Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED O/A LORETTA FLOUR, 2131413 ONTARIO LIMITED O/A LORETTA FOODS,787755 ONTARIO LIMITED O/A NEW DURHAM TRADING, AND O/A NDT FOOD SERVICE AND O/A SKYWAY WHOLESALEAND TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

---

FOURTH REPORT TO THE COURT OF ERNST & YOUNG INC., AS RECEIVER

14 July 2011

BACKGROUND

1. On November 10, 2010, Bank of Montreal ("**BMO**") made an application to the Ontario Superior Court of Justice (Commercial List) for an order, and the Court made an order (the "**Interim Receivership Order**"), appointing Ernst & Young Inc. ("**EYI**") as interim receiver (in such capacity, the "**Interim Receiver**") pursuant to section 47(1) of the *Bankruptcy & Insolvency Act* ("**BIA**") and pursuant to section 101 of the *Courts of Justice Act* ("**CJA**") of the assets, undertakings and properties (the "**Property**") of 2110458 Ontario Limited ("**211**") o/a Loretta Flour, 2131413 Ontario Limited ("**213**") o/a Loretta Foods, 787755 Ontario Limited ("**787**") o/a New Durham Trading and o/a NDT Food Service and o/a Skyway Wholesale, and Tarbrac Holdings Inc. ("**Tarbrac**") (collectively, the "**Debtors**" or the "**Loretta Group**").

2. On November 26, 2010, EYI was appointed as receiver and receiver and manager (the "**Receiver**") of the Debtors pursuant to section 243 of the BIA and section 101 of the CJA. A copy of the order appointing EYI as the Receiver (the "**Receivership Order**") is attached as Appendix "**A**" to this Fourth Report.

3. The Receivership Order authorized the Receiver to, among other things, deal with the Property of the Loretta Group. Prior to the receivership the Loretta Group included the following operations:

    (a) the "Loretta Flour Division", operated by 211, which produced various types of hard wheat flour that was sold to retail, food service and industrial customers (the "**Flour Business**");

    (b) the "Loretta Spice Division", operated by 213, which sourced spices and food mixes for redistribution globally, as well as blending and repackaging spices for use in various packs and sizes for sale to retail and institutional customers (the "**Spice Business**");

    (c) the "Food Service and Catering Division", operated by 787, which prepared, on a daily basis, fresh food items such as sandwiches, grab and go meals, soups, fresh salads, desserts and pastries for sale by or in mobile caterers, vending machines, contract caterers and convenience stores (the "**Food Services Business**"). 787 also engaged in trading bulk sugar, flour, spices and other items; and

    (d) a business (the "**Trading Business**") trading bulk sugar, flour, spices and other items under the registered trade names "New Durham Trading" and/or "Skyway Wholesale." This business was carried on through 787 and was directed by Mr. Giuseppe Gatti, the individual responsible for overall direction of the Loretta Group. The Receiver understands that 787 ceased to carry on the Trading Business prior to the interim receivership, although certain of the related accounts receivable remained on its balance sheet, and therefore the Receiver did not attempt to operate the Trading Business or to market it for sale.

4. On January 17, 2011, the Court made an order approving a marketing and sale process for the Flour and Spice Businesses of the Debtors (the "**Flour and Spice Sale Process Order**"). The Flour and Spice Sale Process Order is attached as Appendix "**B**" to this Fourth Report.

5. On February 16, 2011, the Court made an order (the "**Food Services Approval and Vesting Order**"), *inter alia*, approving the sale of the Food Services Business of the Debtors to Rosedale Food Company Inc. ("**Rosedale**"). The Food Services Approval and Vesting Order is attached as Appendix "**C**" to this Fourth Report.

6. On May 16, 2011, the Court made an order (the "**Flour Approval and Vesting Order**"), *inter alia*, approving the sale of the "Loretta Flour Division" (the "**Flour Business**") of the Debtors to JE Fininvest Ltd. ("**JEF**") and vesting title to the assets of the Flour business to JEF, free and clear of all security interests, mortgages, claims, charges, and encumbrances, subject only to the filing by the Receiver with the Court of a completion of sale certificate. A copy of the Flour Approval and Vesting Order is attached as Appendix "**D**" to this Fourth Report.

PURPOSE

7. This is the fourth report of the Receiver. The purpose of this Fourth Report is to:

   (a) report to the Court on the completion of the sale of the Flour Business;

   (b) report to the Court on the status of the realization of the remaining assets of the Spice Business and the Food Services Business;

   (c) report to the Court on certain developments in connection with the Chapter 7 filing of Quality Food Brands, Inc. ("**Quality**") that were initially described in the Third Report of the Receiver dated May 9, 2011 (the "**Third Report**");

(d) report to the Court on the receipts and disbursements to date in this proceeding, the expected remaining activities of the Receiver and the expected future receipts and disbursements;

(e) explain to the Court the basis for the motion made by the Receiver, with the agreement of BMO, for an order increasing the maximum principal amount that the Receiver is permitted to borrow under the Receivership Order in order to fund the remaining administration of the Loretta Group receivership and to pay the fees and disbursements of the Receiver and its counsel; and

(f) request that the Court grant an Order:

(i) increasing the Receiver's Certificate limit to $1,950,000; and

(ii) approving the activities of the Receiver as described in this Fourth Report.

Terms of Reference

8. In preparing this Fourth Report, the Receiver has relied upon the books and records of the Debtors, conversations with operating management and employees of the Debtors, and other information from various sources. The Receiver has assumed that the information with which it has been provided is accurate and complete. The Receiver has not audited, reviewed or otherwise verified such information.

FLOUR BUSINESS SALE

9. The sale of the Flour Business to JEF closed, and the Receiver filed the applicable completion of sale certificate with the Court on May 18, 2011. A copy of the completion of sale certificate is attached hereto as Appendix "**E**" to this Fourth Report.

10. The sale included all inventory and accounts receivable of the Flour Business, and accordingly there are no further assets of the Flour Business to be realized by the Receiver.

REALIZATION OF REMAINING SPICE AND FOOD SERVICES ASSETS

Food Services

11. As mentioned in the Second Report of the Receiver dated February 9, 2011, the sale of the Food Services business to Rosedale excluded certain past-due Food Services business accounts receivable to allow the Receiver to pursue these accounts itself.

12. Four accounts with a combined balance of approximately $660,000 were excluded from the sale to Rosedale. The Receiver retained Kronis, Rotsztain, Margles, Cappel LLP ("**KRMC**"), a law firm specializing in collection actions, to assist in pursuing these accounts on a cost-effective basis, and has commenced collection actions against all four customers. One of the customers has filed a statement of defense in its litigation, and the Receiver has learned that one of the customers is bankrupt. The Receiver has obtained default judgments against the other two customers and, with the assistance of KRMC, is taking steps to enforce those judgments.

Spice Business

13. As described in the Third Report, after comparing the purchase offers received for the Spice Business to the estimated realizations in liquidation, the Receiver decided to liquidate the Spice Business.

14. The fixed assets and inventory of the Spice Business were sold by auction at the Sismet Premises on April 6, 2011 under an agreement with Danbury Industrial ("**Danbury**"). The Receiver has reviewed Danbury's final accounting for the auction, which indicate net proceeds of $106,668.95 (net of the costs to dispose of certain expired inventory, as described in the Third Report) owing to the Receiver under the agreement with Danbury, which net proceeds have been received from Danbury.

15. At the time the Receiver made the decision to liquidate the Spice Business, the outstanding accounts receivable of the Spice Business were approximately $209,000. To date, the Receiver has collected approximately $109,000 of those accounts receivable.

One employee of the Loretta Group remains employed by the Debtors to pursue collection of the remaining balances in the aggregate amount of approximately $100,000, and is being compensated based on a percentage of collections.

QUALITY FOODS DEVELOPMENTS

16. As described in the Third Report:

(a) on January 28, 2011, Synergy Brands, Inc. ("**Synergy**"), a Delaware corporation, and two of its subsidiaries, PHS and SYBR.com Inc. (a New Jersey corporation), filed voluntary petitions for bankruptcy under Chapter 7 of Title 11 of the *United States Bankruptcy Code* ("**Chapter 7**") in the United States Bankruptcy Court for the Eastern District of New York (the "**EDNY Court**"); and

(b) the Chapter 7 filings did not initially involve Quality, Synergy's subsidiary based in Monroe, Michigan, which continued to operate as a going concern. On March 22, 2011, however, Quality filed an assignment for the benefit of creditors, a Michigan state-law insolvency proceeding, in the Monroe County Circuit Court in Monroe, Michigan. On April 5, 2011, certain creditors of PHS, including Signature Bank (the second secured lender of the Loretta Group), filed an involuntary bankruptcy petition against Quality in the EDNY Court. The filing of the involuntary petition had the effect of staying the Michigan assignment for the benefit of creditors. At the moving parties' request, the EDNY Court appointed PHS's Chapter 7 trustee as the interim Chapter 7 trustee in the Quality case (the "**Quality Trustee**"). On June 6, 2011, the EDNY Court entered an order for relief granting the involuntary petition.

17. A copy of the First Report of the Interim Receiver dated November 25, 2010 (without appendices) (the "**Interim Receiver's First Report**") is attached as Appendix "**F**" to this Fourth Report. In the Interim Receiver's First Report, particularly paragraphs 24-29 thereto, the Interim Receiver noted unusual circumstances with respect to inventory of the Loretta Group potentially located at a warehouse in Monroe, Michigan. Specifically:

(a) prior to the Interim Receiver's appointment, the Loretta Group consistently reported to BMO that it owned inventory with book value in the millions of dollars located in facilities leased by Tarbrac's subsidiary North Dakota Holdings Limited ("**NDHL**") at 1115 West Elm Avenue, Monroe, Michigan (the "**Monroe Warehouse**"). Management of the Loretta Group arranged for representatives of GDR Advisory Group Inc. ("**GDR**"), a firm engaged by BMO that specializes in the performance of collateral examinations, to count inventory with a book value of approximately $7.8 million at the Monroe Warehouse at August 31, 2010;

(b) shortly before the Interim Receiver's appointment, however, Loretta management told EYI it no longer owned any inventory located at the Monroe Warehouse and was unable to provide a comprehensive or consistent explanation for the disposition of the inventory it had previously reported to BMO; and

(c) shortly after its appointment, the Interim Receiver sent two representatives to the Monroe Warehouse to inquire as to whether there was currently, or had recently been, any property of the Loretta Group on the premises. A representative of the organization occupying the warehouse indicated to the Interim Receiver's representatives that his organization was not affiliated with the Loretta Group, although he was aware of the Loretta Group's financial situation, and refused to allow the representatives access to the premises or to answer any further questions.

18. On May 4, 2011, the Receiver's counsel, Borden Ladner Gervais LLP ("**BLG**") received a letter from counsel to the Quality Trustee (the "**May 4 Letter**"). In that letter, counsel to the Quality Trustee indicated that a representative of the Quality Trustee had inspected inventory located at a warehouse leased by Quality in Monroe, Michigan and found that the inventory might include branded goods in the name of the Loretta Group or its related entities. The letter requested that the Receiver provide a schedule of inventory indicated in the Loretta Group's records as belonging to the Loretta Group "so that we may discuss an amicable resolution regarding the disposition of this inventory".

19. On May 5, 2011 the Receiver sent a reply letter to counsel to the Quality Trustee. The letter described the circumstances summarized in paragraph 17 above, and appended the most recent inventory listing provided by Loretta management to GDR. That inventory listing indicated a book value of approximately $10.3 million (currency was not specified) as at October 13, 2010.

20. On May 17, 2011, representatives of the Receiver and BLG spoke by telephone with counsel to the Quality Trustee. Counsel to the Quality Trustee indicated that Quality was the lessee of the Monroe Warehouse and of a second warehouse (the "**Telegraph Warehouse**") located on Telegraph Road in Monroe, Michigan. The Quality Trustee indicated that the Monroe Warehouse was essentially vacant, but the Telegraph Warehouse contained the branded goods mentioned in the May 4 Letter. At the date of the call, the Quality Trustee had been unable to obtain an existing listing of inventory at the Telegraph Warehouse from the records of Quality and had not yet arranged for a count of the inventory on the premises. The Receiver agreed to obtain an estimate of the cost of a count for discussion with the Quality Trustee.

21. On May 20, 2011, the Receiver sent an e-mail to the Quality Trustee and his counsel, proposing that the Receiver attend at the Telegraph Warehouse and perform an inventory count for the use of the Quality Trustee and the Receiver in identifying inventory that may be property of the Loretta Group and facilitating the negotiation of an amicable resolution regarding the disposition of any such inventory. The Receiver proposed that because there is currently no certainty that any of the goods in the Telegraph Warehouse are property of the Loretta Group, the count be performed at the cost of the Loretta Group estate but subject to the express understanding that in attending the Telegraph Warehouse to perform the count, the Receiver would not assume any obligation for the costs associated with the Telegraph Warehouse unless otherwise negotiated between the Receiver and the Quality Trustee. Although the Receiver has attempted to contact the Quality Trustee and his counsel to follow up the e-mail, it has not yet received a reply.

22. On June 20, 2011, Quality filed its schedules of assets and liabilities in the Quality Chapter 7 proceedings with the EDNY Court. The schedule of assets includes inventory

with a book value of approximately U.S. $1.1 million and makes reference to a detailed inventory listing of more than 1,000 items comprising approximately U.S. $1.0 million of that amount. The Receiver was unable to determine from the schedules whether the inventory described therein includes the inventory located at the Telegraph Warehouse. The Receiver has sent an e-mail to the Quality Trustee and his counsel requesting clarification of this point and a copy of the detailed listing referred to in the schedules, but has not yet received a response.

23. On June 23, 2011, Monroe Associates, which describes itself as the lessor of what the Receiver believes is the Telegraph Warehouse, filed a motion with the EDNY Court seeking an order (a) compelling the Quality Trustee to pay rent accrued since January 1, 2011 in the sum of not less U.S. $98,974.98, and (b) compelling the Quality Trustee to assume the lease of the subject property in its entirety, or to reject it, within 20 days after the entry of the order. The hearing of that motion is scheduled for July 25, 2011.

24. On July 8, 2011 the Quality Trustee filed an expedited motion to sell the inventory and office furniture at the Telegraph Warehouse, the lease for the Telegraph Warehouse, Quality's right, title and interest in certain equipment leases, and Quality's UPC code under Section 363 of the United States Bankruptcy Code to Bektrom Foods Inc. for total consideration of U.S. $159,000. A copy of the Quality Trustee's motion is attached to this Fourth Report as Appendix "**G**". Citing concerns that a large proportion of the inventory at the Telegraph Warehouse is perishable, the Quality Trustee has requested that the motion be heard on July 14, 2011 or as soon thereafter as the EDNY Court is available.

25. It is not clear from the motion materials provided as Appendix "**G**" the sale process, if any, that was conducted by the Quality Trustee prior to negotiating the sale agreement with Bektrom Foods Inc. The Receiver notes that Section 363 of the *United States Bankruptcy Code* allows for competing bids in an auction under supervision of (in this instance) the EDNY Court. However, there is no certainty that any party will submit a competing bid.

RECEIPTS AND DISBURSEMENTS

Receipts and Disbursements to Date

26. Appendix "**H**" to this Fourth Report reports the receipts and disbursements in this proceeding to July 8, 2011. Those receipts and disbursements (rounded to the nearest dollar) are summarized as follows:

Bank balances on Nov 26/10	$324,745
Net realizations from Food Services Business	(53,152)
Net realizations from Spice Business	746,619
Net realizations from Flour Business	334,636
Head office and miscellaneous disbursements	(387,787)
Receivership administration disbursements	(333,418)
Receiver's certificate borrowings from BMO	450,000
Net cash receipts	$1,081,643

27. Brief explanations of certain of the line items above are as follows:

(a) Net realizations from the Food Services Business represent the proceeds from the sale of the Food Services Business to Rosedale Food Company Inc., net of the negative cash flow from the interim operation of the Food Services Business while it was marketed and sold. As indicated in previous reports of the Receiver, the Mississauga premises of the Debtors (the "Davand Premises") included both the Food Services Business and the Loretta Group head office premises. For administrative convenience, however, all rent and utilities paid in respect of the Davand Premises were treated as operating disbursements of the Food Services Business rather than attempting to allocate a portion to head office disbursements;

(b) Net realizations from the Spice Business represent the net positive cash flow from the interim operation of the Spice Business during the Receiver's sale process and the wind-down of the Spice Business, plus the net proceeds of the auction of the Spice Business assets;

(c) Net realizations from the Flour Business represent the proceeds from the sale of the Flour business to JEF, less the negative cash flow incurred to maintain and protect the assets of the Flour Business while it was marketed and sold;

(d) Head office and miscellaneous disbursements represent disbursements for salaries and benefits of head office staff, amounts paid to retain key personnel at head office and all three operating businesses, insurance costs for the Loretta Group in its entirety, and other miscellaneous amounts. For administrative convenience, the Receiver has not attempted to allocate amounts such as insurance costs and retention payments to the operating businesses; and

(e) Receivership administration disbursements represent fees of the Interim Receiver and its counsel paid pursuant to the Interim Receiver's Charge established by paragraph 14 of the Interim Receivership Order, fees of the Receiver's Canadian and U.S. counsel that have been paid to date, amounts paid to the contract controller engaged by the Receiver and to other professionals such as locksmiths, disbursements for advertising and the electronic data room in connection with the Receiver's sale processes, and interest paid to date on borrowings under receiver's certificates.

28. Net receipts in the Loretta Group receivership have been substantially less than the Receiver had originally anticipated based on the internal financial statements of the Loretta Group (which indicated consolidated assets and year-to-date net income of $64.7 million and $2.8 million, respectively, at September 30, 2010) and on oral comments from Loretta management during the interim receivership concerning the level of unsolicited interest in the businesses from third parties and with respect to the appraised values of certain assets. This difference is primarily the result of three factors:

(a) the difficulties encountered by the Receiver in attempting to collect the accounts receivable of the Trading Business, which have an aggregate book value of U.S.

$25.6 million, as discussed in detail in paragraphs 38-44 of the Third Report. A copy of the Third Report (without appendices) is attached as Appendix "I" to this Fourth Report;

(b) the inability of the Debtors to account for approximately $19 million of the inventory reflected on the internal financial statements of the Loretta Group at September 30, 2010, as first discussed in paragraphs 24-28 of the Interim Receiver's First Report;

(c) the difficulties encountered by the Receiver in obtaining financial information of the Loretta Group, as discussed in the Interim Receiver's First Report and in previous Reports. The Receiver notes in particular (i) the considerable time required to isolate the financial results of the operating businesses, by identifying and backing out transactions believed to relate to the Trading Business, in preparing information for the sale processes, and (ii) the losses or substantially lower profitability revealed in the operating businesses once their results were isolated, and the consequent loss of purchaser interest in the businesses. The Receiver also notes that it was unable to locate any evidence in the Loretta Group records of the asset appraisals mentioned orally by Loretta management, and that independent appraisals obtained by the Receiver indicated markedly lower asset values.

<u>Remaining Activities in Receivership and Expected Future Receipts and Disbursements</u>

29. The Receiver anticipates that the remaining activities in the receivership of the Loretta Group will consist of the following:

(a) Attempting to collect the remaining accounts receivable of the Spice Business and the past due accounts receivable of the Food Services Business, both as discussed in greater detail above, to the extent those collections can be pursued cost-effectively. With respect to the accounts receivable related to the Trading Business, however, based on the results of its collection efforts to date (as discussed in detail in the Third Report) the Receiver does not expect that any portion of these balances will be collected and does not intend to invest additional resources pursuing them;

(b) Continuing to communicate with the Quality Trustee with respect to the property located in the Telegraph Warehouse with the intent of determining whether the Telegraph Warehouse contains any property of the Loretta Group and, to the extent it can be done cost-effectively, realizing any property of the Loretta Group located therein;

(c) Continuing to communicate with Canada Revenue Agency ("**CRA**") to clarify any amounts owed to CRA that are deemed to be held in trust. An examiner from CRA has reviewed the records of the Loretta Group, which review indicated a deemed trust liability of approximately $55,000 in respect of unremitted source deductions, but CRA has not yet issued a final notice of assessment;

(d) Applying to the Court for approval of the fees and disbursements of the Receiver and of the Interim Receiver; and

(e) Applying to the Court for the discharge of the Receiver. The Interim Receiver was discharged by operation of statute when the Receiver was appointed.

30. Additional expected or potential receipts in this proceeding consist of:

(a) all or part of the remaining $100,000 in accounts receivable of the Spice Business and the $660,000 in past due accounts receivable of the Food Services Business;

(b) any net realization from inventory of the Loretta Group potentially located at the Telegraph warehouse; and

(c) recovery of HST paid on certain of the disbursements listed below that are HST-exigible.

31. Expected future disbursements in this proceeding consist primarily of:

(a) the deemed trust amount owed to CRA, once finalized;

(b) invoiced and outstanding professional fees of the Receiver and its Canadian and U.S. counsel in the combined amount of approximately $1.4 million, including HST; and

(c) the professional fees of the Receiver and its counsel to carry out the remaining tasks in the receivership administration as outlined above.

Requested Increase in Receiver's Borrowing Limit

32. Paragraph 22 of the Receivership Order grants a charge (the "**Receiver's Charge**") for the fees and disbursements of the Receiver on the property of the Loretta Group that ranks in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person (as defined in the Receivership Order), but subject to sections 14.06(7), 81.4(4), and 81.6(2) of the BIA (collectively the "**BIA Priority Charges**"). Paragraph 25 of the Receivership Order grants a charge (the "**Receiver's Borrowings Charge**") for receiver's certificate borrowings to a maximum principal amount of $500,000 (the "**Receiver's Borrowing Limit**"), which charge ranks in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge and the BIA Priority Charges. As indicated in the above summary of receipts and disbursements, to date the Receiver has borrowed $450,000 from BMO via receiver's certificates.

33. The Receiver does not have sufficient funds to pay the outstanding professional fees in full. If all of the funds currently in the hands of the Receiver were applied to those accounts, there would still be a shortfall of approximately $300,000. While sales of assets and collections have been substantially completed, a number of steps remain to be taken to complete the Receivership.

34. BMO has indicated that it is willing to increase its advances under receiver's certificates to fund the existing shortfall and the costs to efficiently complete the receivership. In agreeing to increase its loans to the Receiver, BMO understands that it is unlikely to recover the additional advances; however, is prepared to make these advances in order to see the Receivership funded to completion.

