

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

HSBC BANK CANADA

Applicant

- and -

ELLEN'S FOOD GROUP INC.

Respondent

**SUPPLEMENTARY AFFIDAVIT
OF JOHN BORCH**

May 5, 2011

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TAB 1

Court File No. CV-10-9031-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

B E T W E E N:

HSBC BANK CANADA

Applicant

- and -

ELLEN'S FOOD GROUP INC.

Respondent

**AFFIDAVIT OF JOHN BORCH
(Sworn May 5, 2011)**

I, **JOHN BORCH**, of the City of Markham, in the Province of Ontario, **MAKE OATH AND SAY:**

1. I am an Assistant Vice-President in the Special Credit Department of HSBC Bank Canada (the "Bank") and, as such, I have knowledge of the matters deposed to herein. Unless I indicate to the contrary, the facts herein are within my own personal knowledge and are true to the best of my knowledge. Where I have indicated that I have obtained information from other sources, I verily believe those facts to be true.

2. This Affidavit is supplementary to an Affidavit I swore on December 20, 2010 (the "December Affidavit") in support of the application brought by the Bank for an Order appointing Deloitte & Touche Inc. ("Deloitte") as the Receiver of the property, assets and undertaking of Ellen's Food Group Inc. (the "Company") as set out in the Notice of Application dated

December 20, 2010. All capitalized terms used herein but not otherwise defined shall be as defined in the December Affidavit.

3. The Company is incorporated under the laws of the Province of Ontario and operates out of leased facilities in Richmond Hill, Ontario. The Company manufactures and distributes quick frozen, ready-to-eat meals to nursing homes in the Asian community and federal institutions.

4. Pursuant to the Credit Agreement, as amended, the Bank extended to the Company certain Credit Facilities, specifically the Lease Facility and the Operating Line Facility. As at the date of my swearing this Supplementary Affidavit, the amount outstanding under the Credit Facilities is \$1,206,968.86, inclusive of professional fees incurred by the Bank.

5. As security for the indebtedness of the Company to the Bank, the Company executed and delivered to the Bank, among other things, the GSA and the Master Lease Agreement and the Bank registered its security interest against the Company pursuant to the PPSA on July 7, 2005 against all classes of collateral, except "consumer goods".

6. In addition to the Credit Facilities, the Bank also extended certain credit facilities to the Affiliated Debtors, including Ellen's Health Food Ltd. ("Health Food").

7. As at June 18, 2010, the Company was in breach of certain terms and covenants in respect of the Credit Facilities and on June 25, 2010, the Bank issued a demand for payment and a Notice of Intention to Enforce Security pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* (Canada).

8. Over the course of the period from June to November, 2010, the Bank and its counsel, Thornton Grout Finnigan LLP ("TGF"), provided the Company and its principal, Ms. Ellen Pun,

with four draft forbearance agreements for consideration. Each of the First, Second and Third Forbearance Agreements was not executed by the Company and the Company continued to be in default of the terms of the Credit Agreement.

9. Pursuant to the GSA and the Appointment Agreement, the Bank privately appointed Deloitte as receiver of the Company on November 19, 2010. On that same date, Deloitte attended at the Sims Crescent Premises to commence its activities as receiver but I was advised by Ms. Brenda Wong, a senior manager with Deloitte, that when she arrived at the premises she was advised by Ms. Pun that the Company “did not consent to Deloitte’s appointment” and “would not cooperate with Deloitte”.

10. I was advised by Danny Nunes, an associate with TGF, that on or about November 22, 2010, he received a “without prejudice” letter from Andrea Habas of Bresver Grossman Scheininger & Chapman LLP, the Company’s counsel at that time, regarding the terms of a possible forbearance agreement with the Bank. The Fourth Forbearance Agreement was finally executed on November 23, 2010.

11. Pursuant to the terms and conditions of forbearance included in the Fourth Forbearance Agreement, the Bank was to receive a payment from Health Food by no later than 5:00 p.m. on November 26, 2010 and it was to receive an executed consent in favour of the Bank for the appointment of a receiver over the property, assets and undertaking of the Company which would be held in escrow and would only become effective upon the occurrence of (i) the Forbearance Deadline of January 31, 2011 or (ii) a Forbearance Terminating Event, as defined in the Fourth Forbearance Agreement (the “Food Group Consent”).

12. The Bank did not receive payment from Health Food by 5:00 p.m. on November 26, 2010 and, therefore, brought an application returnable December 29, 2010 for the appointment of the Receiver (the "Original Application") which appointment had been consented to under the terms of the Fourth Forbearance Agreement and the Food Group Consent.

13. On or about December 23, 2010, payment from Health Food was received by the Bank and, as a result, the Bank did not proceed with the Original Application. The Fourth Forbearance Agreement remained in effect and the Forbearance Deadline for repayment of all indebtedness owed to the Bank remained January 31, 2011.

14. The Forbearance Deadline passed without repayment, in full, of the Company's indebtedness to the Bank (as required under the Fourth Forbearance Agreement) and the Bank has not received any payment on account of the Company's indebtedness following the Forbearance Deadline.

15. I am advised by Mr. Nunes that on or about March 30, 2011, he spoke with a senior business manager with another financial institution regarding a credit facility that had been approved by that financial institution for the Company which was to be used to partially repay the Company's indebtedness to the Bank (the "Alternate Facility").

16. I am further advised by Mr. Nunes that on April 25, 2010, he received an email from Ms. Pun advising that she needed an additional three to four weeks to provide certain information that had been requested by the other financial institution in respect of the Alternate Facility. Attached hereto and marked as Exhibit "A" is a true copy of the redacted email from Ms. Pun to Mr. Nunes dated April 25, 2010.

17. As a result, the Bank sent the Company a Forbearance Agreement dated April 29, 2011 (the "Final Forbearance Agreement"), wherein the Bank agreed to forbear from enforcing its rights and remedies against the Company until May 27, 2011 provided that the executed Final Forbearance Agreement and the forbearance fee set out therein was sent to the Bank by no later than 5:00 p.m. on May 2, 2011. I am advised by Mr. Nunes that the Final Forbearance Agreement was sent to Ms. Pun attached to an email message on April 29, 2011. Attached hereto and marked as Exhibit "B" is a true copy of the redacted email, with attachments, from Mr. Nunes to Ms. Pun dated April 29, 2011.

18. The Bank did not receive the executed Final Forbearance Agreement or the forbearance fee by the aforementioned deadline. I am advised by Mr. Nunes that on May 3, 2010 he received a voicemail message from Ms. Pun requesting that the Bank forbear until the end of May 2011. The Bank agreed to extend the deadline for delivery of the executed Final Forbearance Agreement and the forbearance fee until 5:00 p.m. on May 5, 2011.

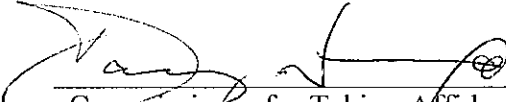
19. I am advised by Mr. Nunes that he amended the Final Forbearance Agreement to reflect the extended deadline for delivery of the executed agreement and the forbearance fee (the "Revised Final Forbearance Agreement") and sent an email message to Ms. Pun on May 3, 2011 to which he attached the Revised Final Forbearance Agreement. Attached hereto and marked as Exhibit "C" is a true copy of the email, with attachments, from Mr. Nunes to Ms. Pun dated May 3, 2011.

20. As at the time of my swearing this Supplementary Affidavit, the Company has failed to deliver the executed Revised Final Forbearance Agreement and the forbearance fee to the Bank or TGF.

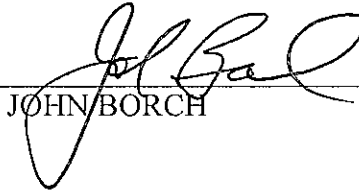
21. I am advised by Mr. Nunes that he sent an email message to Ms. Pun on the morning of May 5, 2010 to advise her that, in the event that the executed Revised Final Forbearance Agreement and the forbearance fee were not delivered by 5:00 p.m. on May 5, 2011, the Bank would be proceeding with the within Application at an appointment in chambers at 9:30 a.m. on May 6, 2011. Attached hereto and marked as Exhibit "D" is a true copy of the emails from Mr. Nunes to Ms. Pun dated May 5, 2011.

