, deemed to be resigned). However, Mario Falcone is the only principal currently operating the business on a day to day basis.

The causes of financial difficulty stem for several reasons being as follows:

1. During the last several years, sales have dropped significantly as a result of changing economic conditions, particularly starting in 2008. Big chain stores such as No Frills, have dramatically reduced their supply requirements because of those economic conditions. Unfortunately the overheads for business remain the same, in spite of these reductions in sales, and the business has been losing money for several years. Mario Falcone has been injecting personal resources to keep the business afloat and meet its payroll;
2. The Bankrupt should have changed its marketing models to reflect today's changed standards. Unfortunately this was not done;
3. The Bankrupt's principals were involved in a protracted litigation, to which the Bankrupt was a party. Apart from the expense involved in that litigation, the litigation has been a distraction from the operations of the business which has affected it negatively. This litigation may be a contingent claim provable in this Estate.

III. TRUSTEE'S ACTIONS TO DATE

Upon the assignment in bankruptcy, in addition to the statutory duties required up to the first meeting, the Trustee has done, but not limited to, the following:

- The Trustee is currently in the process of gathering all the books and records. The Trustee has not yet conducted any investigation of any historical transactions, nor will any such investigation be done, unless the Trustee is authorized by the creditors/inspectors to do so and the creditors provide funding for such an investigation;

- Arranged for notice of the bankruptcy to appear in the Financial Post on August 13, 2013;
- Notified former employees of their rights pursuant to WEPP;
- Has continued operations of the Bankrupt, up until the date hereof. All operating expenses are being paid by a third party with the hopes of selling the business as a going concern;
- Arranged for an on-site appraisal of the equipment and physical assets;
- Has advertised for any party interested in purchasing the business as a going concern or en bloc sale;
- Has prepared and sent out tender notices to approximately 220 wholesale bakeries in the Greater Toronto Area;
- Discussions with Counsel representing one of the largest creditors in this Estate;
- Discussions with Estate Counsel with respect to the on-going law suit against the Bankrupt; and
- Retained Counsel to represent the interest of the Estate.

IV. SECURED CREDITORS

The Bankrupt has no Secured creditors.

There may be a potential deemed trust claim relating to source deductions, we are awaiting an audit by the Canada Revenue Agency.

IV. LEGAL PROCEEDINGS

As noted above, Mr. Buzzania, a former employee and director and shareholder of the Bankrupt has commenced action against the Bankrupt and that litigation remains unresolved and before the Courts. This litigation is currently stayed as against the Bankrupt pursuant to the provisions of the Bankruptcy and Insolvency Act.

V. EVALUATION OF ASSETS and ANTICIPATED REALIZATION

An appraisal obtained by the Trustee, indicates that the equipment used at this facility is outdated, old and in poor condition. The “distress value” if sold on site, has been estimated between \$16,828.00 and \$17,328.00. This valuation includes the older model van which is owned and used by the Bankrupt for delivery of it’s products to customers.

There are no realizable accounts receivables. Any receivables generated from current operations are being used to keep the business operating pending sale. It is important to note, that any receivables currently being generated are not sufficient to cover operating expenses and Trustee’s expenses. Hence the need for third party injection of funds.

VI. REVIEWABLE TRANSACTIONS/PREFERENCE PAYMENTS/SETTLEMENTS

The Trustee has not conducted any investigation of any historical transactions, nor will any such investigation be done, unless the Trustee is authorized by the creditors/inspectors to do so and the creditors provide funding for such an investigation.

VII. PROOFS OF CLAIM(S)

Please see attached claims register on claims received to date.

VIII. OTHER MATTERS

The Trustee will also be seeking directions from the creditors/inspectors on the following matters:

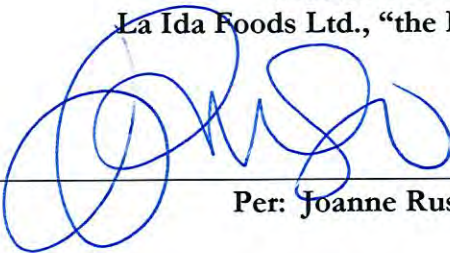
- a) Approval of all of the Trustee's actions to date including the actions outlined in this Preliminary Report and affirmation of Trustee's appointment;
- b) Appointment of inspectors;
- c) Direction on the sale of the physical assets;
- d) Direction with respect to further investigation into matters tabled in Mr. Colangelo letter dated August 27, 2013- more specifically Mr. Buzzanca alleged proprietary claim over the industrial

property and his alleged proprietary interest in the copyright relating to the recipes used by the Bankrupt;

- e) Affirmation of the Appointment of legal counsel being Howard Manis
- f) Investigation into the company's books and records and funding for same:
 - a. Preference Payments;
 - b. Reviewable Transactions;
 - c. Settlements;
- g) Any other matters which may arise at this first meeting;

DATED at Aurora, Ontario this 29th day of August, 2013.

RUSSO CORP.
Trustee of the Estate of
La Ida Foods Ltd., "the Bankrupt"



Per: **Joanne Russo, CIRP,**