35. There are two main alternatives to effect the additional advances from BMO:

(a) The outstanding professional fees and expenses could be paid to the extent of the funds currently in the possession of the Receiver, and BMO could advance additional amounts to fund the balance of the outstanding professional fees and expenses and any negative cash flow incurred during the remaining administration of the receivership. Under this approach, BMO would advance a further amount of approximately $300,000 to fund the balance of the outstanding professional fees and expenses, bringing the total receiver's certificate borrowings to approximately $750,000, and then advance additional amounts as required to fund the remaining administration; or

(b) BMO could advance additional funds to pay the full amount of the outstanding professional fees and expenses. The funds currently in the possession of the Receiver would then be used to fund any negative cash flow incurred during the remaining administration of the receivership and the remaining receivership funds would be used in partial repayment of the aggregate receiver's certificate borrowings. Under this approach, BMO would advance a further amount of approximately $1.4 million to fund the balance of the outstanding professional fees and expenses, bringing the total receiver's certificate borrowings to approximately $1,850,000, but would then be entitled under the Receiver's Borrowing Charge to receive the balance of funds in the Receiver's trust accounts (currently approximately $1.1 million, as described above) less any negative cash flow incurred during the remaining administration of the receivership.

36. The net receiver's certificate borrowings, after the application of the balance of funds in the Receiver's trust accounts, are expected to be the same under either of the two approaches described above.

37. The Receiver and BMO intend to utilize the second approach, which will simplify the remaining administration of the Loretta Group receivership by allowing costs to be paid as incurred, rather than paid piecemeal as the remaining assets are realized. BMO is prepared to lend up to an aggregate of $1,950,000 to the Receiver to fund the existing

shortfall and the costs to efficiently complete the receivership. Accordingly, the Receiver has made a motion for an order, *inter alia*, increasing the Receiver's Borrowing Limit from the $500,000 limit established in the Receivership Order to $1,950,000.

38. It is anticipated that advances by BMO under the proposed increased facility will be used to pay the outstanding and future professional fees and expenses. Those fees and expenses remain subject to the approval of the Court. The Receiver expects that on its next motion, it will seek approval of those fees and expenses on notice to the service list.

39. In light of the deficiency in the estate at present, and the limited future recoveries, there is no prejudice to any person in authorizing the proposed increase in the Receiver's Borrowing Limit. The additional receiver's certificate borrowings will be used to pay amounts that, under the Receiver's Charge, already have priority over existing creditors, and therefore the proposed increase will replace one Court-authorized priority charge with another.

40. In addition, the proposed increase in the Receiver's Borrowing Limit will not further impair the position of any existing creditor: pursuant to paragraphs 24 and 23 of the Receivership Order, respectively: (i) the Receiver is authorized to pay the fees and disbursements of the Receiver and its counsel from time to time from the monies in its hands, and (ii) the Receiver and its legal counsel are required to pass their accounts with the Court from time to time. Neither of these requirements will be modified by the proposed increase in the Receiver's Borrowing Limit.

41. Accordingly, the Receiver requests that the Court grant the motion increasing the Receiver's Borrowing Limit from the $500,000 limit established in the Receivership Order to $1,950,000.

RELIEF SOUGHT BY THE RECEIVER

42. The Receiver respectfully requests that this Court grant an order:

(a) Increasing the Receiver's Borrowing Limit to $1,950,000; and

(b) approving the activities of the Receiver as set out in this Fourth Report.

All of which is respectfully submitted this 14th day of July 2011.

ERNST & YOUNG INC., in its capacity as Receiver
and Receiver and Manager of 2110458 Ontario Limited
o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods,
787755 Ontario Limited o/a New Durham Trading and
o/a NDT Food Service and o/a Skyway Wholesale
and Tarbrac Holdings Inc. and not in its personal
or corporate capacity.

Per:

Mike Dean, CA•CIRP
Senior Vice-President

Court File No. CV-10-8991-00CL

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

FOURTH REPORT TO THE COURT OF ERNST & YOUNG INC., AS RECEIVER

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

Tel.: 416-367-6000
Fax: 416-367-6749

Michael MacNaughton - LSUC No. 25889U
Mary Arzoumanidis - LSUC No. 53915V
Harriet Greenwood - LSUC No. 58915H

Lawyers for Ernst & Young Inc., in its capacity as Receiver of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT
TOR01: 4678352: v4

APPENDIX "A"

Court File No.: CV-10-8991-00CL

THE HONOURABLE *MR.*	)	FRIDAY, THE 26th
	)	
JUSTICE *H.J. WILTON-SIEGEL*	)	DAY OF NOVEMBER, 2010

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

BETWEEN:

BANK OF MONTREAL

Applicant

and

2110458 ONTARIO LIMITED O/A LORETTA FLOUR,
2131413 ONTARIO LIMITED O/A LORETTA FOODS,
787755 ONTARIO LIMITED O/A NEW DURHAM TRADING, AND O/A NDT FOOD SERVICE
AND O/A SKYWAY WHOLESAE
AND TARBRAC HOLDINGS INC.

Respondents

ORDER

THIS MOTION made by the Applicant for an Order pursuant to subsection 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**"), and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended (the "**CJA**") appointing Ernst & Young Inc. ("**E&Y**") as receiver and receiver and manager (in such capacities, the "**Receiver**") without security, of all of the assets, undertakings and properties of 2110458 Ontario Limited o/a Loretta Flour ("**211**"), 2131413 Ontario Limited o/a Loretta Foods ("**213**"), 787755 Ontario Limited o/a New Durham Trading, NDT Food Service and Skyway Wholesale ("**787**") and Tarbrac Holdings Inc. ("**Tarbrac**", and, together with 211, 213 and 787, the "**Debtors**") was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the affidavit of Robert Kiefer, sworn November 10, 2010, and the Exhibits thereto, and the first report of E&Y, dated November 25, 2010 (the "**First Report**"), prepared in its capacity as interim receiver of the Debtors (in such capacity, the "**Interim Receiver**"), and on hearing the submissions of counsel for Bank of Montreal, ~~counsel for Signature Bank, both secured creditors of the Debtors,~~ counsel for the Interim Receiver and proposed Receiver and counsel for the Debtors, no one else appearing although duly served as appears from the affidavit of service of Stella Kostopoulos sworn November 25, 2010, and on reading the consent of E&Y to act as the Receiver, #5

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Motion and the Motion Record is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

TITLE OF PROCEEDINGS

2. THIS COURT ORDERS that the title of the within proceedings is hereby amended to such that the Respondents shall be hereafter identified as "**2110458 ONTARIO LIMITED O/A LORETTA FLOUR, 2131413 ONTARIO LIMITED O/A LORETTA FOODS, 787755 ONTARIO LIMITED O/A NEW DURHAM TRADING, AND O/A NDT FOOD SERVICE AND O/A SKYWAY WHOLESALE AND TARBRAC HOLDINGS INC.**".

APPOINTMENT

3. THIS COURT ORDERS that pursuant to section 243(1) of the BIA and section 101 of the CJA, E&Y is hereby appointed Receiver, without security, of all of the assets, undertakings and properties of the Debtors acquired for, or used in relation to a business carried on by the Debtors, including all proceeds thereof (the "**Property**").

RECEIVER'S POWERS

4. THIS COURT ORDERS that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality

of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

(a) to take possession of, and exercise control over, the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;

(b) to receive, preserve, and protect of the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;

(c) to manage, operate, and carry on the business of the Debtors, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Debtors;

(d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;

(e) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Debtors or any part or parts thereof;

(f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtors and to exercise all remedies of the Debtors in collecting such monies, including, without limitation, to enforce any security held by the Debtors;

(g) to settle, extend or compromise any indebtedness owing to the Debtors;

(h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtors, for any purpose pursuant to this Order;

(i) to undertake environmental or workers' health and safety assessments of the Property and operations of the Debtors;

(j) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtors, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;

(k) to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;

(l) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business,

(i) without the approval of this Court in respect of any transaction not exceeding $250,000, provided that the aggregate consideration for all such transactions does not exceed $1,000,000; and

(ii) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause;

and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act* shall not be required, and in each case the Ontario *Bulk Sales Act* shall not apply.

(m) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;

(n) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

(o) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;

(p) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtors;

(q) to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtors, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtors;

(r) to exercise any shareholder, partnership, joint venture or other rights which the Debtors may have;

(s) to conduct examinations of any Person as the Receiver considers necessary or appropriate, including, without limitation, examinations of Guiseppe Gatti, Peter Nelipa, Taragh Bracken, Terry Mak, Michael Falcone or any other current or former director, officer, employee or independent contractor of the Debtors;

(t) to undertake any investigations deemed necessary by the Receiver with respect to the location and/or disposition of assets reasonably believed to be, or to have been, property of the Debtors, including, without limitation, investigating the transactions entered into between one or more of the Debtors and North Dakota Holdings Ltd. ("**NDHL**"); and

(u) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations.

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Debtors, and without interference from any other Person.

DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER

5. THIS COURT ORDERS that (i) the Debtors, (ii) all of their current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons

acting on their instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "**Persons**" and each being a "**Person**") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request.

6. THIS COURT ORDERS that NDHL, its current and former directors, officers, employees and independent contractors shall provide such access to books records and documents. information, documents and assistance to the Receiver as the Receiver may request in connection with the dealings between NDHL and any of the Debtors and in connection with the business and affairs of NDHL as they relate to the business and affairs of the Debtors.

7. THIS COURT ORDERS that all Persons, including, without limitation, the current and former officers, directors and employees of any of the Debtors and NDHL shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtors, any transfer of Property outside of the ordinary course of business or obligation incurred by the Debtors outside of the ordinary course of business, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "**Records**") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 5 or in paragraph 6 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver

due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

8. THIS COURT ORDERS that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

9. THIS COURT ORDERS any and all Persons shall render any necessary assistance to the Receiver to locate, decode, access, and decrypt the Records and any and all information or electronic data to which the Receiver may not have ready and immediate access, including the provisions of all keys, information codes, passwords, pass phrases, or any other such information or knowledge necessary to achieve access thereto, and for the purpose of accessing electronic mail or other data operated or maintained by, or accessible to, the Debtors which may contain any of the Records, including, but not limited to, any electronic mail or other data stored on or pertaining to any email addresses used by the Debtors or their directors, officers and employees.

10. THIS COURT ORDERS that no Person shall destroy or alter any books, records, documents, information, material or Records related to or touching upon the Property, the Debtors, NDHL, or the business, affairs or dealings of the Debtors or NDHL.

11. THIS COURT ORDERS that, notwithstanding the generality of paragraphs 5 to 10 hereof, upon the Receiver's request:

(a) NDHL shall provide copies of all Records in its possession relating to any transactions with one or more of the Debtors;

(b) any financial institution which holds or has held accounts for one or more of the Debtors shall confirm the existence of such account(s) and shall provide copies of all statements relating to such account(s); and

(c) Bell Sympatico, or any other provider of information technology services to the Debtors shall provide copies of any information related to the business of the Debtors requested by the Receiver.

NO PROCEEDINGS AGAINST THE RECEIVER

12. THIS COURT ORDERS that no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

NO PROCEEDINGS AGAINST THE DEBTORS OR THE PROPERTY

13. THIS COURT ORDERS that no Proceeding against or in respect of the Debtors or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtors or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

14. THIS COURT ORDERS that all rights and remedies against the Debtors, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of any "**eligible financial contract**" as defined in the BIA, and further provided that nothing in this paragraph shall (i) empower the Receiver or the Debtors to carry on any business which the Debtors are not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtors from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH THE RECEIVER

15. THIS COURT ORDERS that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtors, without written consent of the Receiver or leave of this Court.

CONTINUATION OF SERVICES

16. THIS COURT ORDERS that all Persons having oral or written agreements with the Debtors or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Debtors are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtors' current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the

date of this Order are paid by the Receiver in accordance with normal payment practices of the Debtors or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

RECEIVER TO HOLD FUNDS

17. THIS COURT ORDERS that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "**Post Receivership Accounts**") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

EMPLOYEES

18. THIS COURT ORDERS that all employees of the Debtors shall remain the employees of the Debtors until such time as the Receiver, on the Debtors' behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*.

PIPEDA

19. THIS COURT ORDERS that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal

information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "**Sale**"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtors, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

LIMITATION ON ENVIRONMENTAL LIABILITIES

20. THIS COURT ORDERS that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the Ontario *Environmental Protection Act*, the *Ontario Water Resources Act*, or the Ontario *Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in

Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

LIMITATION ON THE RECEIVER'S LIABILITY

21. THIS COURT ORDERS that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act.* Nothing in this Order shall derogate from the protections afforded the Receiver by section 14.06 of the BIA or by any other applicable legislation.

RECEIVER'S ACCOUNTS

22. THIS COURT ORDERS that the Receiver and counsel to the Receiver shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, and that the Receiver and counsel to the Receiver shall be entitled to and are hereby granted a charge (the "**Receiver's Charge**") on the Property, as security for such fees and disbursements, both before and after the making of this Order in respect of these proceedings, and that the Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subject to sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

23. THIS COURT ORDERS that the Receiver and its legal counsel shall pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

24. THIS COURT ORDERS that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the normal rates

and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

FUNDING OF THE RECEIVERSHIP

25. THIS COURT ORDERS that the Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed $500,000 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "**Receiver's Borrowings Charge**") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge and the charges as set out in sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

26. THIS COURT ORDERS that neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court.

27. THIS COURT ORDERS that the Receiver is at liberty and authorized to issue certificates substantially in the form annexed as **Schedule "A"** hereto (the "**Receiver's Certificates**") for any amount borrowed by it pursuant to this Order.

28. THIS COURT ORDERS that the monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all Receiver's Certificates

evidencing the same or any part thereof shall rank on a *pari passu* basis, unless otherwise agreed to by the holders of any prior issued Receiver's Certificates.

SALE PROCESS FOR THE "FOOD SERVICE AND CATERING DIVISION"

29. THIS COURT ORDERS that the sale process developed by E&Y, in its capacity as the Interim Receiver, as outlined in the First Report, shall be carried out by the Receiver substantially in accordance with the timeline annexed as **Schedule "B"** hereto, with such changes as the Receiver deems appropriate in its sole discretion, acting reasonably.

GENERAL

30. THIS COURT ORDERS that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

31. THIS COURT ORDERS that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtors.

32. 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 Receiver 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 and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

33. THIS COURT ORDERS that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the

within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

34. THIS COURT ORDERS that the Applicant shall have its costs of this Motion, up to and including entry and service of this Order, provided for by the terms of the Applicant's security or, if not so provided by the Applicant's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtors' estate with such priority and at such time as this Court may determine.

35. THIS COURT ORDERS that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

NOV 26 2010

PER / PAR:

SCHEDULE "A"

RECEIVER'S CERTIFICATE

CERTIFICATE NO. ______________

AMOUNT $_____________________

1. THIS IS TO CERTIFY that Ernst & Young Inc., the receiver (the "**Receiver**") of the assets, undertakings and properties 2110458 Ontario Limited o/a Loretta Flour ("**211**"), 2131413 Ontario Limited o/a Loretta Foods ("**213**"), 787755 Ontario Limited o/a New Durham Trading and NDT Food Service ("**787**") and Tarbrac Holdings Inc. ("**Tarbrac**", and, together with 211, 213 and 787, the "**Debtors**") acquired for, or used in relation to a business carried on by the Debtors, including all proceeds thereof (collectively, the "**Property**") appointed by Order of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated the ___ day of November, 2010 (the "**Order**") made in an action having Court file number __-CL-_______, has received as such Receiver from the holder of this certificate (the "**Lender**") the principal sum of $___________, being part of the total principal sum of $___________ which the Receiver is authorized to borrow under and pursuant to the Order.

2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily][monthly not in advance on the _______ day of each month] after the date hereof at a notional rate per annum equal to the rate of ______ per cent above the prime commercial lending rate of Bank of _________ from time to time.

3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.

4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Toronto, Ontario.

5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver

to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the _____ day of _____________, 20__.

ERNST & YOUNG INC., solely in its capacity as Receiver of the Property, and not in its personal capacity

Per: ______________________________

Name:
Title:

SCHEDULE "B"

TIMELINE FOR MARKETING AND SALE OF FRESH FOODS AND CATERING DIVISION

November 29 to December 11, 2010	• Prepare brief Confidential Information Memorandum (CIM), including required terms of sale and timeline for submission of purchase offers, and brief Investment Overview e-mail for distribution to prospective purchasers. • Compile list of industry participants that are most likely to be prospective purchasers. • Accumulate available due diligence information and populate electronic data room.
December 14, 2010 to January 7, 2011	• Contact prospective purchasers by phone and e-mail. • Circulate Confidentiality Agreements to interested parties. • Parties executing a Confidentiality Agreement will receive the CIM and access to the electronic data room. • Provide facility tours, as requested.
January 14, 2011	• Deadline for submission of purchaser offers, including required terms of sale.
January 15, 2011 to January 28, 2011	• Analysis and negotiation of purchaser offers. • Selection of successful purchaser. • Application to Court for approval of sale agreement and vesting order. • Closing of sale transaction.

BANK OF MONTREAL - and - **2110458 ONTARIO LIMITED O/A LORETTA FLOUR, 2131413 ONTARIO LIMITED O/A LORETTA FOODS, 787755 ONTARIO LIMITED O/A NEW DURHAM TRADING, AND O/A NDT FOOD SERVICE AND O/A SKYWAY WHOLESAE AND TARBRAC HOLDINGS INC.**

Applicant Respondents

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceedings commenced at Toronto

RECEIVERSHIP ORDER

AIRD & BERLIS LLP
Barristers and Solicitors
Brookfield Place
Suite 1800, Box 754
181 Bay Street
Toronto, ON M5J 2T9
Tel: 416.863.1500
Fax: 416.863.1515

Steven L. Graff – LSUC No. 31871B
Aaron T. Collins – LSUC No. 55490T

Lawyers for the Applicant

APPENDIX “B”

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE MR.	)	**MONDAY, THE 17th DAY**
	)	
JUSTICE MARROCCO	)	**OF JANUARY, 2011**

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

ORDER

THIS MOTION, made by Ernst & Young Inc. ("**EYI**"), in its capacity as receiver and receiver and manager (in such capacities, the "**Receiver**") without security, of all of the assets, undertakings and properties of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc. (collectively, the "**Debtors**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion, filed, and the First Report of the Receiver dated 10 January 2011 (the "**First Report**"), filed, and on hearing the submissions of counsel for the Receiver and such other counsel as were present, and on reading the affidavit of service of Miriam Sinclair, sworn on 10 January 2011, filed,

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record be and is hereby abridged such that the motion is returnable today and that further service thereof is hereby dispensed with.

APPROVAL OF ACTIVITIES

2. **THIS COURT ORDERS** that the activities of the Receiver, as described in the First Report, be and are hereby approved.

3. **THIS COURT ORDERS** that the activities of EYI, in its capacity as interim receiver of the Debtors, as described in the First Report of the Interim Receiver dated 25 November 2010, be and are hereby approved

APPROVAL OF SALE PROCESS

4. **THIS COURT ORDERS** that the marketing and sales process, as described in the First Report and as set forth in the "Timeline for Marketing and Sale of Flour and Spice Divisions" attached hereto as Schedule "A" (the "**Sales Process**"), be and is hereby approved and the Receiver is hereby authorized to implement the Sales Process.

5. **THIS COURT ORDERS** that nothing in this Order shall require the Receiver to accept any offer received as a result of the Sales Process.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:
JAN 17 2011

PER / PAR: NB

Marrocco J.

SCHEDULE A

TIMELINE FOR MARKETING AND SALE OF FLOUR AND SPICE DIVISIONS

January 3 to January 18, 2011	▪ Prepare brief Confidential Information Memorandum (CIM), including required terms of sale and timeline for submission of purchase offers, and brief Investment Overview e-mail for distribution to prospective purchasers. ▪ Compile list of industry participants and financial investors that are most likely to be prospective purchasers. ▪ Accumulate available due diligence information.
January 19 to February 25, 2011	▪ Contact prospective purchasers by phone and Investment Overview e-mail. ▪ Circulate Confidentiality Agreements to interested parties. ▪ Parties executing a Confidentiality Agreement will receive the CIM and access to additional documentation. ▪ Provide facility tours as requested.
March 4, 2011	▪ Deadline for submission of purchaser offers including required terms of sale.
March 5 to April 1, 2011	▪ Analysis and negotiation of purchaser offers. ▪ Selection of successful purchaser. ▪ Application to Court for approval of sale agreement and vesting order. ▪ Closing of sale transaction.

Court File No. CV-10-8991-00CL

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

ORDER

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

Tel.: 416.367.6000
Fax: 416.367.6749

Michael MacNaughton - LSUC No. 25889U
Mary Arzoumanidis - LSUC No. 53915V
Harriet Greenwood - LSUC No. 58915H

Lawyers for Ernst & Young Inc., in its capacity as Receiver of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc.
::ODMA\PCDOCS\TOR01\4534991\5

APPENDIX “C”

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE MR.	)	**WEDNESDAY, THE 16th**
	)	
JUSTICE NEWBOULD	)	**DAY OF FEBRUARY, 2011**

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

APPROVAL AND VESTING ORDER

THIS MOTION, made by Ernst & Young Inc., in its capacity as the Court-appointed receiver (the "**Receiver**") of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc. (collectively, the "**Debtors**") for an order approving the sale transaction (the "**Transaction**") contemplated by an agreement of purchase and sale (the "**Sale Agreement**") between the Receiver and Jarvis Management Corp. (the "**Purchaser**") dated January 21, 2011 and appended to the Second Report of the Receiver dated February 9, 2011 (the "**Second Report**"), and vesting in Rosedale Food Company Inc. (the Purchaser's assignee), the Debtors' right, title and interest in and to the assets described in the Sale Agreement (the "**Purchased Assets**"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion, the Motion Record and the Second Report, and on hearing the submissions of counsel for the Receiver, and such other counsel as were present, no one appearing for any other person on the service list, although properly served as appears from the Affidavit of Service of Miriam Sinclair sworn February 9, 2011 filed

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record be and is hereby abridged such that the motion is returnable today and that further service thereof is hereby dispensed with

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the Sale Agreement by the Receiver is hereby authorized and approved, with such minor amendments as the Receiver may deem necessary. The Receiver 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 and for the conveyance of the Purchased Assets to the Purchaser.

3. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a Receiver's certificate to the Purchaser substantially in the form attached as Schedule A hereto (the "**Receiver's Certificate**"), all of the Debtors' right, title and interest in and to the Purchased Assets described in the Sale Agreement [and listed on Schedule B hereto] shall vest absolutely in Rosedale Food Company Inc. (the Purchaser's assignee), free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, 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: (i) any encumbrances or charges created by the Order of the Honourable Mr. Justice Wilton-Siegel dated November 26, 2010; (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system (all of which are collectively referred to as the "Encumbrances") and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

4. **THIS COURT ORDERS** that for the purposes of determining the nature and priority of Claims, the net proceeds from the sale of the Purchased Assets shall stand in the place and stead of the Purchased Assets, and that from and after the delivery of the Receiver's Certificate all Claims and Encumbrances shall attach to the net 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 the sale.

5. **THIS COURT ORDERS AND DIRECTS** the Receiver to file with the Court a copy of the Receiver's Certificate, forthwith after delivery thereof.

6. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the Company's records pertaining to the Debtors' past and current employees employed in relation to the Food Services and Catering division of the Debtors. 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 Debtors.