22. I make this affidavit in support of an application for the appointment of the Receiver and for no other or improper purpose.

SWORN before me at the City of Toronto,
in the Province of Ontario, this 5th day of
May, 2011.



Commissioner for Taking Affidavits
DANNY NUNES



JOHN BORCH

EXHIBIT "A"

Danny Nunes

From: Ellen Pun [ellenpun@ellensgroup.com]
Sent: April 25, 2011 4:27 PM
To: Danny Nunes
Subject: Re: Ellen's Food Group Inc.

Danny,

I am still working on getting some more information required by [REDACTED] it probably will take 3-4 weeks to be completed. Is it possible that you can allow me more time to complete this ?
Thanks very much for your kind assistance.

Best regards,
Ellen

From: Danny Nunes
Sent: Monday, April 25, 2011 11:49 AM
To: Ellen Pun
Cc: [REDACTED]
Subject: Ellen's Food Group Inc.

Ellen,

Further to my email messages on April 18th and April 21st, we have been advised by [REDACTED] that the \$1 million facility from the [REDACTED] has been approved but that the [REDACTED] requires certain information from you before it will be able to make the funds available to you which will be used to repay your indebtedness, and partially repay that of Ellen's Food Group, to HSBC. As I indicated in my previous messages, HSBC requires that the [REDACTED] funds be available by the end of this week. As such, I urge you to coordinate with [REDACTED] and provide whatever information is necessary so that the [REDACTED] funds are available in a timely manner.

Regards,

Danny M. Nunes

TGF Thornton Grout Finnigan LLP
RESTRUCTURING + LITIGATION

Danny M. Nunes | dnunes@tgf.ca | Direct Line: 416-304-0592 | Thornton Grout Finnigan LLP | Suite 3200, Canadian Pacific Tower, 100 Wellington Street West, P.O. Box 329, Toronto-Dominion Centre, Toronto, Ontario M5K 1K7 | Phone: 416-304-1616 | Fax: 416-304-1313 | www.tgf.ca

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EXHIBIT “B”

Danny Nunes

From: Danny Nunes
Sent: April 29, 2011 3:46 PM
To: 'Ellen Pun'
Cc: 'john_borch@hsbc.ca'
Subject: Ellen's Food Group Inc.
Attachments: Forbearance Agreement (April 29, 2011).PDF

Importance: High

Ms. Pun,

Further to your correspondence of April 25, 2011, attached hereto please find correspondence setting out the terms and conditions upon which HSBC Bank Canada (the "Bank") is willing to forbear at this time from enforcing its rights and remedies with respect to your personal indebtedness and that of Ellen's Food Group Inc. to the Bank. As you are aware, you executed a forbearance agreement on November 23, 2010 that provided for repayment, in full, of all amounts owing to the Bank by January 31, 2011. The forbearance deadline passed without repayment, in full, of the indebtedness and the Bank has reserved all of its rights and remedies as against Food Group and yourself.

There remains a significant amount of indebtedness owing to the Bank as at today's date. The Bank has considered your request for additional time to provide the [REDACTED] with the necessary information to finalize the \$1 million credit facility which will be used to repay a significant portion of Food Group's indebtedness and to fully repay your personal indebtedness. The Bank has agreed to forbear but will do so only on the terms and conditions set out in the attached forbearance agreement. If the attached agreement is not executed and returned by the deadline set out in the agreement, the Bank will move to enforce its rights and remedies in respect of the indebtedness.

If you have any questions, please contact me.

Regards,

Danny M. Nunes



Danny M. Nunes | dnunes@tgf.ca | Direct Line: 416-304-0592 | Thornton Grout Finnigan LLP | Suite 3200, Canadian Pacific Tower, 100 Wellington Street West, P.O. Box 329, Toronto-Dominion Centre, Toronto, Ontario M5K 1K7 | Phone: 416-304-1616 | Fax: 416-304-1313 | www.tgf.ca

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Danny M. Nunes
T: 416-304-0592
E: dnunes@tgf.ca
File No. 100-333

April 29, 2011

VIA ELECTRONIC MAIL

Ellen's Food Group Inc.
25 Centurian Dr.
Suite 203
Markham, ON L3R 5N8

Attention: Ellen Pun

Dear Madam:

Re: Indebtedness of Ellen's Food Group Inc. (the "Company") and Ellen Pun ("Pun") to HSBC Bank Canada

On behalf of our client, HSBC Bank Canada (the "Bank"), we hereby acknowledge receipt of your email dated April 25, 2011 wherein you advised that the Company requires an additional 3-4 weeks to provide certain information requested by the Industrial and Commercial Bank of China ("ICBC") to finalize the extension of a certain credit facility by the ICBC to the Company (the "ICBC Credit Facility"). The proceeds from the ICBC Credit Facility will be used to repay part of the Company's indebtedness to the Bank and the entirety of your personal indebtedness to the Bank. Below please find the terms and conditions upon which the Bank is willing to forbear from enforcing its rights and remedies at this time in respect of the Company's indebtedness and your personal indebtedness.

WHEREAS:

- (a) pursuant to the Facility Letter dated February 10, 2005, as amended, (the "Food Group Commitment Letter") the Bank made available the following credit facilities to Food Group (the "Credit Facilities"):
 - (i) demand revolving loan in the principal amount of \$2,000,000 (the "Food Group Operating Loan") available by way of Current Account Overdraft, Match Fund Loan or Import Document Letter(s) of Credit and Import Loans in settlement of Documentary Letter(s) of Credit. As at April 27, 2011, the principal amount outstanding under the Food Group Operating Loan was the sum of \$0.00;

- (ii) operating lease facility in the principal amount of \$3,000,000 (the "Food Group Lease Facility"). Pursuant to a Leasing Facility Letter dated July 27, 2006, as amended (the "Health Food Commitment Letter"), the Bank made available a leasing facility to Health Food (the "Health Food Lease Facility") in the amount of \$1,000,000. The Food Group Lease Facility was consolidated with the Health Food Lease Facility pursuant to the assignment and assumption agreement dated October 21, 2008 (the "Assignment and Assumption Agreement") (the Health Food Lease Facility and the Food Group Lease Facility are hereinafter referred to collectively as the "Food Group Lease Facility"). As at April 27, 2011, the amount outstanding under the Food Group Lease Facility, including HST and professional fees, was the sum of \$1,206,968.86;
- (b) pursuant to a Line of Credit/Overdraft Agreement dated February 20, 2003, the Bank extended a line of credit to Pun in the amount of \$200,000 (the "Pun Credit Line"). As at April 27, 2011, the principal amount outstanding under the Pun Credit Line was the principal sum of \$91,281.26, plus interest of \$4,150.52;
- (c) all amounts previously owed to the Bank by Ellen's Investment Holding Ltd. ("Ellen's Investment"), Ellen Associates Ltd. ("Ellen Associates") and Ellen's Health Food Ltd. ("Health Food") have been repaid and any and all credit facilities between the Bank and Ellen's Investment, Ellen Associates and Health Food have been terminated;
- (d) pursuant to a letter dated July 22, 2010, the Company agreed that its account held with the Bank, as well as the joint account held in the name of Pun and Patsy Lai, would be closed and all credit balances transferred to Pun's personal account #032-058268-150;
- (e) pursuant to a letter dated July 22, 2010, the Pun Credit Line was converted into a demand non-revolving loan (the "Pun Demand Loan");
- (f) as security for its obligations to the Bank pursuant to the Credit Facilities, together with all other obligations of the Company to the Bank, the Company granted to the Bank a security interest in its assets, property and undertaking pursuant to, amongst other things, a General Security Agreement and Master Lease Agreement;
- (g) Pun has guaranteed the obligations of Food Group to the Bank pursuant to the guarantee dated June 3, 2005 in the principal amount of \$6,000,000;
- (h) Pun is referred to herein as the "Guarantor" when referencing her obligations as guarantor of the Company's obligations to the Bank and as "Pun" when referencing her obligations, in a personal capacity, to the Bank pursuant to the Pun Credit Line;