7. **THIS COURT ORDERS** that, 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 any such applications; and

(c) any assignment in bankruptcy made in respect of the Debtors;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtors and shall not be void or voidable by creditors of the Debtors, 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* (Canada) 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.

8. **THIS COURT ORDERS AND DECLARES** that the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario).

9. **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 Receiver 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 and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

10. **THIS COURT ORDERS** that the activities of the Receiver, as described in the Second Report, be and are hereby approved.

11. **THIS COURT ORDERS** that the unredacted version of the Sale Agreement, the summary of offers received and the summary of the Sale Agreement referred to in the Second Report, be and are hereby sealed from the public record and shall not be opened until the filing with the Court of the Receiver's Certificate.

Morawetz J.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

FEB 16 2011

PER / PAR: NB

Schedule A – Form of Receiver's Certificate

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

RECEIVER'S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice (the "**Court**") dated November 26, 2010, Ernst & Young Inc., was appointed as the receiver (the "**Receiver**") of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc.

B. Pursuant to an Order of the Court dated [DATE], the Court approved the agreement of purchase and sale made as of January 21, 2011 (the "**Sale Agreement**") between the Receiver and Jarvis Management Corp. (the "**Purchaser**") and provided for the vesting in Rosedale Food Company Inc. (the Purchaser's assignee), 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 Receiver 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 8 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE RECEIVER CERTIFIES the following:

1. The Purchaser has paid and the Receiver 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 8 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the Receiver.

4. This Certificate was delivered by the Receiver at [TIME] on _____ [DATE].

Ernst & Young Inc., in its capacity as Receiver of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc., and not in its personal capacity

Per: ______________________________

Name:

Title:

Schedule B – Purchased Assets

- **All assets listed on the attached Appendix A, Fixed Assets Owned as prepared by the Receiver**
- all office furniture located on the premises including desks, chairs, filing cabinets, fax machines, the computers used by John Purley and the Purchasing Manager, and all monitors
- all surveillance cameras & equipment and software that may be available to run the surveillance system
- the Receiver's interest in the lease for the 2008 Toyota FJ Cruiser (439 1136)
- Inventory
- Accounts receivable of the Purchased Business, excluding Badboys, Jackies Girls, Sullies and South Street that are older than 60 days
- Customer list
- Existing telephones and telephone system in place
- cash register (monitor with software and a cash box)
- the Receiver's interest in the lease for the ARM355n digital photocopier located in the office area

Appendix A – Fixed Assets Owned

Cash and Carry

Rock's Beams	10' x 50' GREEN	
Rock's Posts	16' x 15' GREEN	
Rock's Beams	12' x 32' ORANGE	
Rock's Posts	16' x 10' BLUE	
Rock's Beams	8' x 40' ORANGE	
Rock's posts	15' x 8' BLUE	
Display fridges	6 doors per unit:	2 small units, 6 large units

Roof top air conditioner x2
Roof top heaters x 2
Fridge compressors x3

Warehouse	**L W**
1 x Finished goods fridge #1	58' x 20'
1 x Cool down fridge #2	7' x 18'
1 x Cold cut fridge #3	12' x 10'
1 x Production fridge #4	18' x 24'
1 x Freezer #1	22' x 19'
1 x Freezer #2	20' x 20'

Raymond Reach forklift
80 x orange beams
44 x blue beams
80 x blue posts

Production

16 x Steel tables	8'
1 x Wood top table	12'
2 x Wood top table	8'
5 x Wood top table	5'

Hurricane Wrapping Machine
10 ft Conveyor

Kitchen

8 x Stainless steel tables	8'
1 x Stainless steel tables plus hood	8'
5 x Stainless steel tables	5'
3 x Wooden table top	10'
2 x Wooden table top	5'
1 x Wooden table top	4'

1 x Hobart Food Processor
2 x Sunfire double oven
Lincoln double oven (toaster)
Automatic meat pounder

Kitchen Continued

1 x 8 quarts mixer
2 x 60 gallon soup kettle
Automatic Hobart shredder
4 x Tilt Skillets
3 x Automatic Slicers
1 x 80 quarts Mixer
Large pot dishwasher
Meat Slicer
Meat Grinder
Chicken Mixer
2 x Pressure fryer
Regular fryer
4 Burner gas stove oven
BBQ 36" grill
Griddle 48"
Hobart Large Oven RO/T
2 x Suppression systems

Court File No. CV-10-8991-00CL

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

APPROVAL AND VESTING ORDER

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

Tel.: 416.367.6000
Fax: 416.367.6749

Michael MacNaughton - LSUC No. 25889U
Mary Arzoumanidis - LSUC No. 53915V
Harriet Greenwood - LSUC No. 58915H

Lawyers for Ernst & Young Inc., in its capacity as Receiver of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc.

::ODMA\PCDOCS\TOR01\4564870\3

APPENDIX "D"

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE MR.	)	**MONDAY, THE 16TH**
	)	
JUSTICE NEWBOULD	)	**DAY OF MAY, 2011**

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

APPROVAL AND VESTING ORDER
(re Flour Business)

THIS MOTION, made by Ernst & Young, Inc., in its capacity as the Court-appointed receiver (the "**Receiver**") of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc. (collectively, the "**Debtors**") for an order approving the sale transaction (the "**Transaction**") contemplated by an agreement of purchase and sale (the "**Sale Agreement**") between the Receiver and JE Fininvest Ltd. (the "**Purchaser**") dated March 31, 2011 and appended to the Third Report of the Receiver dated May 9, 2011 (the "**Third Report**"), and vesting in the Purchaser the Debtors' right, title and interest in and to the assets described in the Sale Agreement (the "**Purchased Assets**"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion, the Motion Record and the Third Report and on hearing the submissions of counsel for the Receiver, and such other counsel as were present, no one appearing for any other person on the service list, although properly served as appears from the Affidavit of Service of Miriam Sinclair, sworn May 10, 2011, filed:

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is and is hereby abridged such that the motion is returnable today and that further service thereof is hereby dispensed with.

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the Sale Agreement by the Receiver is hereby authorized and approved, with such minor amendments as the Receiver may deem necessary. The Receiver 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 and for the conveyance of the Purchased Assets to the Purchaser.

3. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a Receiver's certificate to the Purchaser substantially in the form attached as Schedule A hereto (the "**Receiver's Certificate**"), all of the Debtors' right, title and interest in and to the Purchased Assets described in the Sale Agreement and listed on Schedule B hereto shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, 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: (i) any encumbrances or charges created by the Order of the Honourable Justice Wilton-Siegel dated November 26, 2010; and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system (all of which are collectively referred to as the "**Encumbrances**") and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

4. **THIS COURT ORDERS** that for the purposes of determining the nature and priority of Claims, the net proceeds from the sale of the Purchased Assets shall stand in the place and stead of the Purchased Assets, and that from and after the delivery of the Receiver's Certificate all

Claims and Encumbrances shall attach to the net 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 the sale.

5. **THIS COURT ORDERS AND DIRECTS** the Receiver to file with the Court a copy of the Receiver's Certificate, forthwith after delivery thereof.

6. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the Company's records pertaining to the Debtors' past and current employees employed in relation to the Flour Division of the Debtors. 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 Debtors.

7. **THIS COURT ORDERS** that, 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 Debtors and any bankruptcy order issued pursuant to any such applications; and

(c) any assignment in bankruptcy made in respect of the Debtors;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtors and shall not be void or voidable by creditors of the Debtors, 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* (Canada) 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.

8. **THIS COURT ORDERS AND DECLARES** that the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario).

9. **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 Receiver 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 and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

10. **THIS COURT ORDERS** that the activities of the Receiver, as described in the Third Report, be and are hereby approved.

11. **THIS COURT ORDERS** that the unredacted version of the Sale Agreement, and the Summary of Offers referred to in the Third Report, be and are hereby sealed from the public record and shall not be opened until the filing with the Court of the Receiver's Certificate.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:
MAY 16 2011
PER/PAR: NB

Schedule A – Form of Receiver's Certificate

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

RECEIVER'S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice (the "**Court**") dated November 26, 2010, Ernst & Young, Inc. was appointed as the receiver (the "**Receiver**") of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc. (the "**Debtors**").

B. Pursuant to an Order of the Court dated •, the Court approved the agreement of purchase and sale made as of March 31, 2011 (the "**Sale Agreement**") between the Receiver and JE Fininvest Ltd. (the "**Purchaser**") and provided for the vesting in the Purchaser of the Debtors' 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 Receiver 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 section 8 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE RECEIVER CERTIFIES the following:

1. The Purchaser has paid and the Receiver 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 section 8 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the Receiver.

4. This Certificate was delivered by the Receiver at [TIME] on _____ [DATE].

Ernst & Young Inc., in its capacity as Receiver of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc., and not in its personal capacity

Per: ______________________________

Name:

Title:

SCHEDULE B

PURCHASED ASSETS

Custom built 16'L intake inclined chain grain conveyor c/w 40 TPH capacity

Custom built 26'H bucket grain elevator c/w 40 TPH capacity

Horizontal 33'L chain conveyor, c/w 40 TPH capacity, & (3) pnuematic slides

(3) 25MT conical bottom grain storage silos

Horizontal 33'L auger conveyor & inclined auger conveyor

Custom built 26'H bucket grain elevator c/w 40 TPH capacity

2001 Indopol classifier separator c/w vibro motors

2001 Indopol dry stoner c/w vibro motors & 10HP fan

2001 Indopol model CC horiztonal scourer, 50RPM s/n 1001, c/w aspiration channel

2001 Indopol model ID intensive dampening unit, s/n 133 c/w rotameter

Indopol 49-bag filter system c/w airlock

(4) 26'H bucket grain bucket elevators, pnuematic slides, auger conveyors, magnets, 40HP fan, spouting, & exhaust piping

2001 Ingersol Rand model 2340-T30 5HP, horizontal air compressor, s/n 9007439

2001 Ingersol Rand model 2475-T30 5HP, horizontal air compressor, s/n 1015752

2001 Ingersol Rand model 2475-T30 5HP, horizontal air compressor, s/n 1015490

2009 Ingersol Rand model 2475-T30 5HP, horizontal air compressor, s/n 9011223

(3) 25MT conical bottom grain storage silos

2001 Indopol aspirator separator

(3) 2001 Indopol model IPRM04, double roller mills, s/n 339, 340, 341

2001 Indopol model RM04, double roller mill, s/n 225

(2) 2001 Indopol model MM-IPRM04, double roller mills, s/n 94007, 94008

(2) 2001 Indopol 8:16 plansifters

(2) 2001 Indopol model FF flour purifiers c/w motors, s/n 164, n/a

(2) Indopol horizontal bran finishers (one unit not in use)

10HP Fan purifier & filter

(2) Indopol impact detachers

(2) Indopol 49-bag reverse jet filters

2001 Indopol model SC turbo sifter, s/n 96

(40) Indopol lift, cyclone, & airlock pnuematic systems

(2) 50HP high pressure fan systems

(5) Indopol additive feeders, entoleter, elevators, auger conveyors, spouting & exhaust, (2) bin dischargers, (5) pnuematic slides, mezzanine system, motors, cabling, etc

Milestone model MAS10-D106 control panel c/w
Allen Bradley model PanelView 600 controls

(5) American Ingredients Corp. model A-378
magnets, s/n BD-0036, BD-0038, 2010, BD-0037, BD-0035

ArcoPak Inc model FMC-AIR-Packer c/w
hopper, scale, & AcroPak digital read out, s/n C-3250 c/w screw conveyor, & bucket elevator

Westeel model SeedStor conical bottom storage silo

(3) FlyLight Jr UV bug lights

Assorted equipment not in use consisting of: (3)
storage silos, screw conveyors, blowers, motors

38 Blister packaging machine c/w conveyor (as is)

39 Assorted aluminum extension ladders & warehouse ladders

(2) compressors heads, manual chain hoist, etc

Lincoln model AC-225 arc welder c/w cart

Toyota model 7FBEU18 3-wheel electric forklift
c/w finger controls, side shift, 3-stage mast, 189"
lift, 3,000lbs capacity, & charger, s/n 10149

Wulftec model WHP-150 automatic pallet wrapper, s/n 0700-6295

Raymond model 102T-F45L, 4,500lbs capacity
electric pallet truck, s/n 107-07-090292

Champion 25HP tank mount v-twin horizontal air compressor

2001 Ultra-air model UA1100AC in-line air
dryer, s/n U-33832-42

Kilo model ND300 stainless steel digital scale

Cardinal 5,000lbs capacity digital floor scale

(2) chop saws

Taylor Products model AFSR-A-TE valve bag air
packer c/w mezzanine system, a/n AFSR-5976-TE

(3) Pallet jacks

Hapman stainless steel bulk bag loader

Paglierani model DA40/575/110 horizontal bag
filling & closing machine, s/n 501103

2004 Shawpack model CON5014 plastic conveyor & metal detector
s/n 25144

Ideal model 7100.187 shrink wrapper & heat shrink tunnel, s/n
1089201

Contents of parts room & shipping office
consisting of: computer, Zebra model 220xi
IIIplus label printer, etc

Toyota model 5FBEC15 3-wheel, 2,500lbs
capacity electric forklift, c/w 185" lift, 3-stage
mast, side shift, & charger, s/n 36217

(5) Sections of shelving c/w parts, motors, piping, etc.

Assorted equipment consisting of: dust collector,
grain elevators, sifting screens, piping, rollers, etc

Husky 7HP, 80gallon vertical air compressor

Contents of offices & lunch room

Daymark model Classic electric scooter

All outstanding accounts receivable resulting from the sale of goods to third parties by 2110458 Ontario Limited o/a Loretta Flour

All inventory of 2110458 Ontario Limited o/a Loretta Flour located at 1700 McEwen Drive, Whitby, Ontario

The Canadian trademark "County Fair"

The Registered trade name " Loretta Flour"

Court File No. CV-10-8991-00CL

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

APPROVAL AND VESTING ORDER

(re Flour Business)

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

Tel.: 416.367.6000
Fax: 416.367.6749

Michael MacNaughton - LSUC No. 25889U
Mary Arzoumanidis - LSUC No. 53915V
Harriet Greenwood - LSUC No. 58915H

Lawyers for Ernst & Young Inc., in its capacity as Receiver of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc.
TOR01: 4613976: v2

APPENDIX “E”

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

RECEIVER'S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Mr. Justice Wilton-Siegel of the Ontario Superior Court of Justice (the "**Court**") dated November 26, 2010, Ernst & Young, Inc. was appointed as the receiver (the "**Receiver**") of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc. (the "**Debtors**").

B. Pursuant to an Order of the Court dated May 16, 2011, the Court approved the agreement of purchase and sale made as of March 31, 2011 (the "**Sale Agreement**") between the Receiver and JE Fininvest Ltd. (the "**Purchaser**") and provided for the vesting in the Purchaser of the Debtors' 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 Receiver 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 section 8 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE RECEIVER CERTIFIES the following:

1. The Purchaser has paid and the Receiver 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 section 8 of the Sale Agreement have been satisfied or waived by the Receiver and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the Receiver.

4. This Certificate was delivered by the Receiver at 3:08pm on May 18, 2011.

Ernst & Young Inc., in its capacity as Receiver of the undertaking, property and assets of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc., and not in its personal capacity

By: ________________________

Name: Rahn Dodick
Title: Vice President

Court File No. CV-10-8991-00CL

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

RECEIVER'S CERTIFICATE

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

Tel.: 416.367.6000
Fax: 416.367.6749

Michael MacNaughton - LSUC No. 25889U
Mary Arzoumanidis - LSUC No. 53915V
Harriet Greenwood - LSUC No. 58915H

Lawyers for Ernst & Young Inc., in its capacity as Receiver of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc.

TOR01: 4639923: v1

SUPERIOR COURT OF JUSTICE
COUR SUPÉRIEURE DE JUSTICE
FILED / DÉPOSÉ
MAY 18 2011
AT / À
LOCAL REGISTRAR - GREFFIER LOCAL
TORONTO

APPENDIX “F”

Court File No.10-CV-8991-00CL

ONTARIO SUPERIOR COURT OF JUSTICE

(COMMERCIAL LIST)

IN THE MATTER OF THE INTERIM RECEIVERSHIP OF 2110458 ONTARIO LIMITED, 2131413 ONTARIO LIMITED, 787755 ONTARIO LIMITED AND TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 47(1) OF THE *BANKRUPTCY & INSOLVENCY ACT*, R.S.C. 1985, C. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT* R.S.O. 1990, C.C. 43, as amended

---

FIRST REPORT TO THE COURT OF ERNST & YOUNG INC. AS INTERIM RECEIVER

November 25, 2010

BACKGROUND

1. On November 10, 2010, Bank of Montreal ("**BMO**") made an application to the Court for an order, and the Court made an order (the "**Appointment Order**"), appointing Ernst & Young Inc. ("**EYI**") as an interim receiver (the "**Interim Receiver**") pursuant to Section 47(1) of the *Bankruptcy & Insolvency Act* and pursuant to Section 101 of the *Courts of Justice Act* of 2110458 Ontario Limited ("211"), 2131413 Ontario Limited ("**213**"), 787755 Ontario Limited ("**787**") and Tarbrac Holdings Inc. ("**Tarbrac**") (collectively the "**Debtors**"). A copy of the issued Appointment Order is attached as Appendix "**A**" to this Report.

2. The Interim Receiver was not authorized or directed to take possession or control of the Property (as defined below) of the Debtors. The Interim Receiver was authorized and directed to protect and preserve the assets of the Debtors, to review the affairs of the Debtors and to report to the Court in connection therewith. One of the initial tasks of the Interim Receiver is to report and make recommendations in respect of the sale of the businesses and assets of the Debtors. The Appointment Order ordered that the Interim Receiver be empowered and authorized, inter alia:

   (a) to receive, preserve and protect the assets, undertakings and properties of the Debtors acquired for, or used in relation to a business carried on by the Debtors, including any proceeds thereof (collectively, the "**Property**"), and including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;

(b) to monitor the receipts and disbursements of the Debtors, including, without limitation, the right to access all information related to the Debtors' accounts or finance activities at any financial institution, with any trade creditor or with any other party;

(c) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Interim Receiver's powers and duties;

(d) to develop a plan in furtherance of marketing any or all of the Property, including obtaining appraisals of all or any part of the Property as the Interim Receiver in its discretion may deem appropriate, advertising and soliciting offers in respect of the Property or any part or parts thereof, undertaking discussions and negotiations with parties known to have expressed an interest in any or all of the Property, and developing such terms and conditions of sale as the Interim Receiver in its discretion may deem appropriate;

(e) to exercise any shareholder, partnership, joint venture or other rights which the Debtors may have;

(f) to conduct any examinations under oath deemed necessary, including, without limitation, examinations of Guiseppe Gatti, Peter Nelipa or any other director, officer or employee of the Debtors; and

(g) to undertake any investigations deemed necessary by the Interim Receiver with respect to the location and/or disposition of assets reasonably believed to be, or to have been, property of the Debtors.

PURPOSE

3. This is the first report of the Interim Receiver. The purpose of this Report is to:

- Provide the Court with an overview of the Debtors and their operations;
- Update the Court on the actions taken to date by the Interim Receiver in preserving and protecting the Property and in monitoring the receipts and disbursements of the Debtors;
- Update the Court on the actions taken to date by the Interim Receiver in investigating the location and/or disposition of assets reasonably believed to be, or to have been, property of the Debtors, and the issues identified through those procedures;

- Update the Court on the Interim Receiver's development of a plan in furtherance of marketing any or all of the Property, including the Interim Receiver's recommendation to the Court in that regard;
- Provide the Court with the Interim Receiver's recommendation in respect of the motion that the Interim Receiver understands BMO intends to make for the appointment of EYI as full Court-appointed receiver of the Debtors; and
- Seek the Court's approval of the Interim Receiver's activities to date, including activities undertaken by EYI in contemplation of its potential appointment as Interim Receiver.

Terms of Reference

4. In developing this Report, the Interim Receiver has relied upon unaudited financial information, the Debtors' records, and discussions with the management of the Debtors. The Interim Receiver has not audited, reviewed or otherwise verified such information. The Interim Receiver notes in particular that due to the significant difficulties experienced to date in obtaining information from the accounting system of the Debtors, as described in greater detail below, the Interim Receiver has been unable to corroborate many aspects of the information obtained through discussions with the management of the Debtors.

5. Monetary amounts in this Report are in Canadian dollars unless otherwise indicated. Where applicable in this Report, United States dollar amounts have been converted into Canadian dollars at par.

OVERVIEW OF THE DEBTORS AND THEIR OPERATIONS

Corporate and Senior Management Structure

6. The Interim Receiver's summary understanding of the ownership and senior management structure of the Debtors and their affiliates (collectively, the "**Loretta Group**") is set out below, and is also summarized for the convenience of the Court in Appendix "**B**" to this Report:

    (a) Mr. Giuseppe Gatti is the individual responsible for overall direction of the Loretta Group. In the affidavit of Mr. Robert Kiefer filed with BMO's motion materials seeking the Appointment Order (the "**Kiefer Affidavit**"), Mr. Kiefer indicated his understanding that Mr. Gatti is the Vice-President of each of 211 and 213 and the Chief Operating Officer of 787. Mr. Gatti is listed on the Loretta Foods web site (www.lorettafoods.com) as the President and CEO of Loretta Foods;

    (b) The common shares of Tarbrac are owned by Ms. Taragh Bracken, whom the Interim Receiver understands is the spouse of Mr. Gatti. Ms. Bracken is also the sole director of Tarbrac. The Interim Receiver understands that 100% of the

Class A preference shares of Tarbrac are held by GRS International Ltd., which also acts as broker for 787 on certain of the trading transactions described below;

(c) 211, 213 and North Dakota Holdings Ltd. ("**NDHL**") are wholly-owned subsidiaries of Tarbrac. EYI was not appointed Interim Receiver of NDHL but, under the Appointment Order, is authorized to exercise any shareholder, partnership, joint venture or other rights which the Debtors may have (whether in relation to NDHL or any other entity); and

(d) the sole shareholder of 787 is Mr. Peter Nelipa. As described below, Mr. Nelipa is also the Director of Operations for the flour milling operations carried out by 211.

Operations

7. 211 operates primarily from leased premises located in Whitby, Ontario (the "**Whitby Premises**"). 211 operates under the registered trade name "**Loretta Flour**" and is also known as the "Loretta Flour Division" of the Loretta Group's operations. 211 produces various types of hard wheat flour from wheat sourced from Ontario and Western Canada. The majority of 211's sales are to retail, foodservice, and industrial customers located throughout Eastern Canada and the United States. The Loretta Flour Division employs 10 people and, according to its unaudited internal financial statements, had revenues of approximately $41.2 million for the nine months ended September 30, 2010. Day-to-day operations are directed by Mr. Nelipa, as Director of Operations, from the Whitby Premises.