- (i) by letter dated June 25, 2010, the Bank retained Deloitte & Touche LLP (“Deloitte”) as the Bank’s consultant (the “Consultant”) to review the business, assets, affairs and operations of the Companies and the Bank’s security position, and report thereon to the Bank;
- (j) pursuant to the forbearance agreement dated November 23, 2010 (the “November Forbearance Agreement”), the Bank agreed to forbear from enforcing its rights and remedies at that time in respect of the indebtedness owed to the Bank by the Company, Health Food and Pun to allow the Company, Health Food and Pun to arrange alternate financing to repay their indebtedness. The terms of the November Forbearance Agreement provided that the Bank would forbear from enforcing its right and remedies provided that the indebtedness of the Company, Health Food and Pun was repaid in full by no later than January 31, 2011;
- (k) as one of the terms and conditions of the November Forbearance Agreement, the Company executed a consent (the “Consent”) in favour of the Bank for the appointment of a receiver over the property, assets and undertaking of the Company which was to be held in escrow and was only to become effective upon the occurrence of the Forbearance Deadline or a Forbearance Terminating Event (as defined in the November Forbearance Agreement). The indebtedness of the Company and Pun to the Bank remains outstanding and, therefore, as at the date of this Agreement, the Consent is enforceable;
- (l) the Bank has demanded repayment of the indebtedness owed to the Bank by the Company under the Credit Facilities and the indebtedness owed by Pun under the Pun Credit Line, but has, subject to the approval of the Bank’s credit committee, agreed to forbear from enforcing its rights and remedies at this time, subject to the exception(s) set forth herein, to allow sufficient time for the Company and Pun to restructure their affairs and arrange alternate financing to repay the indebtedness of the Company and Pun to the Bank on or before the Forbearance Deadline (as defined herein); and
- (m) in consideration of the Bank’s forbearance as described herein, for the other accommodations described herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby irrevocably acknowledged by the Company, the Guarantor and Pun, the Company, the Guarantor and Pun hereby agree with the Bank as follows:

ACKNOWLEDGEMENT

- 1. The Company, the Guarantor and Pun acknowledge that:
 - (a) each of the foregoing recitals is true and correct;

- (b) unless otherwise specified, all capitalized terms contained herein have the same meanings as in the Food Group Commitment Letter, the Assignment and Assumption Agreement and all monetary amounts are expressed in Canadian dollars;
 - (c) pursuant to the provisions of the *Limitations Act, 2002*, the Company and Pun are indebted to the Bank under the Credit Facilities and the Pun Demand Loan, respectively, in the amounts specified in this Agreement as at the date specified therein, together with interest and costs to the date of payment;
 - (d) the Company is in default of its obligations to the Bank under the terms of the Credit Facilities;
 - (e) the indebtedness of the Company and Pun to the Bank pursuant to the Credit Facilities and the Pun Demand Loan are payable on demand;
 - (f) the Company, the Guarantor and Pun have received formal written demands from the Bank with respect to the indebtedness of the Company, the Guarantor and Pun to the Bank;
 - (g) the Bank is entitled to terminate the Credit Facilities and the Pun Demand Loan and no further credit is available to the Company and Pun, respectively, thereunder at the discretion of the Bank; and
 - (h) all security now held by the Bank for the indebtedness and obligations of the Company and the Guarantor to the Bank under the Credit Facilities, is valid, binding and enforceable in accordance with its terms.
2. The Guarantor acknowledges and agrees that its guarantee (as outlined above) is valid, binding and enforceable in accordance with its terms.
 3. The Company and the Guarantor acknowledge and agree that the Consent is valid, binding and enforceable in accordance with its terms.
 4. The Company, the Guarantor and Pun hereby consent to the terms of the Bank's forbearance and other accommodations as set out herein. The Company, the Guarantor and Pun specifically acknowledge that they have no defences, counterclaims or rights of set-off or reduction to any claims which might be brought by the Bank under the security granted by the Company or the Guarantor to the Bank or in respect of the Credit Facilities, based on their current knowledge or what they ought to know in the circumstances.
 5. The Company, the Guarantor and Pun hereby agree that, upon the execution of this Agreement, they shall each absolutely and irrevocably release the Bank, Deloitte, each of their officers, directors, employees, solicitors and agents (the "Releasees") of and from

any and all claims which they may have in respect of the Releasees up to and including the date hereof including, without limitation, any actions taken by the Bank in dealing with the Company, the Guarantor, Pun, the Credit Facilities, the Pun Demand Loan or with the administration of the Company's and Pun's accounts with the Bank.

6. In consideration of the Bank's forbearance and the other accommodations described herein, the Company agrees to pay to the Bank a forbearance fee (the "Forbearance Fee") in the amount of \$10,000. The Company, the Guarantor and Pun acknowledge that the Forbearance Fee has been actually earned by the Bank and is paid in consideration of the Bank's forbearance and other accommodations as described herein.

CONDITIONS PRECEDENT

7. The forbearance and other accommodations granted by the Bank hereunder are subject to approval by the Bank's credit committee. Approval of the terms of this Agreement shall only be sought if the Bank has received payment of the Forbearance Fee by 5:00 p.m. on May 2, 2011, or such later date as provided for below (the "Condition Precedent").

The Condition Precedent is for the sole benefit of the Bank and may be waived only by the Bank in writing. If the Condition Precedent is not complied with to the satisfaction of the Bank by 5:00 p.m. on May 2, 2011 or such later date as agreed to by the parties hereto, and the Bank will not waive satisfaction thereof, then the offer of forbearance and the other accommodations offered by the Bank hereunder shall be terminated.

Upon satisfaction of the Condition Precedent, unless a Forbearance Terminating Event (as defined herein) occurs under this Agreement, the Bank shall take no further steps prior to May 27, 2011 (the "Forbearance Deadline") to enforce the security held by the Bank from the Company or the Guarantor.

Pending credit committee approval of this Agreement, the Company, the Guarantor, Pun and the Bank shall comply with the terms and conditions of this Agreement. In the event that the Bank's credit committee does not approve the terms of this Agreement, then this Agreement shall immediately be terminated and of no further force and effect and the representations, warranties and covenants of each of the Company, the Guarantor, Pun and the Bank contained herein shall cease to have any effect and shall not survive termination of this Agreement, and the Forbearance Fee, if paid to the Bank, will be refunded to the Company.

TERMS AND CONDITIONS OF FORBEARANCE

8. The Company, the Guarantor and Pun agree that the Credit Facilities and the Pun Demand Loan shall be repaid in full, including any accrued interest and professional fees, on or before the Forbearance Deadline.

9. The terms and conditions of the Bank's forbearance set out in this Agreement are in addition to and are not meant to supersede those terms and conditions set out in the November Forbearance Agreement were applicable.

AMENDMENTS TO CREDIT FACILITIES

10. The Company and the Guarantor acknowledge and agree that, except as specifically amended herein or in the November Forbearance Agreement, all terms and conditions of the Food Group Commitment Letter shall remain in effect, unamended.
11. Without limiting the Bank's right to exercise any of its rights and remedies at any time, the Company, the Guarantor and Pun acknowledge and agree that, upon the occurrence of the Forbearance Deadline, or a Forbearance Terminating Event, the Bank may, at any time, terminate the Credit Facilities and the Pun Demand Loan upon written notice to the Company and Pun at which time no further credit will be available thereunder.
12. The Company, the Guarantor and Pun acknowledge and agree that the Bank has reserved its rights on each banking day to not honour any cheques or other instruments drawn on the Company's or Pun's accounts with the Bank if there is not sufficient credit under the Credit Facilities or the Pun Demand Loan to honour all such cheques or other instruments presented to the Bank for payment on that banking day. The Company and Pun acknowledge that they are not entitled to borrow funds under the Credit Facilities and the Pun Demand Loan, respectively, in excess of the maximum amount available thereunder as specified herein.