8. 213 operates from leased premises located on Sismet Drive, Mississauga, Ontario (the "**Sismet Premises**"). 213 operates under the registered trade name "**Loretta Foods**" and is also known as the "Loretta Spice Division" of the Loretta Group's operation. 213 is responsible for sourcing and redistributing spices and food mixes globally, as well as blending and repackaging spices for use in various packs and sizes to satisfy home use and institutional customers. The Loretta Spice Division employs approximately 34 people and, according to its unaudited internal financial statements, had revenues of approximately $27.0 million for the nine months ended September 30, 2010. Day-to-day operations are directed by a Director of Operations located at the Sismet Premises.

9. 213 formerly operated from leased premises located at 6820 Davand Drive, Mississauga, Ontario. The Interim Receiver understands that the premises in question (the "**Vacant Davand Premises**") are still leased by the Debtors but are currently vacant.

10. 787 operates from leased premises located on 6815 Davand Drive in Mississauga, Ontario, (the "**Davand Premises**"). The Davand Premises also serve as the head office location for the Loretta Group.

11. 787 is also known as the "Food Service and Catering Division" of the Loretta Group's operations. Operating under the registered trade name "**NDT Food Service**", 787 is responsible for the daily production of food items, including sandwiches, grab and go meals, soups, fresh salads, desserts and pastries for sale by or in mobile caterers, vending

machines, contract caterers and convenience stores. Orders are taken and filled in person or online and are delivered to the customer or picked-up at the large, on site, cash and carry outlet store located at the Davand Premises. The Foodservice and Catering Division directly services large and small corporate, chain store and institutional client accounts with food products and catering services. The Food Service and Catering Division currently employs approximately 52 people. It is the Interim Receiver's understanding from discussions with management of the Debtors that the Food Service and Catering Division has weekly sales of approximately $90,000. However, because the financial statements of 787 reflect the combined operating results of the Food Service and Catering Division and the trading activities described below, the Interim Receiver has not been able to separately identify the aggregate revenues of the Food Service and Catering Division for the nine months ended September 30, 2010. Day-to-day operations of the Food Service and Catering Division are directed by a Director of Operations and a Production Manager, both of whom are located at the Davand Premises.

12. In the recent past, 787 has also engaged in trading bulk sugar, flour, spices and other items, operating under the registered trade names "**New Durham Trading**" and/or "**Skyway Wholesale.**" The Interim Receiver understands that this trading was conducted (i) to reduce or hedge the prices paid by 211 and 213 for their commodity inputs, (ii) as a broker, to earn commission income by sourcing low-cost commodities for major customers of 787 and other Loretta Group entities, and (iii) as a principal, for profit for its own account. These activities were directed by Mr. Gatti. It is the Interim Receiver's understanding that 787 is no longer conducting these activities, although certain of the related accounts receivable remain on its balance sheet.

13. It is the Interim Receiver's understanding that Tarbrac is a holding company that holds investments in 211, 213 and NDHL and does not carry on any active business.

14. In the Kiefer Affidavit, Mr. Kiefer indicated his understanding that (i) NDHL leases facilities at 1115 West Elm Avenue, Monroe, Michigan (the "**Monroe Warehouse**") and Colgate, North Dakota for storage of inventory of the Debtors that is distributed by the Debtors to customers in the United States, and (ii) the estimated value of the Debtors' inventory located at the Monroe Warehouse as at August 31, 2010 was $7,800,000. Based on the activities undertaken to date by the Interim Receiver in respect of NDHL, as discussed below, neither the current business activities of NDHL nor the disposition of the inventory formerly located at the Monroe Warehouse is well understood.

Secured Creditors

15. The primary secured creditors of the Debtors are BMO and Signature Bank, a New York-based financial institution ("**Signature**").

16. The Interim Receiver understands that BMO is owed approximately US$17.6 million and C$50,000 excluding costs and excluding interest accruing from November 4, 2010 (the "**BMO Debt**") and has security upon all of the assets of the Debtors (including a pledge of the shares of 787) as security for those obligations. These obligations arise under two agreements. The first is a term sheet pursuant to which BMO provided four credit

facilities to 787, 213 and 211. The Interim Receiver understands that Tarbrac has guaranteed the obligations of 787, 213 and 211 to BMO under the term sheet. The second is a discounting facility agreement between 787 and BMO pursuant to which BMO factored certain of 787's accounts receivable. The Interim Receiver understands that 213, 211 and Tarbrac have each guaranteed the obligations of 787 to BMO under that discounting facility agreement. The Interim Receiver understands that each of 213, 211, 787 and Tarbrac have granted security interests and charges upon all of their property in favour of BMO as security for their obligations to BMO. In addition, the Interim Receiver understands that Mr. Nelipa has pledged the shares in 787 to BMO as security for the obligations arising under his guarantee of the obligations of the Debtors to BMO. The Interim Receiver has not undertaken a review of the security for the BMO Debt and accordingly does not express any opinion thereon.

17. The Interim Receiver understands that 787, 211 and 213 are indebted to Signature in the amount of approximately US$12.3 million (the "**Signature Debt**") and that those Debtors have granted security to Signature for that obligation. The Interim Receiver also understands that Mr. Gatti and Tarbrac have guaranteed those obligations to Signature. On November 22, 2010, Signature demanded payment. A copy of Signature's demand for payment is attached as Appendix "**C**". The Interim Receiver has not undertaken a review of the security for the Signature Debt and accordingly does not express any opinion thereon.

ACTIVITIES OF THE INTERIM RECEIVER, INCLUDING PRE-APPOINTMENT ACTIVITIES OF EYI

Activities Prior to Appointment

18. Prior to the issuance of the Appointment Order, EYI undertook numerous activities to plan for the execution of its responsibilities if appointed as Interim Receiver. These activities included:

    (a) Numerous discussions with BMO and its counsel to obtain a preliminary understanding of the assets, operations and liabilities of the Debtors;

    (b) Review of the financial information and borrowing base certificates provided to BMO by the Debtors. The Interim Receiver understands that the Signature loan agreement required the Debtors to provide Signature with the same information it provided to BMO;

    (c) Discussion with a representative of GDR Advisory Group Inc. ("**GDR**"), a firm specializing in the performance of collateral examinations on behalf of lenders. GDR had previously been retained by BMO to perform test counts of the inventory that served as part of the collateral for the BMO Debt, and EYI's purpose in speaking to GDR was to obtain a better understanding of the premises where GDR had performed test counts and of the quantities and organization of inventory at those premises. GDR indicated to EYI that it had most recently test-counted inventory at the Monroe Warehouse and the Sismet Premises on August

31 and September 1, 2010, respectively, in conjunction with the Debtors' August 31 inventory counts;

(d) Meeting briefly with Mr. Gatti and Mr. Michael Falcone (listed on the Debtors' web site at www.lorettafoods.com as the CFO of the Debtors) to obtain an understanding of the assets and operations of the Debtors, and particularly the physical location of Property of the Debtors; and

(e) Visiting the Davand Premises and the Sismet Premises briefly with Mr. Gatti to obtain an understanding of the steps that would be required to preserve and protect the Property at those facilities. It was not feasible to visit the Whitby Premises before the hearing of the motion for appointment of the Interim Receiver.

Limitations on Availability of Financial Information to the Interim Receiver

19. The individual who formerly acted as controller (the "**Former Controller**") for the Loretta Group resigned on November 3, 2010. The Interim Receiver has been advised by Mr. Gatti, Mr. Falcone and the individuals remaining in the Loretta Group accounting department that the Former Controller performed virtually all of the critical accounting functions. The Interim Receiver has been advised that there is nobody remaining at the Loretta Group who could answer most of the Interim Receiver's questions relating to the financial performance of the Loretta Group.

20. The Interim Receiver was further advised by Mr. Gatti and Mr. Falcone that nobody else at the Loretta Group had complete access to the accounting system and certain other electronic data. The Interim Receiver has been advised that the Debtors have been unable to access the information in order to answer the Interim Receiver's questions.

21. The Interim Receiver obtained access to the accounting system and other electronic data on November 18, 2010. The Interim Receiver engaged a qualified individual, with whom EYI has had experience when she was the accounting controller in a previous receivership, on a contract basis to assist the Interim Receiver in obtaining information from the Loretta Group's accounting systems.

22. The absence of a qualified individual with detailed knowledge of the Loretta Group's accounting records and past transactions has significantly limited the ability of the Interim Receiver to exercise its powers efficiently, on a timely basis, and (in some cases) completely. For example:

(a) As described below, it was necessary for the Interim Receiver to develop a weekly cash flow forecast rather than reviewing one prepared by the Debtors;

(b) The Debtors have been unable to cost the Spice inventory count conducted by the Interim Receiver, thereby requiring the Interim Receiver to attempt to do so using alternative methods; and

(c) The Interim Receiver has been unable to obtain consistent explanations for certain of the discrepancies described below.

Activities of the Interim Receiver to Preserve and Protect the Property

23. Since the issuance of the Appointment Order, the Interim Receiver has taken the following steps to preserve and protect the Property and to monitor receipts and disbursements of the Debtors:

(a) Changed the locks and, where applicable, alarm system security codes at the Davand Premises, the Sismet Premises and the Whitby Premises. After visually confirming that they do not appear to be occupied, the Interim Receiver did not change the locks at the Vacant Davand Premises;

(b) Provided keys to each of the premises to the applicable Director of Operations and to selected other employees (the Interim Receiver believes this is consistent with its mandate of protecting and preserving the Property but not taking possession or control of the Property which remains with the Debtors, subject to the terms of the Appointment Order);

(c) Notified the Debtors' insurers of the appointment of the Interim Receiver, and requested that the Interim Receiver be added as a loss payee and additional named insured;

(d) Conducted or arranged for inventory counts where it was cost-beneficial to do so. None of the Debtors maintains a perpetual inventory system.

(i) The Interim Receiver retained GDR, which had previously conducted test counts of the Debtors' inventory for BMO, to conduct a full count of physical inventory quantities at the Sismet Premises. As discussed in greater detail below, the Interim Receiver has not yet been able to obtain the aggregate book value corresponding to the physical count because it has not been able to obtain the unit costs that should be used to cost the inventory;

(ii) The Interim Receiver was able to conduct a full inventory count at the Whitby Premises when it changed the locks because the only inventory on site was a small quantity of finished goods;

(iii) The Interim Receiver did not conduct an inventory count at the Davand Premises because the inventory of the Food Services and Catering Division consists of a large number of perishable, low-dollar-value items, estimated by its Director of Operations to have an aggregate value of less than \$300,000, and for which a full count would be disruptive to the seven-day operation of the Food Services and Catering Division;

(e) Arranged for the ability to electronically view the bank accounts recently established by the Debtors at the Canadian Imperial Bank of Commerce ("**CIBC**");

(f) Worked with management of the Debtors to put in place procedures whereby support for all proposed payments by the Debtors is reviewed by the Interim Receiver, and the proposed payments are discussed by the Interim Receiver with the Debtors' management, as necessary, to provide the Interim Receiver with a reasonable level of comfort that the proposed payments relate to ordinary-course operation of the Debtors and do not constitute inappropriate dissipation of the Property;

(g) Using information obtained from the applicable Directors of Operations and with a review of historical bank and disbursement records, developed a weekly cash flow forecast against which the Interim Receiver could benchmark actual receipts and disbursements and estimate funding requirements during a sale process. Due to the recent resignation of the Former Controller as discussed in greater detail above, the Debtors did not have a current cash flow forecast or the ability to update any cash flow forecasts prepared previously;

(h) Worked with the Directors of Operations to establish procedures whereby (i) all supporting documentation for proposed shipments of inventory to customers is reviewed, and copies retained by the Interim Receiver prior to shipment of the goods in question, and (ii) copies of supporting documentation for all inventory receipts are provided to the Interim Receiver;

(i) Obtained copies of the accounts receivable subledgers for 211, 213 and 787 and discussed with the accounts receivable accountant and with Mr. Gatti the balances indicated in those subledgers; and

(j) Obtained copies of the fixed and leased asset listings of the Debtors that are available from the records of the Debtors, and attempted to confirm the existence and location of the major items on those lists. Other than a number of leased vehicles used by the Debtors' management and certain employees, the majority of the Debtors' fixed assets consist of the flour milling equipment at the Whitby Premises.

Activities of the Interim Receiver to Investigate the Location/Disposition of Assets

24. Subject to the significant information limitations described above, the information obtained to date by the Interim Receiver indicates that the working capital assets of the Debtors as at the date of the Appointment Order may be substantially less than those reported on the most recent unaudited internal financial statements and borrowing base certificates provided to BMO by the Debtors. Attached as Appendix "**D**" is a copy of the most recent consolidated unaudited internal financial statements of the Loretta Group (211, 213 and 787), which are as at September 30, 2010 (the "**September Statements**") together with the most recent unaudited internal financial statements for each of 213, 211,

787 and Tarbrac. All of those financial statements are as at September 30, 2010 except for Tarbrac which are as at December 31, 2009.

25. During the course of the Interim Receiver's review of the books, records and affairs of the Loretta Group, the Debtors have not been able to adequately account for approximately $19 million of the inventory referred to in the September Statements. In addition, Mr. Gatti has advised that the amount of the accounts receivable set out in the September Statements is no longer accurate. The amount of the difference is very substantial. The Interim Receiver is continuing its review of the inventory and accounts receivable and is not currently in a position to comment on these differences including their rationale, accuracy, or the explanations provided for them

26. It is unclear whether sufficient value can be realized from the Property to fully repay the BMO Debt and the Signature Debt.

27. The Interim Receiver also notes that the amount of the Signature Debt reflected on the September Statements is approximately $2.4 million less than the amount indicated in Signature's demand letter at Appendix "**C**".

28. To date, neither Mr. Gatti nor Mr. Falcone has been able to provide explanations in respect of inventory and accounts receivable that are consistent with the available financial information or supported by other documentation.

29. In view of the above, the Interim Receiver has also taken a number of preliminary steps to investigate the location and/or disposition of assets it believes may be, or have been, property of the Debtors. These steps have included:

   (a) Retaining Honigman, Miller, Schwartz and Cohn LLP as U.S. counsel to the Interim Receiver to advise on matters relating to Property potentially located in the United States, particularly inventory potentially located in the Monroe Warehouse. Although GDR indicated to EYI prior to EYI's appointment that GDR had test-counted inventory of the Debtors (which, at the time, had a book value of approximately $7.8 million) at the Monroe Warehouse on August 31, 2010, in Mr. Gatti's discussions with EYI prior to its appointment he indicated that there was currently no inventory of Loretta in the Monroe Warehouse, and to date he has been unable to provide a comprehensive or consistent explanation for the disposition of the inventory;

   (b) Sending two representatives of the Interim Receiver to the Monroe Warehouse to inquire as to whether there was currently, or had recently been, any property of the Debtors on the premises. A representative of the organization occupying the warehouse indicated to the representatives of the Interim Receiver that his organization was not affiliated with the Loretta Group, although he was aware of the Loretta Group's financial situation, and refused to allow the representatives access to the premises or to answer any further questions; and

   (c) Conducted an initial preliminary review of certain hard copy and electronic records of the Debtors that may be relevant to further investigation. The records reviewed included, inter alia, wire transfer records from the Debtors' bank accounts indicating that between October 20, 2010 and October 26, 2010, 787 and 213 made wire transfers to bank accounts of NDHL in the aggregate amount of $80,200 plus U.S. $743,100.

30. Before taking further steps with respect to these matters, the Interim Receiver proposes to consult with BMO and Signature.

DEVELOPMENT OF MARKETING PLAN

31. Based on the understanding of the Debtors' businesses gained during the procedures described above, and drawing on the experience of professionals from Ernst & Young Orenda Corporate Finance Inc. ("EYO", an affiliate of EYI) who specialize in the food and beverage industry, the Interim Receiver has developed a general approach to the marketing of the Debtors' assets for sale. For reasons that will be described in greater detail below, to date, the Interim Receiver has only prepared a detailed realization plan for the Food Service and Catering Division.

32. The Interim Receiver is of the view that the Food Service and Catering Division:

(a) Is separately managed, with its own Director of Operations, Production Manager and Purchasing Manager;

(b) Has minimal overlap or synergy with the Flour Division or Spice Division other than the use of the Loretta brand name label, which can also be found on name brand foods prepared by the other two divisions;

(c) Does not appear to derive significant value from the Loretta brand, as the majority of its sales are made to persons such as mobile caterers that pick up products directly and therefore have a level of familiarity with the Food Service and Catering Division employees;

(d) Has limited geographic scope and scalability due to the inherent limitations of transporting fresh foods, and is, therefore, likely to be of interest to a smaller group of potential purchasers, namely organizations that are either carrying on similar businesses or involved locally in areas of the food industry that would allow them to realize sales or purchasing synergies; and

(e) Has no apparent connection with the significant decline in accounts receivable or inventory noted in Appendix "**C**" or described above, because, as a largely cash-based business selling fresh foods, it has minimal accounts receivable or inventory.

33. Accordingly, the Interim Receiver is of the view that the Food Services and Catering Division (including the accounts receivable arising from the operation of that business) should be marketed forthwith for a potential sale of the property by a Court-appointed receiver, and that such an approach is unlikely to impair realizations from the remaining Property. In Appendix "**E**", the Interim Receiver has set out a proposed timeline for such

a sales process that would allow a sale to be closed by January 28, 2011. The "required terms of sale" noted in Appendix "**E**" would include standard insolvency sale terms (as is, where is, no representations, no warranties) as well as a requirement that the Interim Receiver (or, if the relief sought by BMO as described below is granted, the Court-appointed receiver) be allowed to continue to use the head office portion of the Davand Premises for a number of months to allow efficient administration of the receivership proceedings.

34. The Interim Receiver is still in the process of analyzing the factors driving value, and identifying the likely potential purchasers, at the Loretta Flour Division and Loretta Spice Division, and, accordingly, the Interim Receiver has not yet developed a detailed realization plan. The Interim Receiver expects that it (or, if the relief sought as described below is granted, the Court-appointed receiver) will apply to the Court in the near term for approval of a detailed realization plan for these assets.

35. The Interim Receiver does not currently have sufficient information to evaluate the realizable value, if any, of Tarbrac's investment in NDHL and, accordingly, it is not yet in a position to recommend a realization plan for this asset.

MOTION FOR APPOINTMENT OF RECEIVER

36. Based on the Interim Receiver's discussions with representatives of BMO and its advisors, the Interim Receiver understands that BMO intends to make a motion for an Order (the "**Receivership Order**"), inter alia,

(a) appointing EYI as Receiver (the "**Receiver**") of the Debtors;

(b) authorizing the Receiver to carry on the business of the Debtors;

(c) authorizing the Receiver to execute the sale process for the Food Services and Catering Division, as set out above and in Appendix E to this Report;

(d) authorizing the Receiver to develop and (with the further approval of the Court) execute detailed realization plans for the remaining Property;

(e) authorizing the Receiver to conduct inquiries and obtain copies of the books and records of NDHL as they relate to transactions with one or more members of the Loretta Group;

(f) authorizing the Receiver to exercise any shareholder, partnership, joint venture or other rights that the Debtors may have;

(g) authorizing the Receiver to make enquiries with Canadian financial institutions to determine if NDHL or members of the Loretta Group hold bank accounts with such financial institutions, and, if so, requiring such financial institutions to disclose the bank statements regarding such accounts;

(h) authorizing the Receiver to contact Bell Sympatico (or any other provider of information technology services to the Loretta Group) and requiring that such service provider disclose information related to the Loretta Group;

(i) amending the style of cause for this proceeding to include the registered trade names of the Debtors;

(j) in addition to granting the standard administrative charge for fees and disbursements of the Receiver and its counsel, granting the Interim Receiver a first-ranking priority charge (the "**IR Admin Charge**") for all amounts that would be subject to the Interim Receiver's Charge pursuant to paragraph 14 of the Appointment Order, subject to the continued requirement that the Interim Receiver and its counsel pass their accounts pursuant to paragraph 15 of the Appointment Order;

(k) approving the activities of the Interim Receiver as set out in this Report.

37. The Interim Receiver recommends (with respect to the relief described in subparagraph 36(k) above, the Interim Receiver respectfully requests) that the Court grant the relief requested. The Interim Receiver is of the view that the appointment of the Receiver will allow the acceleration of realizations from the Property and a more efficient investigation of the significant discrepancies noted previously.

38. The Interim Receiver wishes to bring to the attention of the Court the requested amendments to the style of cause in this proceeding. In these proceedings to date, the Interim Receiver has observed that the vast majority of the parties involved know the Debtors only by their registered trade names. The Interim Receiver is of the view that amending the style of cause to include the trade names will increase the efficiency of the receivership proceedings by making it clear to affected parties that the Debtors and the names they recognize are one and the same.

All of which is respectfully submitted this 25th day of November 2010.

ERNST & YOUNG INC.
Acting in its capacity as Interim Receiver of
2110458 Ontario Limited, 2131413 Ontario Limited,
787755 Ontario Limited and Tarbrac Holdings Inc.
not in its personal or corporate capacity.

Per:

Mike P. Dean, CA•CIRP
Senior Vice-President

APPENDIX "G"

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK
---X

In Re:

Quality Food Brands, Inc.,

Debtor.

Chapter 7

Case No. 811-72285-A736

Affirmation in Support

---X

Marc A. Pergament, duly affirms under the penalties of perjury as follows:

1. I am an attorney admitted to practice law in the United States Court of Appeals for the Second Circuit and the United States District Court for the Eastern and Southern Districts of New York and am a member of Weinberg, Gross & Pergament LLP, attorneys for the Trustee.

2. I am also the Trustee of this Estate and am familiar with the facts and circumstances set forth herein.

3. This Affirmation is submitted in support of my motion for an Order: (a) authorizing the sale of the Debtor's food stuffs, the office furniture located at 15610 South Telegraph Road, Monroe, Michigan (the "Premises"), the lease for the Premises, the Debtor's right, title and interest in certain equipment leases, and the Debtor's UPC Code (the "Assets") to Bektrom Foods Inc. for the sum of $159,000.00 pursuant to Section 363(b), (f) and (m) of the Bankruptcy Code, subject to higher and better offers, and free and clear of all claims, liens and encumbrances; (b) authorizing the Trustee to execute all documents necessary to effectuate the sale of the assets; and (c) such other and further relief that this Court deems just and proper.

4. The Debtor was a food distributor with several locations including a location at 15610 South Telegraph Road, Monroe, Michigan (the "Premises"). As Trustee, I seek authorization to sell the assets as described more fully in the Asset Sale and Purchase Agreement to Betrom Foods for the sum of $159,000.00, subject to higher and better offers. A

copy of the Asset Sale and Purchase Agreement is annexed hereto as Exhibit "A" and annexed to the Asset Sale and Purchase Agreement are the schedules referenced therein, including the food stuffs and leases that the Trustee seeks to sell.

5. There is an urgency in this sale as the main asset being sold as part of this transaction are the food stuffs which could spoil if they are not transferred to a fully operational facility by July 22, 2011.

6. Thus, I am requesting that the Court approve, on shortened notice, this application to sell these assets.

7. Specifically, the assets that are being sold are:

a. the food stuffs described on Schedule A which is annexed to the Asset Sale and Purchase Agreement, which is annexed hereto as Exhibit A;

b. the office furniture which is located at 15610 South Telegraph Road, Monroe, Michigan (the "Premises);

c. the lease of the Premises;

d. the equipment leases described on Schedule B which is annexed to the Asset Sale and Purchase Agreement;

e. to the extent transferable and assignable, the Debtor's UPS Code.

8. No other assets of the Debtor are being transferred pursuant to the Asset Sale and Purchase Agreement.

9. This transaction was negotiated with counsel for Bektrom Foods over the last ten (10) days as issues have arisen concerning the spoilage of certain other food stuffs.

10. I am very concerned that in the event that this transaction is not consummated in the near future, that the food stuffs that are listed in Exhibit A to the Asset Sale

and Purchase Agreement will become worthless and could also affect other food stuffs in the Premises.

11. I believe that the price that has been offered is fair and equitable as I have received no other offers with respect to the assets that are included in the Asset Sale and Purchase Agreement.

12. I propose that the Order, Affirmation in Support and exhibits thereto be served upon the Office of the United States Trustee, the twenty largest unsecured creditors and all parties who filed notice pursuant to Rule 2002 of the Federal Rules of Bankruptcy Procedure via electronic mail, facsimile or Federal Express. It is requested that this Court schedule an immediate hearing on either July 14, 2011 or soon thereafter as the Court is available.

13. There would be no urgency but for the concerns of the spoilage of the food stuffs which comprise of $135,000.00 of the $159,000.00 purchase price.

14. With respect to the office furniture, I had that furniture reviewed by an auctioneer who advised me that it is of minimal value.

15. With respect to the equipment leases, I have determined that they have no value to this estate and thus I would have been abandoning my interest in those leases but for the proposal received by Bektrom Foods.

16. For the reasons set forth herein, it is requested that this Court grant this application and grant such other and further relief that this Court deems just and proper.

17. No prior application has been made to this or any other Court for the relief requested herein.

WHEREFORE, it is respectfully requested that this Honorable Court grant the Trustee's motion in its entirety and such other and further relief that this Court deems just and proper.

Dated: Garden City, New York
July 7, 2011

By: ______________________________
Marc A. Pergament

EXHIBIT A

ASSET SALE AND PURCHASE AGREEMENT

This Agreement (the "Agreement") is dated as of July _____, 2011, by and between Marc A. Pergament, as Chapter 7 Trustee ("Seller" or "Trustee") of the Bankruptcy Estate of Quality Food Brands, Inc. ("Debtor"), maintaining a place of business at 400 Garden City Plaza, Suite 403, Garden City, New York 11530 and Bektrom Foods, Inc., a New York corporation, maintaining a place of business at 155 Foxhunt Crescent, Syosset, New York 11791 ("Purchaser").

WHEREAS, on April 8, 2011, Marc A. Pergament, was appointed as the Interim Chapter 7 Trustee in an involuntary proceeding filed against the Debtor under Case No. 811-72285-reg in the United States Bankruptcy Court, Eastern District of New York, Central Islip Division; and

WHEREAS, the Trustee desires to sell to the Purchaser and the Purchaser desires to purchase from the Trustee certain of the Debtor's assets subject to, and in accordance with the terms, conditions and provisions hereof.

NOW, THEREFORE, in consideration of the mutual promises and the covenants and other agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, each intending to be contractually bound, hereby agree as follows, subject to the jurisdiction of the Court and the terms and conditions of the Approval Order (hereinafter defined):

1. Introductory Paragraph.

The introductory paragraphs hereinabove contained and the contents thereof are incorporated in this Agreement as if fully set forth herein at length, and shall constitute representations of the appropriate parties.

2. Definitions and Interpretations.

The following words and terms as used herein shall have the following meanings unless the context or use indicates another or different meaning or intent:

a. "Business Day" shall mean any day except a Saturday, Sunday or other day on which banks or savings and loan associations in New York State are obligated or authorized by law to close.

b. The terms "hereby," "hereof," "herein," "hereunder," and any similar term as used in this Agreement refer to this Agreement, and the term "heretofore" shall mean before, and the term "hereafter" shall mean after, the date of this Agreement.

c. The words "include," "including," and "includes" shall be deemed to be followed by the words "without limitation."

d. The word "shall" is mandatory; the word "may" is permissive.

e. The terms defined in this Agreement shall include the plural as well as the singular, and the use of any gender herein shall be deemed to include the other gender.

f. References herein to "Sections," "Exhibits" and "Schedules," without reference herein to a document, are to be designated sections, exhibits and schedules to this Agreement.

g. The words importing persons shall include natural persons, sole proprietorships, firms, associations, partnerships (including limited partnerships), joint ventures, trusts, associations, corporations, limited liability companies, and other legal entities or government (whether Federal, state, county, city, municipal, town, village, or otherwise, including any instrumentality, division, agency, body or department thereof).

h. Any reference in this Agreement, by name or number, to a government department, agency, statute, regulation, program, or form, shall include any successor or similar department, agency, statute, regulation, program, or form.

3. Sale and Purchase of Trustee's Assets.

a. Purchased Assets. On the terms and subject to the conditions set forth herein, at Closing, the Trustee shall sell, transfer, convey and assign to Purchaser, and Purchaser shall purchase and acquire from the Trustee, free and clear of all liens claims and encumbrances pursuant to Pargraph 6.a hereof, "AS IS" and "WHERE IS", without representation or warranty, all right, title and interest of the Trustee in and to the following (collectively, the "Purchased Assets"):

i. The food stuffs described on Schedule A annexed hereto and made a part hereof (the "Food Stuffs");

ii. The office furniture (the "Office Furniture") which is located at 15610 South Telegraph Road, Monroe, Michigan (the "Premises");

iii. The lease of the Premises ("Lease");

iv. The equipment leases described on Schedule B annexed hereto and made a part hereof (the "Equipment Leases");

v. To the extent transferable and assignable, the Debtor's UPC Code (the "UPC Code").

b. Excluded Assets. The sale and purchase herein does not include:

i. the Debtor's cash, cash equivalents and accounts receivable ("Cash");

ii. all credits, prepaid expenses, deferred charges, advance payments, security deposits and prepaid items;

iii. All federal, state, local or foreign tax benefits, loss carry forwards and refunds due in any way;

iv. All causes of action, lawsuits, judgments, claims and demands of any nature available to or being pursued by the Debtor;

v. All of the Debtor's corporate books, records, tax returns, accountants' work papers, and insurance policies; and

vi. Any asset not specifically set forth at paragraph 3a.

4. Purchase Price, Application, Apportionments, Etc.

a. Purchase Price. The purchase price is One Hundred Fifty Nine Thousand and 00/100 Dollars ($159,000.00) (the "Purchase Price"), payable by Purchaser to Seller as follows:

i. Sixteen Thousand and 00/100 Dollars ($16,000.00)("Contract Deposit") upon the execution of this Agreement payable by Purchaser by bank or certified check, subject to collection, payable to the order of the Trustee or by wire transfer of immediately available federal funds to the Trustee's account, receipt of which, subject to collection, is hereby acknowledged, which shall be held in trust in accordance with the provisions of paragraph 4.b.below;

ii. One Hundred Forty Three Thousand and 00/100 Dollars ($143,000.00) (the "Balance") upon Closing, by unendorsed bank cashier's checks drawn on a bank that is a member of the New York Clearing House Association and payable to the order of the Trustee or such persons as may be designated by the Trustee or by wire transfer of immediately available federal funds to the Trustee's account (which checks or federal funds are referred to together and alternatively as the "Bank Checks"); such Bank Checks shall be in such amounts, aggregating the Balance, as shall be designated by Seller. All other funds required to be paid by Purchaser under this Agreement shall be good certified check of Purchaser, or official check of any bank, savings bank, trust company, or savings and loan association organized and existing under the laws of the United States or of any of the states and maintaining a banking office in the State of New York, drawn on an account maintained in the State of New York, payable to the order of Seller or to such person as may be required by this Agreement.

b. Deposit In Trust. The Contract Deposit shall be deemed to have been made to Trustee by payment thereof to the Trustee, and shall be held in trust by the Trustee until the earlier of (i) Closing, at which time the Contract Deposit, together with the net income earned thereon, if any, shall be retained by the Trustee (the net income shall not be credited against the Purchase Price); (ii) ten (10) days after Purchaser shall provide notice to the Trustee that the Purchaser is entitled to a refund thereof, then, provided Trustee shall not have notified Purchaser within said ten (10) days that he disputes Purchaser's claims, the Trustee shall deliver the Contract Deposit, together with the net income earned thereon, if any, to Purchaser; (iii) ten (10) days after Trustee shall provide notice to Purchaser that Purchaser has failed to perform its obligations under this Agreement or Trustee is otherwise entitled to retain the Contract Deposit and the net income earned thereon, if any, then, provided Purchaser shall not have notified the Trustee within said ten (10) days that it disputes Trustee's claims, the Trustee shall retain the Contract Deposit, together with the net income earned thereon, if any; (iv) a court of competent jurisdiction's issuance of a judgment, order or decree directing the retention or delivery, as the case may be, of the Contract Deposit and the net income earned thereon, if any, in which event the Trustee shall retain or deliver, as the case may be, the Contract Deposit and the net income earned thereon, if any, in accordance with such judgment, order or decree.

c. Returned Contract Deposit Check. In the event the Contract Deposit check (or if more than one check is delivered, any one of the Contract Deposit checks) is not paid by the bank upon which the check is drawn, for any reason whatsoever, then, in addition to any other remedies available to Trustee, the Trustee shall have the absolute right to cancel this Agreement upon written notice to Purchaser.

d. Liquidated Damages. In the event of Purchaser's default hereunder, then, subject to the provisions of sub-paragraph b. of this Section 4, the Contract Deposit, together with the net income earned thereon, if any, shall be retained by the Trustee. The parties hereto acknowledge that damages to Trustee in the event of default by Purchaser are difficult to measure. Therefore, except with respect to those matters expressly provided to survive cancellation, termination or rescission of this Agreement, the retention of the Contract Deposit, together with the net interest earned thereon, if any, shall provide the sole remedy of the Trustee and shall be considered liquidated and final damages; upon payment thereof, there shall be no further liability on the part of the Trustee or Purchaser hereunder except with respect to those matters expressly provided to survive cancellation, termination or rescission of this Agreement.

e. Seller's Limited Liability. In the event of the default of Seller under this Agreement, the Purchaser's sole remedy shall be to cancel this Agreement, whereupon the Contract Deposit, together with the net income earned thereon, if any, shall be paid over to the Purchaser and there shall be no further liability on the part of Seller to the Purchaser or on the part of the Purchaser to Seller, except with respect to those matters expressly provided to survive cancellation, rescission or termination of this Agreement. In the event of any other claim arising under, by virtue of, or in connection with or incidental to this Agreement, Seller, or any affiliate, agent, employee, attorney, accountant, or representative of Seller, shall not be under any personal liability in connection therewith. In no event shall Seller or any affiliate, agent, employee, attorney, accountant or representative of Seller, have or be subject to any personal liability on account of or resulting from such default or claim, including direct, indirect, general, special, compensatory, consequential, remote, punitive, foreseeable or unforeseeable damages, loss of profits or loss of benefit of bargain, nor shall any monetary judgment be entered against any of them. The provisions of this paragraph 4.e. shall survive Closing or the cancellation, termination or rescission of this Agreement.

f. Trustee's Capacity. The Purchaser acknowledges that Marc A. Pergament, as Trustee of Quality Food Brands, Inc., enters into this Contract of Sale solely in his capacity as Trustee and not individually. The Trustee shall have no obligation or liability whatsoever in his individual capacity under this Agreement. Any representations, warranties, covenants, undertakings and agreements made on the part of the Trustee, regardless of their form, are nevertheless made and are intended for the purposes of binding only the Trustee in his representative capacity. No personal liability or personal responsibility is assumed by, nor shall at any time be asserted or enforceable against, the Trustee individually on account of any undertaking or agreement in this Agreement, either express or implied, and all such personal liability, if any, is expressly waived and released by the Purchaser.

5. Condition of Purchased Assets.

Purchaser acknowledges it has been afforded a full and complete opportunity to investigate the Purchased Assets and all matters or things relating thereto and is familiar with the physical condition thereof. Seller, or any person on Seller's behalf, including Seller's affiliates, attorneys, accountants, agents or employees, has not made and does not make any promises, representations or warranties, express or implied, oral or written, as to the condition of or any other matter affecting the Purchased Assets. The Purchased Assets shall be conveyed, and Purchaser shall take title to and possession of the Purchased Assets AS IS, WHERE IS, WITH ALL FAULTS AND WITHOUT REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED (ALL OF WHICH SELLER DISCLAIMS), INCLUDING AS TO QUALITY, PHYSICAL CONDITION, OPERATION, COMPLIANCE WITH SPECIFICATIONS, ABSENCE OF LATENT DEFECTS, COMPLIANCE WITH LAWS AND REGULATIONS (INCLUDING THOSE RELATING TO HEALTH, SAFETY OR THE ENVIRONMENT), FITNESS FOR ANY PARTICULAR USE OR MERCHANTABILITY, OR ANY OTHER MATTER WHATSOEVER AFFECTING OR RELATING TO THE PURCHASED ASSETS. Seller shall not be liable or bound by any verbal or written statements, representations, business broker set-ups, or information pertaining to the Purchased Assets furnished by any broker, agent, employee, servant or any other person, firm or corporation. Upon Closing, Purchaser shall be deemed to have waived, released and discharged any claims it has, might have or may have against Seller, or any of Seller's affiliates, officers, directors, shareholders, members, partners, agents, employees, attorneys or representatives, in connection with the Purchased Assets and all matters or things relating thereto. The provisions of this paragraph shall survive Closing or the cancellation, termination or rescission of this Agreement.

6. Sale of Trustee's Assets Free of All Claims, Liens, Taxes & Encumbrances.

a. Purchaser acknowledges and understands that the sale contemplated by this Agreement will be made in accordance with the provisions of §§ 363 and 365 of the Bankruptcy Code with the Purchased Assets to be sold free and clear of all liens, claims, taxes and encumbrances of whatever kind or nature (the "Liens"), with such Liens, if any, if valid, to attach to the net proceeds of the Purchase Price, that is net of attorney's fees and expenses of the sale reflected in this Agreement, except any leases that are transferred shall be sold subject to existing lease obligations.

b. The obligations of Trustee and Purchaser hereunder are contingent upon the entry of an order of the Court (the "Approval Order"), pursuant to §§ 363(b) and 363(f)(1), 363(f)(3), 363(m) and 365 and other applicable provisions of the Bankruptcy Code which (i) authorizes and approves the sale of the Purchased Assets pursuant to the terms of this Agreement; and (ii) which finds that the Purchaser has entered into this Agreement in "good faith" and is therefore entitled to the protections afforded a good faith Purchaser under section 363(m) of the Bankruptcy Code.

c. The Trustee shall make prompt application to the Court for the entry of the Approval Order, upon notice to all creditors of the Debtor's bankruptcy estate. The application to the Court shall expressly request approval of all of the terms and conditions of this Agreement including but not limited to a finding that the Purchaser is a "good faith purchaser" under section 363(m) of the Bankruptcy Code.

d. In the event that the Approval Order is not granted and the Closing does not occur within thirty (30) days of the date hereof, then either the Trustee or the Purchaser may terminate this Agreement prior to Closing by notice to the other party to that effect, and the Contract Deposit, together with any interest thereon, if any, shall be refunded to the Purchaser and this Agreement shall be null and void and of no further force and effect except as to those matters that are expressly stated to survive cancellation, termination and rescission.

e. Purchaser will cooperate in good faith with the Trustee to secure the Approval Order, including, but not limited to, having an authorized officer of the Purchaser attend the hearing to consider the entry of the Approval Order (the "Sale Hearing"), if necessary, and, if necessary, testifying before the Court and providing documentary evidence as to Purchaser's financial wherewithal to perform the obligations of Buyer under this Agreement.

7. Terms and Conditions of Sale.

a. The Purchaser acknowledges and understands that the Trustee will seek Court approval of the terms and conditions of this Agreement, and, consistent with § 363 of the Bankruptcy Code, such approval will be sought by the Trustee subject to any higher or better offers that may be tendered to the Trustee and the Court at the Sale Hearing.

b. Furthermore, the terms and conditions of sale to govern the bidding at the Sale Hearing shall provide that in order to be considered by the Court and admissible on the date of the Sale Hearing, any competing offer ("Competing Offer") must satisfy the following terms and conditions: (i) a Competing Offer shall provide for a Purchase Price of at least ten percent (10%) higher than the Purchase Price (the "Initial Bid"); (ii) the Competing Offer shall be substantially similar to the terms and conditions of this Agreement; (iii) a person making a Competing Offer ("Competing Offeror") must sign an Agreement agreeing to be bound by the terms and conditions of this Agreement; (iv) the Competing Offer shall not be contingent upon the receipt of financing necessary to its consummation, and the competing offer shall have demonstrated, to the sole satisfaction of the Trustee and the Court, evidence of its ability to conclude the transaction upon the terms and conditions of this Agreement, without delay; (v) the Competing Offer shall not be conditioned upon the outcome of unperformed due diligence by the Competing Offeror with respect to the Purchased Assets; (vi) the Competing Offeror shall provide, at or before the Sale Hearing, a certified check made payable to the Trustee in the sum of $20,000.00 representing the Contract Deposit under the terms of this Agreement; and (vii) in the case of any subsequent competing offer ("Subsequent Competing Offer") received from any party, which may, include, without limitation, the Purchaser, bidding shall be in increments of $1,000.00 each. In the event a Competing Offeror is the successful bidder, then this Agreement shall be deemed terminated and the Contract Deposit, together with any interest thereon, if any, shall be refunded to the Purchaser and this Agreement shall be null and void and of no further force and effect except as to those matters that are expressly stated to survive cancellation, termination and rescission.

8. Closing.

a. Closing Date. The closing of the sale and purchase of the Purchased Assets (the "Closing") shall take place on July 15, 2011 (the "Closing Date"), at 11:00 a.m. at the offices of Weinberg, Gross & Pergament LLP or at such other place as mutually agreed upon by the parties hereto.

b. Trustee's Deliveries. At Closing, Trustee shall deliver to Purchaser:

i. All necessary closing documents, including bills of sale and any and all other conveyancing documents to transfer title to the Purchased Assets being sold, free and clear of Liens, except as otherwise provided herein.

ii. Possession of the Purchased Assets at the location or locations where they exist.

iii. Such other and further documents, instruments and payments as may be necessary to effectuate the terms of this Agreement.

c. Purchaser's Deliveries. At Closing, Purchaser shall deliver to Trustee:

i. The Balance by Bank Check payable to the order of the Trustee.

ii. Proof of Purchaser's formation and good standing in all jurisdictions in which they conduct business and copies of Purchaser's resolutions authorizing the transaction certified by a member or duly elected officer or manager of the Purchaser as being in full force and effect.

iii. Such other and further documents, instruments and payments as may be prescribed by this Agreement.

d. Removal of Flour. At or prior to Closing, the Purchaser shall remove and dispose of, at its sole cost and expense, the flour presently stored at the Premises (comprised of approximately nine (9) truckloads of flour). The Trustee authorizes the Purchaser to enter upon the Premises to undertake such removal.. The Purchaser shall (i) procure from any party engaged by it to remove the flour to submit to the Trustee evidence of general liability and personal injury and property damage insurance in an amount not less than $1,000,000.00 combined, single occurrence, naming the Trustee, as additional insured, and otherwise in form and substance satisfactory to Trustee; and (ii) defend, indemnify and hold harmless the Trustee from and against any and all claims, suits, actions, proceedings, obligations, liabilities, damages, losses, fines, penalties, costs and expenses, including reasonable attorneys fees, for or relating to loss or damage to property or injury to or death of any and all persons that may be occasioned by, directly or indirectly, any cause whatsoever arising out of or relating to the removal of the flour from the Premises.

e. Taxes. At Closing, Purchaser shall pay to the Trustee all sales and uses taxes, if any, payable on account of the sale of the Purchased Assets to Purchaser, whether levied upon Trustee or Purchaser. Purchaser shall indemnify and hold the Trustee harmless from and against all sales and use taxes, and any interest and penalties thereon, arising out of or as a consequence of the sale contemplated herein. The provisions of this paragraph shall survive Closing.

f. Rejection of Lease and Equipment Leases. The Seller shall request an order of the Court Rejecting the Lease and the Equipment Leases effective as of Closing.

9. Representations and Warranties of Purchaser.

Purchaser represents and warrants to the Trustee, as of the date hereof and as of Closing, as follows:

a. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and is authorized to do business in the State of New York. Purchaser has full power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated.

b. Purchaser has duly taken all action necessary to authorize the execution, delivery and performance of this Agreement and any other instruments and agreements contemplated; and such execution, delivery and performance do not and will not result in any violation of its articles of organization or partnership agreement and do not constitute a default under or a violation of any agreement, order, award, judgment, decree, statute, law, rule, regulation or any other instrument to which Purchaser is a party or by which Purchaser or its property may be bound or may be subject. This Agreement constitutes the legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms.

c. There is no claim, action, suit, proceeding or investigation pending or, to the knowledge of Purchaser, threatened, against or involving Purchaser which questions the validity of this Agreement or seeks to prohibit, enjoin or otherwise challenge the transactions contemplated, and, to the actual knowledge of Purchaser, there is no basis for any such claim, action, suit, proceeding or governmental investigation.

d. No person has any rights or claims in the nature of brokerage or finder's fees with respect to the contemplated purchase.

The provisions of this paragraph 9 shall survive Closing.

10. Risk of Loss.

The risk of any loss of or damage to the Purchased Assets, or any part thereof, due to fire or other casualty shall be upon the Seller until such time as the earlier of Closing or Purchaser's possession of any Purchased Assets; thereafter, such risk shall be borne by Purchaser. At Closing, Debtor shall assign to Purchaser, without recourse, the claims, if any, for recovery under any insurance coverage pertaining to such loss or damage, or, if the Seller has received the proceeds of such insurance coverage, Seller shall deliver same to Purchaser.