REPORTING REQUIREMENTS

13. The Company shall strictly adhere to all reporting requirements as set out in the Food Group Commitment Letter, except as amended herein or in the November Forbearance Agreement.
14. Food Group agrees that, effective upon execution of this Agreement, it shall provide the Bank with monthly financial statements by the 20th calendar day of each month. Should the 20th calendar day be a Saturday, Sunday or statutory holiday, monthly statements shall be provided to the Bank on the next day immediately following that is not a Saturday, Sunday or statutory holiday.
15. The Company and the Guarantor hereby agree to provide the Bank or its agents, including Deloitte, with any information regarding the financial position of the Company or the security position of the Bank that the Bank may request from time to time. The Company will continue to provide to the Bank all regularly scheduled reporting in accordance with the terms of the Food Group Commitment Letter, as amended herein or in the November Forbearance Agreement.

16. The Company and the Guarantor shall pay when due all claims which rank prior to the indebtedness and security held by the Bank from the Company and the Guarantor (together "Prior Claims") which shall include, without limitation, all amounts owing or required to be paid, where a failure to pay any such amount could give rise to a claim pursuant to any law, statute, regulation or otherwise, which ranks or is capable of ranking in priority to the Bank's security or otherwise in priority to any claim by the Bank for the repayment of any amounts owing to it, including without limitation all amounts owing to any federal, provincial, municipal or other government entity or Crown corporation, all statutory, actual or deemed trusts, all withholdings and source deductions, all accrued and unpaid payroll, including vacation pay, all amounts owing in respect of any pension fund obligation, and all amounts owing to any person having a lien, encumbrance, trust or charge ranking in priority to the Bank's security as well as all "Priority Payables". "Priority Payables" means any amount identified by the Bank in its sole opinion as having a legal or practical priority over the Company's direct indebtedness or any of the Guarantor's contingent indebtedness to the Bank or the security held by the Bank from the Company or the Guarantor.

CONSULTANT

17. The Company and the Guarantor hereby acknowledge and consent to the appointment of Deloitte as Consultant by letter dated June 25, 2010 and consent to the continued engagement of the Consultant to monitor the affairs of the Company, including its financial performance, and report thereon to the Bank.
18. The Company agrees to provide the Consultant with full access to the Company's books, records and premises for the purpose of carrying out its mandate. All of the costs incurred by the Bank in respect of the Consultant are for the account of the Company.

ADDITIONAL COVENANTS

19. The Company and the Guarantor represent, warrant, covenant and agree that no business in the nature of or related to the business transacted by the Company shall be performed in the name of or recorded or applied for the benefit of any person, firm or corporation other than the Company.
20. The Company confirms to and in favour of the Bank that all assets secured by the Bank's security are in existence, in the possession and control of the Company and have not been transferred, sold, encumbered or impaired in any manner which would deteriorate from or adversely affect the value of same excluding inventory which is being sold in the ordinary course of business.
21. The Company acknowledges that the Bank has requested that the position of each unsecured creditor of the Company will not be adversely affected during the term of this Agreement, subject to the Company's usual business practices.

22. The Company agrees to comply with all applicable environmental laws and regulations and to advise the Bank promptly of any Action Requests or Violation Notices (as such terms are defined under the *Environmental Protection Act* (Ontario)) received concerning any of the Company's property and to hold the Bank harmless for any costs or expenses which the Bank incurs for any environment related liability existing now or in the future with respect to any of the Company's property. The Company certifies that no environmental laws or regulations have been violated with respect to any of the Company's property and, to the best of its knowledge, no proceedings have or have been threatened to be instituted with respect to a breach of any environmental laws or regulations.
23. The Company shall indemnify the Bank for any damage which the Bank may suffer or any responsibility which it may incur as a result of non-compliance by the Company with any applicable environmental laws and regulations affecting the Company's assets or its business.
24. None of the Bank's existing rights and remedies, and none of the existing defaults of the Company, are waived by this Agreement but are specifically reserved and preserved. However, subject to approval by the Bank's credit committee of the terms of this Agreement and subject to the provisions of this Agreement, the Bank agrees not to take any further steps in enforcement of its rights and remedies against the Company and the Guarantor prior to the Forbearance Deadline unless and until one of the following events has occurred (each a "Forbearance Terminating Event"):
 - (a) any default or breach by the Company, the Guarantor or Pun occurs under this Agreement or any further default or breach by the Company or the Guarantor, in the sole discretion of the Bank, of any obligation or covenant occurs under the Credit Facilities or any of the security held by the Bank from the Company or the Guarantor;
 - (b) if the Company, the Guarantor or Pun fails to make any payment when due to the Bank;
 - (c) any other creditor of the Company, the Guarantor or Pun exercises or purports to exercise any rights against any of the property, assets or undertaking of the Company, the Guarantor or Pun or if the Company, the Guarantor, Pun or any creditor brings any proceeding or takes any other action under the BIA, the *Companies' Creditors Arrangement Act* (Canada), the *Business Corporations Act* of Ontario or Canada, the *Winding-Up Act* (Canada) or any similar legislation with respect to any of those parties;
 - (d) if any steps are taken by the Company, the Guarantor or a third party to wind up or dissolve the Company without the prior written consent of the Bank;

- (e) any representation or warranty made by the Company, the Guarantor or Pun in connection with the execution and delivery of this Agreement or in any of the security agreements held by the Bank shall prove to have been incorrect in any material respect at the time such representation or warranty was made;
 - (f) any default or failure by the Company to make any payment of wages or other monetary remuneration payable by the Company to its employees under the terms of any contract of employment, oral or written, express or implied (the "Payroll") or the failure by the Company to pay to the relevant governmental authority when due any of the Priority Payables exigible in respect of a Payroll;
 - (g) the sale, lease, transfer, relocation, abandonment or any other disposition of the assets of the Company which are subject to the Bank's security without the express prior written consent of the Bank;
 - (h) any default or failure by the Company or the Guarantor to pay any of the Prior Claims or the Priority Payables when due;
 - (i) if any of the representations or financial reporting information provided by the Company to the Bank proves to be false, misleading, inaccurate or incorrect in any material respect at the time such representation or financial reporting information was made or delivered;
 - (j) there has been, in the opinion of the Bank, a material adverse change in the affairs of the Company, the Guarantor or Pun or with respect to the security position of the Bank after the date hereof or if any action which the Company or the Guarantor may take only with the prior consent of the Bank is taken by the Company or the Guarantor without such consent being previously obtained from the Bank;
 - (k) the Company fails to fully cooperate with Deloitte; and
 - (l) if the Company fails to provide the Bank the reporting or other information specified herein, in the November Forbearance Agreement or in the Food Group Commitment Letter or as required from time to time.
25. Upon the earlier of:
- (a) the Forbearance Deadline, or
 - (b) the occurrence of a Forbearance Terminating Event

the Bank may immediately enforce all of its rights and remedies against the Company, the Guarantor or Pun including, without limitation, enforcing the security held by the Bank from the Company and the Guarantor and seeking a court Order appointing a

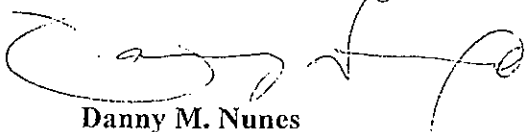
receiver over the property, assets and undertaking of the Company in accordance with the Consent.