11. Miscellaneous.

a. Notices. All notices and other communications required or permitted to be given pursuant to this Agreement shall be in writing, shall be deemed to have been given three (3) business days after being mailed by registered or certified mail, return receipt requested, on the date of delivery if by personal delivery with an acknowledgement of receipt therefor, or on the next business day after delivery of such notice to a nationally recognized overnight carrier for next day delivery, and shall be sent to the parties at the following addresses (or such other address for a party as shall be specified by notice given pursuant to this paragraph):

If to Trustee:

Marc A. Pergament, Esq.
Weinberg, Gross & Pergament LLP
400 Garden City Plaza
Garden City, NY 11530
Phone: 516.877.2424
Facsimile:516.877.2460
email: mpergament@wgplaw.com

with a copy to:

David E. Miller, Esq.
Weinberg, Gross & Pergament LLP
400 Garden City Plaza
Garden City, NY 11530
Phone: 516.877.2424
Facsimile: 516.877.2460
Email: dmiller@wgplaw.com

If to Purchaser:

Bektrom Foods, Inc.
155 Foxhunt Crescent
Syosset, NY 11791
Attn.: Thomas Barbella
Phone: 516.802.3800
Facsimile: 516.922-5792
Email: tb@bektrom.com

with a copy to:

Andrew M. Thaler, Esq.
Thaler & Gertler, LLP.
90 Merrick Avenue, Suite 400

East Meadow, New York 11554
Phone: 516.228.3553
Facsimile: 516.228.3396
Email: thaler@thalergertler.com

b. Notices By or To Attorneys. The parties hereby appoint their respective counsel listed above attorneys-in-fact for the purpose of the service or acceptance of any notice required or permitted hereunder or for the purpose of extending in writing any time periods provided in this Agreement.

c. Expenses. Except as otherwise expressly provided in this Agreement, each of the parties shall pay their own expenses (including the fees and expenses of the agents, representatives, counsel and accountants), incidental to the preparation and consummation of this Agreement.

d. Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the subject matter contained herein and supersedes all prior agreements and understandings, oral or written, with respect to the subject matter contained herein, provided, however, nothing herein shall be construed to limit any rights or responsibilities arising under any other agreements executed simultaneously herewith or hereafter. This Agreement may not be amended, modified, or terminated except by writing executed by each of the parties to be charged therewith.

e. Governing Law, Jurisdiction. This Agreement shall be construed and enforced in accordance with the federal laws of the United States and the internal laws of the State of New York without regard to principles of the conflict of state laws. Any dispute arising in connection with this Agreement shall be adjudicated in the United States Bankruptcy Court, Eastern District of New York. The parties hereto consent to the in personal jurisdiction of such court. The parties hereby waive the right to trial by jury in any action or proceeding arising under or in connection with this Agreement. The provisions of this sub-paragraph f. shall survive Closing or the cancellation, termination or rescission of this Agreement.

f. Partial Invalidity. In case any provision of this Agreement should be held to be contrary to, or invalid under, the law of any country, state or other jurisdiction, such illegality or invalidity, shall not affect in any way any other provisions hereof, all of which shall continue, nevertheless, in full force and effect in any country, state or jurisdiction in which such provision is legal and valid.

g. Waivers. All or any part of any provision of this Agreement may be waived in writing by the other parties hereto. The failure to insist upon the strict performance of all or any part of any provision hereof, or to seek remedies for a default or breach in connection therewith, shall not be construed as a waiver. The waiver of all or any part of any provision shall not affect or alter this Agreement or all or any part of any other provision hereof, nor shall it render unnecessary consent to, or approval of, any subsequent similar act.

h. Remedies. No remedy herein conferred upon or reserved to a party is intended to be exclusive of any other available remedy, but each and every such remedy shall be cumulative and in addition to every other remedy given under this Agreement or in connection with this Agreement and now or hereafter existing at law or in equity

i. Assignment. This Agreement may not be assigned by any party hereto without the written consent of all parties hereto; any purported assignment in contravention of the foregoing shall be without force or effect.

j. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

k. Third Party Beneficiaries. Except as expressly provided herein, each party hereto intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person other than the parties hereto.

l. Captions. The captions of this Agreement are for convenience and reference only and in no way limit the scope or interpretation of this Agreement or any provision thereof.

m. Counterparts. This Agreement may be executed in two or more counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together shall constitute one and the same document.

n. Drafting. No party hereto shall be deemed to be the drafter of this Agreement and in the event this Agreement is ever construed by a court of law, such court shall not construe this Agreement or any provision hereof against any party as the drafter of the Agreement, all parties hereto acknowledging that all parties have contributed substantially and materially to the preparation of this Agreement.

o. Further Assurances. Trustee and Purchaser shall, without cost to the others, execute and deliver to any of the other parties to this Agreement any and all documents in addition to those expressly provided for herein that may be necessary or appropriate to effectuate the provisions of this Agreement, whether before, at, or after Closing. The provisions of this paragraph shall survive Closing.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and date first above written.

____
Marc A. Pergament, as Chapter 7 Trustee of
Quality Food Brands, Inc.

Bektrom Foods, Inc.

By:________________________________
Thomas Barbella, President

SCHEDULE A

8:17 AM 05/06/10

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	Item Description	On Hand	MONTHS LEFT	On Hand	MONTHS LEFT
Inventory					
50-GB-0201	Grinder, Garlic Sea Salt, Gourmet Select , 1.4oz/12pk	114	2	669	3
50-GB-0206	Grinder, Italian Seasoning, Gourmet Select, 1.25oz/12pk	1245	10		
50-GB-0207	Grinder, Steak Seasoning, Gourmet Select, 1.4oz/12pk	895	12	325	10
50-GB-0216	Shaker, Salt & Pepper Disposable, Gourmet Select, 5.8 oz. / 12 Pack	303	1		
50-LG-0101	Grinder, Garlic Sea Salt, Loretta, 1.7oz / 12pk	1353	9		
50-LG-0103	Grinder, Chopped Onion, Loretta, 1oz / 12pk	452	10		
50-LG-0104	Grinder, Onion Sea Salt, Loretta, 1.4oz / 12pk	140	9		
50-LG-0106	Grinder, Italian Seasoning, Loretta, 1.25oz / 12pk	1056	9		
50-LG-0107	Grinder, Steak Seasoning, Loretta, 1.4oz / 12pk	799	9		
50-LG-0108	Grinder, Lemon Pepper, Loretta, 1.4oz / 12pk	117	10		
50-LG-0109	Grinder, Sea Salt, Loretta, 3 oz. / 24 pack	160	9		
50-LG-0116	Grinder, Cinnamon Essence, Loretta, 2oz / 12pk	462	6		
50-LS-1022	Shakers, Seasoned Sea Salt, Loretta, 16oz	2044	9	121	6
50-PD-1002	Grinder, Onion Sea Salt, Paula Deen, 1.85oz/12pk	385	16	595	16
50-PD-1010	Grinder, Candy Cane, Paula Deen, 2oz/12pk	106	13		
50-PD-2004	Shakers, Cayenne Pepper, Paula Deen, 2.11oz/12pk	195	17		
50-PD-2006	Shakers, Chilies Crushed, Paula Deen, 1.94oz/12pk	200	17		
50-PD-2007	Shakers, Cinnamon Ground, Paula Deen, 3oz/12pk	302	5		
50-PD-2008	Shakers, Cinnamon Sugar, Paula Deen, 5.03oz/12pk	419	17		
50-PD-2009	Shakers, Chili Powder, Paula Deen, 3.5oz/12pk	135	12		
50-PD-2012	Shakers, Garlic Granulated, Paula Deen, 4.5oz/12pk	104	17		
50-PD-2014	Shakers, Mint Flakes, Paula Deen, .94oz/12pk	105	12		
50-PD-2017	Shakers, Onion Sea Salt, Paula Deen, 5.4oz/12pk	1367	12		
50-PD-2018	Shakers, Oregano Flakes, Paula Deen, .6oz/12pk	101	14		
50-PD-2021	Shakers, Pepper, Ground Black, Paula Deen, 4oz/12pk	500	12		
50-PD-2025	Shakers, Seasoned Sea Salt, Paula Deen, 5.5oz/12pk	180	14		

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	Item Description	On Hand	MONTHS LEFT	On Hand	MONTHS LEFT
50-PD-2026	Shakers, Seasoning Italian Style, Paula Deen, 2.7oz/12pk	201	12		
50-PD-2029	Shakers, Lemon Pepper, Paula Deen, 4.5oz/12pk	270	12		
50-PD-2030	Shakers, Sea Salt, Paula Deen, 6oz/12pk	270	12		
50-PD-2033	Shakers, House Seasoning, Paula Deen, 6oz/12pk	1318	12		
50-PD-2035	Shakers, Candy Cane Powder, Paula Deen 5.1oz/12pk	445	6	706	17
60-DC-1000	Dinner Kit - Lasagna Dinner, Dinner Classics, 6.5oz/12pk	390	11		
60-DC-1001	Dinner Kit - Beef Pasta Dinner, Dinner Classics, 6.5oz/12pk	702	10		
60-DC-1002	Dinner Kit - Stroganoff Dinner, Dinner Classics, 6.5oz/12pk	546	10		
60-DC-1004	Dinner Kit - Cheesy Tuna Dinner, Dinner Classics, 6.5oz/12pk	468	10		
60-DE-1010	Dinner Kit - English, Deluxe Shells and White Cheddar Cheese, Lore	262	5		
60-DF-1001	Dinner Kit - French, Beef Pasta Dinner, Loretta, 6.5oz/12PK	663	7		
60-DF-1004	Dinner Kit - French, Cheesy Tuna Dinner, Loretta, 6.5oz/12pk	78	11		
60-DF-1005	Dinner Kit - French, Alfredo Chicken Dinner, Loretta, 6.5oz/12pk	312	6		
60-DS-1000	Dinner Kit - Spanish, Lasagna Dinner, Loretta 6.5oz/12pk	857	10		
60-DS-1001	Dinner Kit - Spanish, Beef Pasta Dinner, Loretta, 6.5oz/12PK	730	9		
60-DS-1002	Dinner Kit - Spanish, Stroganoff Dinner, Loretta, 6.5oz/12pk	709	10		
60-DS-1003	Dinner Kit - Spanish, Cheeseburger Dinner, Loretta, 6.5oz/12pk	942	11		
60-DS-1004	Dinner Kit - Spanish, Cheesy Tuna Dinner, Loretta, 6.5oz/12pk	845	10		
60-DS-1005	Dinner Kit - Spanish, Alfredo Chicken Dinner, Loretta, 6.5oz/12pk	377	10		
60-EM-1006	Dinner Kit - Shells and Cheese, EconoMax, 12oz/12pk	576	4		
60-EM-1007	Dinner Kit - Macaroni and Cheese, EconoMax, 14oz/12pk	288	6		
65-PE-6000	Pasta Salad - English, Creamy Parmesan, Gourmet Select, 6.2oz / 12p	3420	8		
65-PE-6020	Pasta Salad - English, Classic Italian, Gourmet Select, 6.4oz / 12pk	300	10		
70-SE-5000	Stuffing - English, Turkey Stuffing, Loretta, 5.25oz / 12pk	1128	5		
70-SE-5030	Stuffing - English, Cornbread Stuffing, Loretta, 5.25oz / 12pk	173	4		
70-SF-5000	Stuffing - French/English, Turkey Stuffing, Loretta, 5.25oz / 12pk	78	5		
75-ME-4000	Potatoes - English, Creamy Scalloped, Loretta, 4.9oz / 12pk	88	12		

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	Item Description	On Hand	MONTHS LEFT	On Hand	MONTHS LEFT
75-ME-4010	Potatoes - English, Au Gratin, Loretta, 4.9oz / 12pk	390	11		
95-ME-1000	Cups, English, Loretta Mac & Cheese, 2.05oz/12pk	720	4		
95-MF-1000	Cups, French/English, Loretta Mac & Cheese, 2.05oz/12pk	532	4		
95-OE-2000	Cups, English, Loretta Maple Brown Sugar Oatmeal, 1.9oz/12pk	471	4		
95-OE-2010	Cups English, Loretta Apple Cinnamon Oatmeal, 1.9oz/12pk	240	4		
95-OF-2000	Cups, French/English, Loretta Maple Brown Sugar Oatmeal, 1.9oz/12	360	5		
95-OF-2010	Cups, French/English, Loretta Apple Cinnamon Oatmeal, 1.9oz/12pk	600	5		
100-MC-1000-€	Mixed Case, Paula Deen 6 pk Grinder Prepack White, Sea Salt, Black	337	11		
100-MC-1005-€	Mixed Case, Paula Deen 6 pk Grinder Prepack Brown, Sea Salt, Blacl	270	11		
100-MC-1015	Mixed Case, Paula Deen 6 pk Shakers Prepack Brown/Golden, House	303	11		
40-BC-1555	Case, Corn Muffin Mix, Bakers Corner, 8.5oz / 24pk	336	6		
40-CV-1700	Case, Raspberry Muffin, Imitation, Country Value, 7oz / 24pk	47	6		
40-CV-3555	Case, Hot Roll Mix, Country Value, 10oz / 12pk	110	6	768	7
40-CV-8381	Case, White Cake Mix, Country Value, 16.5oz / 12pk	70	6	128	5
40-CV-9291	Case, Yellow Cake Mix, Country Value, 16.5oz / 12 pk	58	7		
40-PD-1190	Case, Homestyle Beer Bread, Paula Deen, 18oz/12pk	90	6		
40-PD-1256	Case, Homestyle Double Chocolate Brownie Mix, Paul Deen, 18 oz/1	70	4		
40-PD-1455	Case, Homestyle Double Chocolate Chip Cookies Mix, Paula Deen, 9	79	6		
40-PD-9286	Case, Homestyle Yellow CUPCAKES, Paula Deen, 10oz/12pk	576	5		
40-RM-9295	Case, Golden Cake Mix, Rich'n Moist, 524g / 12 pk	80	2		
45-CA-2222	Retail Goods, Devils Food Cake, Baker Award 50# bags	39	Exp		
45-CA-8383	Retail Goods, White Cake Mix, Baker's Reward, 50#	35	Exp		
45-CO-1414	Retail Goods, Chocolate Chip Cookie Mix, Baker's Reward, 50#	14	5		
45-CO-5150	Retail Goods, Oatmeal Cookie Mix, Baker's Reward, 50#	26	5		
45-CO-7777	Retail Goods, Sugar Cookie Mix, Baker's Reward, 50#	26	5		
45-FR-1175	Retail Goods, All Purpose Flour, 50# bags	50	Exp		
45-MU-1213	Retail Goods, Blueberry Muffin Mix, Baker's Reward, 50#	13	Exp		

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	Item Description	On Hand	MONTHS LEFT	On Hand	MONTHS LEFT
45-MU-1214	Retail Goods, Plain Muffin, Baker's Reward 50# bags	28	Exp		
45-MU-1515	Retail Goods, Corn Muffin Mix, Baker's Reward, 50#	40	Exp		
45-MU-1718	Retail Goods, Oatmeal Muffin Mix, Baker's Reward, 50#	40	Exp		
75-PD-4040	Potatoes - Paula's Potatoes Skins N'All NiceN'Spice, Paula Deen, 13o	65	5		
75-WB-3005	Potatoes - Instant Mashed Potatoes, Western Beef, 13oz/12pk	35	3		
	Bulk Potato Flakes	48000 lbs	6		
	Miscellaneous flavorings and preservatives	70000 lbs	4-6 months		

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	On Hand	MONTHS LEFT	TOTAL ON HAND	COST	TOTAL COST	PERCENT OFFER	NET $ OFFER
Inventory							
50-GB-0201			783	$ 5.52	$ 4,322.16	$ 0.05	216.11
50-GB-0206			1245	$ 5.42	$ 6,747.90	0.70	4723.53
50-GB-0207			1220	$ 5.44	$ 6,636.80	0.70	4645.76
50-GB-0216			303	$ 5.90	$ 1,787.70	0.00	0.00
50-LG-0101			1353	$ 5.17	$ 6,995.01	0.60	4197.01
50-LG-0103			452	$ 5.44	$ 2,458.88	0.60	1475.33
50-LG-0104			140	$ 5.40	$ 756.00	0.60	453.60
50-LG-0106			1056	$ 5.40	$ 5,702.40	0.60	3421.44
50-LG-0107			799	$ 5.34	$ 4,266.66	0.60	2560.00
50-LG-0108			117	$ 5.40	$ 631.80	0.60	379.08
50-LG-0109			160	$ 10.14	$ 1,622.40	0.60	973.44
50-LG-0116			462	$ 5.12	$ 2,365.44	0.40	946.18
50-LS-1022	70	12	2235	$ 7.20	$ 16,092.00	0.40	6436.80
50-PD-1002			980	$ 7.19	$ -	0.00	0.00
50-PD-1010			106	$ 7.20	$ -	0.00	0.00
50-PD-2004			195	$ 8.39	$ -	0.00	0.00
50-PD-2006			200	$ 8.39	$ -	0.00	0.00
50-PD-2007			302	$ 8.40	$ -	0.00	0.00
50-PD-2008			419	$ 6.93	$ -	0.00	0.00
50-PD-2009			135	$ 8.40	$ -	0.00	0.00
50-PD-2012			104	$ 7.74	$ -	0.00	0.00
50-PD-2014			105	$ 6.00	$ -	0.00	0.00
50-PD-2017			1367	$ 6.51	$ -	0.00	0.00
50-PD-2018			101	$ 7.20	$ -	0.00	0.00
50-PD-2021			500	$ 6.96	$ -	0.00	0.00
50-PD-2025			180	$ 7.21	$ -	0.00	0.00

8:17 AM 05/06/10

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	On Hand	MONTHS LEFT	TOTAL ON HAND	COST	TOTAL COST	PERCENT OFFER	NET $ OFFER
50-PD-2026			201	$ 7.21	$ -	0.00	0.00
50-PD-2029			270	$ 7.35	$ -	0.00	0.00
50-PD-2030			270	$ 4.80	$ -	0.00	0.00
50-PD-2033			1318	$ 6.25	$ -	0.00	0.00
50-PD-2035			1151	$ 6.00	$ 6,906.00	0.60	4143.60
60-DC-1000			390	$ 5.77	$ 2,250.30	0.80	1800.24
60-DC-1001			702	$ 5.72	$ 4,015.44	0.80	3212.35
60-DC-1002			546	$ 5.48	$ 2,992.08	0.80	2393.66
60-DC-1004			468	$ 5.68	$ 2,658.24	0.80	2126.59
60-DE-1010			262	$ 7.49	$ 1,962.38	0.40	784.95
60-DF-1001			663	$ 5.75	$ 3,812.25	0.60	2287.35
60-DF-1004			78	$ 5.70	$ 444.60	0.80	355.68
60-DF-1005			312	$ 5.95	$ 1,856.40	0.40	742.56
60-DS-1000			857	$ 5.77	$ 4,944.89	0.70	3461.42
60-DS-1001			730	$ 5.78	$ 4,219.40	0.70	2953.58
60-DS-1002			709	$ 5.53	$ 3,920.77	0.70	2744.54
60-DS-1003			942	$ 5.18	$ 4,879.56	0.70	3415.69
60-DS-1004			845	$ 5.68	$ 4,799.60	0.70	3359.72
60-DS-1005			377	$ 5.97	$ 2,250.69	0.70	1575.48
60-EM-1006			576	$ 6.98	$ 4,020.48	0.20	804.10
60-EM-1007			288	$ 7.44	$ 2,142.72	0.20	428.54
65-PE-6000			3420	$ 6.34	$ 21,682.80	0.40	8673.12
65-PE-6020			300	$ 6.37	$ 1,911.00	0.70	1337.70
70-SE-5000			1128	$ 5.87	$ 6,621.36	0.20	1324.27
70-SE-5030			173	$ 5.91	$ 1,022.43	0.20	204.49
70-SF-5000			78	$ 5.87	$ 457.86	0.20	91.57
75-ME-4000			88	$ 6.71	$ 590.48	0.70	413.34

8:17 AM 05/06/10

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	On Hand	MONTHS LEFT	TOTAL ON HAND	COST	TOTAL COST	PERCENT OFFER	NET $ OFFER
75-ME-4010			390	$ 7.07	$ 2,757.30	0.70	1930.11
95-ME-1000			720	$ 4.56	$ 3,283.20	0.10	328.32
95-MF-1000			532	$ 4.55	$ 2,420.60	0.10	242.06
95-OE-2000			471	$ 4.25	$ 2,001.75	0.10	200.18
95-OE-2010			240	$ 4.68	$ 1,123.20	0.10	112.32
95-OF-2000			360	$ 4.25	$ 1,530.00	0.10	153.00
95-OF-2010			600	$ 4.68	$ 2,808.00	0.10	280.80
100-MC-1000-(			337	$ 36.00	$ 12,132.00	0.40	4852.80
100-MC-1005-(			270	$ 36.00	$ 9,720.00	0.40	3888.00
100-MC-1015			303	$ 36.00	$ 10,908.00	0.40	4363.20
40-BC-1555			336	$ 5.01	$ 1,683.36	0.10	168.34
40-CV-1700			47	$ 5.07	$ 238.29	0.10	23.83
40-CV-3555			878	$ 4.07	$ 3,573.46	0.40	1429.38
40-CV-8381			198	$ 5.22	$ 1,033.56	0.40	413.42
40-CV-9291			58	$ 5.18	$ 300.44	0.40	120.18
40-PD-1190			90	$ 4.76	$ -	0.00	0.00
40-PD-1256			70	$ 15.24	$ -	0.00	0.00
40-PD-1455			79	$ 5.10	$ -	0.00	0.00
40-PD-9286			576	$ 3.66	$ -	0.00	0.00
40-RM-9295			80	$ 5.41	$ -	0.00	0.00
45-CA-2222			39	$ 20.61	$ -	0.00	0.00
45-CA-8383			35	$ 14.06	$ -	0.00	0.00
45-CO-1414			14	$ 20.16	$ 282.24	0.30	84.67
45-CO-5150			26	$ 16.82	$ 437.32	0.30	131.20
45-CO-7777			26	$ 16.13	$ 419.38	0.30	125.81
45-FR-1175			50	$ 4.45	$ -	0.00	0.00
45-MU-1213			13	$ 14.18	$ -	0.00	0.00

Quality Food Brands, Inc. Inventory Valuation Summary As of April 30, 2010

	On Hand	MONTHS LEFT	TOTAL ON HAND	COST	TOTAL COST	PERCENT OFFER	NET $ OFFER
45-MU-1214			28	$ 15.74	[redacted]	0.00	0.00
45-MU-1515			40	$ 15.23	[redacted]	0.00	0.00
45-MU-1718			40	$ 13.90	[redacted]	0.00	0.00
75-PD-4040			65	$ 4.30	[redacted]	0.00	0.00
75-WB-3005			35	$ 6.71	[redacted]	0.00	0.00
					$ 207,398.98		97910.43
			48000 lbs	$ 0.54	25,920	100	25920
			70000 lbs	various	65,700	0.17	11169

TOTAL FOOD STUFFS OFFER	134999.43
FURNITURE	1500
UPC CODES	2500
REJECTION OF ALL EQUIPMENT LEASES	10,000
REJECTION OF BUILDING LEASE	10,000
SUM TOTAL OF OFFER FOR QFBI ESTATE	158999.43

SCHEDULE B

Quality Food Brands, Inc.
Bektrom Industries

Company Leases

Lessor	Equipment Leased	Lease Number	Full Value	Company	Location	Monthly Payment	Buy Out	Lease End Date
[redacted]								
CIT	Dell Computer	900258	$25,495.35	QFBI	Telegraph	$897.21	$ 1.00	5/18/2013
Great America	Ricoh MPC2550SP Copier	#REF!		QFBI	Telegraph	$143.86	FMV	7/10/2014
[redacted]								
Teletronics	Phone System Support	22252		QFBI		$140.19		9/30/2010
[redacted]								
National City Commercial Capital Co. CHANGED - PNC	Matrix Packaging, Flexicon Corp., Speedee Packaging	115148000 5/15/09	$34,430.00	PHS/QFBI	North Dakota	$353.78	$ 1.00	5/15/2014
			$11,535.84	QFBI		$119.20		
National City Commercial Capital Co. CHANGED - PNC	Great Western		$18,648.00	QFBI		$295.23	$ 1.00	1/15/2014
	Matrix Packaging	115174000	$43,037.50	PHS/QFBI	North Dakota	$444.72	$ 1.00	1/15/2014
	Matrix Packaging, Markem Imaje, Speedee Pack		$8,607.50	PHS/QFBI	North Dakota	$88.94	$ 1.00	1/15/2014
			$10,802.34	QFBI		$111.62	$ 1.00	1/15/2014
			$18,648.00	QFBI		$142.97	$ 1.00	1/15/2014
Wells Fargo Financial	2001 Caterpiller Fork Lift 2EC15	200978532		QFBI		$361.51	$ 1.00	6/29/2013
[redacted]								
Tiger Leasing / Bank of the West	Pouch & Bagging Line	080-0805468-001	$211,595.62	QFBI		$4,379.61	$ 100.00	9/30/2014
[redacted]								
Tiger Leasing	Pkg Refrigerator dryer / Check Weigher system / Misc	4338	$132,887.00	PHS/QFBI	[redacted]	$4,834.01	$ 100.00	6/30/2012
[redacted]								
						$23,181.36		

APPENDIX “H”

ERNST & YOUNG INC.
In its capacity as Receiver & Manager of 2110458 Ontario Inc. *et al*
SUMMARY OF RECEIPTS AND DISBURSEMENTS (IN $CDN)
for the period November 26, 2010 to July 8, 2011

Opening balances in Debtors' bank accounts			**$ 324,745.01**
Food Services Business			
Receipts			
Proceeds on sale of business	300,000.00		
Receivership period sales	420,535.92		
Collection of pre-receivership A/R	16,165.33		
		736,701.25	
Disbursements			
Cost of sales	(428,182.77)		
Payroll and contract workers	(286,879.41)		
Facility and maintenance costs	(74,791.49)		
		(789,853.67)	
Net cash inflow from Food Services Business			**(53,152.42)**
Spice Business			
Receipts			
Proceeds on auction and misc. asset sales	146,306.96		
Receivership period sales	1,082,661.93		
Collection of pre-receivership A/R	129,478.66		
		1,358,447.55	
Disbursements			
Cost of sales	(251,484.98)		
Payroll, contract workers and commissions	(179,018.21)		
Facility and maintenance costs	(115,321.31)		
Shipping, transport and vehicle leases	(66,003.60)		
		(611,828.10)	
Net cash inflow from Spice Business			**746,619.45**
Flour Business			
Receipts			
Proceeds on sale of business	600,000.00		
Receivership period sales	91,942.37		
Collection of pre-receivership A/R	22,167.50		
		714,109.87	
Disbursements			
Facility and maintenance costs	(182,500.74)		
Cost of Sales	(101,717.60)		
Security	(27,976.98)		
Payroll and Contract Employees	(67,278.63)		
		(379,473.95)	
Net cash inflow from Flour Business			**334,635.92**
Head Office and Miscellaneous Disbursements			
Payroll, contract workers and employee benefits	(235,211.04)		
KERP payments	(31,100.00)		
Net HST and PST remitted	(26,026.63)		
Insurance	(45,952.77)		
Other overhead costs	(49,496.73)		
Net head office and miscellaneous disbursements			**(387,787.17)**
Disbursements related to Receivership Administration			
Interim receiver, receiver and legal fees	(262,692.33)		
Contract controller costs and other professional fees	(48,647.41)		
Interest on receiver's certificate borrowings	(10,086.21)		
Costs of sale processes and miscellaneous	(11,992.21)		
Total receivership administration disbursements			**(333,418.16)**
Receiver's certificate borrowings			**450,000.00**
NET CASH RECEIPTS			**$ 1,081,642.63**

APPENDIX “I”

Court File No. CV-10-8991-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED O/A LORETTA FLOUR, 2131413 ONTARIO LIMITED O/A LORETTA FOODS,787755 ONTARIO LIMITED O/A NEW DURHAM TRADING, AND O/A NDT FOOD SERVICE AND O/A SKYWAY WHOLESALEAND TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

---

THIRD REPORT TO THE COURT OF ERNST & YOUNG INC., AS RECEIVER

May 9, 2011

BACKGROUND

1. On November 10, 2010, Bank of Montreal ("**BMO**") made an application to the Ontario Superior Court of Justice (Commercial List) for an order, and the Court made an order, appointing Ernst & Young Inc. ("**EYI**") as interim receiver (in such capacity, the "**Interim Receiver**") pursuant to section 47(1) of the *Bankruptcy & Insolvency Act* ("**BIA**") and pursuant to section 101 of the *Courts of Justice Act* ("**CJA**") of the assets, undertakings and properties of 2110458 Ontario Limited ("**211**") o/a Loretta Flour, 2131413 Ontario Limited ("**213**") o/a Loretta Foods, 787755 Ontario Limited ("**787**") o/a New Durham Trading and o/a NDT Food Service and o/a Skyway Wholesale, and Tarbrac Holdings Inc. ("**Tarbrac**") (collectively, the "**Debtors**" or the "**Loretta Group**").

2. On November 26, 2010, EYI was appointed as receiver and receiver and manager (the "**Receiver**") of the Debtors pursuant to section 243 of the BIA and section 101 of the CJA. A copy of the order appointing EYI as the Receiver (the "**Receivership Order**") is attached as Appendix "**A**" to this Report.

3. The Receivership Order, among other things, authorizes and empowers the Receiver to:

   (a) carry out the sale process developed by EYI, in its capacity as Interim Receiver, for the Food Services (as defined below) business of the Debtors substantially in accordance with the timeline annexed as Schedule "E" to the First Report of the Interim Receiver dated November 25, 2010 (the "**Food Services Timeline**"), with such changes as the Receiver considers necessary in its sole discretion, acting reasonably; and

   (b) sell the Property or any parts thereof outside the ordinary course of business:

      (i) without the approval of the Court in respect of any transaction not exceeding $250,000, provided that the aggregate consideration for all such transactions does not exceed $1,000,000; and

      (ii) with the approval of the Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause;

   and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act* shall not be required, and in each case the Ontario *Bulk Sales Act* shall not apply.

4. On January 17, 2011, the Court made an order approving a marketing and sale process of the "Loretta Flour Division" (the "**Flour Business**") and the "Loretta Spice Division" (the "**Spice Business**") of the Debtors (the "**Flour and Spice Sale Process Order**"). The Flour and Spice Sale Process Order is attached as Appendix "**B**" to this Report.

5. On February 16, 2011, the Court made an order (the "**Approval and Vesting Order**"), *inter alia*, approving the sale of the Food Services business of the Debtors to Rosedale

Food Company Inc. ("**Rosedale**") (the assignee of Jarvis Management Corp., the initial purchaser) and vesting title to the assets of the Food Services business to Rosedale, free and clear of all security interests, mortgages, claims, charges, and encumbrances, subject only to the filing by the Receiver with the Court of a completion of sale certificate. A copy of the Approval and Vesting Order is attached as Appendix "**C**" to this Report.

PURPOSE

6. This is the third report of the Receiver. The purpose of this Third Report is to:

(a) report to the Court on the completion of the sale process of the Food Service and Catering ("**Food Services**") business of the Debtors;

(b) report to the Court on the sale process in respect of the Flour and Spice Businesses of the Debtors and the other initiatives of the Receiver to realize on the assets of the Spice Business;

(c) report to the Court on the steps taken by the Receiver to collect the offshore accounts receivable from the Trading Business (as defined below) of the Debtors, and the results to date from those procedures;

(d) report to the Court on the bankruptcy of Tarbrac's subsidiary, North Dakota Holdings Limited ("**NDHL**");

(e) provide an update to the Court on the issues encountered by the Receiver with respect to lease agreements previously entered into by the Debtors, as described in the Second Report of the Receiver dated February 9, 2011 (the "**Second Report**");

(f) provide an update to the Court on the disposition of insurance proceeds payable in connection with the theft of a Harley Davidson motorcycle leased by 787, as initially described in the Second Report; and

(g) request that the Court grant an Order:

(i) approving the asset purchase agreement (the "**JEF APA**") in respect of the Flour Business (the "**JEF Transaction**") between the Receiver and JE Fininvest Ltd. ("**JEF**" or the "**Purchaser**");

(ii) vesting all of the Debtors' right, title and interest in and to the assets of the Flour business to JEF free and clear of all security interests, mortgages, claims, charges, and encumbrances, as more fully detailed in the draft order included in the Receiver's motion materials, subject only to the filing by the Receiver with the Court of a completion of sale certificate, which will be filed by the Receiver forthwith after the closing of the JEF Transaction;

(iii) vesting all of the Debtors' right, title and interest in and to the trademarks and design mark used in the Spice Business (the "**Spice Intellectual Property**") to Poppa Corn Corp. free and clear of all security interests, mortgages, claims, charges, and encumbrances, as more fully detailed in the draft order included in the Receiver's motion materials;

(iv) sealing certain confidential appendices to the Third Report; and

(v) approving the activities of the Receiver as described in this Report.

Terms of Reference

7. In preparing this Third Report, the Receiver has relied upon the books and records of the Debtors, conversations with operating management and employees of the Debtors, and other information from various sources. The Receiver has assumed that the information it has been provided is accurate and complete. The Receiver has not audited, reviewed or otherwise verified such information.

FOOD SERVICES SALE

8. The sale of the Food Services business to Rosedale closed, and the Receiver filed the Food Services Sale Completion Certificate with the Court on February 18, 2011. A copy of the Food Services Sale Completion Certificate is attached hereto as Appendix "**D**".

9. Subsequent to the completion of the sale, the Receiver and Rosedale dealt with certain transitional issues that were not specifically addressed in the asset purchase agreement (the "**Rosedale APA**"). These issues include:

   (a) Although Rosedale and the Receiver made efforts to communicate with Food Services customers to achieve a clean cut-off between pre-closing and post-closing receipts, a number of customers continued to remit cheques and wire transfers to the Receiver after the closing date. The Receiver has conveyed all such amounts to Rosedale;

   (b) Although Rosedale is not obligated under the Rosedale APA to provide any assistance to the Receiver in dealing with Equipment Lessors (as defined below), it has nonetheless agreed to allow representatives of one Equipment Lessor to have access to the Mississauga premises of the Debtors (the "**Davand Premises**") for the purposes of attempting to determine whether any of the Food Services assets were, in fact, property described in their lease agreements. To avoid business disruption and to limit its liability, Rosedale has requested that any such access occur only outside its normal operating hours and that the Equipment Lessor execute a release and indemnity agreement with respect to any access to the roof of the Davand Premises. The Receiver is of the view that these conditions are reasonable in the circumstances; and

   (c) Although the Rosedale APA allows the Receiver access to and use of part of the head office portion of the Davand Premises until March 31, 2011, Rosedale agreed to extend this to April 15, 2011 to facilitate the Receiver's realization initiatives, as discussed in greater detail below.

FLOUR AND SPICE SALE PROCESS

Identifying and Contacting Potential Purchasers

10. In the Second Report, the Receiver provided a general description of the status of its marketing and sale efforts relating to the Flour and Spice Businesses, including certain modifications made to improve or refine that process. A more detailed and/or updated description of that process is set out below.

11. The Receiver finalized the information memorandum (the "**Information Memorandum**") for distribution to potential purchasers of the Spice Business and/or Flour Business on January 26, 2010, which was approximately two weeks later than contemplated in the timeline approved by the Court and attached as Schedule A to the Flour and Spice Sale Process Order, due primarily to difficulty in obtaining separate financial information for Food Services. However, the offer deadline of March 4, 2011 set out in the Flour and Spice Sale Process Order remained unchanged.

12. The Information Memorandum included detailed descriptions of all the assets of the Spice Business and Flour Business available for sale, including the intellectual property utilized in each business. The tender process offered the assets of the Spice Business and the Flour Business for sale only by *en bloc* purchase of one or both businesses.

13. The Receiver advertised the sale process in the national edition of the Globe and Mail on February 5, 2011 and in Milling and Baking News, a monthly food industry publication, on February 22, 2011. Copies of these advertisements are attached as Appendix "**E**" to this Report.

14. The Receiver identified and contacted, or was contacted by, 31 parties likely to have an interest in acquiring the Flour Business and 56 parties likely to have an interest in acquiring the Spice Business.

15. Before the offer deadline of March 4, 2011, the Receiver also:

    (a) distributed the Information Memorandum to 69 parties who expressed an interest in further evaluating the opportunity;

(b) allowed 25 of the parties who received a copy of the Information Memorandum and who signed a confidentiality agreement satisfactory to the Receiver to access an electronic data room containing detailed financial and other information relating to the Flour and Spice Businesses, including a detailed Spice inventory listing from a physical count conducted by employees of the Spice Business on January 31, 2011; and

(c) provided six tours of the Whitby premises of the Debtors (the "**Whitby Premises**") and eight tours of the other Mississauga business premises of the debtors (the "**Sismet Premises**") to potential purchasers, including two parties who toured both facilities.

Other Actions of the Receiver

16. The Receiver also:

(a) arranged for an appraisal and auctioneering firm to tour the Sismet Premises and to provide the Receiver with an appraisal of the Spice production equipment and racking on an "as is, where is" basis. The Interim Receiver had previously arranged for the same firm to tour the Whitby Premises and to provide the Interim Receiver with an appraisal of the Flour production equipment and racking on an as is, where is basis; and

(b) arranged for two appraisal and auctioneering firms, including the firm that prepared the appraisals mentioned above, to tour the Sismet Premises and the Whitby Premises and requested that those firms provide the Receiver with proposals for the liquidation of the production equipment, racking and the remaining inventory at those locations.

17. The appraisals and liquidation proposals were used by the Receiver (in conjunction with the Spice inventory count information and the Flour and Spice accounts receivable balances) to estimate the realizations potentially available if the Spice and/or Flour Businesses were wound down by the Receiver rather than sold *en bloc*. The appraisals,

liquidation proposals and the Receiver's own realization estimates were not provided to potential purchasers.

Offers Received

18. The deadline for receipt of offers to purchase the Flour and/or Spice Businesses was on March 4, 2011 at noon Toronto time. On March 4, 2011, the Receiver received certain offers (collectively, the "**Offers**"), a number of which were delivered to the Receiver after noon Toronto time. Attached hereto as Appendix "**F**" is a summary of the Offers. In order to prevent any prejudice if the JEF Transaction is not completed, the Receiver hereby requests that Appendix "F" be sealed by order of this Court pending completion of the JEF Transaction.

Further Discussions and Negotiations

19. After considering the Offers, the Receiver advised each of the parties that it was rejecting all Offers but was willing to commence private negotiations with each of them, with the intention of reaching an agreement to sell the Flour and/or Spice Businesses on traditional "as is, where is, no representations, no warranties" receivership sale terms.

20. Beginning on March 7, 2011, the Receiver entered into discussions with the parties that submitted Offers, and with certain other potential purchasers that had expressed strong interest but had not submitted Offers, in order to:

(a) clarify certain terms and conditions included with their Offers;

(b) attempt to resolve certain inconsistencies between their respective Offers and the Receiver's preferred transaction structure; and

(c) conduct additional facilities tours for certain of the parties who requested such further access,

with a view to negotiating satisfactory agreements for the sale of the Flour and/or Spice Businesses.

21. The Receiver did not establish a specific deadline for the submission of revised offers because of the logistics involved in discussions with multiple parties, certain of which had made Offers in respect of only one business and certain of which had made Offers to acquire both the Flour and Spice Businesses.

Decision to Liquidate the Spice Business

22. Based on the Offers received and the status of further discussions, the Receiver concluded that it was unlikely that an agreement to sell the Spice Business for more than the expected proceeds from liquidation of the Spice Business could be negotiated on a timely basis, if at all. Accordingly, the Receiver commenced the liquidation of the Spice Business (as discussed in greater detail below), notified the potential purchasers with whom it had been in discussions of that liquidation, and returned the deposit cheques that had been submitted with certain of the Offers to the respective offerors.

The JEF Transaction

23. By March 31, 2011, the Receiver and JEF succeeded in negotiating the JEF APA. Attached hereto and marked as Appendix **"G"** is a redacted copy of the executed JEF APA. In order to prevent any prejudice if the JEF Transaction is not completed, the Receiver hereby requests that the copy of the unredacted JEF APA be sealed by order of this Court pending completion of the JEF Transaction contemplated therein.

24. A condition of the JEF APA was that the Purchaser was to obtain the consent of the landlord of the Whitby Premises to assign the lease. On May 2, 2011 the Purchaser waived the condition for landlord consent. The only significant remaining condition to closing is the Receiver obtaining an approval and vesting order from this Honourable Court in respect of the JEF Transaction.

Receiver's Conclusion and Recommendation

25. The Receiver is of the view that the consideration from the JEF Transaction, if completed, represents the maximum realization available in the circumstances from the Flour assets:

(a) the consideration under the JEF APA represents the highest price offered following a marketing process in which:

  (i) offers were solicited from all parties indicated by the Receiver's research to be likely potential purchasers of the Flour Business, including all known Canadian flour manufacturers; and

  (ii) in order to bring the opportunity to purchase the Flour Business to the attention of industry participants that might not have been identified by the Receiver, the sale of the Flour Business was advertised in the Globe and Mail and in a monthly food industry publication; and

(b) the consideration under the JEF APA is substantially higher than the expected realizations (based on the equipment appraisal obtained, inventory count conducted and accounts receivable balances for the Flour business) if the Flour Business assets were liquidated by auction.

26. In addition, the Receiver notes that the JEF Transaction:

(a) is a straightforward cash transaction that:

  (i) if approved by the Court, can be closed forthwith after such approval; and

  (ii) does not involve adjustments for inventory or accounts receivable levels, and should therefore be inexpensive to close; and

(b) if completed, potentially provides the personnel employed by the Flour Business with new employment as the Receiver understands that JEF intends to operate the Flour Business.

27. Accordingly, the Receiver recommends that the Court grant the requested order, discussed in further detail below, approving the JEF APA and vesting title in the purchased assets in and to JEF.

LIQUIDATION OF THE SPICE BUSINESS

28. As described above, the Receiver concluded that it was unlikely that an agreement could be negotiated on a timely basis, if at all, to sell the Spice Business for more than the expected proceeds from liquidation of the Spice Business. Accordingly, the Receiver commenced the liquidation of the Spice Business.

29. In order to liquidate the Spice Business, the Receiver has done the following:

(a) arranged for the employees of the Spice Business to conduct an updated physical count of the remaining finished goods and raw materials inventory, and to notify the Receiver of the finished goods that could potentially be produced from the raw materials inventory;

(b) circulated a list of the remaining finished goods inventory, and potential additional finished goods that could be produced from the remaining raw materials inventory, first to the eight major customers that comprise the vast majority of the remaining accounts receivable of the Spice Business and then to other major customers. The sales personnel of the Spice Business offered this remaining inventory to the major customers at a discount, on the condition that (i) at or before delivery, the customer must provide a certified cheque in the amount of the full purchase price of the inventory plus the customer's outstanding accounts receivable balance; and (ii) before the customer's order is accepted it must execute a Bill of Sale satisfactory to the Receiver in respect of the sale;

(c) entered into an agreement with Danbury Industrial ("**Danbury**") to sell the remaining fixed assets and inventory of the Spice Business by auction at the Sismet Premises on April 6, 2011. The agreement with Danbury provides that Danbury will pay the Receiver a net minimum amount, and that any auction proceeds in excess of such net minimum plus a specified amount for Danbury's costs and profit will be shared between the Receiver and Danbury on an 85/15 percent basis, respectively. The auction was conducted as scheduled on April 6, 2011. The Receiver has not yet received the final accounting of the auction from

Danbury, but based on preliminary comments from Danbury the Receiver expects that the net amount paid to the Receiver by Danbury will be approximately $100,000;

(d) with the assistance of Danbury, disposed of a substantial quantity of inventory at the Sismet premises that was many months past its "best before" dates. This included (i) almost 12,000 cases of flax and sunflower seed oil with expiry dates in early 2010, and (ii) approximately 12 skids of packaged food mixes with expiry dates several years before the date of the Receivership Order. The business rationale for the Debtors having purchased or retained these items is not known;

(e) the Receiver notes that when an inventory count was conducted at the outset of the interim receivership, the Spice personnel had apparently been directed by the Debtors' management to re-label the cases of flax and sunflower seed oil with later expiry dates to facilitate its potential future sale. It is the Receiver's understanding that none of the re-labelled product was sold during the interim receivership. Upon its appointment, the Receiver promptly stopped all efforts to sell this product for human consumption due to health concerns. Danbury, on behalf of the Receiver, first attempted to negotiate the sale of the flax and sunflower seed oil to producers of biodiesel fuels but was unable to do so. As a result, the Receiver, with Danbury's assistance, disposed of the expired products at a nominal cost to the Loretta Group;

(f) terminated the employment by the Debtors of all Spice personnel who are not required for the realization and disposal initiatives described above; and

(g) notified the landlord of the Sismet Premises that the Receiver would vacate the Sismet Premises and disclaim the lease of the Sismet Premises on April 15, 2011, and negotiated an agreement with the landlord of the Sismet Premises that the Receiver would pay rent for the Sismet Premises only to the date it vacated the premises. The Receiver vacated the Sismet Premises on April 15 as agreed.

30. In addition to the actions described above, the Receiver notified all potential purchasers of the Spice Business, who were industry participants and who received a copy of the Information Memorandum, that the Receiver would accept "as is, where is" cash offers for the Spice Intellectual Property until 11 a.m. Toronto time on March 31, 2011. Only one of the parties contacted submitted an offer (the "**March 31 IP Offer**") by the deadline. The quantum of the March 31 IP Offer was insufficient to warrant the cost that would be incurred by the Receiver to complete the transaction, and accordingly the Receiver notified the offeror that it rejected the March 31 IP Offer.

31. Following the Receiver's rejection of the March 31 IP Offer, two other parties who were previously contacted by the Receiver expressed continued interest in the Spice Intellectual Property. One of these parties was Poppa Corn. The Receiver invited offers from these two parties, and from the party that submitted the March 31 IP Offer, with no specific deadline.

32. On April 11, 2011, the Receiver received an offer from Poppa Corn in the amount of $31,008.01 ("**Initial Poppa Corn Offer**"), including a deposit of $15,000.00. Neither of the other two parties contacted submitted an offer.