26. The Company, the Guarantor and/or Pun hereby irrevocably agree, upon request by the Bank, to duly execute or deliver or cause to be executed or delivered to the Bank such further instruments, agreements or similar documents or do or cause to be done such further acts as may be necessary or desirable in the opinion of the Bank, acting reasonably, to carry out the provisions and purposes of this Agreement.
27. The Bank's forbearance from enforcing its rights and remedies against the Company, the Guarantor and Pun and the other accommodations described herein are in the sole discretion of the Bank and may be terminated upon the occurrence of a Forbearance Terminating Event without requiring any further forbearance or delay on the part of the Bank.
28. All terms and conditions of the Credit Facilities and the Pun Demand Loan and any other security delivered by the Company or the Guarantor to the Bank shall continue in full force and effect save and except as amended by this Agreement. To the extent that any provision thereof is inconsistent with this Agreement, this Agreement shall prevail.
29. The Company and the Guarantor covenant to and in favour of the Bank and agree that, except as permitted herein, they will not grant any further security on any of their property, assets or undertaking without the written consent of the Bank, which may be withheld by the Bank in its sole and unfettered discretion.
30. Subject to the terms of this Agreement, the Company and the Guarantor may not pay to the shareholders of the Company or the Guarantor or any party related within the meaning of the *Business Corporations Act (Ontario)* ("OBCA") to the Company, or the shareholders thereof any amount whether by way of salary (outside of the ordinary course as defined by the Bank in its sole discretion), dividend, repayment of loans or otherwise without the Bank's prior written approval, which may be withheld by the Bank in its sole and unfettered discretion. The Company and the Guarantor acknowledge and agree that any existing director or shareholder loans shall not be repaid by the Company or the Guarantor and the Company and the Guarantor shall not grant any loan to any officer or director of the Company or the Guarantor or to any other related party as defined above.
31. The Company and the Guarantor acknowledge and agree that there shall be no change of ownership or control of the Company, as such term is defined within the meaning of the OBCA, without the Bank's prior written consent, which consent may be withheld in the Bank's sole and unfettered discretion.
32. The Company, the Guarantor and Pun shall not loan funds, make equity investments or provide financial assistance to a third party by way of a guarantee, surety, or otherwise until such time as the Company's and Pun's indebtedness to the Bank has been permanently repaid.

33. The Company shall not amalgamate with another corporation, purchase or redeem its shares or otherwise reduce its capital until such time as the Company's indebtedness to the Bank has been permanently repaid.
34. Time shall be of the essence of this Agreement and this Agreement shall be governed by the laws of the Province of Ontario.
35. This Agreement may be executed in counterparts, which counterparts taken together shall evidence an agreement as of the date first set out above.
36. The Company, the Guarantor and Pun hereby acknowledge and agree that the Bank may apply any amounts outstanding to the credit of the Guarantor or Pun as a set-off or in combination of the Company's, the Guarantor's or Pun's indebtedness to the Bank. The application of any such funds shall be as the Bank may determine.
37. The Company, the Guarantor and Pun agree to pay all actual present and future legal and agent fees and disbursements, including but not limited to those of Deloitte, incurred by the Bank in respect of or in any way related to the Company, the Guarantor and Pun including, without limitation, the Bank's legal fees in connection with the preparation and enforcement of this Agreement.
38. The Company, the Guarantor and Pun agree that all acknowledgements provided in this Agreement are effective notwithstanding the provisions of the *Limitations Act, 2002*.

Yours truly,

Thornton Grout Finnigan LLP



Danny M. Nunes

cc: John Borch, *HSBC Bank Canada (via email)*

AGREED TO this _____ day of _____, 2011.

Borrower:

ELLEN'S FOOD GROUP INC.

Per: _____

Name:

Title:

(I have authority to bind the Company.)

Signing in Capacity as Personal Guarantor

Witness

ELLEN YUK YEE PUN

Signing in Personal Capacity

Witness

ELLEN YUK YEE PUN

EXHIBIT “C”

Danny Nunes

From: Danny Nunes
Sent: May 3, 2011 3:55 PM
To: 'Ellen Pun'
Subject: RE: Ellen's Food Group Inc.
Attachments: Forbearance Agreement (April 2011) (Revised).PDF

Ellen,

I received your voicemail and have conferred with our client. The bank is prepared to extend the deadline for execution of the forbearance agreement and delivery of the forbearance fee until 5:00 pm on May 5, 2011. I have attached a revised forbearance agreement with the new deadline. The remaining terms of the forbearance agreement have not changed and the deadline for repayment, in full, of all amounts owing to HSBC remains May 27, 2011.

Regards,

Danny M. Nunes



Danny M. Nunes | dnunes@tgf.ca | Direct Line: 416-304-0592 | Thornton Grout Finnigan LLP | Suite 3200, Canadian Pacific Tower, 100 Wellington Street West, P.O. Box 329, Toronto-Dominion Centre, Toronto, Ontario M5K 1K7 | Phone: 416-304-1616 | Fax: 416-304-1313 | www.tgf.ca

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From: Ellen Pun [<mailto:ellenpun@ellensgroup.com>]
Sent: May 3, 2011 12:09 PM
To: Danny Nunes
Subject: Re: Ellen's Food Group Inc.
Importance: High

Hello Danny,

By May 30th, we will pay in full for the loan, please pass on this message and we will be greatly appreciated.

Thanks,
Ellen

From: [Danny Nunes](#)
Sent: Tuesday, May 03, 2011 10:12 AM
To: [Ellen Pun](#)
Subject: Ellen's Food Group Inc.

Ellen,

Pursuant to the terms of the forbearance agreement that I sent to you on April 29, 2011, you were to execute the forbearance agreement and send the forbearance fee to the bank by 5:00 pm on May 2, 2010. I have received confirmation from the bank that no executed agreement and no forbearance fee was received. As such, please be advised that the forbearance agreement is null and void.

Regards,

Danny M. Nunes



Danny M. Nunes | dnunes@tgf.ca | Direct Line: 416-304-0592 | Thornton Grout Finnigan LLP | Suite 3200, Canadian Pacific Tower, 100 Wellington Street West, P.O. Box 329, Toronto-Dominion Centre, Toronto, Ontario M5K 1K7 | Phone: 416-304-1616 | Fax: 416-304-1313 | www.tgf.ca

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Thornton Grout Finnigan LLP
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Danny M. Nunes
T: 416-304-0592
E: dnunes@tgf.ca
File No. 100-333

May 3, 2011

VIA ELECTRONIC MAIL

Ellen's Food Group Inc.
25 Centurian Dr.
Suite 203
Markham, ON L3R 5N8

Attention: Ellen Pun

Dear Madam:

Re: Indebtedness of Ellen's Food Group Inc. (the "Company") and Ellen Pun ("Pun") to HSBC Bank Canada

On behalf of our client, HSBC Bank Canada (the "Bank"), we hereby acknowledge receipt of your email dated April 25, 2011 wherein you advised that the Company requires an additional 3-4 weeks to provide certain information requested by the Industrial and Commercial Bank of China ("ICBC") to finalize the extension of a certain credit facility by the ICBC to the Company (the "ICBC Credit Facility"). The proceeds from the ICBC Credit Facility will be used to repay part of the Company's indebtedness to the Bank and the entirety of your personal indebtedness to the Bank. Below please find the terms and conditions upon which the Bank is willing to forbear from enforcing its rights and remedies at this time in respect of the Company's indebtedness and your personal indebtedness.