33. The terms of the Initial Poppa Corn Offer also required the Receiver to bring a motion (the "**Spice Intellectual Property Motion**") for an order approving the sale and vesting title to the Spice Intellectual Property in and to Poppa Corn free and clear of all encumbrances. In addition, Poppa Corn wished to close its purchase of the Spice Intellectual Property in advance of the Receiver bringing the Spice Intellectual Property Motion so that Poppa Corn could begin producing and selling product using the Spice Intellectual Property immediately.

34. After further negotiations, the Receiver and Poppa Corn entered into a side letter (the "**Side Letter**" and together with the Initial Poppa Corn Offer, the "**Poppa Corn Offer**") pursuant to which:

(a) Poppa Corn agreed to pay an additional $7,500.00 in respect of the fees and disbursements of the Receiver to make the Spice Intellectual Property Motion; and

(b) the Receiver agreed, on certain terms, to bring the Spice Intellectual Property Motion following the closing of the sale of the Spice Intellectual Property to Poppa Corn.

35. The Receiver accepted the Poppa Corn Offer on April 14, 2011 and the sale of the Spice Intellectual Property to Poppa Corn closed on April 15, 2011. Attached as Appendix "**H**" are the Receiver's executed Bill of Sale and Assignment with/to Poppa Corn and the executed Side Letter.

36. Based on its efforts to sell the assets of the Spice Business and to sell the Spice Intellectual Property as described above, the Receiver is of the view that the Poppa Corn Offer represented the maximum realization of the Spice Intellectual Property available in the circumstances.

37. Despite the Receiver agreeing to the Spice Intellectual Property Motion in respect of the sale to Poppa Corn as set out in the Side Letter, the Receiver, with the agreement of Poppa Corn, will now only seek a vesting order in respect of the sale transaction with Poppa Corn. Upon further consideration of the issue, the Receiver and Poppa Corn agreed that there is no need for an order approving the sale transaction since the Receivership Order authorizes the Receiver to sell property outside the ordinary course of business of the Debtors without the approval of the Court in respect of any transaction not exceeding $250,000 and the sale transaction has already closed. Accordingly, the Receiver recommends that the Court grant the order vesting the Debtors' right, title and interest in and to the Spice Intellectual Property in Poppa Corn, free and clear of any encumbrances.

OFFSHORE ACCOUNTS RECEIVABLE

Background

38. In addition to the accounts receivable related to the Food Services Business (which accounts receivable were sold to Rosedale pursuant to the Rosedale APA), the Flour Business (which accounts receivable are proposed to be sold to JEF as part of the JEF Transaction) and the Spice Business (the remainder of which are being collected by the Receiver as part of the liquidation described above), the books and records of the Loretta Group indicate that the Debtors' assets include approximately U.S. $25.6 million in net accounts receivable related to the spice and flour trading business (the "**Trading Business**") formerly conducted by 787. Of this amount, the Debtors had factored approximately U.S. $16.4 million, and received advances from Bank of Montreal ("**BMO**"), pursuant to a discounting facility agreement between 787 and BMO.

Description of BMO Factoring Arrangements

39. The majority of the debt owed to BMO arose under the factoring facility between 787 and BMO. Under this facility, specific invoices insured by the Export Development Corporation ("**EDC**") were sold by 787 to BMO, which paid 90% of the face amount of each such invoice to 787. The invoice balances were then payable directly to BMO, which would retain the first 90% of the proceeds plus interest and administrative costs and pay the remainder to 787. BMO had recourse to the other assets of the Debtors in the event it was unable to collect 90% of the proceeds of a particular invoice plus interest and administrative costs. The program was administered for BMO by Brome Financial Corporation Inc. ("**Brome**") as servicing agent.

40. Pursuant to a tripartite agreement between 787, BMO and EDC, in order for an invoice to be factored, the customer in question must be known to EDC and both the invoice amount, and the aggregate amount of all customer invoices factored, must be within credit limits established by EDC for that customer. In addition, the documentation requirements for an invoice to be factored are substantial, and include, among other documents:

(a) a copy of the customer's purchase order(s) for the goods comprising the invoice;

(b) a copy of the packing slip(s), including the signature of a representative of the customer on each packing slip acknowledging that the goods listed on the packing slip have been received or picked up by the customer;

(c) a notice indicating that the invoice has been sold to BMO and that payment must be remitted to a specified bank account (the "**Brome Account**") maintained by Brome as servicing agent for BMO. This notice must be signed by a representative of 787, and a representative of the customer must sign the notice in acknowledgment that (i) the goods comprising the invoice were delivered and are satisfactory to the customer, and (ii) the balance of the invoice will be remitted, without set-off or any other reduction, to the Brome Account (or as otherwise directed by BMO) on its due date as specified on the notice.

41. As at November 10, 2010, invoices with a total face value of approximately U.S. $16.4 million that had been factored were outstanding. Approximately U.S. $1.7 million of this amount consisted of invoices owed by PHS Group Inc. ("**PHS**"). The balance was owed by a total of 17 customers that were variously located in the United States, Brazil, Singapore, India and Pakistan. BMO has provided the Receiver with copies of the factoring documentation for all factored accounts receivable.

Receiver Notices to Factored Accounts Receivable

42. In early December 2010, after discussion with BMO, the Receiver sent letters to each of the customers for which factored invoices were outstanding, requesting that payment be remitted for the outstanding invoices. Each letter explained the appointment of the Receiver, indicated that BMO had authorized the Receiver to collect the factored invoice(s) on its behalf, and appended both a copy of the Receivership Order and a copy of all factoring documentation provided to the Receiver by BMO with respect to the invoices in question.

43. To maximize the likelihood that the letters would come to the attention of the customers, the letters (in each case, with appendices) were sent:

(a) by courier to the address noted on the invoice, notice and other factoring documentation;

(b) where one or more fax numbers were indicated on the factoring documentation or were otherwise known to Brome, by fax transmission to each such fax number; and

(c) where one or more e-mail addresses were indicated on the factoring documentation or were otherwise known to Brome, by e-mail to each such e-mail address.

44. As at the date of this Report, the outcome of sending the letters has been as follows:

(a) no monies have been paid to the Receiver by any of the customers to whom the letters were sent, and not a single customer has acknowledged that the amount indicated is in fact owed;

(b) six customers, with factored invoices in the aggregate amount of approximately U.S. $4.4 million, replied almost immediately to the letter. Three of these customers were located in the United States, and one was located in each of Singapore, Brazil and Pakistan. Replies from these customers were variously received by telephone, by e-mail and/or by couriered letter from counsel to the customer. Each of these customers indicated (i) that they had no previous business dealings with 787, (ii) that they had no knowledge of the factoring arrangements indicated by the documentation appended to the letter, and (iii) that the individuals who had executed the factoring documentation forwarded by the Receiver were not employees, officers or directors of their respective organizations;

(c) one customer replied by e-mail, asserting that the goods had never been shipped, refusing to pay the invoice, and threatening litigation against the Receiver in India if the goods ordered were not shipped. The customer did not provide an explanation as to why, if the goods ordered had not been shipped, the customer signed the acknowledgment portion of the notice described in paragraph 40(c) above. There has been no further communication from this customer and to the best of the Receiver's knowledge, no litigation has been initiated;

(d) as discussed in greater detail below, PHS and certain of its affiliates have filed voluntary petitions for bankruptcy under Chapter 7 of Title 11 of the *United States Bankruptcy Code*; and

(e) for the remaining ten customers, with factored invoices in the aggregate amount of approximately U.S. $10.2 million, the courier package was returned as undeliverable and/or the Receiver was unable to fax the letter because the fax number indicated was invalid and/or at least one of the e-mails containing the letter was returned because the e-mail address was invalid. The Receiver has not received a response from any of these customers. According to the applicable factoring documentation, all of these customers are located in India or Pakistan.

Chapter 7 Proceedings for PHS and Affiliated Companies

45. On January 28, 2011, Synergy Brands, Inc. ("**Synergy**"), a Delaware corporation, and two of its subsidiaries, PHS and SYBR.com Inc. (a New Jersey corporation), filed voluntary petitions for bankruptcy under Chapter 7 of Title 11 of the *United States Bankruptcy Code* ("**Chapter 7**") in the United States Bankruptcy Court for the Eastern District of New York (the "**EDNY Court**").

46. The Chapter 7 filings did not initially involve Synergy's subsidiary Quality Food Brands, Inc. ("**Quality**"), a Nevada corporation based in Monroe, Michigan, which continued to operate as a going concern. On March 22, 2011, however, Quality commenced an assignment for the benefit of creditors, a Michigan state-law insolvency proceeding, in the Monroe County Circuit Court in Monroe, Michigan. On April 5, 2011, certain creditors of PHS, including Signature, filed an involuntary bankruptcy petition against Quality in the EDNY Court to force Quality into Chapter 7 bankruptcy. The filing of the involuntary petition has stayed the Michigan assignment for the benefit of creditors action. At the moving parties' request, the EDNY Court appointed PHS's Chapter 7

trustee as the interim Chapter 7 trustee in the Quality case. The EDNY Court has not yet entered an order for relief granting the involuntary petition.

47. From its discussions with Mr. Gatti and various employees of the Loretta Group and its review of the books and records of the Loretta Group, the Receiver understands that Synergy and its subsidiaries collectively had an extensive business relationship with the Loretta Group.

48. The records of the Debtors indicate that the Debtors are owed a net total of approximately U.S. $1.3 million by Synergy and PHS, including the factored accounts receivable of approximately U.S. $1.7 million described above that PHS acknowledged and agreed to pay without set-off. At present it is unclear whether the Debtors will receive any distribution in respect of these amounts in the various Chapter 7 proceedings.

49. In addition, the records of the Flour Business indicate a balance of approximately U.S. $360,000 is owed by Quality, although a representative of Quality had previously indicated to the Receiver that no amount would be paid to any of the Debtors for reasons that include alleged set-off and quality defect claims. This account receivable will be sold to JEF as part of the JEF Transaction.

<u>Other Trading Business Accounts Receivable</u>

50. In addition to the factored accounts receivable described above, the detailed accounts receivable listings of the Debtors reflect net Trading Business accounts receivable of approximately U.S. $9.2 million, representing approximately U.S. $19.2 million due from customers with positive accounts receivable balances less approximately U.S. $10.0 million in accounts receivable with credit balances. There is limited overlap between the customers with positive balances and the customers with credit balances.

51. Of the customers comprising the U.S. $19.2 million in positive Trading Business accounts receivable balances:

(a) approximately U.S. $7.4 million represents amounts recorded as being owed by customers who, in connection with the Receiver's attempts to collect the factored accounts receivable, have already denied ever having done business with the Debtors, as described in paragraph 44(b) above;

(b) approximately U.S. $3.0 million represents amounts recorded as being owed by customers whom the Receiver has been unable to contact in its attempts to collect the factored accounts receivable, as described in paragraph 44(e) above; and

(c) approximately U.S. $8.75 million represents amounts recorded as being owed by eight customers with whom the Receiver has had no prior communication.

Based on the outcome of its attempts to collect the factored accounts receivable owed by the customers described in the first two categories above, the Receiver is of the view that the remaining Trading Business accounts receivable for those customers are not genuine. Accordingly, given the limited realizations now expected in the Loretta Group, the Receiver does not intend to expend further professional fees attempting to pursue the accounts receivable in either of the first two categories above.

52. The Receiver has sent letters to the eight customers whose accounts comprise the remaining Trading Business receivables of approximately U.S. $8.75 million, which letters demand payment of those balances. The Receiver will report further to the Court in connection with these collection efforts.

BANKRUPTCY OF NDHL

53. On February 28, 2011, following an application by Brome in its capacity as a creditor of NDHL, the Registrar of the Court made an order adjudging NDHL bankrupt and appointing Grant Thornton Inc. as trustee in bankruptcy (the "**NDHL Trustee**"). Copies of public information related to the NDHL bankruptcy can be found at http://www.grantthornton.ca/services/reorg/bankruptcy_and_insolvency/northdakota.

54. Based on its discussions with the NDHL Trustee, the Receiver understands that Brome, the first-ranking secured creditor of NDHL, will likely incur a significant shortfall in

respect of its secured advances to NDHL. Accordingly, it appears unlikely that Tarbrac's ownership interest in Brome has any realizable value.

55. Although the assets of NDHL were not pledged as security for the BMO Loans or the Signature Loans, NDHL is a wholly-owned subsidiary of Tarbrac and, like the Debtors, appears to have operated under the overall direction of Mr. Gatti. In addition, certain of the records of NDHL have been located by the Receiver (or Mr. Gatti has apparently told the NDHL Trustee they are located) on the premises of the Debtors and certain of the recorded transactions of NDHL, such as sales of flour to third parties, may have involved the Debtors. Accordingly, subject to the funding constraints in the respective proceedings, the Receiver and the NDHL Trustee have been working cooperatively to share information to the extent doing so is in the interests of their respective creditors.

UPDATE ON EXPECTED DISTRIBUTIONS

56. Based on realizations to date in the Loretta Group receivership, and expected realizations from the remaining assets of the Debtors, unless substantial amounts are collected from the remaining Trading Business receivables described above it is doubtful that aggregate realizations from the assets of the Debtors will be sufficient to pay the combined amount of (i) the allocation of the fees and expenses that are subject to the Receiver's Charge (as defined in the Receivership Order), and (ii) the aggregate amount borrowed under Receiver's Certificates (collectively the "**Priority Charges**"). Following the sale of the Flour Business, the Receiver intends to provide a further report to the Court setting out the basis on which the Receiver proposes to distribute any realization proceeds in excess of the Priority Charges.

57. All of the parties that registered financing statements under the *Personal Property Security Act* (Ontario) (the "**PPSA**") against the Loretta Group are being given notice of this motion, to ensure that all such parties are made aware on a timely basis of the potential distribution outcomes described above.

UPDATE ON LEASED EQUIPMENT ISSUES

Background

58. In its Second Report, the Receiver described in detail the extensive lease agreements entered into by the Debtors, the actions taken by the Receiver and its counsel, Borden Ladner Gervais LLP ("**BLG**"), in respect of those lease agreements, and the significant discrepancies and related issues encountered by the Receiver. For the convenience of the Court, a summary of the issues encountered by the Receiver is set out below.

59. In combination, the records of the Loretta Group and the registrations made under the PPSA against the Debtors appear to indicate that as at the date of the Receivership Order, the Debtors had collectively entered into 34 lease agreements with 19 separate counterparties (each an "**Equipment Lessor**"). The number of lease agreements and counterparties for each of the Debtors, and the nature of the assets that are the subject of those lease agreements, is summarized in the table provided below.

	Operating Equipment		**Vehicles**	
	Number of Counterparties	Number of Lease Agreements	Number of Counterparties	Number of Lease Agreements
211	1	1	-	-
213	1	1	-	-
787	12	20	5	12

60. BLG has reviewed each lease agreement in the records of the Debtors and has concluded each of the lease agreements related to operating equipment (referred to collectively, as the "**Equipment Leases**") is properly categorized as a financing lease rather than a true lease.

61. Discrepancies and other issues identified by the Receiver in connection with the equipment described in the Equipment Leases include the following:

(a) although 787 entered into the majority of the lease agreements related to equipment used in the operations of the Debtors, the equipment in 787's lease agreements includes many items that appear to relate to the Flour Business, which was carried on by 211, or the Spice Business, which was carried on by 213;

(b) for certain pieces of production equipment, most notably flour rolling mills, the total number of such machines that have been leased exceeds the total number of those machines on the Debtors' premises;

(c) in numerous cases, including the flour rolling mills noted above, there is equipment on the premises of the Debtors that is similar in some ways (type of equipment, manufacturer and approximate age) to the descriptions in certain of the lease agreements. However, the serial numbers or other identifying information, such as dimensions, of the equipment on the Debtors' premises do not match the corresponding information indicated on any of the lease agreements;

(d) certain of the lease agreements, in some cases involving equipment with large dollar values, were entered into within a few months before the appointment of the Interim Receiver on November 10, 2010. Operating management and employees of the Debtors have told the Receiver that no new equipment of the nature described in the applicable lease agreements was acquired or installed during this time;

(e) in virtually all cases neither the lease agreement nor the records of the Debtors include any documentation to evidence delivery of the equipment other than supplier invoices and the signatures of Mr. Gatti and/or Mr. Peter Nelipa (the sole shareholder of 787 and the previous Director of Operations for the Flour Business) on the various lease documents, and to date the Equipment Lessors have not been able to provide additional documentation to demonstrate that the equipment described in the lease agreements was actually delivered;

(f) the Receiver has conducted preliminary Internet research with respect to the entit(ies) that issued the invoice(s) evidencing the purchase of the underlying equipment. In virtually all such cases, a search by the Receiver using a basic Internet search engine has not revealed any advertising or other information to indicate that the entity that issued the invoice is in the business of distributing such equipment. In many cases, the search was unable to locate the entity at all; and

(g) in certain cases, the purchase invoice was issued by an entity in which the Receiver believes, based on documentation on the Debtors' premises, that Mr. Gatti has an ownership interest or acts in a management capacity. The Receiver has not yet clarified with the Equipment Lessors in question whether they were aware of this relationship and, if so, whether they satisfied themselves through other means that the amount financed represented the fair market value of the equipment.

62. It appears based on the preceding that all or part of the amounts owed to many of the Equipment Lessors may in fact be unsecured claims, rather than claims secured by particular assets of the Debtors.

<u>Additional Actions of the Receiver</u>

63. Since the date of the Second Report, the Receiver has not been able to identify any additional information, either in the records of the Debtors or the records provided by the Equipment Lessors, to assist in locating any of the equipment described in the Equipment Leases.

64. The Receiver did notice that in a claim filed in the Chapter 7 proceedings of PHS (discussed above), by a party claiming to be an equipment lessor of PHS, included documentation indicating that certain of the equipment in question was sold to PHS by 787. A copy of the claim in question is attached hereto as Appendix "**I**". To the best of the Receiver's knowledge, 787 was not in the business of selling equipment. However, due to the information quality issues described in detail in previous reports of the

Receiver and the Interim Receiver, the Receiver is not in a position to readily determine: (i) whether the equipment described on the 787 invoice in Appendix "I" was actually sold to PHS and, if so, what consideration was received, and (ii) if the equipment was sold, how it was originally acquired by 787.

65. Although the unexplained absence of recorded assets appears to be a recurring theme in the receivership of the Loretta Group, the Receiver understands that in general, Equipment Lessors may be unwilling to accept the conclusion that the equipment described in their lease agreements cannot be located unless they have had the opportunity to verify those facts themselves. At the request of certain of the Equipment Lessors, therefore, the Receiver has variously attended the Sismet Premises, the Whitby Premises, and (with the consent of Rosedale, and subject to the conditions required by Rosedale as described above) is prepared to attend the Davand Premises with representatives of those Equipment Lessors to allow them to attempt to locate or identify the equipment subject to their respective Equipment Leases. To maximize the benefit from such premises visits and avoid subsequent confusion, the Receiver has required each Equipment Lessor to provide the Receiver with all documentation related to its Equipment Lease(s) before the visit. In each visit conducted to date the outcome of the visit has been consistent with the conclusion previously reached by the Receiver based on the information previously provided to the Equipment Lessor by the Receiver.

66. The Receiver continues to analyze the issues relating to the lease arrangements entered into by the Debtors and is attempting to obtain from the Equipment Lessors any additional information, such as shipping and/or customs documentation, that may be of use in locating the equipment. In addition, BLG is reviewing the various PPSA registrations by the Equipment Lessors to determine the priorities of the Equipment Leases (if the underlying equipment is actually on the premises of the Debtors). As noted above, however, it is possible that realization proceeds will be less than the combined amount of the Priority Charges, in which case such analyses will no longer be relevant because there will be no funds available for distribution to any of the Equipment Lessors.

INSURANCE CLAIM RECEIVABLE

67. In its Second Report the Receiver discussed certain issues in respect of an insurance claim (the "**Claim**") totalling $19,712 (the "**Insurance Proceeds**") payable jointly to 787 and Quest Automotive Leasing Services ("**Quest**") by JEVCO Insurance ("**JEVCO**") in connection with the theft of a Harley Davidson motorcycle that 787 leased from Quest. As at the date of the Second Report, JEVCO had not paid the Insurance Proceeds either to Quest or to the Receiver.

68. Upon further review of the issue and the applicable law, the Receiver and its counsel concluded that the Debtors do not have a claim to the Insurance Proceeds. Accordingly, Quest was entitled to receive the entire amount comprising the Insurance Proceeds.

RELIEF SOUGHT BY THE RECEIVER

69. The Receiver respectfully requests that this Court grant an order:

    (a) approving the JEF APA;

    (b) vesting all of the Debtors' right, title and interest in and to the assets of the Flour Business to JE Fininvest Ltd., free and clear of all security interests, mortgages, claims, charges, and encumbrances, as more fully detailed in the draft order included in the Receiver's motion materials, subject only to the filing by the Receiver of the JEF Sale Completion Certificate, which will be filed by the Receiver forthwith after the closing of the transaction;

    (c) vesting all of the Debtors' right, title and interest in and to the Spice Intellectual Property in Poppa Corn Corp., free and clear of all security interests, mortgages, claims, charges, and encumbrances, as more fully detailed in the draft order included in the Receiver's motion materials;

    (d) sealing the summary of offers received by the Receiver for the sale of the Food Services business and the copy of the unredacted JEF APA until such time as the Receiver files the JEF Sale Completion Certificate; and

(e) approving the activities of the Receiver as set out in this Report.

All of which is respectfully submitted this 9th day of May 2011.

ERNST & YOUNG INC., in its capacity as Receiver and Receiver and Manager of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac Holdings Inc. and not in its personal or corporate capacity.

Per:

Mike Dean, CA•CIRP
Senior Vice-President

Court File No. CV-10-8991-00CL

IN THE MATTER OF THE RECEIVERSHIP OF 2110458 ONTARIO LIMITED o/a LORETTA FLOUR, 2131413 ONTARIO LIMITED o/a LORETTA FOODS, 787755 ONTARIO LIMITED o/a NEW DURHAM TRADING, and o/a NDT FOOD SERVICE and o/a SKYWAY WHOLESALE and TARBRAC HOLDINGS INC.

IN THE MATTER OF SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended, and SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C. 43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

THIRD REPORT TO THE COURT OF ERNST & YOUNG INC., AS RECEIVER

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

Tel.: 416-367-6000
Fax: 416-367-6749

Michael MacNaughton - LSUC No. 25889U
Mary Arzoumanidis - LSUC No. 53915V
Harriet Greenwood - LSUC No. 58915H

Lawyers for Ernst & Young Inc., in its capacity as Receiver of 2110458 Ontario Limited o/a Loretta Flour, 2131413 Ontario Limited o/a Loretta Foods, 787755 Ontario Limited o/a New Durham Trading, and o/a NDT Food Service and o/a Skyway Wholesale and Tarbrac

TOR01: 4628540: v8