WHEREAS:

- (a) pursuant to the Facility Letter dated February 10, 2005, as amended, (the "Food Group Commitment Letter") the Bank made available the following credit facilities to Food Group (the "Credit Facilities"):
 - (i) demand revolving loan in the principal amount of \$2,000,000 (the "Food Group Operating Loan") available by way of Current Account Overdraft, Match Fund Loan or Import Document Letter(s) of Credit and Import Loans in settlement of Documentary Letter(s) of Credit. As at April 27, 2011, the principal amount outstanding under the Food Group Operating Loan was the sum of \$0.00;

- (ii) operating lease facility in the principal amount of \$3,000,000 (the "Food Group Lease Facility"). Pursuant to a Leasing Facility Letter dated July 27, 2006, as amended (the "Health Food Commitment Letter"), the Bank made available a leasing facility to Health Food (the "Health Food Lease Facility") in the amount of \$1,000,000. The Food Group Lease Facility was consolidated with the Health Food Lease Facility pursuant to the assignment and assumption agreement dated October 21, 2008 (the "Assignment and Assumption Agreement") (the Health Food Lease Facility and the Food Group Lease Facility are hereinafter referred to collectively as the "Food Group Lease Facility"). As at April 27, 2011, the amount outstanding under the Food Group Lease Facility, including HST and professional fees, was the sum of \$1,206,968.86;
- (b) pursuant to a Line of Credit/Overdraft Agreement dated February 20, 2003, the Bank extended a line of credit to Pun in the amount of \$200,000 (the "Pun Credit Line"). As at April 27, 2011, the principal amount outstanding under the Pun Credit Line was the principal sum of \$91,281.26, plus interest of \$4,150.52;
- (c) all amounts previously owed to the Bank by Ellen's Investment Holding Ltd. ("Ellen's Investment"), Ellen Associates Ltd. ("Ellen Associates") and Ellen's Health Food Ltd. ("Health Food") have been repaid and any and all credit facilities between the Bank and Ellen's Investment, Ellen Associates and Health Food have been terminated;
- (d) pursuant to a letter dated July 22, 2010, the Company agreed that its account held with the Bank, as well as the joint account held in the name of Pun and Patsy Lai, would be closed and all credit balances transferred to Pun's personal account #032-058268-150;
- (e) pursuant to a letter dated July 22, 2010, the Pun Credit Line was converted into a demand non-revolving loan (the "Pun Demand Loan");
- (f) as security for its obligations to the Bank pursuant to the Credit Facilities, together with all other obligations of the Company to the Bank, the Company granted to the Bank a security interest in its assets, property and undertaking pursuant to, amongst other things, a General Security Agreement and Master Lease Agreement;
- (g) Pun has guaranteed the obligations of Food Group to the Bank pursuant to the guarantee dated June 3, 2005 in the principal amount of \$6,000,000;
- (h) Pun is referred to herein as the "Guarantor" when referencing her obligations as guarantor of the Company's obligations to the Bank and as "Pun" when referencing her obligations, in a personal capacity, to the Bank pursuant to the Pun Credit Line;

- (i) by letter dated June 25, 2010, the Bank retained Deloitte & Touche LLP (“Deloitte”) as the Bank’s consultant (the “Consultant”) to review the business, assets, affairs and operations of the Companies and the Bank’s security position, and report thereon to the Bank;
- (j) pursuant to the forbearance agreement dated November 23, 2010 (the “November Forbearance Agreement”), the Bank agreed to forbear from enforcing its rights and remedies at that time in respect of the indebtedness owed to the Bank by the Company, Health Food and Pun to allow the Company, Health Food and Pun to arrange alternate financing to repay their indebtedness. The terms of the November Forbearance Agreement provided that the Bank would forbear from enforcing its right and remedies provided that the indebtedness of the Company, Health Food and Pun was repaid in full by no later than January 31, 2011;
- (k) as one of the terms and conditions of the November Forbearance Agreement, the Company executed a consent (the “Consent”) in favour of the Bank for the appointment of a receiver over the property, assets and undertaking of the Company which was to be held in escrow and was only to become effective upon the occurrence of the Forbearance Deadline or a Forbearance Terminating Event (as defined in the November Forbearance Agreement). The indebtedness of the Company and Pun to the Bank remains outstanding and, therefore, as at the date of this Agreement, the Consent is enforceable;
- (l) the Bank has demanded repayment of the indebtedness owed to the Bank by the Company under the Credit Facilities and the indebtedness owed by Pun under the Pun Credit Line, but has, subject to the approval of the Bank’s credit committee, agreed to forbear from enforcing its rights and remedies at this time, subject to the exception(s) set forth herein, to allow sufficient time for the Company and Pun to restructure their affairs and arrange alternate financing to repay the indebtedness of the Company and Pun to the Bank on or before the Forbearance Deadline (as defined herein); and
- (m) in consideration of the Bank’s forbearance as described herein, for the other accommodations described herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby irrevocably acknowledged by the Company, the Guarantor and Pun, the Company, the Guarantor and Pun hereby agree with the Bank as follows:

ACKNOWLEDGEMENT

1. The Company, the Guarantor and Pun acknowledge that:
 - (a) each of the foregoing recitals is true and correct;

- (b) unless otherwise specified, all capitalized terms contained herein have the same meanings as in the Food Group Commitment Letter, the Assignment and Assumption Agreement and all monetary amounts are expressed in Canadian dollars;
 - (c) pursuant to the provisions of the *Limitations Act, 2002*, the Company and Pun are indebted to the Bank under the Credit Facilities and the Pun Demand Loan, respectively, in the amounts specified in this Agreement as at the date specified therein, together with interest and costs to the date of payment;
 - (d) the Company is in default of its obligations to the Bank under the terms of the Credit Facilities;
 - (e) the indebtedness of the Company and Pun to the Bank pursuant to the Credit Facilities and the Pun Demand Loan are payable on demand;
 - (f) the Company, the Guarantor and Pun have received formal written demands from the Bank with respect to the indebtedness of the Company, the Guarantor and Pun to the Bank;
 - (g) the Bank is entitled to terminate the Credit Facilities and the Pun Demand Loan and no further credit is available to the Company and Pun, respectively, thereunder at the discretion of the Bank; and
 - (h) all security now held by the Bank for the indebtedness and obligations of the Company and the Guarantor to the Bank under the Credit Facilities, is valid, binding and enforceable in accordance with its terms.
2. The Guarantor acknowledges and agrees that its guarantee (as outlined above) is valid, binding and enforceable in accordance with its terms.
 3. The Company and the Guarantor acknowledge and agree that the Consent is valid, binding and enforceable in accordance with its terms.
 4. The Company, the Guarantor and Pun hereby consent to the terms of the Bank's forbearance and other accommodations as set out herein. The Company, the Guarantor and Pun specifically acknowledge that they have no defences, counterclaims or rights of set-off or reduction to any claims which might be brought by the Bank under the security granted by the Company or the Guarantor to the Bank or in respect of the Credit Facilities, based on their current knowledge or what they ought to know in the circumstances.
 5. The Company, the Guarantor and Pun hereby agree that, upon the execution of this Agreement, they shall each absolutely and irrevocably release the Bank, Deloitte, each of their officers, directors, employees, solicitors and agents (the "Releasees") of and from

any and all claims which they may have in respect of the Releasees up to and including the date hereof including, without limitation, any actions taken by the Bank in dealing with the Company, the Guarantor, Pun, the Credit Facilities, the Pun Demand Loan or with the administration of the Company's and Pun's accounts with the Bank.

6. In consideration of the Bank's forbearance and the other accommodations described herein, the Company agrees to pay to the Bank a forbearance fee (the "Forbearance Fee") in the amount of \$10,000. The Company, the Guarantor and Pun acknowledge that the Forbearance Fee has been actually earned by the Bank and is paid in consideration of the Bank's forbearance and other accommodations as described herein.

CONDITIONS PRECEDENT

7. The forbearance and other accommodations granted by the Bank hereunder are subject to approval by the Bank's credit committee. Approval of the terms of this Agreement shall only be sought if the Bank has received payment of the Forbearance Fee by 5:00 p.m. on May 5, 2011, or such later date as provided for below (the "Condition Precedent").

The Condition Precedent is for the sole benefit of the Bank and may be waived only by the Bank in writing. If the Condition Precedent is not complied with to the satisfaction of the Bank by 5:00 p.m. on May 5, 2011 or such later date as agreed to by the parties hereto, and the Bank will not waive satisfaction thereof, then the offer of forbearance and the other accommodations offered by the Bank hereunder shall be terminated.

Upon satisfaction of the Condition Precedent, unless a Forbearance Terminating Event (as defined herein) occurs under this Agreement, the Bank shall take no further steps prior to May 27, 2011 (the "Forbearance Deadline") to enforce the security held by the Bank from the Company or the Guarantor.

Pending credit committee approval of this Agreement, the Company, the Guarantor, Pun and the Bank shall comply with the terms and conditions of this Agreement. In the event that the Bank's credit committee does not approve the terms of this Agreement, then this Agreement shall immediately be terminated and of no further force and effect and the representations, warranties and covenants of each of the Company, the Guarantor, Pun and the Bank contained herein shall cease to have any effect and shall not survive termination of this Agreement, and the Forbearance Fee, if paid to the Bank, will be refunded to the Company.

TERMS AND CONDITIONS OF FORBEARANCE

8. The Company, the Guarantor and Pun agree that the Credit Facilities and the Pun Demand Loan shall be repaid in full, including any accrued interest and professional fees, on or before the Forbearance Deadline.

9. The terms and conditions of the Bank's forbearance set out in this Agreement are in addition to and are not meant to supersede those terms and conditions set out in the November Forbearance Agreement were applicable.

AMENDMENTS TO CREDIT FACILITIES

10. The Company and the Guarantor acknowledge and agree that, except as specifically amended herein or in the November Forbearance Agreement, all terms and conditions of the Food Group Commitment Letter shall remain in effect, unamended.
11. Without limiting the Bank's right to exercise any of its rights and remedies at any time, the Company, the Guarantor and Pun acknowledge and agree that, upon the occurrence of the Forbearance Deadline, or a Forbearance Terminating Event, the Bank may, at any time, terminate the Credit Facilities and the Pun Demand Loan upon written notice to the Company and Pun at which time no further credit will be available thereunder.
12. The Company, the Guarantor and Pun acknowledge and agree that the Bank has reserved its rights on each banking day to not honour any cheques or other instruments drawn on the Company's or Pun's accounts with the Bank if there is not sufficient credit under the Credit Facilities or the Pun Demand Loan to honour all such cheques or other instruments presented to the Bank for payment on that banking day. The Company and Pun acknowledge that they are not entitled to borrow funds under the Credit Facilities and the Pun Demand Loan, respectively, in excess of the maximum amount available thereunder as specified herein.

REPORTING REQUIREMENTS

13. The Company shall strictly adhere to all reporting requirements as set out in the Food Group Commitment Letter, except as amended herein or in the November Forbearance Agreement.
14. Food Group agrees that, effective upon execution of this Agreement, it shall provide the Bank with monthly financial statements by the 20th calendar day of each month. Should the 20th calendar day be a Saturday, Sunday or statutory holiday, monthly statements shall be provided to the Bank on the next day immediately following that is not a Saturday, Sunday or statutory holiday.
15. The Company and the Guarantor hereby agree to provide the Bank or its agents, including Deloitte, with any information regarding the financial position of the Company or the security position of the Bank that the Bank may request from time to time. The Company will continue to provide to the Bank all regularly scheduled reporting in accordance with the terms of the Food Group Commitment Letter, as amended herein or in the November Forbearance Agreement.

16. The Company and the Guarantor shall pay when due all claims which rank prior to the indebtedness and security held by the Bank from the Company and the Guarantor (together "Prior Claims") which shall include, without limitation, all amounts owing or required to be paid, where a failure to pay any such amount could give rise to a claim pursuant to any law, statute, regulation or otherwise, which ranks or is capable of ranking in priority to the Bank's security or otherwise in priority to any claim by the Bank for the repayment of any amounts owing to it, including without limitation all amounts owing to any federal, provincial, municipal or other government entity or Crown corporation, all statutory, actual or deemed trusts, all withholdings and source deductions, all accrued and unpaid payroll, including vacation pay, all amounts owing in respect of any pension fund obligation, and all amounts owing to any person having a lien, encumbrance, trust or charge ranking in priority to the Bank's security as well as all "Priority Payables". "Priority Payables" means any amount identified by the Bank in its sole opinion as having a legal or practical priority over the Company's direct indebtedness or any of the Guarantor's contingent indebtedness to the Bank or the security held by the Bank from the Company or the Guarantor.

CONSULTANT

17. The Company and the Guarantor hereby acknowledge and consent to the appointment of Deloitte as Consultant by letter dated June 25, 2010 and consent to the continued engagement of the Consultant to monitor the affairs of the Company, including its financial performance, and report thereon to the Bank.
18. The Company agrees to provide the Consultant with full access to the Company's books, records and premises for the purpose of carrying out its mandate. All of the costs incurred by the Bank in respect of the Consultant are for the account of the Company.

ADDITIONAL COVENANTS

19. The Company and the Guarantor represent, warrant, covenant and agree that no business in the nature of or related to the business transacted by the Company shall be performed in the name of or recorded or applied for the benefit of any person, firm or corporation other than the Company.
20. The Company confirms to and in favour of the Bank that all assets secured by the Bank's security are in existence, in the possession and control of the Company and have not been transferred, sold, encumbered or impaired in any manner which would deteriorate from or adversely affect the value of same excluding inventory which is being sold in the ordinary course of business.
21. The Company acknowledges that the Bank has requested that the position of each unsecured creditor of the Company will not be adversely affected during the term of this Agreement, subject to the Company's usual business practices.

22. The Company agrees to comply with all applicable environmental laws and regulations and to advise the Bank promptly of any Action Requests or Violation Notices (as such terms are defined under the *Environmental Protection Act* (Ontario)) received concerning any of the Company's property and to hold the Bank harmless for any costs or expenses which the Bank incurs for any environment related liability existing now or in the future with respect to any of the Company's property. The Company certifies that no environmental laws or regulations have been violated with respect to any of the Company's property and, to the best of its knowledge, no proceedings have or have been threatened to be instituted with respect to a breach of any environmental laws or regulations.
23. The Company shall indemnify the Bank for any damage which the Bank may suffer or any responsibility which it may incur as a result of non-compliance by the Company with any applicable environmental laws and regulations affecting the Company's assets or its business.
24. None of the Bank's existing rights and remedies, and none of the existing defaults of the Company, are waived by this Agreement but are specifically reserved and preserved. However, subject to approval by the Bank's credit committee of the terms of this Agreement and subject to the provisions of this Agreement, the Bank agrees not to take any further steps in enforcement of its rights and remedies against the Company and the Guarantor prior to the Forbearance Deadline unless and until one of the following events has occurred (each a "Forbearance Terminating Event"):
- (a) any default or breach by the Company, the Guarantor or Pun occurs under this Agreement or any further default or breach by the Company or the Guarantor, in the sole discretion of the Bank, of any obligation or covenant occurs under the Credit Facilities or any of the security held by the Bank from the Company or the Guarantor;
 - (b) if the Company, the Guarantor or Pun fails to make any payment when due to the Bank;
 - (c) any other creditor of the Company, the Guarantor or Pun exercises or purports to exercise any rights against any of the property, assets or undertaking of the Company, the Guarantor or Pun or if the Company, the Guarantor, Pun or any creditor brings any proceeding or takes any other action under the BIA, the *Companies' Creditors Arrangement Act* (Canada), the *Business Corporations Act* of Ontario or Canada, the *Winding-Up Act* (Canada) or any similar legislation with respect to any of those parties;
 - (d) if any steps are taken by the Company, the Guarantor or a third party to wind up or dissolve the Company without the prior written consent of the Bank;

- (e) any representation or warranty made by the Company, the Guarantor or Pun in connection with the execution and delivery of this Agreement or in any of the security agreements held by the Bank shall prove to have been incorrect in any material respect at the time such representation or warranty was made;
 - (f) any default or failure by the Company to make any payment of wages or other monetary remuneration payable by the Company to its employees under the terms of any contract of employment, oral or written, express or implied (the "Payroll") or the failure by the Company to pay to the relevant governmental authority when due any of the Priority Payables exigible in respect of a Payroll;
 - (g) the sale, lease, transfer, relocation, abandonment or any other disposition of the assets of the Company which are subject to the Bank's security without the express prior written consent of the Bank;
 - (h) any default or failure by the Company or the Guarantor to pay any of the Prior Claims or the Priority Payables when due;
 - (i) if any of the representations or financial reporting information provided by the Company to the Bank proves to be false, misleading, inaccurate or incorrect in any material respect at the time such representation or financial reporting information was made or delivered;
 - (j) there has been, in the opinion of the Bank, a material adverse change in the affairs of the Company, the Guarantor or Pun or with respect to the security position of the Bank after the date hereof or if any action which the Company or the Guarantor may take only with the prior consent of the Bank is taken by the Company or the Guarantor without such consent being previously obtained from the Bank;
 - (k) the Company fails to fully cooperate with Deloitte; and
 - (l) if the Company fails to provide the Bank the reporting or other information specified herein, in the November Forbearance Agreement or in the Food Group Commitment Letter or as required from time to time.
25. Upon the earlier of:
- (a) the Forbearance Deadline, or
 - (b) the occurrence of a Forbearance Terminating Event

the Bank may immediately enforce all of its rights and remedies against the Company, the Guarantor or Pun including, without limitation, enforcing the security held by the Bank from the Company and the Guarantor and seeking a court Order appointing a

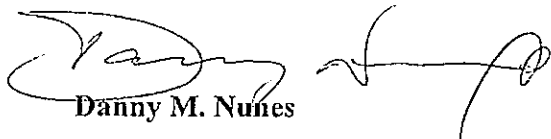
receiver over the property, assets and undertaking of the Company in accordance with the Consent.

26. The Company, the Guarantor and/or Pun hereby irrevocably agree, upon request by the Bank, to duly execute or deliver or cause to be executed or delivered to the Bank such further instruments, agreements or similar documents or do or cause to be done such further acts as may be necessary or desirable in the opinion of the Bank, acting reasonably, to carry out the provisions and purposes of this Agreement.
27. The Bank's forbearance from enforcing its rights and remedies against the Company, the Guarantor and Pun and the other accommodations described herein are in the sole discretion of the Bank and may be terminated upon the occurrence of a Forbearance Terminating Event without requiring any further forbearance or delay on the part of the Bank.
28. All terms and conditions of the Credit Facilities and the Pun Demand Loan and any other security delivered by the Company or the Guarantor to the Bank shall continue in full force and effect save and except as amended by this Agreement. To the extent that any provision thereof is inconsistent with this Agreement, this Agreement shall prevail.
29. The Company and the Guarantor covenant to and in favour of the Bank and agree that, except as permitted herein, they will not grant any further security on any of their property, assets or undertaking without the written consent of the Bank, which may be withheld by the Bank in its sole and unfettered discretion.
30. Subject to the terms of this Agreement, the Company and the Guarantor may not pay to the shareholders of the Company or the Guarantor or any party related within the meaning of the *Business Corporations Act* (Ontario) ("OBCA") to the Company, or the shareholders thereof any amount whether by way of salary (outside of the ordinary course as defined by the Bank in its sole discretion), dividend, repayment of loans or otherwise without the Bank's prior written approval, which may be withheld by the Bank in its sole and unfettered discretion. The Company and the Guarantor acknowledge and agree that any existing director or shareholder loans shall not be repaid by the Company or the Guarantor and the Company and the Guarantor shall not grant any loan to any officer or director of the Company or the Guarantor or to any other related party as defined above.
31. The Company and the Guarantor acknowledge and agree that there shall be no change of ownership or control of the Company, as such term is defined within the meaning of the OBCA, without the Bank's prior written consent, which consent may be withheld in the Bank's sole and unfettered discretion.
32. The Company, the Guarantor and Pun shall not loan funds, make equity investments or provide financial assistance to a third party by way of a guarantee, surety, or otherwise until such time as the Company's and Pun's indebtedness to the Bank has been permanently repaid.

33. The Company shall not amalgamate with another corporation, purchase or redeem its shares or otherwise reduce its capital until such time as the Company's indebtedness to the Bank has been permanently repaid.
34. Time shall be of the essence of this Agreement and this Agreement shall be governed by the laws of the Province of Ontario.
35. This Agreement may be executed in counterparts, which counterparts taken together shall evidence an agreement as of the date first set out above.
36. The Company, the Guarantor and Pun hereby acknowledge and agree that the Bank may apply any amounts outstanding to the credit of the Guarantor or Pun as a set-off or in combination of the Company's, the Guarantor's or Pun's indebtedness to the Bank. The application of any such funds shall be as the Bank may determine.
37. The Company, the Guarantor and Pun agree to pay all actual present and future legal and agent fees and disbursements, including but not limited to those of Deloitte, incurred by the Bank in respect of or in any way related to the Company, the Guarantor and Pun including, without limitation, the Bank's legal fees in connection with the preparation and enforcement of this Agreement.
38. The Company, the Guarantor and Pun agree that all acknowledgements provided in this Agreement are effective notwithstanding the provisions of the *Limitations Act, 2002*.

Yours truly,

Thornton Grout Finnigan LLP


Danny M. Nunes

cc: John Borch, *HSBC Bank Canada (via email)*

AGREED TO this _____ day of _____, 2011.

Borrower:

ELLEN'S FOOD GROUP INC.

Per: _____

Name:

Title:

(I have authority to bind the Company.)

Signing in Capacity as Personal Guarantor

Witness

ELLEN YUK YEE PUN

Signing in Personal Capacity

Witness

ELLEN YUK YEE PUN

EXHIBIT “D”

Danny Nunes

From: Danny Nunes
Sent: May 5, 2011 10:37 AM
To: 'Ellen Pun'
Subject: Ellen's Food Group Inc.

Importance: High

Ellen,

Further to my email correspondence of May 4, 2011, the deadline for the execution of the forbearance agreement which was sent to you on May 3, 2011 and the delivery of the forbearance fee set out in the agreement is **today (May 5, 2011) at 5:00 pm**.

In the event that we do not receive the executed forbearance agreement and the forbearance fee, please be advised that HSBC Bank Canada has scheduled an appointment for 9:30 am in chambers before the Ontario Superior Court of Justice (Commercial List) at 330 University Avenue, Toronto, Ontario to seek the appointment of a receiver over Ellen's Food Group Inc. should you wish to attend.

As you will recall, one of the terms and conditions of the forbearance agreement which you executed on November 23, 2010 was the execution of a consent for a court-appointed receiver for Ellen's Food Group Inc. in the event that there was a default under the November forbearance agreement or the indebtedness owed to HSBC was not paid, in full, by the forbearance deadline of January 31, 2011. As you are aware, there remains outstanding indebtedness which has not been repaid to the bank. The executed consent to appoint a receiver for Ellen's Food Group Inc. will form part of the bank's application record and will be before the Court.

Regards,

Danny M. Nunes



Danny M. Nunes | dnunes@tgf.ca | Direct Line: 416-304-0592 | Thornton Grout Finnigan LLP | Suite 3200, Canadian Pacific Tower, 100 Wellington Street West, P.O. Box 329, Toronto-Dominion Centre, Toronto, Ontario M5K 1K7 | Phone: 416-304-1616 | Fax: 416-304-1313 | www.tgf.ca

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Danny Nunes

From: Danny Nunes
Sent: May 5, 2011 1:33 PM
To: 'Ellen Pun'
Subject: Ellen's Food Group Inc.

Ellen,

Further to my email correspondence below, I inadvertently forgot to advise that the Bank has scheduled the 9:30 am appointment in chambers for **Friday, May 6, 2011**. The location of the Court remains 330 University Avenue, Toronto, Ontario. I apologize for the confusion.

Regards,

Danny M. Nunes



Danny M. Nunes | dnunes@tgf.ca | Direct Line: 416-304-0592 | Thornton Grout Finnigan LLP | Suite 3200, Canadian Pacific Tower, 100 Wellington Street West, P.O. Box 329, Toronto-Dominion Centre, Toronto, Ontario M5K 1K7 | Phone: 416-304-1616 | Fax: 416-304-1313 | www.tgf.ca

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Sent: May 5, 2011 10:37 AM
To: 'Ellen Pun'
Subject: Ellen's Food Group Inc.
Importance: High

Ellen,

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Regards,

Danny M. Nunes



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HSBC BANK CANADA

and

ELLEN'S FOOD GROUP INC.

Applicant

Respondent

Court File No. CV-10-9031-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at Toronto

SUPPLEMENTARY AFFIDAVIT OF JOHN BORCH

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Lawyers for HSBC Bank Canada